

## Quarterly Financial Reporting Brief

### > Contents

#### 1. The Big Issues

- Sustainability Reporting
- Climate Change

#### 2. International Accounting & Related Developments

- IASB – Sale and Leaseback
- IASB – Agenda Consultation
- IVSC – Social Value
- IFRS – IPSAS Alignment

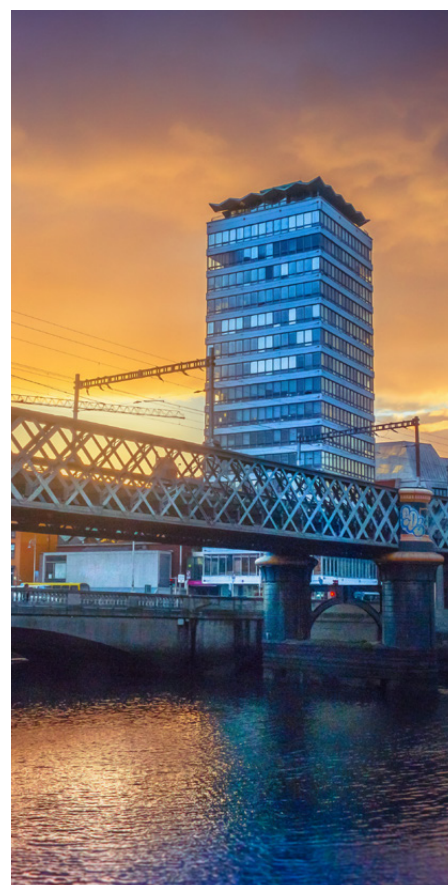
#### 3. Ireland & UK – Recent Developments

- Business combinations – FRC Thematic Review
- Judgements and Estimates – FRC Thematic Review
- Deferred Tax Assets – FRC Thematic Review
- ECL Disclosures – FRC Updated Guidance
- Earnings Per Share – FRC Thematic Review
- Digital Security Disclosures – FRC Report
- Stewardship Practices and Developments – FRC Report

#### 4. Legal and Regulatory Developments

- ESEF Reporting Manual
- CEA – Changes to Companies Act 2014
- Accountability

#### 5. Deloitte Publications





# Introduction

With the multitude of challenges being faced by all, corporate reporting becomes even more complex, particularly in areas where judgements are exercised and estimates made. Our publication '[Financial Reporting Considerations related to the Russia-Ukraine War](#)' provides some helpful insight on financial reporting considerations.

Both International and European Sustainability Standards, issued in draft earlier this year, completed their consultation periods and will move forward to completion in the coming months. The European Corporate Sustainability Reporting Directive (CSRD) has also reached near-final draft stage.

The International Accounting Standards Board (IASB) has responded to its third agenda consultation, indicating the direction of its next steps and has amended. IAS 16 on sale and leaseback transactions.

The UK Financial Reporting Council (FRC) has published its comments and recommendations based on reviews it has carried out in the areas of business combinations, judgements & estimates, deferred tax assets, expected credit losses, earnings per share, digital security disclosures and stewardship.

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



## 1. The Big Issues Sustainability Reporting

[The International Organisation of Securities Commissions \(IOSCO\)](#) has stated that with regard to its endorsement of International Sustainability Standards it will focus on key practical issues of proportionality and implementation:

- Ensuring the proposed standards can truly serve as an effective global baseline under either a voluntary or mandatory regime, including by considering how to provide for the scaling and phasing-in of requirements to accommodate issuers with differing degrees of maturity in sustainability reporting;
- How the ISSB can best assist implementation by clarifying definitions and providing additional guidance and examples where necessary; and
- How and when to incorporate the proposed industry-based disclosure data points.

[IOSCO](#) welcomes the International Auditing and Ethics Boards' plans to work towards high-quality, global assurance and ethics (including independence) standards. This work will serve to support the consistency, comparability and reliability of sustainability-related information provided to the market, enhancing trust in the quality of that information.

The [IFRS Foundation](#) has formed a Sustainability Consultative Committee. Its remit is to identify, inform and advise the ISSB on priority sustainability matters and related technical protocols, as well as significant interdependencies between sustainability matters. There are four permanent member organisations – the International Monetary Fund, the Organisation for Economic Cooperation and Development (OECD), the United Nations and the World Bank.

The Global Reporting Initiative (GRI) and United Nations Global Compact have released an updated version of their 2017 publication '[Business Reporting on the SDGs: An Analysis of the Goals and Targets](#)'.

The updated version adds further examples which include new or updated sources of disclosures, and provides:

- A list of existing and established disclosures that companies can use to report in connection with the SDG targets;
- An identification of existing gaps where established disclosures are not yet available; and
- A table with the corresponding indicators for governments developed by the UN-backed Inter-Agency Expert Group on SDG indicators.

The [Value Reporting Foundation \(VRF\)](#) has published a guide – 'Transition to Integrated Thinking' - which seeks to assist senior leadership and those charged with governance in an organisation on embedding integrated thinking principles. The VRF has also published a new Integrated Thinking Resource Hub, an online collection of best practices, processes and tools.

The [FRC Lab](#) has published a report on ESG data production. The report sets out the three elements of ESG data production identified by the FRC – motivation, method and meaning. The report outlines some suggested actions to address these as well as how they consider Boards can optimise how ESG data is collected and applied.

The [International Federation of Accountants \(IFAC\)](#) has published a statement expressing its concern that drafts of sustainability standards currently issued may not be technically compatible. It calls on regulators and standard setters to do all possible to ensure consistency and avoid fragmentation.



### **Climate-change Reporting**

The [Financial Stability Board \(FSB\)](#) has submitted to G20 its first annual progress report on its July 2021 roadmap to address climate-related financial risks. The report notes that encouraging progress has been made across all four blocks of the roadmap. Our FRB article for September '[Climate change – comprehensive reporting urgently called for!](#)' includes comment.

The [FRC and the Financial Conduct Authority \(FCA\)](#) have each published reports assessing the quality of compliance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) by premium-listed companies which were required for periods commencing on or after 1 January 2021. Both reports indicate that companies have improved their reporting, over previous years, both in terms of consistency and compliance with the TCFD Framework, with the FRC also reporting a significant improvement in the reference to climate-related risks in the financial statements.

The FRC has commented on several areas where companies need to improve their TCFD disclosures and financial statement reporting in relation to climate change.

These include:

- Granularity and more specific disclosure;
- Balance of discussion of climate-related risks and opportunities;
- Interlinkage of climate-related disclosures to other elements of narrative reporting;
- Clear explanation of how materiality has been considered in deciding which climate-related information should be disclosed; and
- Improved understanding of the relationship between climate-related risks and amounts in the financial statements.

The findings will be of interest to all companies who are providing climate-related disclosures in their narrative reporting and financial statements.



## 2. International Accounting & Related Developments

### Sale and Leaseback - Amendment

The IASB has issued 'Lease liability in a sale and leaseback (Amendments to IFRS 16)' to clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 'Revenue from contracts with customers' to be accounted for as a sale.

In focus are transactions with variable payments that do not depend on an index or rate. The IASB has issued final amendments to IFRS 16 to specify that seller-lessees are required to subsequently measure lease liabilities arising from a leaseback in a way that it does not recognise any amount of the gain or loss that relates to the right of use it retains. A seller-lessee is not prevented from recognising in profit or loss any gain or loss relating to the partial or full termination of a lease.

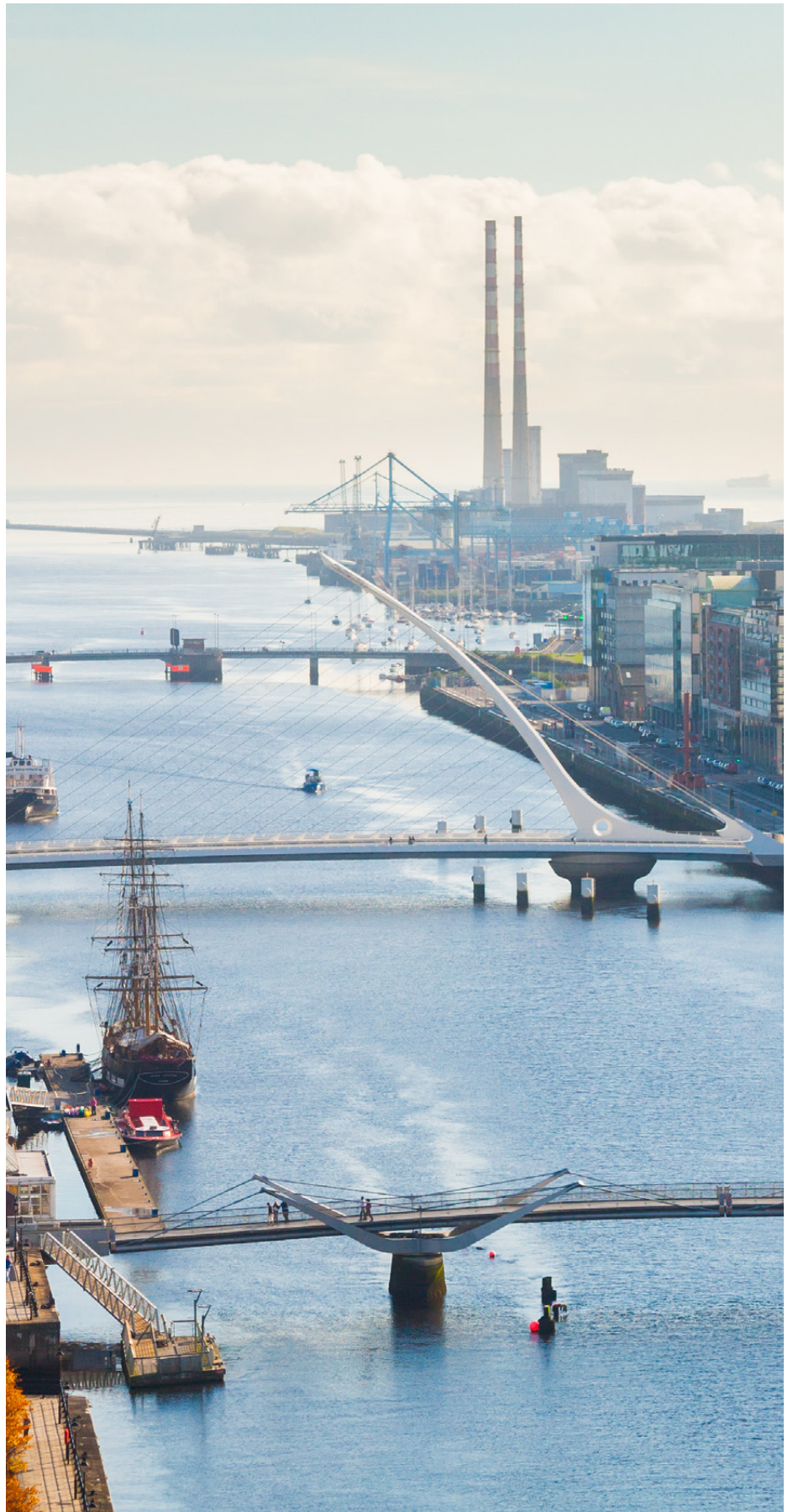
The amendments are effective for periods beginning on or after 1 January 2024.

### IASB Agenda Consultation

The IASB has considered feedback received from constituents to its Third Agenda Consultation, and has decided:

- To add to its work plan a maintenance and consistent application project on climate-related risks;
- To add to the research pipeline projects on intangible assets and the statement of cash flows;
- To create a reserve list of projects that could be added to the workplan if and only if additional capacity becomes available, which would include projects on operating segments and pollutant pricing mechanisms; and
- Not to add to its work plan projects on cryptocurrencies and going concern disclosures.

In response to feedback received, the IASB will provide for a modest increase in its efforts on digital reporting and the understandability and accessibility of standards.





### **IVSC – Social Value**

A second paper has been published by the International Valuation Standards Council (IVSC) on Defining and Estimating Social Value. It looks in more detail at how social value can be a basis of value under ESG principles and whether existing valuation principles can apply to social assets and social value.

### **IPSAS-IFRS Alignment**

The International Public Accounting Standards Board (IPSASB) has released an updated IPSAS-IFRS alignment dashboard showing how far individual IPSAS are aligned with corresponding IFRSs.



### 3. Ireland & UK – Recent Developments

#### Business Combinations

The FRC has published its thematic review of the accounting and reporting for business combinations.

The review looks at annual reports of a number of companies which have recently completed a business combination, and draws out some of the features of better reporting and disclosures, whilst also highlighting areas for improvement.

Overall, the FRC was generally pleased with the quality of reporting of business combinations. However, there is scope for improvement by companies in a number of areas:

- Ensuring that there is clear and consistent explanation of the reason for and the impact of the business combination throughout the annual report, allowing the reader to understand ‘the full story’ of the acquisition;
- Including clear and informative disclosures around matters such as fair value adjustments made to assets and liabilities acquired, factors giving rise to goodwill, the impact on tax balances, contingent consideration, related cash flows and any significant judgements and estimates made in accounting for the acquisition; and
- Avoiding any boiler plate wording - narrative should always reflect the company’s particular circumstances.

#### Judgements and Estimates

The FRC has published another thematic review on judgements and estimates. The review has a particular focus on:

- Companies from the natural resources sector and how well their mineral reserve estimates are integrated with the discussions of the relevant financial statement components;
- Disclosure of information about sensitivities to changes in assumptions or ranges of outcomes, and how practice has developed since the FRC previous review in November 2017; and

- The extent to which the impact of climate change was incorporated into accounting estimates.

The review identifies areas of good practice, opportunities for improvement and outlines the FRC’s expectations for future reporting.

#### Deferred Tax Assets

The FRC has published its latest thematic review of deferred tax assets.

The review considers the basis of recognition of, and disclosure in relation to, deferred tax assets in light of the effect of the Covid-19 pandemic on companies’ profitability.

Companies should recognise deferred tax assets only to the extent their recoverability is probable. The FRC did not identify any obvious issues with over-recognition in this area, although in some cases it was difficult to make a full assessment due to the lack of informative disclosure.

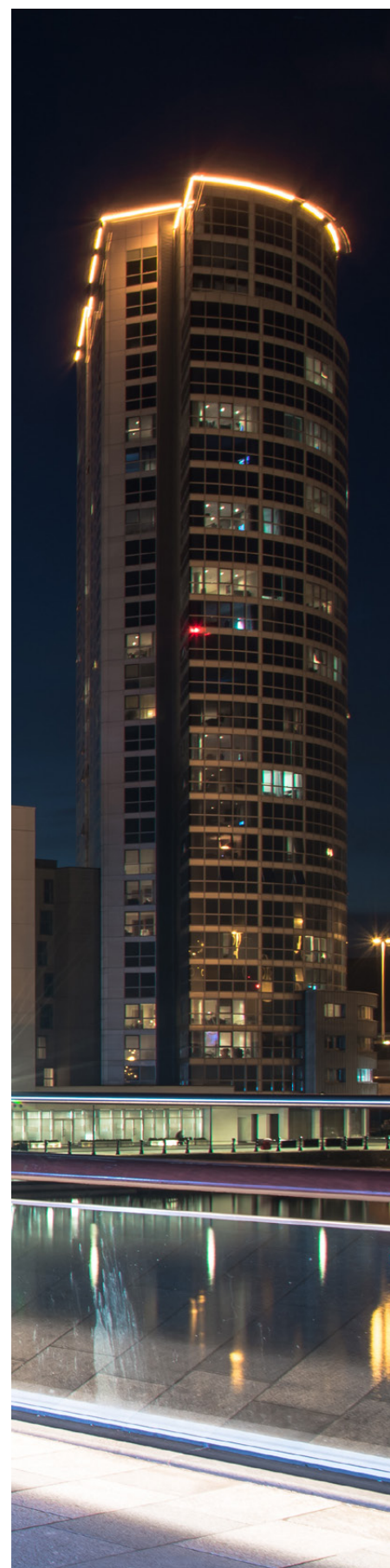
The review found several instances of good practice across most individual aspects of deferred tax asset disclosure. However, there is scope for improvement in the following key areas:

- Companies should give more specific disclosures about the nature of the convincing evidence they use to support the recognition of deferred tax assets when they have a recent history of losses; and
- Companies should disclose the specific nature of key judgements and significant estimation uncertainties in relation to deferred tax assets, and the related sensitivities to changes in assumptions or the range of possible outcomes within the next financial year.

The review also includes examples of good practice with disclosures.

#### ECL Disclosures – Updated Guidance

The Taskforce on Disclosures about Expected Credit Losses (DECL) has published updated guidance on what good





IFRS 9 Expected Credit Loss accounting (ECL) disclosures look like.

This third report comprises a comparison of preparers' and users' assessments of adoption of taskforce recommendations, good practice disclosure examples, and other amendments to address gaps, deficiencies or to otherwise improve existing material.

### Earnings per Share

The FRC has published its thematic review of earnings per share (EPS).

All companies with listed ordinary shares are required to report EPS in accordance with IAS 33 'Earnings per share' in their interim and annual reports (including companies reporting under the UK GAAP standard FRS 102). The supervisors' reports show that some of the main principles of IAS 33 are not always well understood or applied correctly.

The FRC's review identifies how companies can improve their disclosure of EPS:

- Companies should consider providing further information to explain the basis for the weighted average number of shares used in the calculation of EPS, if it is significantly different from information disclosed about issued ordinary shares and potential ordinary shares (for example, share options);
- Judgements that have a material effect on EPS should be disclosed; and
- Disclosures provided for non-GAAP 'adjusted EPS' should meet the requirements of methodology applied in the adjusted calculation, including the basis used for tax on adjusting items.

The review reminds companies of certain key requirements and includes a summary of the main requirements of the standard; together with examples to explain some

more complex aspects of calculating EPS; and observations on the importance of EPS for investors.

### Digital Security Disclosure

The FRC Lab has published a report on digital security risk disclosure to help companies improve the disclosure of digital security strategies, risks and governance. Areas for consideration include:

- Explain how digital security and strategy are important to the company's current and future business model, strategy and environment;
- Detail the governance structure, culture and processes the company has in place to support digital security and strategy;
- Identify digital security and strategy risks and opportunities the company is facing both now and in the future; and
- Highlight the impact of internal and external events and the actions and activities that respond to these.

### Stewardship Practices and Developments

The FRC has published the results of research commissioned to better understand the current stewardship practices of asset managers and asset owners and to assess the impact that the revised UK Stewardship Code has had.

The research included a survey focussed on five themes – governance, resourcing, engagement, collaboration, escalation. The FRC Lab is inviting asset owners and investment consultants to participate in a new project looking at how they use the stewardship reports of asset managers. Matters to be addressed include – use and users of stewardship reporting, structure and format, content of stewardship reports. The FRC along with the Financial Conduct Authority and the Pensions Regulator will carry out a review of the regulatory framework for effective stewardship including the operation of the Code.







## 4. Legal & Regulatory Developments

### ESEF Reporting Manual

The European Securities and Markets Authority (ESMA) has published the annual update of its reporting manual on the European Single Electronic Format (ESEF). This year's highlight is the new guidance in relation to the requirement to mark up the notes to the IFRS consolidated financial statements following the 'block tagging' approach.

The FRC Lab has published a report that identifies lessons learned from the first year of mandatory structured digital reporting under the ESEF regulation. The Lab's review found many UK companies have risen to the challenge of producing an annual financial report in the new digital format. However, there is still much to be done as data quality and usability remain below the level expected for companies in a leading capital market.

The report sets out some actions to improve companies' processes, the usability and design of the reports and XBRL tagging.

### Corporate Enforcement Authority (CEA)

The legislation under which the CEA has been established was commenced on 7 July. It is responsible for promoting compliance with and investigating suspected breaches of, company law and has been given additional resources to investigate and prosecute Companies Act breaches. The legislation makes several amendments to the Companies Act 2014, with [Chartered Accountants Ireland summarising the changes](#).

### Accountability

The drafting of the Central Bank (Individual Accountability Framework) Bill has been approved by government. The main purpose is to improve accountability in the financial sector. The general scheme of the bill has been published.





## 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 third quarter are:

[European sustainability reporting: Worldwide reach of the Corporate Sustainability Reporting Directive](#)

[New FCA Policy Statement and Listing Rule promoting better climate-related financial disclosures aligned with TCFD](#)

### 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 third quarter are:

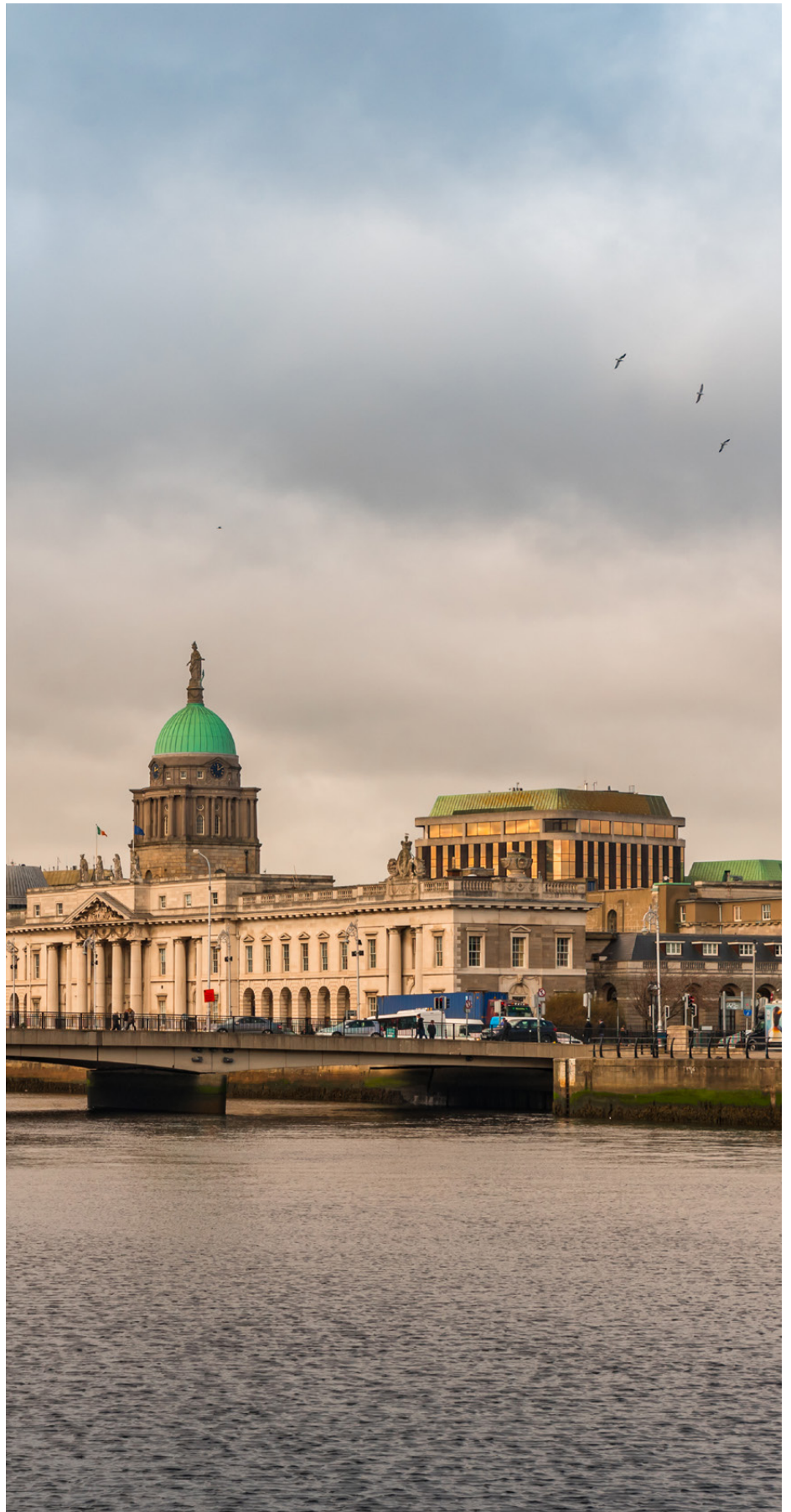
[Cyber risk and governance reporting in the UK](#)

### Governance in brief

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

Publications in the third quarter are:

[FCA and FRC publish findings on climate change disclosure — improvements required](#)



## 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:**

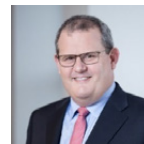


**John McCarroll**

**Partner | Audit and Assurance**

+353 1 417 2533

[jmccarroll@deloitte.ie](mailto:jmccarroll@deloitte.ie)



**Michael Hartwell**

**Partner | Head of Audit and Assurance**

+353 1 417 2303

[mhartwell@deloitte.ie](mailto:mhartwell@deloitte.ie)



**Brendan Sheridan**

**Director | Audit and Assurance**

+353 1 417 2357

[bsheridan@deloitte.ie](mailto:bsheridan@deloitte.ie)



**Oliver Holt**

**National Director of Financial Reporting Services**

+ 353 1 417 5731

[oliverholt@deloitte.ie](mailto: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.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte Ireland LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte Ireland LLP is a limited liability partnership registered in Northern Ireland with registered number NC1499 and its registered office at 19 Bedford Street, Belfast BT2 7EJ, Northern Ireland.

Deloitte Ireland LLP is the Ireland affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.

© 2022 Deloitte Ireland LLP. All rights reserved.

Designed by CoRe Creative Services. RITM1108070