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Need to know
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Need to know
Areas of Focus for Corporate Reporting

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Entities are continuing to face significant uncertainty brought about by the current macroeconomic and geopolitical environment. As a result of significant global supply-chain disruptions, energy prices and labour shortages, many product and employment costs have increased. At the same time, global central banks are raising interest rates in an attempt to temper the impact of historically high inflation rates and potentially dampen demand.

Entities need to be transparent in how they are dealing with this challenging landscape and also respond to the growing investor demand for consistent, comparable, and timely sustainability and climate information.

This *Need to know* sets out financial reporting issues that may be relevant in view of the current economic and geopolitical environment and also highlights areas of regulatory focus and recent changes in accounting standards. The topics contained within this publication will be relevant to all companies preparing annual reports and accounts, including June 2023 half-yearly reporters. This *Need to know* should be read in conjunction with Closing Out 2022 which contains additional topics for UK entities to consider including areas of regulatory focus and reporting expectations highlighted by the Financial Reporting Council (FRC) in its latest Annual Review of Corporate Reporting and its most recent thematic reviews.

Uncertainty and financial reporting

In an interconnected world it is not always possible to isolate the wider economic effects of, for example, Russia's invasion of Ukraine from the increase in energy prices, increase in the general cost of living, or myriad of national or regional factors. However, similar economic phenomena are being experienced across a wide range of jurisdictions. Major effects of some of these on financial reporting are highlighted below.

General inflation and interest rate rises

Increases in general inflation levels have been accompanied by increases in interest rates reflecting lenders' perception of increased credit risk and interventions by central banks seeking to control inflation. Growing inflation and market interest rates affect multiple aspects of financial reporting which depend on forecasts of future cash flows and present value calculations.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

In respect of impairment of non-financial assets, IAS 36 *Impairment of Assets* identifies an increase in market interest rates as an indicator to be assessed in determining whether an asset may be impaired and may lead to a full impairment review, unless the increase in market interest rate does not indicate the existence of a material impairment. This may be the case where an 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 whether a full impairment review is required.

Inflation can have an impact on the measurement of longer-term provisions such as decommissioning obligations, as its effects on future outflows of economic resources should be reflected in either the forecast cash flows, or the discount rate applied to longer-term liabilities. 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 liabilities 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 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 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.

Increases in energy prices

The increase in energy prices and the possibility of energy shortages due to the depletion of gas reserves could have a significant effect on a wide range of entities and several aspects of financial reporting.

This could result in, amongst other things, disruption to production, higher costs (particularly in energy intensive industries), higher revenues for energy producers and lower revenues elsewhere (for example, in industries sensitive to levels of disposable income in a market where higher energy costs might limit consumers' spending power).

Such effects are clearly relevant to an impairment review conducted under IAS 36 both in ensuring that forecasts are properly updated to reflect events and expectations as at the reporting date and in determining the appropriate disclosures to accompany that exercise. For example, a forecast of future energy prices might become a key assumption to be disclosed for the first time.

Less direct effects could include changes in the value of energy derivatives (for example, forward contracts to purchase or sell gas or electricity), with resultant impacts on hedge accounting or disclosures of market risks under IFRS 7 *Financial Instruments: Disclosures*.

Government interventions

The current economic climate has led to government interventions, for example, limit on prices that can be charged to customers or provision of direct economic assistance to entities adversely affected by current economic conditions.

It is important to correctly characterise these arrangements as either a government grant in the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, a tax benefit in the scope of IAS 12 *Income Taxes*, a below-market loan subject to the requirements of IAS 20:10A or potentially (if, for example, a government acts to limit the rates a utilities supplier can charge) simply a lower cost than might otherwise be the case.

More broadly, government assistance may impact an entity's cash flow forecasts and assessments that utilise such forecasts (e.g. impairment reviews and going concern assessments). The assessment of an entity's best estimate of the impact of government assistance on cash flow forecasts, including the expected duration of a scheme, should be conducted carefully and, when significant to the outcome of the assessment, disclosed.

In many jurisdictions, governments have introduced (or announced plans to introduce) so called 'windfall taxes' targeted at entities operating in specific industries and that benefitted from higher profits as a result of rising prices, notably in the energy sector. Entities affected need to assess the nature of the tax to determine if it should be accounted for as an income tax applying IAS 12 or as a levy applying IFRIC 21 *Levies*. This distinction is important as it determines whether the related charge is presented in the income tax line in profit or loss or above that line. If IAS 12 applies, the entity also needs to consider whether to recognise a deferred tax asset or liability. Where the tax is announced but not yet effective, entities will need to consider whether they should disclose the expected impact of the tax on the entity's operations.

Restrictions on access to markets and cessation of operations

Following Russia's invasion of Ukraine, a number of entities announced their intention to exit the Russian market or experienced practical or political issues in continuing to access or manage operations in the region.

IAS 36 requires entities to assess whether there are any indications that an asset in the scope of IAS 36 may be impaired by considering internal and external sources of information. In making this assessment, entities should carefully consider whether the effects of Russia's invasion of Ukraine (direct and indirect) constitute an indication that one or more assets may be impaired. Decisions to abandon, dispose of or suspend operations, or cancel investments in Ukraine, Russia or Belarus could represent indicators of impairment necessitating a full impairment review of affected assets.

It is also possible that plans to dispose of operations give rise to classification of assets as held for sale or presentation as discontinued operations. Caution should be applied, however, as this is only appropriate when the strict criteria of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are met. In particular, a plan to abandon a non-current asset or disposal group does not result in its classification as held for sale and judgement may be required to assess whether a sale can be considered highly probable in an uncertain political environment.

At the point when an entity's relationship with a foreign operation changes (either through choice or otherwise), it will also be necessary to consider whether the level of influence has reduced such that control, joint control or significant influence have been lost.

A Deloitte *Need to know* details the financial reporting considerations related to the Russia-Ukraine war.

Events in the banking sector in the USA and Europe

The first half of 2023 has been the most challenging for the banking sector since the 2008 financial crisis: in addition to the takeover by UBS of Credit Suisse, a number of US banks have failed. These developments occurred against a backdrop of ongoing challenges and uncertainty brought about by the current macroeconomic and geopolitical environment outlined above. In addition, these events may result in a tightening of the credit conditions beyond what had already been observed. As a result, entities (particularly, financial institutions) regardless of their exposure to the failed banks, should ensure that they are disclosing, in a timely manner, information about their liquidity risk, as required by IFRS 7, and going concern and significant judgements, as required by IAS 1.

A Deloitte *Need to know* further addresses key financial reporting matters associated with the events in the banking sector, including those relevant for entities with exposure to a failed bank.

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 business and of its 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).

In particular, entities should consider whether the degree of emphasis placed on climate-related matters elsewhere in the annual report is consistent with how climate 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).

If climate-related matters are material, it is expected that they are considered in the preparation of IFRS financial statements, even if IFRS Accounting Standards do not explicitly refer to those matters. It cannot be assumed that investors or regulators[1] will accept 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 it affects (or does not affect) financial statements as sufficient to provide information that is relevant to an understanding of the 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.

1. For example, refer to the recent 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*

Where entities have concluded, in particular in highly exposed sectors, that no material financial impact from climate-related matters on their operations and/or in the measurement of their assets and liabilities is expected, regulators expect those entities to disclose the assessments performed, judgements made, and the time horizon used to reach such a conclusion. Disclosures should be tailored to the specific circumstances of individual entities.

Deloitte's *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.

Implications for UK companies

Transparent reporting of the effects of climate change within the annual report and accounts is a key area of regulatory focus of the FRC and Financial Conduct Authority (FCA) who have both recently undertaken thematic reviews setting out their disclosure expectations in this area. Further information is included in the FRC thematic TCFD disclosures and climate in the financial statements and FCA's Review of TCFD-aligned disclosures by premium listed commercial companies.

Task Force on Climate-related Financial Disclosures (TCFD)

Since they were issued in 2017, the TCFD recommendations on climate-related financial disclosure have been incorporated into mandatory or recommended reporting requirements in many jurisdictions.

The IFRS Sustainability Disclosures Standards issued by the ISSB in June 2023 incorporate and build on the TCFD recommendations. This is also the case for the draft European Sustainability Reporting Standards (see Sustainability reporting developments).

Regulators are focused on quality of the information published by entities on the impact of climate change. For example, in 2022, the FRC conducted a thematic review of TCFD disclosures and climate in the financial statements. 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:

- **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
- **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, a 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 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 segmental reporting 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 overall risk management processes. Particularly, processes for assessing the priority and materiality of climate-related risks should be well explained
- **Metrics and targets**—Metrics should not only focus on Scope 1 and 2 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

Entities should consider these points in making their TCFD disclosures.

Implications for UK companies

In the UK, all premium listed commercial companies and all standard listed companies are now required by the Listing Rules to include TCFD-aligned disclosures on a 'comply or explain' basis in their annual report. Further information on these requirements is included in the Deloitte *Need to know* newsletters for premium listed commercial companies and standard listed companies.

Additionally, as detailed in *Climate-related Financial Disclosure Regulations* below, for periods beginning on or after 6 April 2022, UK regulations require certain UK companies and Limited Liability Partnerships (LLPs) to provide climate-related financial disclosures which are broadly aligned to the TCFD recommendations.

Both of these requirements form part of the UK Government's Sustainability Disclosure Requirements (SDR) which are a central part of its 2023 Green Finance Strategy. A Deloitte *Need to know* provides further information on the Government's Green Finance Strategy – Mobilising Green Investment.

Sustainability reporting developments

Investors' and other stakeholders' demands for sustainability information relevant to understanding how businesses create, sustain or erode value over time has led to a rapid move towards the introduction of mandatory sustainability reporting in many jurisdictions.

International Sustainability Standards Board (ISSB)

The ISSB was established in November 2021 with the objective to develop high-quality sustainability disclosure standards to meet the sustainability information needs of capital markets.

The ISSB and its objective has been welcomed by 41 jurisdictions and IOSCO at COP 26 and subsequently by G7 and G20. The UK, Canada, Australia, and some Latin American and African countries are planning ISSB adoption. Japan has announced it will base its sustainability standards on ISSB.

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.

A Deloitte *Need to know* further outlines the key requirements of the Standards.

On-going consultations

In May 2023, the ISSB published a Request for Information *Consultation on Agenda Priorities*, in which it seeks views on the strategic direction and overall balance of its future work programme as well as sustainability-related matters the ISSB could take up as part of its next two-year work plan. The ISSB also published an Exposure Draft *Methodology for Enhancing the International Applicability of the SASB Standards and SASB Standards Taxonomy Updates*. The SASB standards provide industry-specific guidance to support the ISSB standards.

Further information on the content of these documents is included in the Deloitte *Need to know* newsletters linked above.

Implications for UK companies

The UK government, as part of its 2023 Green Finance Strategy, set out its intention to adopt the ISSB sustainability standards for use in the UK following a formal assessment of the standards. The government is establishing two advisory committees to support this assessment: the first will consider public policy while the second will be supported by the FRC and will consider how the standards will sit alongside existing UK reporting requirements. The aim is for an endorsement decision on the ISSB standards to be made within 12 months of publication. IFRS S1 and IFRS S2 have not yet been endorsed for use in the UK.

Jurisdictional developments with significant extraterritorial reach

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

In November 2022, the **European Union**'s CSRD was adopted by the European Parliament and approved by the Council of the European Union. 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 very wide and extends to certain non-EU entities not listed on an EU regulated market. Entities will have to report on a wide range of sustainability matters using European Sustainability Reporting Standards (ESRS) developed by EFRAG.

On 9 June 2023, the European Commission (EC) launched a 4-week consultation on a regulation on the first set of ESRS, based on the draft submitted by EFRAG in November 2022. The consultation presents the modifications made by the EC to the text proposed by EFRAG, including with regard to the materiality approach, the phasing-in of certain requirements, the conversion of certain requirements into voluntary datapoints and the introduction of flexibilities to a number of disclosure requirements.

After the feedback period ends, it is expected that the regulation will be agreed by the EC before the end of August 2023. The scrutiny period by the European Parliament and the European Council would then begin and last for two months (with a possible two-month extension), allowing ESRS to become effective from 1 January 2024.

The following Deloitte publications provide further information:

- *Need to know* explaining the worldwide reach of the CSRD
- *Need to know* outlining the consultation by the EC on the draft regulation to specify the text of ESRS

SEC developments

In the **US,** the SEC consulted on climate-related disclosures in March 2021 and issued a proposed rule ***The Enhancement and Standardization of Climate-related Disclosures** for Investors* in March 2022. Among other things, the proposed rule considers whether foreign private issuers can meet its requirements by reporting under the ISSB standards.

Implications for UK companies

The CSRD will directly affect UK companies or groups if they have securities (shares or debt) listed on EU regulated markets or if they generate more than EUR 150 million net turnover in the EU (for each of the last two consecutive financial years) and have at least one EU subsidiary (large or listed on an EU regulated market) or EU branch (more than EUR 40 million net turnover in the preceding financial year). It will also apply directly to EU subsidiaries of UK companies. For large UK companies or groups with securities listed on an EU regulated market and that have more than 500 employees, the CSRD is effective for periods commencing on or after 1 January 2024. A Deloitte *Need to Know* provides further detail, explains the interaction of the CSRD with other UK climate-related financial reporting requirements as part of the UK government's SDR and outlines situations where additional disclosures may be required to comply with the EU requirements.

Climate-related Financial Disclosure (CFD) Regulations

Implications for UK companies

Regulations approved by the UK government in January 2022 require UK public interest entities (as defined in the Companies Act 2006), Alternative Investment Market (AIM) companies and other UK companies and limited liability partnerships (LLPs) with more than 500 employees and £500m turnover to make climate-related financial disclosures for accounting periods beginning on or after 6 April 2022. Entities with 500 or fewer employees are exempt. The CFD requirements which form part of the UK Government's SDR, are similar to those set out in the TCFD recommendations and align broadly with the four pillars of TCFD, but they are not identical. Careful consideration is required in determining the appropriate climate-related financial information to be disclosed.

In addition, most companies with a premium or standard listing of shares on the London Stock Exchange will find themselves subject to both the CFD requirements and those set out in the Listing Rules, which require disclosure consistent with the TCFD recommendations on a 'comply or explain' basis. Companies will need to ensure that they meet the statutory CFD requirements as well as providing the required TCFD compliance statement required under the Listing Rules. In such cases, guidance issued by the UK government states that disclosure in a manner consistent with all of the TCFD recommendations and recommended disclosures for the purposes of the Listing Rules is normally likely to meet the requirements of the CFD Regulations, provided that the disclosures are included in the annual report.

A Deloitte *Need to know* explains these requirements in more detail and sets out which entities will be affected.

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

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 inflation forecasts from the International Monetary Fund (IMF) 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 30 June 2023:

- Argentina
- Ethiopia
- Iran
- Haiti
- Lebanon
- South Sudan
- Sudan
- Suriname
- Syria
- Türkiye
- Venezuela
- Yemen
- Zimbabwe

As of 30 June 2023, other countries whose currencies should be monitored for hyperinflation include Angola, Ghana, Sierra Leone and Sri Lanka.

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.

Other reporting considerations

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 also 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.

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 asset 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 descriptions 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 above, 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 *Need to know* provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

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 effect 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 effects.

Such impacts should be provided in a clear and unbiased way. 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.

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, 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 (BEPS)

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 (GloBE) Rules agreed and released in December 2021 which lay out a co-ordinated system to ensure that Multinational Enterprises (MNEs) with revenues above €750 million pay tax of at least 15% on the income arising in each of the jurisdictions in which they operate. Over 135 countries and jurisdictions have agreed to incorporate the Pillar Two model rules into tax law.

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. At the time of writing, jurisdictions that have approved legislation incorporating some aspects of the rules into their tax law include South Korea, Japan and the UK.

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. In addition, in periods in which Pillar Two legislation is enacted or substantively enacted, but not yet in effect, an entity is required to disclose known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation (however, an entity is not required to disclose this information for any interim period ending on or before 31 December 2023). A Deloitte *Need to know* outlines these amendments in more details.

In jurisdictions with endorsement and adoption processes for IFRS Accounting Standards, the amendments may not be available for immediate use. In such cases, before the amendments are available for use, an entity may nevertheless conclude that the deferred tax requirements in IAS 12 do not apply to income taxes arising from the Pillar Two model rules. The *Need to know* explains why such a conclusion may be appropriate.

In line with the requirements of IAS 1, an entity should consider the nature and extent of the disclosures to be made in its financial statements, including those on material accounting policy information and judgements management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements. Similarly, for interim financial statements, an entity should also consider the nature and extent of the disclosures to be made in line with the requirements of IAS 34 *Interim Financial Reporting* relating to accounting policies and significant events.

For example, depending on the materiality of the impact, entities need to consider whether enactment (or substantive enactment) of the Pillar Two legislation in the jurisdictions they operate constitutes an event that should be disclosed.

Implications for UK companies

The Finance Bill No2 2023, which includes the UK's implementation of the OECD Pillar Two tax rules, was substantively enacted on 20 June 2023. In addition, the amendments to IAS 12 were endorsed for use in the UK by the UKEB on 19 July 2023. UK entities must therefore apply the temporary exception introduced by the amendments, and disclose that this has been applied, in financial statements for reporting periods ending 30 June 2023. Whilst the disclosure requirements are effective for accounting periods beginning on or after 1 January 2023, they are not required for any interim period ending on or before 31 December 2023. However, 30 June 2023 half-yearly financial reporters should determine the nature and extent of disclosures to be made considering the broader requirements in IAS 34 *Interim Financial Reporting* to disclose significant events since the end of the last annual reporting period. Deloitte's *Model half-yearly financial report for the year ended 30 June 2023* publication provides guidance in this regard.

Going concern

It is possible that economic pressures or changes might render a business model unviable or access to necessary debt 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 *Need to know*.

Implications for UK companies

In assessing whether the going concern basis is appropriate, UK companies should consider a period of at least 12 months from the date the financial statements are authorised for issue.

Application of IFRS 17 *Insurance Contracts*

IFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023. Accordingly, 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.

Whilst the materiality of the impact of the adoption of these standards will dictate the level of information disclosed, entities should ensure that the disclosures are clear, concise, entity-specific and focused on the areas of material change.

IFRS 17 specifies the information necessary on the effect of the adoption of that standard in annual financial statements. Similarly, IFRS 7 specifies information to be disclosed in respect of the initial application of IFRS 9 in annual financial statements. In the context of condensed interim financial statements, when reporting the initial application of IFRS 17 (and IFRS 9) entities should consider, among others, the need to provide information on:

- *Nature and effect of changes in accounting policies*. The disclosures on the new accounting policies applied should include a meaningful explanation of the new accounting policies themselves, explaining how the requirements in IFRS 17 (and IFRS 9) have been applied to the entity's particular facts and circumstances.
- *The key judgements and estimates applied*. Whilst the requirements of IAS 1 on key judgements and sources of estimation uncertainty do not apply to condensed interim financial statements prepared applying IAS 34, an indication of the judgements and estimations made in applying IFRS 17 (and IFRS 9) would enhance the value of the disclosures provided.
- *Transition method adopted and quantitative effects*. IFRS 17 (and IFRS 9) contains alternatives with regards to the transition methods to be followed (and, in the case of IFRS 9, with regards to the restatement of comparative information) and therefore disclosure of the alternatives applied by the entity will likely be relevant to the users of financial statements.

  In addition, even though the detailed disclosure requirements in IFRS 17 (and IFRS 7) on the impact of transition do not apply in interim financial statements prepared applying IAS 34, entities should nevertheless consider the quantitative or qualitative information required to provide users of the financial statements an understanding of "the effect of the change", as per IAS 34:16A(a). Judgement will be required to determine the appropriate level of disclosure and aggregation necessary to provide users with an understanding of the effects of the new standard(s) applied.

  Whilst not directly applicable to condensed interim financial statements, the transitional disclosures required in annual financial statements may provide helpful guidance to assess the information that may be relevant in interim financial statements.
- *Other relevant disclosures*. IFRS 17 (and IFRS 7) include a number of disclosure requirements for annual financial statements. An entity might consider these disclosure requirements when assessing the information to provide to comply with the interim reporting requirements to give 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 (IAS 34:15 and 15C), or an explanation of the nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence (IAS 34:16A(d)). In addition, both IAS 1:17 and 31 (which, in accordance with IAS 1:4, apply to condensed interim financial statements prepared under IAS 34) 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.

For non-insurers, Deloitte's *A 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.

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 judgement 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.

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. Although the disclosure requirements of IAS 33 itself 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).

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 adjusted EPS for all periods presented.
- When preference shares are classified as equity, earnings used for the calculation of basic and adjusted EPS are adjusted for all the effects of those preference shares, including dividends and any premiums arising on redemption.

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.

Disclosure of accounting policies

Recent 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 illustrates circumstances which are likely to result in accounting policy information being considered 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 *Accounting Policies, Changes in Accounting Estimates and Errors* 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.

The amendments apply to financial statements for annual reporting periods beginning on or after 1 January 2023.

Board and executive management diversity disclosures

Implications for UK companies
For accounting periods beginning on or after 1 April 2022, two new Listing Rules, LR 9.8.6R(9) and LR 14.3.33R(1), require premium and standard listed companies to provide disclosures on board and leadership diversity. In-scope companies will be required to:

- include a statement in their annual financial report, under Listing Rule 9.8.6R(9) and LR 14.3.33R(1), setting out whether the listed company has met specific board diversity targets on a 'comply or explain' basis and, if they have not met the targets, why not.
- publish numerical data on the sex or gender identity and ethnic diversity of their board, senior board positions and executive management in a standardised format table and explain their approach to collecting the data under Listing Rule 9.8.6R (10) and LR 14.3.33R (2).
- expand reporting, under amended DTR 7.2.8AR, to cover the diversity policies of key board committees and to consider wider diversity characteristics such as ethnicity, sexual orientation, disability and socio-economic background when reporting against this rule.

A Deloitte *Corporate Reporting Insights: Diversity and Inclusion* publication looks at how reporters are preparing for greater transparency around board leadership and diversity. It also looks at whether companies are already complying with the new Listing Rule requirements and how they are moving disclosures closer to compliance.

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 2023 interim financial statements – in addition to those already described throughout this publication – are discussed below.

Implications for UK companies
Deloitte's *Model half-yearly financial report for the year ended 30 June 2023* publication illustrates typical disclosures which will be required of a UK listed company in its half-yearly financial report in accordance with IAS 34 *Interim Financial Reporting*, together with an overview of applicable requirements and key messages and expectations from the FRC and ESMA that should be considered in conjunction with the messages in this publication, when preparing half-yearly financial reports.

Important events and transactions

Entities preparing condensed interim financial statements are required, in accordance with IAS 34:15, 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 listing 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 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 arising from supply chain disruptions, labour shortages, increases in interest rates, increases in energy prices, increases in the general cost of living, climate change, the geopolitical environment, and broader macroeconomic factors, 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 impairments and reversals of impairments 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 review date if there is an indicator of impairment.

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. Where 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 in the interim financial statements.

Implications for UK companies

In assessing whether the going concern basis is appropriate, UK companies should consider a period of at least 12 months from the date the financial statements are authorised for issue.

Recognition and measurement

The principles for recognising assets, liabilities, income and expenses for interim financial statements are the same as in annual financial statements. IAS 34:41 requires that 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 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 the overarching objective stated above, 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. 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 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 30 June 2023. 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 30 June 2023, for various quarterly reporting periods:

This table can be used for all annual accounting periods. A 1st quarter ending on 30 June 2023 would mean that the annual reporting period began on 1 April 2023. Similarly, 2nd quarters ending on 30 June 2023 refer to annual periods that began on 1 January 2023, 3rd quarters ending on 30 June 2023 refer to annual periods that began on 1 October 2022, and 4th quarters ending on 30 June 2023 refer to annual periods that began on 1 July 2022.

Pronouncement	IASB effective date	UK endorsed effective date[3]	Application to 30 June 2023			
			Q1	Q2	Q3	Q4
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022	1 January 2022	Already applied in the prior year (April 2022)	Already applied in the prior year (January 2022)	Mandatory	Mandatory
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022	1 January 2022	Already applied in the prior year (April 2022)	Already applied in the prior year (January 2022)	Mandatory	Mandatory
Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022	1 January 2022	Already applied in the prior year (April 2022)	Already applied in the prior year (January 2022)	Mandatory	Mandatory
Annual Improvements to IFRS Standards 2018–2020	1 January 2022	1 January 2022	Already applied in the prior year (April 2022)	Already applied in the prior year (January 2022)	Mandatory	Mandatory
IFRS 17 Insurance Contracts (with June 2020 and December 2021 amendments)[4]	1 January 2023	1 January 2023	IFRS 17 and June 2020 amendments mandatory. December 2021 amendments optional – see footnote 4.	IFRS 17 and June 2020 amendments mandatory. December 2021 amendments optional – see footnote 4.	Optional	Optional
Definition of Accounting Estimates (Amendments to IAS 8)	1 January 2023	1 January 2023	Mandatory	Mandatory	Optional	Optional
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	1 January 2023	1 January 2023	Mandatory	Mandatory	Optional	Optional
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	1 January 2023	1 January 2023	Mandatory	Mandatory	Optional	Optional

3. The UK Endorsement Board maintains an adoption status report for UK-adopted IFRS Accounting Standards on its website.
4. In June 2020, the IASB issued *Amendments to IFRS 17* which deferred the effective date of IFRS 17 until 1 January 2023. In addition the IASB issued *Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)* which changed the fixed expiry date for the temporary exemption in IFRS 4 from applying IFRS 9, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023. An entity that elects to apply the December 2021 amendment to IFRS 17 applies it when it first applies IFRS 17.

Pronouncement	IASB effective date	UK endorsed effective date[3]	Application to 30 June 2023			
			Q1	Q2	Q3	Q4
International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12) – application of the exception and disclosure of that fact	23 May 2023	Endorsed for use in the UK on 19 July 2023 with retrospective application	Mandatory	Mandatory	Mandatory	Mandatory
International Tax Reform — Pillar Two Model Rules (Amendments to IAS 12) – other disclosure requirements[5]	1 January 2023	1 January 2023	Not required	Not required	Optional	Optional
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	1 January 2024	Optional	Optional	Optional	Optional
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	1 January 2024	Optional	Optional	Optional	Optional
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024	TBC	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK

New IFRS Sustainability Disclosure Standards

Pronouncement	ISSB effective date	UK endorsed effective date[6]	Application to 30 June 2023			
			Q1	Q2	Q3	Q4
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	1 January 2024	TBC	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK
IFRS S2 — Climate-related Disclosures	1 January 2024	TBC	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK	Not yet endorsed for use in the UK

5. Whilst the disclosure requirements are effective for accounting periods beginning on or after 1 January 2023, they are not required for any interim period ending on or before 31 December 2023. However, 30 June 2023 half-yearly financial reporters should determine the nature and extent of disclosures to be made considering the broader requirements in IAS 34 *Interim Financial Reporting* to disclose significant events since the end of the last annual reporting period. See Deloitte's *Model half-yearly financial report for the year ended 30 June 2023* publication for more information.
6. The UK government, as part of its 2023 Green Finance Strategy, set out its intention to adopt the ISSB sustainability standards for use in the UK following a formal assessment of the standards. The government is establishing two advisory committees to support this assessment: the first will consider public policy while the second will be supported by the FRC and will consider how the standards will sit alongside existing UK reporting requirements. The aim is for an endorsement decision on the ISSB standards to be made within 12 months of publication.

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 Accounting 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 Accounting Standards.

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

September 2022 IFRIC Update	IFRS 9 and IFRS 16—Lessor Forgiveness of Lease Payments
	IFRS 17 and IAS 21—Multi-currency Groups of Insurance Contracts
	Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition
March 2023 IFRIC Update	IFRS 16—Definition of a Lease—Substitution Rights

Further information

If you have any questions about this publication, please speak to your usual Deloitte contact.

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- Model financial statements for entities reporting under IFRS Accounting Standards and UK GAAP

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