iGAAP in Focus
Financial reporting
Closing Out – Areas of Focus for Reporting

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Entities are still grappling with significant uncertainty due to the ongoing uncertain macroeconomic and geopolitical environment, which includes the persistent effects of climate change, higher interest rates and inflation, energy security concerns, cyberattacks, and international conflicts and tensions such as the Russia-Ukraine war. Investors and regulators are expecting entities to be transparent in how they are dealing with this challenging landscape.

In this *iGAAP in Focus – Closing Out*, we set out financial and broader corporate reporting issues that may be relevant in view of the current environment and also highlight areas of regulatory focus, recent changes in accounting standards, and growing investor demand for consistent, comparable, and timely sustainability and climate information.

Uncertainty and financial reporting

General inflation and interest rates

Higher levels of inflation and market interest rates in many economies affect multiple aspects of financial reporting which depend on the forecasts of future cash flows and present value calculations. While inflation and interest rates are now stabilising or decreasing in some economies, the considerations below may still be applicable as entities continue to be exposed to the associated risks.

In respect of impairment of non-financial assets, IAS 36 *Impairment of Assets* identifies an increase in market interest rates as an indication that an asset may be impaired. This may not always be the case, for example when the increase in market interest rates does not affect the appropriate discount rate for the asset in question (for example, if short-term interest fluctuations would not affect the rate of return demanded of a longer-life asset) or if the entity expects to recover higher interest charges through prices charged to its customers, or the increased rate is too small to raise concerns over the headroom of an asset's recoverable amount over its carrying amount. However, the possibility of an impairment loss should not be overlooked and a general increase in interest rates should lead to a proper consideration of whether a full impairment review is required.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Inflation can have an impact on the measurement of longer-term provisions such as decommissioning obligations. Entities should ensure that the inputs used in measuring provisions follow a consistent approach in incorporating the effects of inflation. Nominal cash flows, which include the effect of inflation, should be discounted at a nominal rate and real cash flows, which exclude the effect of inflation, should be discounted at a real rate.

Inflation and the resulting increase in the cost of living may lead to products becoming less affordable (either because of increased production costs or reduced customer spending power). Write-downs of inventory to net realisable value and recognition of onerous contract provisions in respect of commitments to purchase inventory which cannot then be sold at a profit may be required. Inflation, specifically in salaries, can also be an important actuarial assumption factored in the measurement of defined benefit obligations accounted for under IAS 19 *Employee Benefits*. Where inflation is a major source of estimation uncertainty, an entity should consider the need to disclose the information required by paragraphs 125-133 of IAS 1 *Presentation of Financial Statements*, such as a sensitivity analysis.

Both interest rates and inflation can affect the measurement of lease liabilities and right-of-use assets under IFRS 16 *Leases*. They can also lead to additional exposure to credit losses as borrowers' ability to repay their obligations is reduced, resulting in:

- Increases in expected credit losses to be recognised under IFRS 9 *Financial Instruments*, if it is expected that levels of default might increase due to increases in borrowers' cost of living. Changes in expected credit losses models used by financial institutions or 'management overlays' to supplement those models should be accompanied by disclosures to enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows
- Expected credit losses becoming more significant to entities other than financial institutions if they expect an increase in bad debts as customers struggle to pay outstanding amounts

Assumptions used for discount rates and cash flows should be internally consistent within a particular calculation and consistent across calculations performed for different purposes.

Volatility in energy prices

Prompted by volatility in energy prices and jurisdictions taking action to reduce the effects of climate change, entities are increasingly entering into long-term renewable energy contracts such as *physical power purchase agreements* (PPAs).

Physical PPAs are agreements under which an entity agrees to purchase a specified quantity of electricity generated by a renewable energy generation facility (e.g. a wind or solar farm) at a fixed price over a defined period. The seller, which is typically the owner or operator of the renewable energy generation facility, agrees to deliver the electricity to the buyer's premises or to the grid on the buyer's behalf. Generally, the buyer also receives renewable energy credits (RECs) from the renewable energy generator. The timing / volume of electricity produced from renewable energy sources may be unpredictable, and may require the buyer to sell part of the electricity contracted in the PPA if it is produced at a time when it is not required by the buyer.

Assessing the appropriate accounting for physical PPAs can be complex, including the assessment of whether the PPA is a lease of the generation facility under IFRS 16, and if not, whether the contracts meet the 'own-use' requirements in IFRS 9:2.4 (such that the PPA is accounted for as an executory contract and not as a derivative under IFRS 9). The assessment of how to account for a PPA may require management to make significant judgements, for example when determining whether the frequency or volume of electricity sold by the buyer are such that the own-use requirements are not met. Therefore, the buyer should consider the disclosure requirements in IAS 1:122 regarding the judgements made in the process of applying an entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. In addition, the buyer should consider disclosing the key terms of the PPAs (e.g. price, duration and volume of electricity contracted) along with the entity's objective for entering into the contracts.

Alternatively, entities may enter into *virtual power purchase agreements* (VPPAs) which are periodically settled net in cash for an amount which reflects the difference between the fixed price in the contract for each unit of electricity generated and the spot market price for electricity at the periodic settlement date. In a typical VPPA, as in a physical PPA, the buyer receives a specified number of RECs.

Similar to physical PPAs, an assessment is required of whether VPPAs meet the own-use requirements in IFRS 9:2.4. However, in a VPPA, only the RECs are delivered under the contract and as a result the own-use assessment relates only to the RECs. The variable pricing element, linked to the price of electricity, represents a non-closely related embedded derivative. If the purchase of RECs meets the own-use requirements and is accounted for as an executory contract, the non-closely related embedded derivative is accounted for separately at fair value through profit or loss (FVTPL). Although, in theory it may be possible to establish a hedging relationship in which the non-closely related embedded derivative is used as a hedging instrument for the highly probable purchase of electricity at spot rate, in practice it is unlikely to be achieved due to the variability in the volume (the notional amount) of the contract.

In June 2023, the IFRS Interpretations Committee discussed a request about applying the own-use requirements to physical delivery contracts to purchase electricity from renewable electricity sources. Following the Committee's recommendation, the IASB is undertaking a narrow-scope standard-setting project on how to apply the own-use requirements to physical power purchase agreements when the electricity:

- Cannot be stored economically, and
- Is required to either be consumed or sold within a short time, as determined by the market structure in which the electricity is bought and sold

The IASB is expected to publish an exposure draft of its proposals in Q2 of 2024.

Uncertainty and financial risks disclosures

Interest and inflation risk

Where relevant, entities are expected to explain how changes in the macroeconomic environment affect their financial risks exposures (including the exposure arising from some financial instruments that are not recognised in the statement of financial position, such as certain loan commitments) and how they manage these risks.

For example, entities that are exposed to interest rate risk due to their floating rate financial liabilities need to provide a sensitivity analysis showing how profit or loss and equity would have been affected by reasonably possible changes in interest rates. Entities should ensure that the range of reasonably possible changes in interest rates reflects, where appropriate, the recent volatility in interest rates. It may be appropriate to provide separate sensitivity analysis for different classes of financial instruments.

As required by paragraph 40(c) of IFRS 7 *Financial Instruments: Disclosures*, if an entity changes the methods and / or assumptions used in preparing sensitivity analysis (for example, in response to change in the macroeconomic environment), these changes need to be disclosed along with the reasons for the changes.

Similarly, volatile markets may give rise to increased risk concentration. For example, for financial institutions whose borrowers are exposed to refinancing risk (especially in sectors such as commercial real estate in some jurisdictions). Entities should consider whether additional information should be disclosed in respect of increased risk exposures.

Liquidity risk

To help users understand an entity's liquidity risk, IFRS 7 requires specific tabular disclosure of the contractual maturity of financial liabilities, and importantly requires an explanation of how liquidity risk is managed. As a reminder, IFRS 7:B10 requires that the maturity analysis should reflect undiscounted contractual cash flows and include both principal and interest payments.

Entities that rely on the extended financing terms provided by supplier finance arrangements to manage liquidity risk through the option to pay the financial institution later than it would have paid the supplier(s) should ensure that the impact of these arrangements is properly disclosed (e.g. terms and conditions of the arrangements, impacts on the financial statements). Indeed, if a financial institution were to withdraw the arrangement this could adversely affect the entity's ability to settle liabilities, particularly if the entity were already in financial difficulties. Similar considerations may be relevant in respect of reliance on factoring arrangements (see Supplier finance arrangements).

Also, higher inflation and interest rates may affect an entity's ability to comply with covenants included in loan arrangements. When this is the case, an entity should consider providing relevant disclosure about such covenants and the impact of potential breaches..

Uncertainty and fair value measurement and disclosure

In the current macroeconomic situation, fair values may be subject to an increased level of uncertainty. Changes in fair value may have a material impact on an entity's financial position and performance – for example, when investment properties are accounted for applying the fair value model or when the recoverable amount of cash generating units (CGUs) for the purposes of performing impairment tests applying IAS 36 is based on fair value less costs of disposal. It is important that fair value measurements and disclosures reflect the current macroeconomic conditions. This may require changes to the methods or assumptions previously used.

For example, an entity that previously determined the fair value of its investment properties based on comparable transactions may find itself with limited relevant data due to a decline in activity in the real estate market. As a result, the entity may need to apply additional valuation methods to ascertain that the fair values estimated using the comparable transactions approach are within a reasonable range of values in the circumstances. The entity would also need to consider the requirements in paragraph 91 of IFRS 13 *Fair Value Measurement* to describe any significant changes in valuation measurements (such as changes in valuation techniques and transfers between levels in the fair value hierarchy) and the reasons for those changes. In addition, entities will need to ensure that their disclosures comply with the disclosure objectives in IFRS 13, paying attention to the disclosure of all key inputs such as capitalisation rate and / or rate of return.

It is worth remembering that the disclosure requirements in IFRS 13 extend to fair value measurements performed for disclosure purposes only. For example, IFRS 7:25 requires an entity to disclose the fair value of financial assets and financial liabilities measured at amortised cost (except when their carrying amount is a reasonable approximation of fair value). The disclosures required by IFRS 13 include the level of the fair value hierarchy and a description of the valuation techniques and the inputs for fair value measurement of financial instruments within level 2 and 3 of the fair value hierarchy. As indicated above, a description should be provided of significant changes in the fair value measurement techniques and the reasons thereof. In addition, in the higher interest rate environment, the conclusion that the carrying amount of a financial instrument (especially fixed rate debt instruments) approximates its fair value may no longer be appropriate.

Uncertainty and IFRS 9

Expected credit losses

Applying IFRS 9, expected credit losses (ECL) reflect a current probability weighted calculation of cash shortfalls arising on debt instruments, lease receivables, contract assets, written loan commitments and financial guarantees. The estimation of ECL should consider the impact of the current economic environment on a borrower's ability to repay, specifically the impact arising from inflation, higher interest rates, lower corporate profitability and reduced household incomes. The general widening of credit spreads will lead to an increased likelihood of exposures moving from 12 months to lifetime ECL. This reflects the fact that the current uncertain macroeconomic and geopolitical environment may have given rise to a significant increase in credit risk relative to the credit risk that existed when the exposure was first recognised. This may be more concentrated for exposures to certain sectors and geographies reflecting the disproportionate burden inflation and interest rates may have on those groups compared with others..

Hedge accounting

When a transaction has been designated as the hedged item in a cash flow hedge relationship, the entity will need to consider whether the transaction is still a "highly probable forecasted transaction" and if not, whether it is still expected to occur. Because of that, the current economic environment may affect an entity's ability to apply hedge accounting – for example, when an entity uses interest rate swaps to hedge future debt issuances that are no longer expected to occur as a result of an increase in interest rates.

If an entity determines that a forecasted transaction is no longer highly probable, but still expected to occur, the entity must discontinue hedge accounting prospectively. Gains and losses previously recognised in other comprehensive income are retained in the cash flow hedge reserve until the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur the entity must immediately reclassify to profit or loss any accumulated gain or loss recognised in the cash flow hedge reserve in respect of the hedging instrument.

In addition, increases in credit risk may cause a hedge relationship to fail the hedge effectiveness assessment if credit risk dominates the value changes resulting from the economic relationship between the hedging instrument and the hedged item. As such, entities need to assess, for example, whether an increased risk of counterparty default because of the current environment should lead to a discontinuation of hedge accounting.

Where relevant, entities may need to consider providing detailed disclosures on the effectiveness of hedging relationships during and at the end of the reporting period, and information on discontinued hedging relationships..

Climate-related risks in financial statements

For some time regulators have been urging entities to pay particular attention to climate-related matters and their effects when providing a balanced and comprehensive analysis of the development and performance of the entity's operations and financial position together with a description of the principal risks and uncertainties that it faces (for example, climate-related matters are a repeated feature of the ESMA common enforcement priorities).

Achieving connectivity between information in the financial statements and information provided elsewhere in the annual report helps entities provide a comprehensive and integrated view of their financial performance and financial position. In the context of climate-related matters, connectivity helps users of the financial statements understand better an entity's risks and opportunities arising from climate change. It also assists entities reduce the risk of perceived greenwashing.

ESMA published in October 2023 a report titled The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements. The report outlines four high level principles used to identify connectivity within the annual financial report:

01. *Consistency and coherence: Do assumptions appear consistent within and across the different components of the annual financial report?*
02. *Complementarity: Is there complementarity between the information included in the non-financial section of the annual financial report and the financial statements?*
03. *Cross-referencing: Are there links within and across the different components of the annual financial report?*
04. *Avoidance of repetition: Is the information specific and useful to an understanding of the financial statements or is it merely repeating the contents of the non-financial section of the annual financial report?*

The ESMA report also presents an enforcers' view of how entities may provide more relevant and transparent information in relation to climate-related matters in financial statements. In particular, the report provides a collection of examples of climate-related disclosures that are consistent with ESMA common enforcement priorities. Whilst the report is targeted towards European issuers, the themes addressed will also be of interest to entities in other jurisdictions.

Consistency of information
Entities should consider whether the degree of emphasis placed on climate-related matters elsewhere in the annual report is consistent with how climate-related matters have been reflected in the judgements and estimates applied in the financial statements. Forecasts used for financial reporting purposes should reflect the entity's strategic plans and planned actions at the reporting date and should be based on best estimates at the reporting date (for example, when short- or medium-term actions are necessary to meet a stated longer-term decarbonisation commitment reflected in the annual report). Particular focus should be placed on climate-related commitments and targets, such as the reduction of greenhouse gas emissions and decarbonisation plans. Where relevant, an entity should disclose in its financial statements the timing and the financial impacts of planned investments and transition plans. If the discussion of an entity's climate-related plans includes both short-term commitments and longer-term plans and aspirations, it is important that these are distinguished from each other and that there is clarity regarding which firm commitments are incorporated into the entity's budgets and accounting assumptions.

If climate-related matters are material, it is expected that they are considered in the preparation of financial statements, even if IFRS Accounting Standards do not explicitly refer to those matters. It cannot be assumed that investors or regulators[1] will be satisfied with boilerplate disclosures stating that climate-related matters have been considered (for instance, in impairment tests) without further explanation as to how and to what extent they affect (or do not affect) financial statements. For example, investors want to understand whether an entity's forecasts used for financial reporting are aligned with the goals of the Paris Agreement[2]. There are multiple possible scenarios and ranges of possible outcomes under different climate change trajectories. It is important for entities to be clear about the assumptions used and to make greater use of sensitivity analyses.

Where applicable, entities should explain any deviations between the assumptions used in impairment tests (including sensitivity analysis) or provisions recognised and their climate-related commitments, plans and / or strategy. For example, such a deviation may arise when the climate-relate commitment of the entity does not give rise to a constructive obligation applying IAS 37 *Provision, Contingent Liabilities and Contingent Assets* such that no related provision has been recognised.

Impairment of non-financial assets
Exposure to climate-related risks (physical or transition risks) could be an indication of impairment or could affect the estimated cash flows used in determining the recoverable amount of an asset or group of assets. The effect of climate-related risks on either forecast cash flows or discount rates can also be a key assumption requiring disclosure under IAS 36, in which case an explanation of the key assumption and its forecast effects on the entity's future cash flows should be provided.

For example, when an input used in performing an impairment test is linked to climate-related matters and is identified as a key assumption, entities need to consider the disclosure of the quantified assumption used (e.g. carbon pricing, including the entity's anticipated ability to recover carbon costs through pricing of its output, or timing and amount of the replacement of certain assets) and the basis or source of such quantifications (noting that greater weight should be given to external evidence).

Similarly, disclosure may be required when climate-related matters impact the business plan assumptions used to estimate the recoverable amount of assets, the period considered beyond the business plan and the financial assumptions used (such as the discount rate and the growth rate).

Further, IAS 36 requires that the value in use of a CGU includes the cash outflows necessary to maintain the current level of benefits expected to arise from the assets of the CGU but excludes those relating to the enhancement of assets. In some cases, distinguishing between the two (for example, as part of a decarbonisation plan) may not be straightforward and may represent a key assumption that should be disclosed.

Other areas of the financial statements
Entities may also need to consider the following specific topics when assessing the impact of climate-related matters on their financial statements:

- If an entity has concluded that climate-related matters are not expected to have a material financial impact on its operations and / or on the measurement of its assets and liabilities, regulators expect the entity, in particular if it operates in a highly-exposed sector, to disclose the assessments performed, judgements made and the time horizon used to reach such a conclusion. The disclosures should be tailored to the specific circumstances of individual entities
- Entities that are either legally required or have decided voluntarily to offset their carbon emissions should ensure that appropriate disclosure is provided of the resulting impact on their financial performance and financial position. This may include, for example, disclosure of the accounting policies used for the recognition, measurement and presentation of the associated financial statements items (e.g. assets for greenhouse gas (GHG) allowances or carbon offsets and / or provisions for emissions), the main terms and nature of the schemes in which they participate and the amount of GHG credits or renewable energy certificates owned, owed, consumed or sold

1. For example, refer to the Report 27th Extract from the EECS's Database of Enforcement issued by ESMA in March 2023 (items VII and VIII)
2. Discussed in more detail in A Closer Look – Investor demand for corporate reporting in line with the Paris Agreement on climate change

- Financial institutions engaged in green financing (e.g. issuance of ESG-indexed loans) need to consider disclosing the information necessary for users of their financial statements to understand the impacts and assess the nature and extent of the specific risks associated with these financial instruments (e.g. the key characteristics of the instruments, carrying amounts, maturities, environmental criteria, the specific risks associated with those instruments, their impact and sensitivity on cash flows and how these risks are managed). Disclosure may also be required if significant judgement was involved in the application of the entity's accounting policy, for example when assessing whether the contractual cash flows of ESG-linked financial assets are payments of principal and / or interest on the principal amount outstanding

A Deloitte *A Closer Look* provides a background on investor expectations in respect of climate as well as what requirements are highlighted by the IFRS Foundation's publication 'In Brief: IFRS Standards and climate-related disclosures' and the IASB's educational material on the effects of climate-related matters on financial statements and how they might apply in practice.

Sustainability reporting developments

IFRS Sustainability Disclosure Standards

The International Sustainability Standards Board's (ISSB) objective is to develop high-quality sustainability disclosure standards to meet the sustainability information needs of capital markets.

Across the world, various jurisdictions have announced their plans to adopt IFRS Sustainability Disclosures Standards (ISSB Standards) or to base their local sustainability disclosure standards on those of the ISSB, including Australia, Brazil, Canada, Japan, Malaysia, Nigeria, Singapore, Türkiye and the UK.

Issued standards

In June 2023, the ISSB published its first two standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures:*

- IFRS S1 sets out overall requirements for an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity
- IFRS S2 sets out the requirements for identifying, measuring and disclosing information about climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity

Both Standards are effective for annual periods beginning on or after 1 January 2024, with substantial transitional reliefs to allow preparers more time to align reporting of sustainability-related financial disclosures and financial statements. Whilst the standards are effective from 1 January 2024, they only become mandatory once a jurisdiction adopts those standards.

A Deloitte *iGAAP in Focus* further outlines the key requirements of the Standards.

SASB standards

In December 2023, the ISSB published amendments to the SASB Standards to enhance their international applicability. The SASB Standards, which provide industry-specific guidance, facilitate the implementation and application of IFRS S1 for preparers.

Work plan

Following the publication of its Request for Information *Consultation on Agenda Priorities* published in May 2023, the ISSB is expected to finalise its work plan in the first half of 2024.

Jurisdictional developments with significant extraterritorial reach

European Union Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRS)

The CSRD aims to improve sustainability reporting in an entity's management report for investors, civil society and other stakeholders, thereby contributing to the transition to a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the UN Sustainable Development Goals.

The scope of the CSRD is wide, including all entities (including non-EU entities) with securities listed on an EU-regulated market, with only limited exceptions. It also extends to certain non-listed EU entities (including EU subsidiaries of non-EU parents).

The first set of ESRS includes:

- Two cross-cutting standards, which address:
  - General requirements that entities should comply with when preparing and presenting sustainability-related information (ESRS 1). This includes the requirement to perform a materiality assessment applying the double-materiality principle
  - General disclosures that apply to all entities regardless of their sector of activity (i.e. sector agnostic) and across sustainability topics (ESRS 2)
- Ten topical standards, which cover environmental, social and governance topics from a sector agnostic perspective

The CSRD specifies the effective date for mandatory disclosure in accordance with ESRS for different types of entities. The first group of entities are required to apply ESRS for periods beginning on or after 1 January 2024. The time and effort needed for an effective and timely

transition to the new requirements may be substantive. Key organisational decisions in terms of governance, data collection, internal controls, and procedures supporting the mandatory assurance requirement will therefore need to be carefully considered.

In addition, the EU Taxonomy Regulation (and supporting delegated acts) sets out a system for classifying economic activities contributing to environmental objectives. It requires an entity in scope of the regulation to include information in its non-financial information statement (as part of the sustainability reporting in a dedicated section of the management report once the CSRD is in effect) on how and to what extent the entity's activities are associated with environmentally sustainable economic activities.

The following Deloitte publications provide further information:

- *iGAAP in Focus* explaining the worldwide reach of the CSRD
- *iGAAP in Focus* outlining the first set of ESRS
- *iGAAP in Focus* outlining the requirements of the EU Taxonomy Regulation

United States of America

- *Securities and Exchange Commission (SEC)*

In March 2024, the US SEC adopted a rule requiring registrants, including foreign, to provide climate-related disclosures in their annual reports and registration statements. Compliance will be phased in from 2025 to 2033.

Disclosures required in the financial statements include:

- Financial statement impacts and material impacts on entities' financial estimates and assumptions due to severe weather events and other natural conditions
- A roll-forward of carbon offsets and renewable energy credits or certificates (RECs), if carbon offsets and RECs are a material component of meeting the entity's climate-related targets and goals

Disclosures required outside of the financial statements include:

- For large accelerated filers and accelerated filers, material Scope 1 and Scope 2 greenhouse gas emissions, with assurance requirements that will be phased-in
- Governance and oversight of material climate-related risks
- The material impact of climate risks on the company's strategy, business model and outlook
- Risk management processes for material climate-related risks
- Material climate targets and goals

An *iGAAP in Focus* newsletter further outlines the rule.

- *California*

In October 2023, the California Governor signed into law three bills that collectively require certain public and private US entities doing business in California to provide quantitative and qualitative climate disclosures.

The bills, SB-253 *Climate Corporate Data Accountability Act and* SB-261 *Greenhouse Gases: Climate-Related Financial Risk*, establish the first industry-agnostic US regulations that mandate the corporate reporting of greenhouse gas emissions and climate risks in the United States.

In addition the California assembly bill, *AB-1305 Voluntary Carbon Market Disclosures*, is intended to combat greenwashing of climate-related emission claims and establishes requirements for both US and international entities that market or sell voluntary carbon offsets (VCOs) within California as well as entities that operate in California and make certain climate-related emission claims in that State (whether or not they purchase or use VCOs).

An *iGAAP in Focus* newsletter explains the content of these bills.

Task Force on Climate-related Financial Disclosures (TCFD)

Following the publication of IFRS S1 and S2, the Financial Stability Board (FSB) has concluded that the TCFD has now fulfilled its remit and recognised that the ISSB Standards should serve as a global framework for sustainability disclosures. As such, the FSB announced it is transferring the monitoring of climate-related disclosures from TCFD to the IFRS Foundation from 2024.

However, entities who are in scope of mandatory TCFD reporting requirements (for example, listed entities in the UK) must continue to make disclosures in line with the TCFD recommendations until and unless a relevant authority amends the requirement to permit or require reporting under the ISSB Standards.

Regulators are focused on the quality of the information published by entities on the effects of climate change. For example, in 2022, the UK Financial Reporting Council (FRC) conducted a thematic review of TCFD disclosures and climate reporting in the financial statements. The output of the review provides more clarity on expectations for entities who have taken a more traditional 'wait and see' approach to

reporting and disclosure in these areas, as examples of best practice do exist. The FRC emphasised that climate reporting should now be firmly established as a board level topic.

The FRC thematic review noted key issues where entities can improve. These areas may provide useful consideration for entities that report on TCFD outside the UK or on sustainability-related information more broadly:

- **Granularity and specificity**—Entities should provide information about risks and opportunities across the entity, breaking this down by business, sector, and geography where appropriate
- **Balance**—Discussion of climate-related risks and opportunities should be proportionate to their expected size, including a discussion of any dependencies on the development of new technologies when explaining the potential of climate-related opportunities. Balance is also necessary in describing the probabilities and dependencies of risks and opportunities. For example, the loss of current, carbon-intensive, income streams might be an inevitable function of decarbonisation whilst replacement income streams might currently be dependent on nascent or developing technologies. Disclosure of these dependencies is important to avoid giving the impression that transition risks will naturally be balanced out by opportunities in a lower carbon economy
- **Interlinkage with other narrative disclosures**—TCFD disclosures should be integrated with other elements of narrative reporting, for example by incorporating the results of scenario analysis into the entity's description of overall strategy within the narrative report
- **Materiality**—Entities should provide an explanation of how they incorporate the TCFD all-sector guidance and supplemental guidance. Where disclosures are not given, the reason for the omission should be included. In particular, it should be clear whether the entity has considered these disclosures and determined them not to be material, or whether the matters covered by these disclosures have not been addressed in the entity's internal assessments
- **Connectivity between TCFD and financial statements disclosures**—Climate-related risks and opportunities identified within TCFD reporting should be properly integrated into the judgements and estimates which underpin the financial statements. Entities should also consider re-evaluating the presentation of their operating segments and disaggregated revenue disclosures in response to climate change and transition plans
- **Governance**—Entities should provide specific information on the oversight of climate-related matters, such as consideration of climate-related performance objectives and the effect of climate on decisions about major capital expenditure, acquisitions, and disposals. Entities should also consider disclosing how climate-related risks are controlled and how climate-related metrics affect remuneration policies
- **Strategy**—Information on strategy should be granular and the level of detail included in scenario analyses should be consistent, including quantitative measures. Entities' discussions of risks and opportunities should not be disproportionately weighted towards opportunities
- **Risk management**—Climate-related matters should be integrated into the overall risk management processes. Particularly, processes for assessing the priority and materiality of climate-related risks should be well explained. To the extent possible, the potential impact of climate-related risks and opportunities should be quantified rather than only described using terms such as 'high' or 'low'. This is particularly important in indicating the extent to which the impact of climate-related opportunities might, or might not, outweigh those of risks
- **Metrics and targets**—Metrics should not only focus on Scope 1 and 2 GHG emissions but also include other climate-related risk and opportunity metrics. Historical data and explanation for movements should be provided to support the reader's understanding of progress against targets
- **Assurance** —Entities should clearly explain the level of any assurance given and what it covered. Terms such as 'verified' should be avoided as it may imply a higher level of assurance than has actually been obtained

In July 2023, the UK FRC published the results of a thematic review on the quality of climate-related metrics and targets disclosures. This review shows an incremental improvement in the quality of entities' disclosure of net zero commitments and interim emissions targets. However, the report notes that:

- Disclosures of concrete actions and milestones to meet targets were sometimes unclear, and comparability of metrics between entities remains challenging
- Given the large volume of information presented, many entities are finding it challenging to explain their plans for transitioning to a low-carbon economy clearly and concisely
- Explanations of how climate targets affect financial statements still need improvement. Boilerplate language on climate-related being 'considered' provides little insight on impacts

In view of the pervasive nature and significance of climate-related risks and opportunities and the growing stakeholder expectations

and regulatory focus, entities should consider the points above irrespective of whether they are providing voluntary or mandatory TCFD disclosures or they are preparing to provide sustainability related information applying ISSB Standards or ESRS.

Currency and hyperinflation

The higher levels of general inflation have contributed to an increase in the number of jurisdictions that are subject to hyperinflation (as that term is defined in IAS 29 *Financial Reporting in Hyperinflationary Economies*). Entities are therefore increasingly facing the following challenges:

- Determining whether an economy is hyperinflationary as defined in IAS 29 can sometimes prove difficult. The definition includes several characteristics of hyperinflation, although hyperinflation is most often evidenced when the cumulative inflation rate over three years approaches or exceeds 100%. It can also be challenging to decide which general price index should be applied to amounts in the financial statements
- Entities may face difficulties in determining an entity's functional currency in circumstances where both a local and international currency are in common use. This can be particularly significant where the local currency is hyperinflationary. IAS 29 is only applied by entities whose functional currency is the currency of a hyperinflationary economy (rather than by any entity operating in that economy). It should also be noted that IAS 21 *The Effects of Changes in Foreign Exchange Rates* specifically states that "[a]n entity cannot avoid restatement in accordance with IAS 29 by, for example, adopting as its functional currency a currency other than the functional currency determined in accordance with this Standard (such as the functional currency of its parent)"
- When exchanges between a local currency and globally traded currencies are restricted, it may be difficult to identify a suitable exchange rate for translating monetary items in individual financial statements and translating the financial statements of a foreign operation in its parent's presentation currency. Although this issue is not specific to hyperinflationary economies, a shortage of 'hard' currency and therefore a need for exchange restrictions is often a feature of economies whose local currency is losing value

> A Deloitte *iGAAP in Focus* explains *Lack of Exchangeability (Amendments to IAS 21)* published by the IASB in August 2023 to provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

When inflation or exchange issues result in a significant judgement or give rise to a source of estimation uncertainty, disclosure should be provided as required by IAS 1:122 and 125.

Based on data available at the time of writing, including the latest inflation forecasts from the International Monetary Fund (IMF) published in October 2023 and the indicators laid out in IAS 29, the following economies are widely considered to be hyperinflationary for the purposes of applying IAS 29 and for retranslation of foreign operations in accordance with IAS 21 in financial statements for reporting periods ending on or after 31 March 2024:

- Argentina
- Ethiopia
- Ghana
- Haiti
- Iran
- Lebanon
- Sierra Leone
- Sudan
- Suriname
- Syria
- Türkiye
- Venezuela
- Yemen
- Zimbabwe

As of 31 March 2024, other countries whose currencies should be monitored for hyperinflation include Angola, Burundi, Egypt, Laos, Malawi, Nigeria, Pakistan and Sri Lanka.

Both the IMF inflation forecasts released in October 2023 and local data from the South Sudan National Bureau of Statistics show the three-year cumulative inflation in South Sudan to be significantly below 100%. As a result, based on information available at the time of writing, we believe that the economy in South Sudan is no longer considered to be hyperinflationary for reporting periods ending on or after 31 December 2023.

Entities should be aware that the list of economies widely considered to be hyperinflationary for the purposes of applying IAS 29 may change by the time of their reporting date.

New accounting requirements

Effective for annual reporting periods beginning on or after 1 January 2023

Application of IFRS 17 Insurance Contracts

Many entities will reflect the application of IFRS 17 in their financial statements for the first time in 2023. For many insurers, this will also be the first time they apply the requirements of IFRS 9 given entities with significant insurance business activities were offered the option to defer the application of IFRS 9 until the initial application of IFRS 17.

It is widely anticipated that the impact of the adoption of these standards on insurance entities will be very material. However, other entities will also be affected by IFRS 17. Whilst the specifics facts will dictate the level of information disclosed, all entities should ensure that their disclosures are clear, concise, and entity-specific. Entities need to consider the requirements on IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* on disclosures required for initial application of an IFRS Accounting Standard, accompanied by the detailed requirements of IFRS 17 and IFRS 7.

In particular:

- The disclosure of accounting policies adopted should be specific to the entity and its business and be sufficiently granular to enable users of its financial statements to understand the approach taken by an entity for each material line of business. Clear explanations of the entity's accounting policy choices should be provided in particular where IFRS 17 is not prescriptive. This means that an entity should explain how it has applied the different measurement models in IFRS 17 (general model and variable fee approach) and the extent to which, if material, it has applied the premium allocation approach. It will also generally be relevant for an entity to explain whether it has chosen to disaggregate insurance finance income or expenses between profit or loss and the other comprehensive income for some portfolios of insurance contracts
- The disclosure of significant judgements and estimates should be sufficiently detailed, providing information on the specific material judgements made by the entity, the assumptions used, and sensitivities to changes in these assumptions
- An entity should disclose the transition approach(es) adopted and clearly explain the impact of transition to IFRS 17, both in terms of measurement and presentation. For example, it may be useful to explain the circumstances which supported the conclusion that the application of the full retrospective restatement approach was impracticable and why the entity instead has used the modified retrospective approach or the fair value approach. The transition disclosures should describe the groups of contracts to which each transition method has been applied, and explain the methodology underlying each transition method. Entities are reminded that IFRS 17 requires disclosure of the effects of groups of insurance contracts measured at the transition date using a method other than the full retrospective restatement approach on the contractual service margin and insurance revenue, in subsequent periods

Entities need to be mindful that when the retrospective application of IFRS 17 has a material effect on the statement of financial position as at the transition date (i.e. the beginning of the annual reporting period immediately preceding the date of initial application of IFRS 17), IAS 1:40A requires that this third statement of financial position be included in the annual financial statements in the year of initial application of IFRS 17.

For non-insurers, a Deloitte *Closer Look* provides guidance on aspects of IFRS 17 that such entities should consider when they assess whether contracts they issue are within the scope of IFRS 17.

Disclosure of accounting policies
The 2021 amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies* require entities to disclose material accounting policy information. Previously entities were required to disclose their 'significant accounting policies'.

The amendments enhance the guidance available to entities to assess whether accounting policy information is material. For example, IAS 1:117B indicates that an entity is likely to consider that accounting policy information is material if it relates to material transactions, events or conditions and the accounting policy:

- Changed during the period, resulting in a material change to the information in the financial statements
- Was chosen from alternatives permitted by IFRS Accounting Standards
- Was developed in accordance with IAS 8, in the absence of an IFRS Accounting Standard which specifically applies
- Relates to an area for which the entity is required to make significant judgements and assumptions
- Relates to complex accounting

The amendments also highlight that if an entity chooses to disclose immaterial accounting policy information, that information should not obscure material accounting policy information (IAS 1:117D). This requirement, in particular, should be considered when an entity establishes the extent of disclosures on standardised accounting policy information which duplicates or summarises the requirements of the relevant IFRS Accounting Standards.

Effective for annual reporting periods beginning on or after 1 January 2024

Classification of liabilities as current or non-current
The 2020 and 2022 amendments to IAS 1:

- Introduce a definition of 'settlement' which clarifies that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services
- Clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period
- Specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability
- Specify the impact of covenants on an entity's right to defer settlement for at least 12 months, and
- Introduce a requirement to disclose information in the notes which enables users of the financial statements to understand the risk that non-current liabilities with covenants may become repayable within 12 months

In particular, the amendments establish that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least 12 months after the reporting date. Conversely, a covenant that is only required to be complied with after the end of the reporting period does not affect whether such a right exist. However, if an entity expects that it may have difficulty complying with future covenants it should disclose information about this risk (as noted above) and consider the impact on going concern and liquidity risk.

Supplier finance arrangements
In 2023, the IASB amended IAS 7 *Statement of Cash Flows* and IFRS 7 to require entities to provide additional disclosures about their supplier finance arrangements. This information includes:

- The terms and conditions of the supplier finance arrangements in place
- The carrying amounts of the associated liabilities and the line items in which these amounts are presented
- The range of payments due dates for both the financial liabilities associated with supplier finance arrangements and comparable trade payables that are not part of a supplier finance arrangement
- The carrying amounts of liabilities for which suppliers have already received payment from finance providers

Other reporting considerations

Disclosure of significant judgements and key sources of estimation uncertainty

When reporting in uncertain times, it is particularly important to provide users of the financial statements with sufficient information to enable them to understand the key assumptions and judgements made when preparing financial information. Depending on an entity's specific circumstances, many of the areas discussed in this publication may give rise to a significant judgement over the characterisation of an item or transaction or a source of estimation uncertainty over its measurement, for which disclosures may be required by IAS 1:122-133.

The disclosure provided about the key assumptions, including the sensitivity analysis based on a range of reasonably possible outcomes, should reflect the conditions at the reporting date. When key assumptions, or the range of reasonably possible changes to those assumptions, are affected significantly as a result of non-adjusting events after the reporting date, information about those changes, including an estimate of the financial effect, should be provided separately.

In respect of estimation uncertainty, it is also important to distinguish between estimates which have a significant risk of material adjustment to the carrying amount of assets and liabilities in the next financial year (and hence require disclosure under IAS 1:125) and those which might affect assets and liabilities over a longer timescale (and hence are not within the scope of that paragraph but might usefully be disclosed separately).

In making high quality disclosure of estimation uncertainty, it is also important to:

- Quantify the specific amount at risk of material adjustment
- Provide sufficient granularity in the description of assumptions and / or uncertainties to enable users to understand management's most difficult, subjective or complex judgements
- Clearly distinguish the disclosure of other estimates, and associated sensitivities, from significant estimates and explain their relevance
- Provide meaningful sensitivities and / or ranges of reasonably possible outcomes for significant estimates (which, due to the economic factors discussed in this publication, might be wider than in previous reporting periods); these should not be limited to those required by specific IFRS Accounting Standards
- Quantify the assumptions underlying significant estimates when investors need this information to fully understand their effect
- Explain any changes to past assumptions if the uncertainty remains unresolved

A Deloitte *IFRS in Focus* provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Going concern

It is possible that economic pressures or changes might render a business model unviable or access to necessary financing might be limited. In such circumstances, it is necessary to assess whether the entity might be unable to continue as a going concern for a period of at least, but not limited to, 12 months from the reporting date.

Financial statements are prepared on a going concern basis unless management intends either to liquidate the entity or to cease trading or has no realistic alternative but to do so. When making its assessment, if management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity must disclose those uncertainties or significant judgements taken in reaching a conclusion that no material uncertainty exists.

The IASB published educational material on the assessment of going concern and related disclosure requirements in 2021. This guidance is summarised in a Deloitte *IFRS in Focus.*

Income tax and recognition of deferred tax assets

Entities should consider how lower or more volatile profit levels stemming from the current macroeconomic environment might influence income tax accounting. For example, a reduction in current-period income or the incurrence of losses, coupled with a reduction in forecast income, could result in a reassessment of whether it is probable that some or all of an entity's deferred tax assets can be recovered. If declining earnings or impairments generate losses, entities will need to consider whether there is sufficient income within the carry-back and carry-forward periods available under tax law to fully or partially realise the related deferred tax asset.

Applying IAS 12 *Income Taxes,* an entity may not have recognised deferred tax liabilities for taxable temporary differences associated with subsidiaries, branches and associates, and interests in joint arrangements, because it concluded that it controlled the timing of the reversal of the temporary difference and it had been deemed probable that the temporary difference would not reverse in the foreseeable future. Conversely, an entity may have recognised deferred tax assets for deductible temporary differences associated with such investments because it determined it probable that the temporary difference would reverse in the foreseeable future (and it was determined to be probable that the deferred tax asset could be recovered). If an entity or its subsidiaries have liquidity issues or other challenges resulting from the current macroeconomic environment such that there is a change in intent with respect to the repatriation of undistributed earnings in an investee, it may be appropriate to reconsider these conclusions.

Disclosure is also important in this area, in particular of entity-specific information about the nature of the evidence supporting the recognition of deferred tax assets when there is a recent history of losses, and deferred tax judgements and estimates, including relevant sensitivities and / or the range of possible outcomes in the next 12 months.

OECD / G20 Inclusive Framework on Base Erosion and Profit Shifting

In March 2022, the OECD released technical guidance on its 15% global minimum tax agreed as the second 'pillar' of a project to address the tax challenges arising from digitalisation of the economy. This guidance elaborates on the application and operation of the Global Anti-Base Erosion Rules agreed and released in December 2021 which lay out a co-ordinated system to ensure that multinational enterprises with revenues above €750 million pay tax of at least 15% on the income arising in each of the jurisdictions in which they operate.

Since that time many countries have enacted (or are in the process of enacting) Pillar Two-related laws. As such, entities that may be subject to the rules will need to monitor the legislation process in the jurisdictions in which they operate and assess whether the Pillar Two legislation has been enacted (or substantively enacted) in any such jurisdictions. A Deloitte Global Pillar Two Legislative Tracker provides updates on legislation being introduced to implement Pillar Two.

Amendments to IAS 12
In May 2023, the IASB published amendments to IAS 12 to introduce a temporary exception from accounting for deferred taxes arising from the implementation of the Pillar Two model rules, together with targeted disclosure requirements for affected entities. Applying the exception, an entity does not recognise, or disclose information about, deferred tax assets and liabilities related to the Pillar Two income taxes. Instead, an entity is required to disclose that it has applied the exception. An entity also discloses separately its current tax expense (income) related to Pillar Two income taxes. A Deloitte iGAAP in Focus outlines these amendments in more details.

Disclosures required if the Pillar Two legislation is enacted or substantively enacted but not yet effect
The amendments to IAS 12 require an entity to disclose qualitative and quantitative information about its exposure to Pillar Two income taxes at the end of the reporting period. That information does not need to reflect all the specific requirements of the legislation and could be provided in the form of an indicative range. To the extent information is not known or reasonably estimable, an entity should instead disclose a statement to that effect and information about its progress in assessing its exposure.

Examples of information an entity could disclose to meet these disclosure requirements include:

- Qualitative information such as information about how an entity is affected by Pillar Two legislation and the main jurisdictions in which exposures to Pillar Two income taxes might exist
- Quantitative information such as:
  - An indication of the proportion of an entity's profits that might be subject to Pillar Two income taxes and the average effective tax rate applicable to those profits; or
  - An indication of how the entity's average effective tax rate would have changed if Pillar Two legislation had been in effect

Disclosures required if the Pillar Two legislation is not yet enacted or substantively enacted
Whilst the amendments to IAS 12 specify the disclosures to be provided once the legislation is enacted or substantively enacted, an entity should nevertheless assess whether disclosures are required in earlier periods.

Indeed, IAS 1:17(c) indicates that fair presentation may require an entity to provide disclosures in addition to the information specifically required by an IFRS Accounting Standard to enable users of its financial statements to understand the impact of particular events and conditions on the entity's financial position and financial performance.

Accordingly, entities should assess whether the level of commitment in the jurisdictions in which they operate to the implementation of Pillar Two rules indicates that the tax laws in one or more of these jurisdictions are expected to incorporate the Pillar Two model rules. If this is the case and if the entity concludes that the rules may have a significant effect on its operations, it should disclose that fact along with relevant information (for example, the information required by the amendments to IAS 12 as described above).

Entities that do not expect a material exposure to Pillar Two income taxes
The fact that a multinational entity does not expect to be exposed to Pillar Two income taxes or that it expects its exposure to be immaterial may be relevant information that the entity should consider disclosing (along with the reason why it does not expect to have material exposure to Pillar Two income taxes). This information is more likely to be relevant if the entity has revenues above €750 million (and therefore is within the scope of the Pillar Two model rules).

An entity may be required to make various assumptions in determining its potential exposure. IAS 1:125 requires disclosure about assumptions about the future and other sources of estimation uncertainty that have a significant risk of resulting in material adjustments within the next financial year. Where an entity assesses that its potential exposure to Pillar Two income taxes is likely to be immaterial, it might nevertheless consider that there is a significant risk, for example, that changes in assumptions could result in the exposure being material. If this is the case it should consider if further information should be disclosed to meet the requirements of IAS 1:125.

Non-GAAP and alternative performance measures
Significant economic changes or unusual events often lead to a desire to highlight their effects on performance or what an entity's profit may have been had an event not occurred. However, care must be taken in following such an approach. The pervasive nature of the impact of such changes or events means that a separate presentation may not faithfully represent an entity's overall financial performance and may be misleading to users' understanding of the financial statements. For example, an 'excluding impact of the increase in energy prices' profit figure would reflect an economic environment that did not exist in 2023.

In general, when evaluating whether the effects of an economic or geopolitical event can appropriately be reflected via a non-GAAP measure or alternative performance measure (APM), factors including, but not limited to, the following should be considered:

- Can the item to be excluded from an adjusted measure be demonstrated to directly relate to the event or economic condition?
- Is the item incremental to normal operations rather than a reflection of 'the new normal'?
- Is the item objectively quantifiable, as opposed to an estimate or projection?

Instead of seeking to present the wide-ranging impacts of such an event separately in profit or loss, it is more likely to be appropriate to disclose, in the notes, qualitative and quantitative information on the significant impacts, the judgements and assumptions applied in the recognition, measurement and presentation of assets, liabilities and impacts on the numbers in the profit or loss. Such impacts should be provided in a clear and unbiased way.

In addition, the definition and calculation of APMs should be consistent over time. Entities that apply IFRS 17 for the first time (see *Application of IFRS 17*) should use caution when making adjustments to APMs linked to insurance contracts and / or when disclosing new APMs. In particular, entities should carefully assess whether the intended adjustments or new APMs provide transparent and useful information, improve comparability, reliability and / or comprehensibility of the APMs and of the financial information disclosed.

When including non-GAAP measures or APMs in management reports, entities should also consult the IOSCO Statement on Non-GAAP

Financial Measures and ESMA Guidelines on Alternative Performance Measures (updated in 2020) or jurisdictional equivalents that remain relevant.

Events after the reporting date

The emergence of new issues or new developments after the period end may require careful consideration to distinguish between adjusting events providing evidence of conditions that existed at the end of the reporting period and non-adjusting events indicative of conditions that arose after the reporting period.

As well as determining in which reporting period the event itself should be accounted for, this distinction is important to forward-looking calculations and related disclosures. For example, an impairment review under IAS 36 or expected credit loss calculation under IFRS 9 and disclosure of sensitivities to reasonably possible changes in forecasts should be based on conditions at the reporting date and are not affected by subsequent, non-adjusting events. It may be helpful to provide additional disclosure of how assessments have changed since the reporting date, but this should be clearly identified as being distinct from the information as at the reporting date.

IFRS 3 *Business Combinations*

Business combinations can be highly significant, in some cases fundamentally changing the nature or scope of an entity's operations. As such, entities should give clear and consistent explanations of the impact of a business combination throughout the annual report, with careful thought given as to how to convey the information in an understandable and concise way. Similarly:

- An explanation of factors giving rise to goodwill should be provided and, if possible, should include considerations specific to the business combination in question, rather than only providing boilerplate disclosures
- Disclosures related to contingent consideration should include entity-specific explanations of the arrangements and the potential variability in the amounts payable

The mechanics of business combination accounting can also be complex, with significant judgements sometimes needed in determining, for example, whether elements of a deal form part of the business combination for accounting purposes or should instead be accounted for as separate transactions (for example, the requirements to determine whether share-based payments form part of consideration or are accounted for as a post-combination expense are complex). Care should be taken in performing this exercise and clear disclosure provided of the judgements made in either applying IFRS 3 or (in cases where it is not clear whether a transaction meets the definition of a business combination or should be accounted for as an asset purchase) determining whether IFRS 3 is applicable at all.

In December 2023, IOSCO issued Recommendations on Accounting for Goodwill aimed at enhancing the reliability, faithful representation and transparency of goodwill recognised and disclosed in the financial statements. IOSCO makes four recommendations to preparers of financial statements:

- Properly recognise all identifiable intangible assets and provide entity-specific disclosure of the factors that make up the goodwill recognised in a business combination
- Obtain sufficient evidence to demonstrate that assumptions used in impairment tests are reasonable and supportable
- Ensure consistency between assumptions used in goodwill impairment tests and non-financial disclosures
- Clearly disclose impairment tests of goodwill, including how key assumptions are determined

In respect of the last recommendation, IOSCO notes that good practices include disclosing:

- The percentage by which the fair value or the value in use exceeds the carrying amount of a CGU or a group of CGUs, especially when there is a significant risk of a material adjustment to the carrying amounts of goodwill within the next financial year
- The degree of uncertainty associated with the key assumptions. For example, uncertainty regarding assumptions within a valuation model that may involve future expectations for economic recovery from a business downturn that may have uncertain time horizons
- Potential events and / or changes in circumstances that could reasonably be expected to negatively affect the key assumptions

IAS 33 *Earnings per share*

Basic and diluted EPS are often seen as important metrics of an entity's performance and, as such, are often included in the first announcement of results for a period as well as in the full financial statements. However, the calculation of those figures can be highly complex and might not always be well understood by users[3]. Although the disclosure requirements of IAS 33 are relatively limited in this respect, it should be noted that the general requirements of IAS 1 to disclose significant judgements made in preparing the financial statements can also apply to the calculation of EPS (for example, if judgement is needed in determining the substance of a share reorganisation).

3. Refer, for example, to the UK FRC's thematic review of earnings per share published in September 2022 that highlights the more common errors found in EPS calculations, and reminds companies of certain key requirements.

The following are also noted as details of EPS calculations that can easily be misapplied:

- The determination of whether potential ordinary shares are dilutive or antidilutive must be based on profit or loss from continuing operations
- Share reorganisations that involve a bonus element require retrospective adjustment in the weighted average number of ordinary shares used for the calculation of basic and diluted EPS for all periods presented

The guidance on the use of non-GAAP measures discussed above is also applicable to the presentation of adjusted EPS figures. In particular, these should not be given more prominence than 'statutory' EPS measures and the methodology applied in their calculation, including the basis used for tax on adjusting items, should be clearly disclosed.

Interim financial reporting

Timely and high-quality interim disclosure is important to primary users of financial statements. The areas of consideration which are most likely to be relevant when preparing interim financial statements – in addition to those already described throughout this publication – are discussed below.

Important events and transactions

Entities preparing condensed interim financial statements are required, in accordance with paragraph 15 of IAS 34 *Interim Financial Reporting*, to provide "an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period". A non-exhaustive list of events that may be considered for disclosure, if significant, is provided in IAS 34:15B. Additionally, IAS 34:16A specifies disclosures which should be made in the notes to the condensed interim financial statements, including in respect of changes in accounting policies and methods of computation (for example, see *Application of IFRS 17 Insurance Contracts*).

As entities respond to the ongoing uncertainties stemming from the current macroeconomic and geopolitical environment, there are likely to be other important events that may require disclosure in the notes to the condensed interim financial statements.

Estimates

Given the ongoing level of uncertainty, entities may need to revise their estimates (for example, as a result of changes in interest rates) during the interim period and provide disclosures in accordance with IAS 34:16A(d). Where this is the case, disclosures should clearly describe the reasons for the change in estimates and the estimation methods used, particularly if assets and liabilities have been subject to greater use of estimation methods than at the most recent year end.

Impairment of assets

The requirements of IFRS Accounting Standards in respect of impairment losses and reversals of impairment losses apply to condensed interim financial statements.

For many assets (including goodwill, property, plant and equipment, right-of-use assets, intangible assets and investments in subsidiaries, joint ventures and associates) this means assessing at the reporting date whether there is an indication of impairment or reversal of a previous impairment (except for reversals of previous goodwill impairments which are prohibited) and, if so, determining the recoverable amount (the higher of value in use and fair value less costs of disposal) in accordance with IAS 36. Entities need to assess the existence of impairment indicators as at an interim reporting date irrespective of the conclusion reached at the most recent annual reporting date.

In addition, although there is a general requirement to test goodwill for impairment at the same time each year, goodwill must also be tested at the interim reporting date if there is an indication that the goodwill may be impaired.

Due to uncertainties in the environment, forecast cash flows previously used in value in use or fair value less costs of disposal calculations at the most recent annual reporting date may no longer reflect conditions at a subsequent interim reporting date. When this is the case, entities will need to prepare new or updated forecasts that reflect management's revised expectations and the updated conditions at the interim reporting date.

If material impairment losses are recognised during an interim period, entities should consider additional disclosures about these losses as required by IAS 34:15B(b).

Going concern

The going concern requirements set out in IAS 1:25 and 26 apply to interim financial statements. Therefore, management will need to consider whether there are material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern for a period of at least 12 months from the end of the interim reporting period. In making this assessment, management will need to take into account all information available up to the date of authorisation of the interim financial statements.

In addition, the entity will need to consider whether new or updated information is required to be disclosed about its going concern assessment in the condensed interim financial statements.

Recognition and measurement

The principles for recognising assets, liabilities, income and expenses in the condensed interim financial statements are the same as in annual financial statements. IAS 34:41 requires that the measurement procedures used in interim financial statements produce information that is reliable, with all material relevant financial information being appropriately disclosed. Accordingly, the challenges described elsewhere in this publication, for example the measurement of the recoverable amount of non-financial assets and of expected credit loss allowances on financial assets will need to be addressed in the same manner in interim financial statements. IAS 34 nevertheless acknowledges that, whilst reasonable estimates are often used for both annual and interim financial statements, interim financial statements will generally require a greater use of estimation methods than annual financial reports.

Other disclosures

As explained above, the overarching objective in IAS 34 is that the interim financial statements should provide an explanation and an update to the relevant information included in the annual financial statements. In addition to the specific considerations explained above, entities will need to consider any additional disclosures that may be needed to meet this overarching objective, which in the current volatile and uncertain environment may require additional disclosure for significant impacts arising as a result of the events after the end of the interim reporting period.

Whilst IAS 1 generally does not apply to the structure and content of condensed interim financial statements prepared in accordance with IAS 34, IAS 1:4 clarifies that IAS 1:15-35 apply to such statements. Both IAS 1:17 and 31 require additional information to that required by individual Standards, when necessary to enable a user's understanding of the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. In the current context when an entity's financial situation may have changed significantly since its last annual financial statements, some of the disclosures that are normally only required by individual IFRS Accounting Standards for a complete set of (annual) financial statements may be used to provide relevant information on the consequences of circumstances that have emerged during the interim reporting period.

Appendices

New and revised IFRS Accounting Standards and Interpretations

IAS 8:30 requires entities to consider and disclose (in annual financial statements) the potential impact of new and revised IFRS Accounting Standards that have been issued but are not yet effective. The sufficiency of these disclosures is a current area of regulatory focus.

The list below reflects a cut-off date of 31 March 2024. The potential impact of the application of any new and revised IFRS Accounting Standards issued by the IASB after that date, but before the financial statements are issued, should also be considered and disclosed.

The table below provides a summary of the pronouncements as at 31 March 2024, for various quarterly reporting periods:

This table can be used for all annual reporting periods. A 1st quarter ending on 31 March 2024 would mean that the annual reporting period began on 1 January 2024. Similarly, 2nd quarters ending on 31 March 2024 refer to annual periods that began on 1 October 2023, 3rd quarters ending on 31 March 2024 refer to annual periods that began on 1 July 2023, and 4th quarters ending on 31 March 2024 refer to annual periods that began on 1 March 2023.

Pronouncement	Effective date	Application to 31 March 2024			
		Q1	Q2	Q3	Q4
IFRS 17 Insurance Contracts (with amendments)	1 January 2023	Already applied	Mandatory	Mandatory	Mandatory
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	Already applied	Mandatory	Mandatory	Mandatory
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	Already applied	Mandatory	Mandatory	Mandatory
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023	Already applied	Mandatory	Mandatory	Mandatory
International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12) – application of the exception and disclosure of that fact	23 May 2023	Already applied	Mandatory	Mandatory	Mandatory
International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12) – other disclosure requirements	1 January 2023	Already applied	Mandatory	Mandatory	Mandatory
Non-current Liabilities with Covenants (Amendments to IAS 1), along with Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2024	Mandatory	Optional	Optional	Optional
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	Mandatory	Optional	Optional	Optional
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024	Mandatory	Optional	Optional	Optional
Lack of Exchangeability (Amendments to IAS 21)	1 January 2025	Optional	Optional	Optional	Optional

Recent IFRS Interpretations Committee agenda decisions

Along with its activity developing formal interpretations of IFRS Accounting Standards and proposing that the IASB make amendments to these standards, the Committee regularly publishes summaries of issues that it has decided not to add to its agenda, generally accompanied by a discussion of the accounting issue submitted.

In August 2020, The Trustees of the IFRS Foundation issued an updated *IFRS Foundation Due Process Handbook* establishing that the explanatory material in the agenda decisions published by the IFRS Interpretations Committee derives its authority from the IFRS Standards themselves and, therefore, that its application is required with the general requirements of IAS 8 for retrospective application applying when an agenda decision results in a change of accounting policy.

The *IFRS Foundation Due Process Handbook* and each *IFRIC Update* also note that it is expected that an entity would be entitled to sufficient time to make that determination and implement any necessary accounting policy change (for example, to obtain new information or adapt its systems). Determining how much time is sufficient to make an accounting policy change is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless, an entity would be expected to implement any change on a timely basis and, if

material, consider whether disclosure related to the change is required by IFRS Standards.

The following agenda decisions have been published by the Committee in the last 12 months:

September 2023 *IFRIC Update*	IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*— Premiums Receivable from an Intermediary Homes and Home Loans Provided to Employees IFRS 9 *Financial Instruments*—Guarantee over a Derivative Contract
November 2023 *IFRIC Update*	IAS 27 *Separate Financial Statements* – Merger between a Parent and Its Subsidiary in Separate Financial Statements

Key changes made to this publication since December 2023

Section	Change
Sustainability reporting developments	Overview of the US SEC final rule added
Income tax and recognition of deferred tax assets	Link to Deloitte Global Pillar Two Legislative Tracker added
IOSCO Recommendations on Accounting for Goodwill	New section
New and revised IFRS Standards and Interpretations	List of pronouncements updated

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