Closing Out 2019

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Contents

In Closing Out 2019, we discuss the principal issues arising in respect of 31 December 2019 annual reports, including:

- Areas of regulatory focus identified in the Financial Reporting Council's (FRC's) Annual Review of Corporate Reporting 2018/2019 ('the FRC annual review'), its accompanying slide deck of Corporate Reporting Review Technical Findings and year-end advice letter to audit committee chairs and finance directors.
- The European Securities and Markets Authority's (ESMA's) common enforcement priorities.
- The FRC's thematic reviews on:
  - the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*;
  - the adoption of IFRS 16 *Leases* in interim reports; and
  - the impairment of non-financial assets under IAS 36.
- Issues arising from the current economic environment and developments in reporting standards.

As in previous years, the FRC annual review provides an assessment of UK corporate reporting based on reviews of listed, AIM quoted and large private companies by the FRC's Corporate Reporting Review team whilst the year-end advice letter highlights issues relevant to the upcoming reporting season. There is a high level of consistency in the issues covered by these two publications.

In addition to financial reporting issues, we also cover other aspects of reporting, including the new requirement to prepare a 'section 172(1) statement' and the increasing focus on discussion of climate change and dividend policy, all of which are relevant to large private companies as well as listed entities.

The UK regulatory environment

The FRC annual review draws largely on the FRC Corporate Reporting Review (CRR) team's reviews of the annual and interim reports of listed, AIM quoted and large private companies, which are designed to ensure compliance with legal and regulatory reporting requirements. The accompanying technical appendix provides additional detail on specific issues raised in reviews of companies' annual reports. The FRC also writes to the finance directors and audit committee chairs of listed companies to highlight changes in reporting requirements and to share its perspective on areas of corporate reporting that could be improved.

Although the CRR team directs its resources primarily towards the reports of the UK's largest listed companies, in recent years it has extended its assessment of large private companies as well, a practice which is likely to increase in the coming year as new and challenging requirements are introduced for such companies, particularly in the narrative reporting field. If the CRR team's reviews identify potential substantive issues, a dialogue with the company is instigated to resolve the issues and agree any action needed to improve the company's reporting. Companies are also written to when their reports have been reviewed but no substantive queries have arisen – either with an appendix of less significant matters for the company to consider or simply to inform them that a review has been performed but no points have been raised.

The FRC has also continued its programme of thematic reviews. This year, the FRC has reviewed the effects of first-time adoption of IFRS 9 and IFRS 15, disclosures about IFRS 16 in interim reports and disclosures relating to impairment of non-financial assets.

Although the FRC acknowledges efforts by companies to improve the quality of their corporate reporting, it continues to see scope for improvement, noting in particular concerns around the use of forward looking information, the potential impact of known and emerging risks and opportunities on future business strategy and the carrying value of assets and the recognition of liabilities.

It adds that in times of uncertainty, investors and other stakeholders expect greater transparency of the risks to which companies are exposed and the actions they are taking to mitigate the impact of those uncertainties. The FRC, in turn, expects companies to go beyond the viability statement and identify those key risks that challenge their business models in the medium to longer term. In particular it highlights the importance of addressing environmental issues.

Disclosure of interactions with the CRR team

An investigation by the CRR team can, in serious cases, result in a formal Press Notice; no Press Notices were issued in 2018/19. When the outcome is less serious, but a degree of publicity is still considered appropriate, the CRR will request specific disclosure in the next annual report to acknowledge the regulator's intervention. In 2018/19 12 such references were required, a decrease on 15 in 2017/18. Consistent with the previous year, a number of the required references related to the cash flow statement, with other problem areas including consolidation and impairment.

The FRC also saw an increase in the number of complaints received in relation to company annual reports to 28 in 2018/19, compared to 11 in the previous year. In the majority of cases the complaint resulted in an approach being made to the company to resolve the issue. A further 17 complaints have already been received in the 2019/20 year, indicating that this trend is set to continue.

The FRC's Guidance on Audit Committees sets out the expectation that, following an interaction with the FRC, the subsequent audit committee report will explain the nature and extent of that interaction, including details of the questions raised, any corrections or improvements resulting from the enquiry and the inherent limitations of the CRR's review. The FRC annual review observes that most companies do include such a reference, but that the quality and comprehensiveness of this reporting continues to be mixed.

Topical issues – reporting on the year to 31 December 2019

The strategic report

The FRC continues to focus on the legal requirement for the strategic report to provide a fair, balanced and comprehensive analysis of the development and performance of the company's business during the financial year and of the position of that business at the end of the year, making it clear that a narrative focusing only on 'core' performance is not sufficient and is not viewed as either 'balanced' or 'comprehensive'. This year, the FRC's specific challenges to companies in this area were principally on:

- the identification, description and mitigating actions taken to manage principal risks and uncertainties;
- the comprehensiveness of business reviews; and
- disclosures relating to alternative performance measures (APMs).

The FRC noted that it wrote to more companies than usual this year regarding risk disclosures, often because information provided elsewhere in the annual report suggested that certain matters should be considered principal risks which did not feature as such in the strategic report.

In relation to business reviews the FRC "frequently identified instances where significant balances or transactions had not been discussed or adequately explained in the strategic report". The report includes a number of examples of areas where the FRC would expect to see discussion in the business review such as significant impairment charges or bad debts, performance of businesses acquired in the year, significant changes in working capital balances including trade receivables, trade payables and accruals and movements in provisions. Significantly, the FRC expects to see significant cash flows or changes in cash flows discussed.

FRC Focus Area

The section 172(1) statement and related requirements

For periods commencing on or after 1 January 2019, companies that qualify as large under the Companies Act 2006, whether listed or unlisted, are required to include a separately identifiable statement in the strategic report which describes how the directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 of the Act. The statement should be a separate component of the strategic report; however, when relevant existing disclosures are presented elsewhere in the annual report, the statement should include cross-references as appropriate to avoid duplication.

This requirement is not intended to be a compliance statement but rather to provide visibility of the considerations by the directors in the performance of their duties. In designing their statements, directors will be well aware that there is already relevant information elsewhere in the annual report – meaning that a decision needs to be taken early about how best to draw these elements together and provide additional insights into board decision-making.

Section 172 requires that "a director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a. the likely consequences of any decision in the long term;

b. the interests of the company's employees;

c. the need to foster the company's business relationships with suppliers, customers and others;

d. the impact of the company's operations on the community and the environment;

e.the desirability of the company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the company".

The section 172(1) statement should focus on matters that are of strategic importance to the company, should be meaningful and informative for shareholders, shed light on matters that are of strategic importance and be consistent with the size and complexity of the business.

The statement is prepared at an individual company level and should be specific to the circumstances of the individual company. However, the ability to generate and preserve value in a parent company is dependent on the ability of its subsidiaries to generate and preserve value. Accordingly, in a group strategic report, it may be relevant to consider whether, and if so how, to disclose regard to matters listed as they relate to the group as a whole when the strategic report is a group strategic report.

A Deloitte Governance in Focus publication provides more detail on the requirements and practical support for directors in preparing the section 172(1) statement.

When drafting the statement the following areas should be considered:

- What are the issues, factors and stakeholders the directors consider relevant in complying with section 172(1)(a) to (f) and how have they formed that opinion?
- What are the main methods the directors have used to engage with stakeholders and understand the issues to which they must have regard?
- What impact did the information from engagement with stakeholders have on the company's decisions and strategies during the financial year?

In addition to the section 172(1) statement, the directors' report of all large companies (private as well as public) must include more information on how directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the company during the financial year. For companies with more than 250 employees, additional requirements are also added in respect of how directors have engaged with employees, had regard to employee interests, and the effect of that regard on the principal decisions taken by the company during the financial year.

ESMA
Enforcement Priority

The non-financial information statement

The quality of the non-financial information statement continues to be a priority for regulators and is identified by ESMA as one of its common enforcement priorities for 2019 reporting. In particular, ESMA flags three key areas where it wishes to see improved reporting:

01. Materiality – ESMA highlights the need for a 'double materiality perspective' in the context of non-financial disclosures; in other words companies should consider both the impact of the non-financial matters on the entity, including any dependencies, and the impact of the entity on non-financial matters. ESMA also encourages companies to explain how they have determined what is material when preparing the non-financial statement.

02. Completeness of disclosures – companies should ensure that the material disclosures address as a minimum each non-financial matter referred to in the legislation. For each of those matters, the disclosures should include a description of the non-financial policies pursued, the related due diligence processes and the outcomes of those policies.

03. Balance and accessibility – for all non-financial matters addressed, issuers should provide a balanced depiction of the performance, position and impact of their activity.

The FRC also commented on the non-financial information statement in its annual review, noting that whilst most companies reviewed made references to non-financial reporting matters in their annual report, the disclosures were "sometimes generic". The FRC will continue to challenge companies where it believes that disclosures fall short of the requirements, including the requirement to present the information in a separately identifiable non-financial information statement (although cross-referencing to information elsewhere in the strategic report is acceptable). The FRC letter to audit committee chairs and finance directors indicates in particular that the statement should contain:

01. A clear description of the company's policies.

02. Any due diligence processes implemented in pursuance of those policies and their outcomes in respect of environmental, social, anti-corruption and anti-bribery matters, employees and respect for human rights.

FRC Focus Area

ESMA
Enforcement Priority

ESG disclosures

In a statement published in January 2019, IOSCO reminded issuers that ESG matters, although sometimes characterised as non-financial, may have a material short-term and long-term impact on the business operations of entities as well as on risks and returns for investors and thus are important for their investment and voting decisions. The ESG impact can be wide-ranging, for example:

- regulations can affect costs or require capital expenditure, or lead to impairment or stranded assets;
- changing consumer preferences or competitor innovations can lead to changes in market share, resulting in lost revenues;
- moving to new, more sustainable solutions may require increased capital expenditure;
- failings identified in governance, performance or culture can lead to lost revenue, or exposure to litigation or regulatory fines, damage to reputation and loss of a company's 'social licence to operate'; and
- crises or failures in production or supply chains, including natural disasters can increase costs and undermine supply and demand.

Investors are increasingly demanding information that would help them understand how ESG matters affect the issuer's approach to long-term value creation, the nature of strategic and financial risks, and the way the issuer intends to manage them.

IOSCO observes that disclosure practices remain varied amongst entities. The type of information disclosed, as well as the quality of information, differs within and between markets, depending, for example and amongst other reasons, on the disclosure frameworks used, the disclosure requirements and definitions of materiality imposed by jurisdictions, or the materiality of specific ESG matters to a particular entity.

Climate change

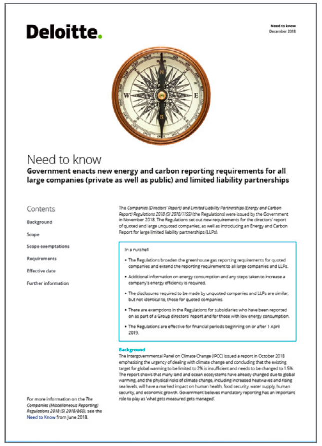
In its annual review, the FRC draws attention to its recently issued statement setting out its expectations of companies in relation to reporting on climate change, namely that companies should, where relevant, report on the effects of climate change on their business (both direct and indirect). Companies have been challenged where the business model appears to give rise to significant climate risk but no disclosures are included to that effect in the annual report. The FRC notes that boilerplate disclosure should be avoided, commenting that companies which make such disclosures can expect "cursory or boilerplate disclosures to be challenged".

The FRC Lab report on climate change, issued in October 2019, further highlights the gap between current reporting and investor expectations as economies increasingly transition towards low carbon and climate resilient futures and calls on companies to bridge this gap. ESMA's common enforcement priorities also highlight an expectation that relevant information will be disclosed on both the impact of a company's operations on the environment and on how environmental matters may affect the company's development, performance or position.

The disclosure recommendations and methodology developed by the industry-led Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD) provide information to investors, lenders, insurers and other stakeholders, and facilitate more consistent disclosure practices of the impact of climate change on companies.

In July 2019, the UK Government announced its Green Finance Strategy, including its commitment to legislate to achieve net zero GHG emissions by 2050. The Green Finance Strategy was welcomed by financial regulators, including the FRC, the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and The Pensions Regulator (TPR) in a joint statement of support, which stated that companies should consider the likely consequence of climate change on their business decisions. The UK Government has proposed that compliance with the TCFD recommendations will be mandatory by 2022, while the FCA intends to issue a Consultation Paper in early 2020 proposing new disclosure rules for certain listed issuers aligned with the TCFD recommendations, initially on a 'comply or explain' basis.

The European Commission has published guidelines on reporting climate-related information which integrate the recommendations of TCFD. The Sustainability Accounting Standards Board (SASB) and Climate Disclosure Standards Board (CDSB) have partnered to publish a TCFD Implementation Guide which seeks to provide practical guidance on how to implement the TCFD recommendations, along with a checklist of preliminary steps to take and a library of good examples in their TCFD Good Practice Handbook.


Deloitte.

Need to know

Government enacts new energy and carbon reporting requirements for all large companies (private as well as public) and limited liability partnerships

A Deloitte Need to Know addresses these changes in more detail.

Streamlined Energy and Carbon Reporting regulations

For periods commencing on or after 1 April 2019, large private companies and LLPs are required by the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 (SI 2018/1155) to disclose information about their UK greenhouse gas emissions, energy consumption and energy efficiency.

The regulations also extend the required reporting by quoted companies to include disclosure of energy consumption (in kWh and distinguishing between that consumed in the UK and offshore) and any measures taken to increase energy efficiency.

Subject to certain exemptions (such as a de minimis threshold for low energy users), the disclosures must be provided by all entities in scope, irrespective of materiality. There is no threshold referencing "to the extent necessary for an understanding of the position and performance of the business". This information could be included in the strategic report if of strategic importance to the company.

Although these changes are not effective for 31 December 2019 annual reports, it is important to be aware of the need to implement processes to collect the required data. Comparative information is not required in the first year of implementation.

A Deloitte Need to Know discusses the final report issued by the TCFD.

Deloitte, in collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW), has launched a dedicated climate change website and video learning programme that is designed to help businesses and finance professionals learn more about tackling climate change. A Deloitte *A Closer Look* is expected to be published shortly.

FRC Focus Area

ESMA
Enforcement Priority

The use of 'non-GAAP' or Alternative Performance Measures

The use of 'non-GAAP' figures (sometimes referred to as 'Alternative Performance Measures' (APMs)) has been an area of regulatory concern in many jurisdictions around the world.

In its annual review, the FRC recommends that all companies should comply with the European Securities and Markets Authority's (ESMA's) Guidelines on Alternative Performance Measures, even for companies that are not within scope of the guidelines (see summary below). The FRC notes improvements in:

- the labelling of APMs with fewer adjusted measures given potentially misleading titles;
- fewer instances of undue prominence of APMs compared with IFRS-compliant performance measures; and
- explanations as to why APMs are used.

However, notwithstanding the improvements, the FRC continues to see:

- absent or unclear definitions of APMs and/or reconciliations to the closest equivalent IFRS line item;
- unclear reasons as to why certain amounts are excluded from adjusted measures that seemed to be part of normal business; and
- instances of companies describing activities as non-recurring which had been reported for a number of years.

The FRC also commented that an "apparent reluctance to identify and highlight the audited IFRS numbers from which APMs are derived is a cause for concern."

The adoption of significant new standards such as IFRS 16 may lead entities to define new APMs and/or change the basis of calculation of existing APMs. If this is the case, disclosure should be provided on the extent of and rationale for any change in the APMs used. A recent Lab report on performance metrics sets out five principles for reporting APMs based on the views of investors to help companies decide how best to present the metrics they want investors to understand and utilise.

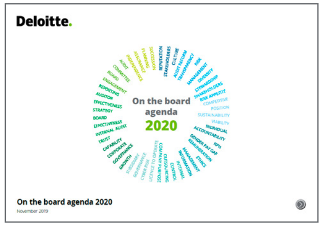
The key requirements in the ESMA Guidelines can be summarised as follows:

- An APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.
- Issuers should define the APM used and its components as well as the basis of calculation adopted.
- Issuers should disclose the definitions of all APMs used in a clear and readable way.
- APMs should be given meaningful labels reflecting their methodology and basis of calculation in order to avoid conveying misleading messages to users.
- APMs should be reconciled to the most relevant amount presented in the financial statements, separately identifying and explaining each reconciling item.

The Deloitte publication *Alternative performance measures: A practical guide* provides additional guidance on the use of APMs, setting out what is considered best practice and providing real-life examples of how entities present such measures.

- Issuers should also present the most directly reconcilable line item, subtotal or total presented in the financial statements relevant for that specific APM. Issuers should explain the use of APMs in order to allow users to understand their relevance and reliability. APMs should be accompanied by comparatives for the corresponding previous periods. Issuers should present reconciliations for all comparatives presented. The definition and calculation of an APM should be consistent over time. In exceptional circumstances where issuers decide to redefine an APM, the issuer should:
  - explain the changes;
  - explain the reasons why these changes result in reliable and more relevant information on the financial performance; and
  - provide restated comparative figures.
- If an issuer stops disclosing an APM, the issuer should explain the reason for considering that this APM no longer provides relevant information. Where permitted, disclosure principles set out in the guidelines may be replaced by a direct reference to other documents previously published which contain these disclosures on APMs and are readily and easily accessible to users.

FRC Focus Area



A Deloitte publication, On the board agenda 2020, contains further detail on and insight into the key corporate governance issues and considerations affecting companies.

Corporate governance

Corporate governance is increasingly high on the regulatory agenda and the 2019 reporting season sees the introduction of new requirements, both for listed and large private companies. In its annual review, the FRC explains that this year it has undertaken an assessment of early adoption of the new 2018 UK Corporate Governance Code and also reporting on the 2016 Code. It will publish findings and its expectations for the 2019/20 reporting season at the end of 2019.

The UK Corporate Governance Code 2018

In 2018 the FRC published a new UK Corporate Governance Code (the 2018 Code) together with revised Guidance on Board Effectiveness. These were followed in October 2019 by a revised Stewardship Code. The 2018 Code applies to all premium-listed companies for periods commencing on or after 1 January 2019 and includes a number of specific changes requested by the government's response to the Green Paper Consultation on Corporate Governance Reform. In addition, to achieve a wider stakeholder focus, the changes draw out the findings from the FRC's 2016 Culture Report. The changes have also taken account of the Hampton-Alexander Review and Parker Review reports on diversity.

The 2018 Code has undergone a fundamental restructure compared to previous versions. It contains five sections:

01. Board leadership and company purpose

02. Division of responsibilities

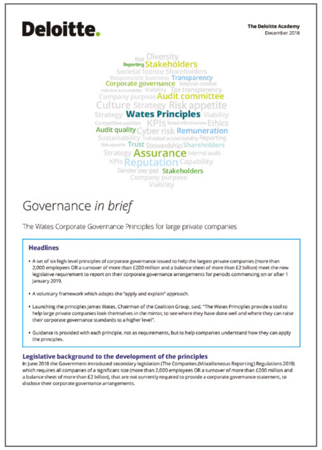
03. Composition, succession and evaluation

04. Audit, risk and internal control

05. Remuneration

Each section sets out several principles, which are underpinned by more detailed provisions. The 2018 Code focuses on the company's approach to governance through the application of the 2018 Code principles, which emphasise the value of good corporate governance to long-term success. When reporting on the principles, the 2018 Code requires companies to demonstrate to shareholders why the board has implemented certain structures, policies and practices and how these aspects meet the relevant Code principle, rather than focusing primarily on the 'comply or explain' aspects of the provisions.

A Deloitte Governance in Brief publication provides more detail on the new requirements introduced by the 2018 Code.



A Deloitte Governance in Brief publication provides more detail on the Wates Principles.

Corporate governance arrangements for large private companies

For periods beginning on or after 1 January 2019, all companies of a significant size (more than 2,000 employees OR a turnover of more than £200 million and a balance sheet of more than £2 billion), that are not currently required to provide a corporate governance statement, will be required to disclose their corporate governance arrangements.

To assist companies in complying with this new requirement, the Wates Corporate Principles for Large Private Companies (the Wates Principles) were published in December 2018. The intention is that the Wates Principles provide an approach to corporate governance that offers sufficient flexibility for a diverse range of companies without being too prescriptive. There is no obligation on companies to adopt these principles.

The principles are broad and are supported by guidance. A company which chooses to adopt the Wates Principles should follow them using an “apply and explain” approach in a way that is most appropriate for their particular organisation. Boards should be able to explain, in their own words, how they have addressed each of the principles in their governance practices.

The principles are:

01. Purpose and leadership

02. Board composition

03. Director responsibilities

04. Opportunity and risk

05. Remuneration

06. Stakeholder relationships and engagement

The intention of the Wates Principles is to encourage companies to describe and explain how the company’s governance practices achieve the principles and demonstrate the desired outcomes. This approach offers increased transparency for stakeholders and links to the other new reporting requirement on how the directors have discharged their duties under section 172. As such there are no explicit requirements for disclosure other than the “apply and explain” guidance. However, a brief bland statement will not suffice. Directors should satisfy themselves that each of the Wates Principles are sufficiently covered in the narrative. The focus should be on how the Principles have been applied to the company’s particular circumstances.

Directors’ remuneration

For periods commencing on or after 1 January 2019, all companies that are required to prepare a directors’ remuneration report and which have more than 250 employees need to publish the ratio of their chief executive officer’s ‘single figure’ total remuneration to the median, 25th and 75th percentile total remuneration of their full time equivalent UK employees in their directors’ remuneration report. Pay ratios are calculated on a group-wide basis by reference to UK employees only. Supporting information is required, including the methodology used to calculate the pay ratios. Companies need to explain the reasons for changes to the ratio year on year and also whether the company believes the median ratio is consistent with the company’s wider policies on employee pay, reward and progression.

Other changes applicable at the same time are as follows:

- the Annual Statement from the remuneration committee chair needs to provide a summary of any discretion used;
- the notes to the single figure in the remuneration report need to provide additional guidance on the impact of share price movements on the outcomes, and detail on whether discretion has been exercised to reflect share price movements; and
- in the next new remuneration policy, there will be a requirement to provide an illustration in the directors' remuneration report of the impact of potential future share price increases on executive pay outcomes that are linked to performance periods of more than one financial year (e.g. LTIP awards), assuming share price growth of 50 per cent over the period.

Further changes to remuneration reporting come into effect under the Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019 (SI 2019/970) (the 2019 Regulations). These partially implement EU Directive 2017/828, more commonly known as the Shareholders Rights Directive II, and affect both the setting of remuneration policy and remuneration reporting. They also change the scope of the requirements of remuneration reporting to include traded companies. This captures a small number of UK-registered companies whose shares are traded on regulated markets in the UK, but which are not on the FCA's Official List.

The changes in the 2019 Regulations to the requirements for quoted companies on the remuneration policy apply in respect of any new policy brought to shareholders for approval on or after 10 June 2019, while the changes to remuneration reporting take effect in respect of financial years starting on or after 10 June 2019.

More detail on the new remuneration reporting requirements can be found in DART (available through subscription).

FRC Focus Area

Capital allocation and dividend policy

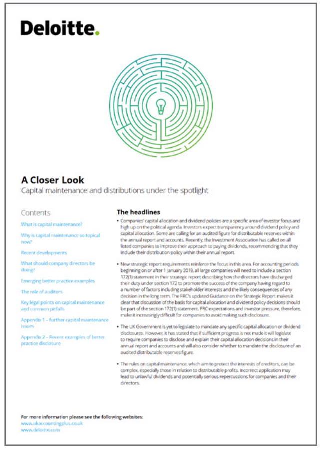
Companies' capital allocation and dividend policies are a specific area of investor focus and high up on the political agenda. Investors expect transparency around dividend policy, capital allocation and some are calling for an audited figure for distributable reserves within the annual report and accounts. The UK's capital maintenance regime is also under the spotlight as a result of high-profile corporate collapses, particularly where there is a perception that directors have prioritised paying dividends or buying back shares over other potential uses of capital, such as reinvesting in the business or funding pension deficits.

The BEIS Select Committee in its March 2019 report, The Future of Audit, commented that there was "...little compliance with and enforcement of the capital maintenance regime" and highlighted a number of instances of companies paying unlawful dividends. In its annual review, the FRC challenged companies that had paid interim dividends in excess of the distributable profits shown in their latest published financial statements. It also reminds public companies of the need to file interim financial statements prior to a distribution being made if the most recent annual accounts do not show sufficient distributable profits.

The FRC's Guidance on the Strategic Report includes the following comments in relation to capital allocation and dividend policy:

"On a year-to-year basis, directors will decide how to apply the company's capital allocation and dividend policies given events and circumstances that have arisen during the period. In both the setting of the policy and the application of that policy in any given period, directors are encouraged to consider the interests of the company's shareholders as a whole, while having regard to, for example, the long-term viability of the company, the need for research and development or capital investment and the interests of other stakeholders, such as the pension fund or current employees.

If the setting and application of the capital allocation and dividend policies are principal decisions, the section 172(1) statement could explain how directors have had regard to the long term and the interests of stakeholders, both in the setting of the capital allocation and dividend policies and then in the application of those policies each year."



A Deloitte A Closer Look publication provides more detail on the considerations surrounding capital allocation and dividend policy and highlights expectations regarding disclosure.

Further pressure on companies to make fuller disclosure has recently come from the Investment Association which, in May 2019, issued a statement calling on companies to significantly improve the transparency of their approach to paying dividends recommending that "all listed companies.......as a minimum, articulate a 'distribution policy'. This policy would include a company's long-term approach to making decisions on the amount and timing of returns to shareholders, including dividends, share buybacks and other capital distributions within the context of any relevant legal or financial constraints". This follows on from the Investment Association's Long Term Reporting Guidance, issued in 2017, where it made the following recommendations on the disclosures on capital management. These could helpfully be cross-referred to from the section 172(1) statement:

The strategic report should include:

- a discussion of the significant capital allocation decisions made during the past year;
- an explanation of the nature of the dialogue with key shareholders on capital allocation decisions during the past year, including a commentary on how these discussions have influenced the company's decision-making process;
- the outcomes of those significant capital allocation decisions, with reference to how those expenditures have led to productivity improvements and supported the delivery of the company's long term strategy; and
- where appropriate, an explanation of any significant cancellations or withdrawals from past capital allocation decisions that have been made in the period.

FRC Focus Area

Brexit and 2019 annual reports

Regulators continue to highlight the importance of disclosure on the possible effects of the United Kingdom's decision to leave the European Union. It should be assumed that December 2019 annual reports of entities with material operations in the United Kingdom will include commentary on the possible effects of Brexit on the entity's results and future prospects.

Entities are encouraged to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, these should be clearly identified and the annual report should explain any actions planned or taken to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the statement of financial position. The FRC comments, in its annual review, that more companies are now discussing specific risks related to Brexit in their annual reports, along with mitigating actions that they have been able to take to address them.

The broad uncertainties that may still attach to Brexit when entities report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions. It is expected that many entities will want to consider a wider range of reasonably possible outcomes when performing sensitivity analysis on their cash flow projections and which should be disclosed and explained. Not all entities will require extensive disclosure, but where sensitivity or scenario testing indicates significant issues, relevant information and explanation should be reflected in the appropriate parts of the annual report and accounts, for example in the impairment disclosures.

Some entities may also need to consider whether uncertainties arising from Brexit affect their ability to continue as a going concern. Almost all companies reviewed by the FRC with UK or EU operations referred to the risks of Brexit in their viability statements.

The significant uncertainties and unknowns in respect of the final terms of the United Kingdom's departure (with the current deadline set at 31 January 2020) and a constantly changing UK political landscape mean that, particularly in the event of no deal, a comprehensive post balance sheet events review should be incorporated into the year-end reporting plan, in order to identify both adjusting and non-adjusting events and to make the necessary disclosures required by IAS 10 Events *after the Reporting Period*.

The effect of Brexit on the UK accounting framework

If the UK leaves the European Union with a withdrawal agreement, then the European laws which underpin much of the UK's accounting, corporate reporting, auditing and corporate governance regimes will continue to have direct application until the end of the transition period in the withdrawal agreement. However, if the UK leaves without a deal in place, then a significant number of changes will be made to the UK regime in order to incorporate EU concepts into UK law and hence maintain continuity of treatment (and, ultimately, allow for the possibility of divergence in the fullness of time). Whilst many of these are highly technical amendments to fix definitions and references with the law, a number of changes will affect the requirements around company reporting, auditing and governance.

- The government has approved several Statutory Instruments (SIs) addressing the UK accounting, corporate reporting, auditing and corporate governance regimes which will take effect in the event of a 'No Deal' Brexit.
- UK companies will continue to have the choice, or be required to, adopt IFRS. However, the version of IFRS will be IFRS as adopted by the UK rather than IFRS as adopted by the EU, with a UK endorsement mechanism to be introduced which will be overseen by the Secretary of State.
- The Companies Act 2006 will be amended to change references to the EEA to refer instead to the UK, affecting a variety of provisions including eligibility for the small companies regime and the availability of audit exemption for subsidiaries.

These changes will generally take effect for periods beginning on or after Exit Day, but some changes may require thought on or soon after Exit Day.

The FRC is working with the Department for Business, Energy and Industrial Strategy (BEIS) to create a UK IFRS endorsement board and expects to provide oversight of the governance of that body and of its compliance with due process.

FRC Focus Area

ESMA Enforcement Priority

Our publication Leases – A guide to IFRS 16 remains a relevant source of information for understanding the key requirements in the Standard. The information in the guide should be considered together with additional guidance on the application of the Standard in DART (available through subscription).

IFRS 16 Leases

The biggest change in financial reporting for many entities this year will be the adoption of IFRS 16 *Leases*, which requires lessees to bring most of their leases that were previously operating leases on balance sheet.

Transition

Disclosures should be entity-specific in order to help investors to understand the amounts and adjustments reported on transition to IFRS 16.

The information disclosed should include a meaningful explanation of the new accounting policies. The description of an accounting policy should not simply repeat the requirements of the relevant accounting standard, but should explain how those requirements have been applied to the entity's particular facts and circumstances. It should include information about the key judgements and assumptions made in applying the requirements of IFRS 16.

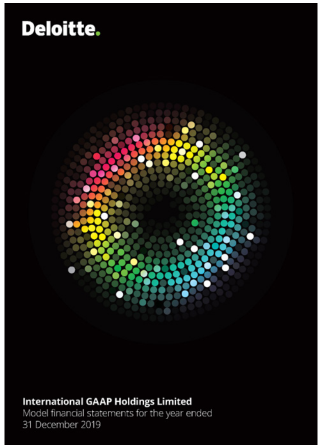
The approach to transition (retrospectively or the cumulative catch-up approach) will dictate the disclosure an entity is required to provide about the initial application of IFRS 16. In particular, lessees applying the cumulative catch-up approach are required to disclose:

- the weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position at the date of initial application; and
- an explanation of any difference between:
  - operating lease commitments disclosed applying IAS 17 *Leases* at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental borrowing rate at the date of initial application; and
  - lease liabilities recognised in the statement of financial position at the date of initial application.

Lessees are also required to disclose whether they have used one or more of the specified practical expedients permitted on transition under the cumulative catch-up approach.

The application of IFRS 16 will have a significant effect on lessees' statements of cash flows, as the payment of the principal on lease liabilities will be presented as part of the financing activities and the cash flows related to interest on leases as either operating or financing cash flows in accordance with the lessee's accounting policy (which should be disclosed if the amounts involved are material). Payments that do not result in the recognition of a right-of-use asset, such as payments for short-term leases and low value leases, or variable lease payments that are not included in the measurement of the lease liability, are presented in operating activities.

The effects of the application of IFRS 16 are potentially significant for many entities. That means that numerous key performance indicators (KPIs) may be affected. For example, a higher EBIT and EBITDA can be expected. Net debt and free cash flow KPIs may also be significantly affected. The entity should explain how the KPIs are affected by the transition adjustments. Similarly, if an entity changes the composition of its KPIs in light of the new accounting requirements, this should be communicated by way of disclosures.



Our 2019 model financial statements for IFRS preparers illustrate the initial application of IFRS 16 using a full retrospective approach. In an appendix to the model financial statements, we illustrate the changes required on initial application of IFRS 16 using the cumulative catch-up approach.

Lease term

The determination of the lease term may be a significant judgement for many lessees and lessors, who will need to assess what the enforceable period of a lease is and whether renewal options are reasonably certain to be exercised (or not exercised in the case of termination options). Entities for which this is the case will need to provide sufficient disclosure on the judgements made in determining the lease term and should comply with the requirements of paragraphs 122 and 125 of IAS 1 *Presentation of Financial Statements* regarding disclosure of critical judgements and sources of estimation uncertainty.

The determination of the lease term has proved challenging, in particular the assessment of the enforceable period. In November 2019, the IFRS Interpretations Committee (IFRS IC) decided to finalise an agenda decision considering how the requirements of IFRS 16 relating to the lease term apply to renewable and cancellable lease contracts (respectively, contracts that renew indefinitely at the end of an initial period unless terminated by either of the parties and contracts that continue indefinitely until either party gives notice to terminate). As part of its analysis of this issue, the IFRS IC considered how the requirement of IFRS 16 paragraph B34, which indicates that a lease is no longer enforceable when the lessee and the lessor each has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, should be applied.

The IFRS IC observed that in applying IFRS 16:B34 and determining the enforceable period of the lease described above, an entity considers:

- the broader economics of the contract, and not only contractual termination payments. For example, if either party has an economic incentive not to terminate the lease such that it would incur a penalty on termination that is more than insignificant, the contract is enforceable beyond the date on which the contract can be terminated; and
- whether each of the parties has the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Applying IFRS 16:B34, a lease is no longer enforceable only when both parties have such a right. Consequently, if only one party has the right to terminate the lease without permission from the other party with no more than an insignificant penalty, the contract is enforceable beyond the date on which the contract can be terminated by that party.

If an entity concludes that the contract is enforceable beyond the notice period of a cancellable lease (or the initial period of a renewable lease), it then applies IFRS 16:19 and B37-B40 to assess whether the lessee is reasonably certain not to exercise the option to terminate the lease.

The existence of non-removable leasehold improvements that a lessee expects to use beyond the date on which the contract can be terminated may indicate that the lessee might incur a more than insignificant penalty if it terminates the lease. This may indicate that the contract is enforceable for at least the period of expected utility of the leasehold improvements.

At the time of writing, the agenda decision had not yet been published in IFRIC Update, and formal finalisation of the agenda decision was therefore still pending.

Discount rate

The determination of the discount rate can also be a significant judgement. IFRS 16 requires that a lessee measures the lease liability at the present value of the lease payments, using as a discount rate the interest rate implicit in the lease, if that rate can be readily determined.

Generally, the rate implicit in the lease would only be considered readily determinable when all of the material inputs used by the lessor to calculate the rate are readily determinable (i.e. the lessee can readily determine the fair value of the underlying asset, the amount the lessor expects to derive from the underlying asset at the end of the lease term and the lessor's initial direct costs, provided that each of these has a material effect on the rate).

If, as is often expected to be the case, the rate implicit in the lease cannot be readily determined, the lessee shall discount lease payments using its incremental borrowing rate. This requires a lessee to determine its incremental borrowing rate for a particular lease considering the terms and conditions of the lease, and determine a rate that reflects the rate it would have to pay to borrow:

- the amount needed to obtain an asset of a similar value to the right-of-use asset arising from the lease;
- over a similar term to the lease term;
- with a similar security to the security (collateral) in the lease; and
- in a similar economic environment to that of the lease.

In September 2019, the IFRS Interpretations Committee issued an agenda decision on the definition of the lessee's incremental borrowing rate. It noted that in applying judgement in determining its incremental borrowing rate, it would be consistent with the Board's objective when developing the definition of incremental borrowing rate for a lessee to refer as a starting point to a readily observable rate for a loan with a similar repayment profile to that of the lease (i.e. in the case of most leases, that a loan for which the principal is repaid through periodic payments rather than through a single payment at maturity).

If the determination of the incremental borrowing rate is a significant accounting judgement, then it may be relevant to explain how the rate is determined, including whether the underlying term is the maturity of the lease liability or whether it follows its repayment profile.

Presentation and disclosure
On an on-going basis, a lessee will need to provide entity-specific disclosures (quantitative and qualitative) to enable users of the financial statements to assess the effect that leases have on their financial position, financial performance and cash flows.

This includes information about elections made in applying IFRS 16, in particular with respect to accounting for short-term leases and leases of low value assets. If either of these elections is used, the lessee will need to provide specific information about the expenses relating to the leases.

The entity should disclose significant judgements and assumptions made in applying the requirements of IFRS 16. In addition to the determination of the lease term and discount rate, the determination of whether an arrangement is or contains a lease may be a significant judgement in certain circumstances.

Impairment
At the date of initial application of IFRS 16, a lessee applying the cumulative catch-up approach can use its previous assessment of whether an operating lease was onerous as a basis for assessing whether a right-of-use asset is impaired. Subsequent to that date, however, the normal requirements of IAS 36 *Impairment of Assets* should be applied.

Generally, right-of-use assets that do not generate independent cash inflows (for example, by being subleased) will be tested for impairment as part of a cash-generating unit. Entities will therefore need to adjust the calculation of the recoverable amounts when performing impairment test of cash-generating units that comprise right-of-use assets. In typical circumstances, lease liabilities should be excluded from the cash-generating unit. The cash outflows associated with the lease liability would then also be excluded from the value in use calculation. However, variable lease payments that are not based on an index or rate, the effect of future changes in an index or rate as well as short-term and low-value leases, if the practical expedient is used, would have to be captured in the value in use calculation as they are not included in the lease liability. Similarly, if the cash-generating unit contains essential assets with a useful life longer than the lease term, cash flows for the replacement of the right-of-use asset (for example, expected periodic lease payments for the period beyond the lease term or the cost of a replacement asset to be purchased, depending on the entity's intended course of action) would need to be included in the cash flow projections. The discount rate used in the determination of the recoverable amount will need to be adjusted so that it is consistent with the underlying cash flows and cash-generating unit being tested.

If an entity makes significant judgements when testing for impairment, or if the impairment calculation includes assumptions and estimates that have a significant risk of resulting in material adjustments to the carrying amount of the right-of-use asset (or of a cash-generating unit that includes right-of-use assets) within the next financial year, an entity is required to disclose those in accordance with IAS 1:122 and 125.

FRC thematic review of interim disclosures under IFRS 16

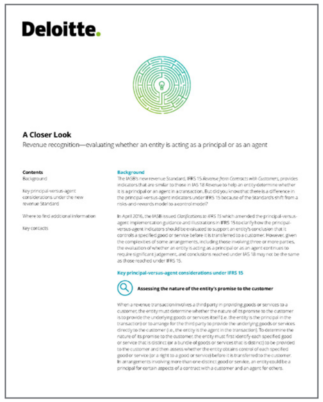
In November 2019, the FRC published the findings of its thematic review of interim disclosures about IFRS 16. Overall, the FRC observed some good examples of transitional disclosures but also identified a number of weaknesses:

- **Transition options** – companies should be clear on the transition approach used and, where the modified retrospective method is adopted, avoid describing opening retained earnings as 'restated'. Companies should state clearly whether they have used the practical expedient regarding the definition of a lease and, if they have not, should disclose evidence of reassessing the lease population under IFRS 16 criteria. It was also not always clear whether companies were applying one-off transition expedients or ongoing recognition exemptions. The FRC intends to revisit these disclosures in the 2019 annual reports of companies where this was unclear.
- **Transition disclosure** – where the modified retrospective method is adopted, companies should ensure that they provide an explanation for significant reconciling items, including contracts falling outside the scope of IFRS 16, and the impact of significant lease extension options. Where such items would be expected to give rise to significant judgements, the FRC also expects these to be disclosed
- **Changes in accounting policies** – the FRC noted that companies tended to provide clear explanations of changes in accounting policies and the effect on the balance sheet, but more needs to be done to ensure that the impact on profit or loss is also clearly explained
- **Significant judgements** – a number of companies identified key judgements associated with application of IFRS 16, such as the probability of exercising lease extension options, but did not clearly describe the judgement that had been made. Companies should ensure that they describe the specific judgements made and consider whether those judgements also involve sources of estimation uncertainty to be disclosed under IAS 1.
- **Other disclosures** – any companies are omitting the disclosures required by paragraph 53 of IFRS 16 setting out amounts included in profit or loss and the statement of financial position in respect of right of use assets and lease liabilities. Where it is given, very few are adopting the tabular presentation recommended by paragraph 54 for the provision of this information.
- **Comparability and use of APMs** – companies that adopt the modified retrospective approach should consider the effect on the discussion of performance in the strategic report and ensure that the lack of comparability year on year is identified and explained. The FRC observed that most companies used APMs to address the adoption of IFRS 16 in this regard.

Looking forward, the FRC urges companies to consider these points when preparing year-end disclosures on the transition to IFRS 16 and intends in particular to review the full year accounts of companies whose interim disclosures it considered to be weak.

FRC Focus Area

ESMA
Enforcement Priority


Deloitte.

A Closer Look

Revenue recognition—evaluating whether an entity is acting as a principal or an agent

A Deloitte A Closer Look publication provides more detail on evaluating whether an entity is acting as a principal or an agent.

Recently implemented accounting standards

Entities adopted two significant standards in 2018: IFRS 9 and IFRS 15. While the information provided might have been sufficient to enable users to understand the impact of adopting the new Standards, regulators observed that there is significant room for improvement and refinement in the disclosures provided. We highlight some of their key findings below.

IFRS 15 Revenue from Contracts with Customers

Accounting Policies

Entities should ensure that the accounting policies for revenue recognition have been updated for the new terminology introduced by IFRS 15 and references to any superseded accounting treatments have been removed.

The accounting policy for revenue recognition should include more than just a reproduction of the Standard. For example, when explaining the five-step model for revenue recognition, entities should tailor the explanation to their particular circumstances. The following points should be considered:

- Performance obligations should be clearly described, including the specific nature of the goods and services that the entity has promised to transfer.
- The accounting policy disclosure should link to the information provided on operating segments and information about the entity's business model provided elsewhere in the financial statements.
- The policy should clearly explain the point at which revenue is recognised (i.e. when control is transferred to the customer), and whether revenue is recognised at a point in time or over time for performance obligations described. When revenue is recognised over time, the policy should explain whether an input or output method is then used to measure the entity's progress in satisfying the performance obligation, including why the method used provides a faithful depiction of the transfer of goods or services.
- Significant payment terms (e.g. variable consideration or significant financing components) should be described and their impact on accounting explained.

Significant judgements and estimates

IAS 1 requires disclosure of the specific judgements an entity has made with regard to the requirements in IFRS 15, if those judgements have a significant effect on the amount and timing of revenue recognised. One example is when a revenue transaction involves a third party in providing goods or services to a customer. In that case, the entity must determine whether the nature of its promise to the customer is to provide the underlying goods or services itself (i.e. the entity is the principal in the transaction) or to arrange for the third party to provide the underlying goods or services directly to the customer (i.e. the entity is the agent in the transaction).

Revenue disaggregation

Revenue recognised from contracts with customers should be disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. This disaggregation should be consistent with the entity's activities and environment and the objectives of IFRS 15. Examples of categories that might be appropriate include:

- Type of good or service (e.g. major product lines)
- Geographical region (e.g. country or region)

- Market or type of customer (e.g. government and non-government customers)
- Timing of transfer of goods or services (e.g. revenue from goods or services transferred to customers at a point in time and revenue from goods or services transferred over time)

To enhance the disclosures, an entity could consider presenting the information in a matrix that disaggregates revenue for each of the reportable segments. This would enable users to understand clearly the relationship between the information disclosed under IFRS 15 and that under IFRS 8 *Operating Segments*, which may have been determined applying non-IFRS 15 principles.

Contract balances

IFRS 15 requires that an entity should disclose the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed. An entity should also disclose the revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period and the revenue recognised in the period from performance obligations satisfied, or partially satisfied, in previous periods.

If the determination of revenue from performance obligations in prior periods involves significant judgements, these would also have to be disclosed.

As part of accounting policies that relate to contract balances it may be useful to describe the differences between contract assets and trade receivables to explain the different risks associated with each balance. Furthermore, an entity should explain how the timing of revenue recognition affects contract balances.

FRC thematic review of disclosures under IFRS 15

In October 2019, the FRC published the findings of its thematic review of disclosures in the first year of application of IFRS 15. Overall, the FRC observed that most companies provided sufficient information to enable users to understand the impact of adopting IFRS 15. However there was room for improvement in all cases. Particular findings were as follows:

- **Transition to IFRS 15** – A number of areas of good practice were identified, including disclosure of the transition method adopted, explanation of the effect of any transitional adjustment by category of impact (such as principal/agent considerations and timing of recognition) and clarity over the lack of comparability of information where the modified retrospective method was adopted.
- **Accounting policies** – The FRC noted that accounting policies for revenue are generally better explained under IFRS 15 than under previous standards, but there is clear scope for improvement, especially around the use of 'boilerplate' descriptions and outdated terminology. Disappointment was expressed in the extent of disclosures around variable consideration; companies should explain the nature of any variable consideration and describe how it is measured, together with any significant judgements made in this regard.
- **Significant judgements** – Companies need to ensure they are only disclosing those judgements that have a significant effect on the amount and timing of revenue recognised. These disclosures should include quantitative disclosure, such as sensitivities or ranges of potential outcomes if estimation uncertainty also exists. The FRC expressed concern that few companies explained why the method selected for recognition of revenue over time provided a faithful depiction of the transfer of goods or services.

- **Revenue disaggregation** – The FRC expects disaggregated revenue disclosures to be consistent with information provided elsewhere in the annual report, such as the business model, discussion of divisional reviews and the financial review in the front half of the annual report.
- **Contract balances** – More comprehensive disclosures were included in year-end accounts in this respect compared to the 2018 interim thematic review. However, there is scope to improve the quality of explanations of the difference between contract assets and trade receivables, and of how the timing of satisfaction of performance obligations relates to the typical timing of payment and the related effect on the contract assets and liabilities.
- **Contract costs** – Some of the accounts reviewed made no reference to the accounting policies for or judgements made in relation to the costs of obtaining and fulfilling revenue contracts, even where the FRC expected that such costs would be material. Companies also need to ensure that they are disclosing the amortisation method applied to contract costs, the amount of any amortisation or impairment recognised in the year, and the closing balances by main category of asset.

Other issues noted included the disclosure of the amount of the transaction price allocated to performance obligations that were unsatisfied or partially unsatisfied at the end of the period, accounting policies in relation to breakage (where material), the use of practical expedients, assessment of contract assets for impairment under IFRS 9 and the income tax effect of adopting IFRS 15.

Going forward, the FRC intends to continue to monitor reporting under IFRS 15 with a focus on the following areas:

- descriptions of the nature of performance obligations in the accounting policies and linkage to information elsewhere in the accounts;
- detail on the timing of revenue recognition and the factors considered in determining whether revenue is recognised over time or at a point in time;
- significant judgements made in determining the amount or timing of revenue;
- quantification of estimation uncertainties relating to revenue and whether sensitivities or range of outcomes have been provided; and
- explanations of significant movements in contract assets and liabilities.

IFRS 9 Financial Instruments

Classification and measurement

As with IFRS 15, entities should carefully review their accounting policies with regards to financial instruments. IFRS 9 introduced new classification and measurement categories that resulted in new terminology. Accounting policies should therefore adequately describe the new classification categories and, in particular, refrain from using any superseded IAS 39 language, like "held to maturity" instruments or "loans and receivables".

Accounting policies should be clear, concise and relevant. The policy should avoid boilerplate language taken from the Standard when explaining the business model and 'solely payment of principal and interest' tests. Instead, the accounting policy should be tailored to the entity and only relate to instruments which are held by the entity.

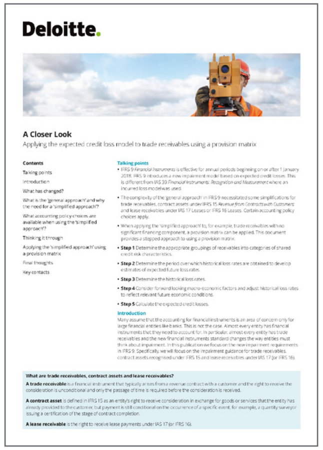
The following key points should also be considered:

- The entity's business model(s) with regard to financial instruments should be explained in the financial statements.
- If an entity designates a financial liability at fair value through profit or loss and therefore recognises the changes in own credit risk in OCI, the accounting policy should explain the treatment of gains or losses attributable to changes in own credit risk.
- Similarly, entities should explain how instruments meet the criteria for a designation at fair value through profit or loss or fair value through other comprehensive income.

Impairment (for entities other than financial institutions)

IFRS 9 introduced a new impairment model based on expected credit losses (ECL). The following points should be considered:

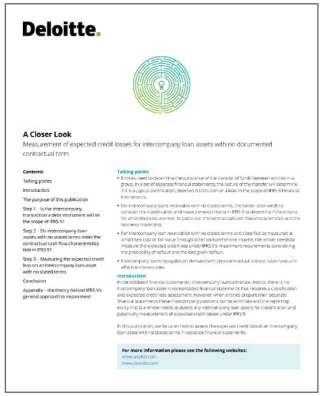
- The new impairment model applies to certain assets outside the scope of IFRS 9, in particular contract assets recognised under IFRS 15 and lease receivables under IFRS 16.
- Applying the impairment model to intercompany loans can easily be overlooked, as they are eliminated in group financial statements. However, they can be material for an entity's separate financial statements.
- An entity may assume that the credit risk on a financial instrument has not increased significantly since initial recognition, and therefore the loss allowance is measured at an amount equal to 12-month expected credit losses, if the financial instrument is determined to have low credit risk at the reporting date. Entities need to make clear if they apply that expedient and how extensive its use is.
- Entities should provide an analysis of the gross carrying amount of financial assets and the exposure to credit risk by credit risk rating grades. For trade receivables, contract assets and lease receivables, if the simplified impairment approach is followed, this may be based on a provision matrix or on days past due. The analysis should be disclosed.
- Determining ECLs may be a key source of estimation uncertainty. When this is the case, entities are therefore required to disclose the key assumptions as well as a sensitivity analysis that shows how ECLs would change with changing economic variables.


Deloitte.

A Closer Look

Applying the expected credit loss model to trade receivables using a provision matrix

A Deloitte A Closer Look publication considers the new accounting requirements for impairment of financial assets and suggests a potential way of applying a provision matrix approach in practice.


Deloitte.

A Closer Look

Measurement of expected credit losses for intercompany loan assets with no documented contractual term

Another Deloitte *A Closer Look* publication provides more detail on measuring expected credit losses for intercompany loan assets with no documented contractual term.

FRC Focus Area

Settlement of contracts to buy or sell a non-financial item

In March 2019, the IFRS Interpretations Committee published an agenda decision that explores how an entity applies IFRS 9 to particular contracts to buy or sell a non-financial item at a future fixed price. The contracts are not designated in a hedging relationship and do not meet the own use scope exception. Consequently, applying IFRS 9, they are accounted for as derivatives at fair value through profit or loss.

At the settlement date, the entity either delivers or takes delivery of the non-financial item. Depending on whether it is a purchase or sale contract, the entity either recognises inventory or revenue at that date, measured as the cash paid or received plus the gain or loss on derecognition of the derivative (i.e. the derivative's fair value on the settlement date).

The Committee observed that the requirements in IFRS 9 neither permit nor require an additional journal entry that reverses the accumulated gain or loss previously recognised in profit or loss on the derivative and recognises a corresponding adjustment to either revenue or inventory. The agenda decision goes on to explain the presentation and disclosure requirements in IAS 1 and IFRS 7 Financial Instruments: Disclosures that apply to gains and losses on derivatives. The Committee observed that for the purposes of those requirements, in the fact pattern considered, there is no gain or loss on the derivatives caused by settlement.

FRC thematic review of disclosures under IFRS 9

In October 2019, the FRC published the findings of its thematic review of disclosures in the first year of application of IFRS 9. The thematic review focuses principally on the disclosure by banks, being the group most significantly affected by the new Standard, but also addresses the disclosures made by non-banking entities.

The FRC made the following comments on the disclosure of IFRS 9's effects on banks:

- **Classification and measurement** – the quality of banks' disclosure of the business model and 'SPPI' test for classification of financial assets was generally comprehensive and clear, but banks are encouraged to move away from generic, boilerplate language in accounting policies, which is often taken directly from the standard, and develop policies which are specific to their particular situation.
- **Impairment: policies and methodologies** – disclosures regarding expected credit loss (ECL) policies and methodologies were observed to be good, with all banks defining the key terms underlying their ECL models and explaining how ECL provisions were determined by product group or portfolio.
- **Impairment: staging and credit risk profile** – most banks explained the stages used and the measurement of ECL at each stage, but the FRC observed that the analysis of movement in ECL balances could be improved by disaggregating movements between stages and adding narrative to explain those movements.
- **Impairment: multiple economic scenarios** – although all banks explained how they determined the impact of alternative economic scenarios, the FRC encourages more disclosure around the assumptions underpinning the scenarios, including quantification of the key economic variables used and an explanation of significant changes in assumptions through the projection period and year on year.

- **Impairment: estimation uncertainty** – all banks identified the determination of ECL as a key source of estimation uncertainty, but it was not always clear if the sensitivity included movements between stages. The FRC noted that most of the banks excluded stage 3 from the analysis and expressed the view that banks should not assume that sensitivities will not affect stage 3 provisions.
- **Hedging** – almost all banks continued to apply IAS 39 for hedge accounting rather than IFRS 9. The FRC found that disclosure about hedging was generally good, with clear discussion of the types of hedge used, sources of hedge ineffectiveness and the effect of hedge accounting on the financial statements.

In respect of non-banking entities, the FRC noted that:

- Although it expected most non-banking entities to have a "held to collect" business model, and to measure most financial assets at amortised cost as a result, companies should still ensure that they explain the business model in the financial statements.
- Several entities failed to disclose the gross carrying amount of financial assets by credit risk rating grade, and in some cases entities were not clearly applying the impairment requirements of IFRS 9.
- Care is needed to ensure that entities are applying the additional disclosure requirements added to IFRS 7 for entities applying IFRS 9.

As with IFRS 15, the FRC will be reviewing the annual reports of companies with weaker disclosures to ensure that improvements have been made.

FRC Focus Area

Disclosure of judgements and estimates

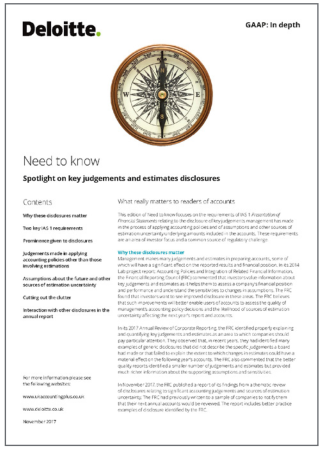
Throughout this publication we emphasise the need for entities to consider the need to disclose significant judgements and sources of estimation uncertainty. This remains an area of regulatory focus because these disclosures are viewed as critical to an investor's ability to assess an entity's financial position and performance and to gauge their sensitivity to changes in assumptions.

Although disclosure of judgements and estimates remains the most frequent area of questioning, the FRC noted this year that the challenges raised to companies were more nuanced in nature. Most companies are now clearly distinguishing between judgements and estimates and there were fewer instances of boilerplate disclosure. The FRC also found that there were fewer cases where matters were not disclosed as key judgements or areas of significant estimation uncertainty in the financial statements despite indicators to the contrary elsewhere in the annual report.

Significant judgements (disclosure required by IAS 1:122)

This refers to judgements other than estimations made in applying an entity's accounting policies, often in how an item is characterised. For example, an assessment of whether an entity is acting as agent or principal in a revenue transaction may require significant judgement, but once that judgement is made the measurement of revenue may be straightforward. It may also be the case that assessing whether an entity has control, joint control or significant influence over another entity (or the date it has lost control, joint control or significant influence over another entity) requires significant judgement, although the accounting requirements to be applied once this assessment is made are clear.

IAS 1:122 then requires disclosure if the judgement has a **significant effect on the amounts recognised in the financial statements**. Information disclosed should aid an understanding of the judgement made, why it is significant and how the entity's conclusion was reached.



A Deloitte Need to Know publication provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Sources of estimation uncertainty (disclosure required by IAS 1:125)

This refers to assumptions or other sources of estimation uncertainty (including judgement involving estimation), primarily over the measurement of an item. For example, it may be clear that an uncertain tax position exists, but assigning a value to that exposure may involve a significant degree of estimation, particularly if there is a wide range of potential outcomes.

IAS 1:125 then requires disclosure if the source of estimation uncertainty results in a **significant risk of material adjustment to assets or liabilities within the next financial year**. The disclosures should explain the nature of the uncertainty and the carrying amount of affected assets and liabilities, and should provide sufficient information for users to understand the judgements made about sources of estimation uncertainty. The FRC continues to question estimation uncertainties which do not appear to give rise to a significant risk of material adjustment and encourages companies to be mindful that the judgements and estimates disclosed are those with the greatest potential effect on the financial statements.

IAS 1 includes sensitivity analyses and ranges of possible outcomes as examples of disclosures that explain the estimates made and there is a clear regulatory expectation that such disclosures will be provided for all items identified as sources of estimation uncertainty disclosed under IAS 1:125. The lack of, or inadequate, sensitivity analysis or information about the range of possible outcomes for areas of estimation uncertainty, continues to be an area of frequent FRC challenge. Specific areas of estimation uncertainty where there was a lack of sensitivity analysis included impairment reviews, pension assets and liabilities, uncertain tax positions and onerous contracts.

Voluntary disclosures on items not strictly falling into either category (for example, longer term sources of estimation uncertainty not expected to be resolved within the next financial year) can also be of value to investors. It is recommended that such additional disclosures are clearly identified as such and the rationale for their inclusion is explained.

It is also important that the key judgements and sources of estimation uncertainty identified are reviewed and, if necessary, refreshed each year (the application of new lease accounting model under IFRS 16 could, for example, eliminate the need for some previous judgements but also introduce new ones) and that they are consistent with other aspects of the annual report. If, for example, an issue has been focused on by the audit committee, it might (depending on its nature) be a likely candidate for identification as a key judgement or a source of estimation uncertainty.

FRC Focus Area

Consolidation

Although not one of the most common challenge areas this year, the FRC annual review noted that some of the most complex cases in recent years have related to consolidation judgements and specifically, the question of control over another entity. Questions raised this year focused around:

- the control of trusts;
- the determination of joint control in a situation where one party holds a majority of voting rights;
- de facto control, in a situation where a company and its associate have several directors in common; and
- the point at which control passed with a "locked box" arrangement.

The FRC indicates that companies need to have a full understanding of the rights and obligations – both contractual and constructive – arising from their arrangements, in order to assess the criteria for control of another entity and determine correctly whether or not it should be consolidated. This may be particularly relevant in situations such as a joint arrangement where the rights arise from contractual, rather than voting, rights. Companies also need to ensure that they are correctly differentiating substantive from protective and other rights relating to their power to direct the relevant activities of another entity. The FRC encourages companies to disclose the nature of judgements made in this regard in accordance with IAS 1:122 where material.

Impairment reviews

The challenging economic environment in the UK and high profile company failures continue to put impairment reviews in the spotlight. Furthermore, impairment reviews remain an area of regulatory challenge. The initial application of IFRS 16 (see above) increases the population of assets that fall under the impairment requirements of IAS 36. The interaction with IFRS 16 was also raised by the FRC in its recent thematic review of disclosures about impairment non-financial assets under IAS 36 (see more below), as well as the relevance of Brexit and related political/macro-economic risks and the effect of climate change on impairment reviews.

Applying IAS 36, it is important to consider carefully all inputs into a calculation of value in use (both cash flow forecasts and the discount rate(s) applied to them). It is also important to exercise care in the identification of cash-generating units and in aggregating those cash-generating units for the purposes of testing goodwill for impairment. An appropriate discount rate should also be applied to each cash-generating unit (or group of cash-generating units) rather than the same rate being automatically applied across an entity.

In terms of disclosure, there is an expectation that entities will:

- Disclose not only growth and discount rates, but also other key assumptions such as revenue growth, margins and operating costs used in estimating recoverable amounts.
- Identify, when material, assumptions that are specific for an individual cash-generating unit rather than disclosing only an average value or range for an assumption covering multiple cash-generating units.
- Clearly explain whether reasonably possible changes in key assumptions, whether individually or in combination, could result in an impairment.
- Explain the period over which growth rates are applied, why certain growth rates were used and any significant changes in growth or discount rates.
- Indicate how impairment of subsidiaries, associates and joint ventures has been considered by a parent company whose net assets exceed its market capitalisation.

Impact of political, economic and social demands on the entity's business model

Across geographies and industries, many businesses face pressure to adapt their business model in response to environmental, social and governance (ESG) concerns and various political and economic events (e.g., Brexit or international trade disputes). Entities potentially affected by such issues should provide sufficient information to help users understand how the entity's financial position and performance may be affected. This may require entities to provide sensitivity analysis on the impact of their assumptions on how these factors will their business model on estimates made, for example in determining the value-in-use of cash-generating units.

Impact of climate related factors on the determination of value-in-use in impairment reviews

Climate-related factors may result in changes to management's cash flow projections (based on reasonable and supportable assumptions that represent management's best estimate of economic conditions) or to the level of risk associated with achieving those cash flows, in which case they form part of a value in use assessment.

For example, an entity should consider the following with regard to value in use calculations:

- If management's best estimate is that a climate change related event will affect cash flows beyond the forecast or budget period, it would be inappropriate to exclude this from a value in use calculation by simply extrapolating budgeted or forecast cash flows using an expected rate of general economic growth. Instead, the extrapolation of budgeted or forecast cash flows required by IAS 36:33(c) should be modified to incorporate a curve reflecting the anticipated timing, profile and magnitude of the effect of climate change (or any other longer-term factors expected to affect the economic environment). Alternatively, a single terminal growth rate incorporating climate change (or other longer-term factors) can be applied if it results in a reasonable approximation to its expected effect on the present value of the asset (or cash-generating unit's) future cash flows. As noted in IAS 36:36, the growth rate applied can be negative.
- As per IAS 36:33(a), the calculation of value in use should reflect the best estimate of the future cash flows that management expects to derive from the asset or cash-generating unit. As changes in consumer behaviour, for example a decreased demand for products with an environmental impact, are not dependent on any restructuring by the entity or change to the asset or cash-generating unit itself (IAS 36:44), management's best estimate of any forecast changes in consumer behaviour expected to result in (positive or negative) changes in either the volume or price of future sales should be included. The same approach should be applied to expected changes in the behaviour of an entity's suppliers or business customers, who may themselves react to changing expectations of society, resulting in changes to an entity's cost base.
- Judgement will be required in determining when expected government action, such as a levy on greenhouse gas emissions, affects cash flow projections. However, unlike for the recognition of a new liability under either IAS 12 or IFRIC 21 Levies, it is not necessary to wait for the enactment of a change before it is incorporated into an estimate of future cash flows supporting the carrying amount of an existing asset or cash-generating unit. If management's best estimate is that, whilst the exact nature or form of the government legislative or regulatory action is not certain, there will nonetheless be an effect on the entity's cash flows, then the expected changes in cash flows should be included in a value in use calculation, as long as they are based on reasonable and supportable assumptions as provided in IAS 36:33(a).
- When climate-related factors (or any other longer-term geopolitical uncertainty) play a significant role in a value in use calculation, the key assumptions applied together with a description of management's approach to determining the value assigned to each key assumption should be disclosed in accordance with IAS 36:134(d). When relevant, this disclosure should provide an explanation of not only the key assumption, but also of its forecast effects on the entity's future cash flows.

FRC thematic review of disclosures about impairment of non-financial assets under IAS 36

In October 2019, the FRC published the findings of its thematic review of disclosures about impairment of non-financial assets under IAS 36. The thematic review was focused particularly on disclosure of events and circumstances that led to the recognition or reversal of an impairment loss and the basis on which the directors concluded that the carrying amounts of non-financial assets are recoverable.

In addition to reviewing annual reports, the FRC also sought views from investors to understand what information they find most helpful when reading disclosures about impairment. In particular investors appreciate:

- clear and consistent information throughout the annual report;
- sufficient comparative information to assist with understanding trends;
- explanation and quantification of assumptions made; and
- granular assessment of cash-generating units.

Although the FRC identified a number of instances of good practice, a number of disclosure omissions and areas for improvement were identified:

- **Cash-generating units** – companies need to ensure that they are clearly identifying cash-generating units and explaining how goodwill and other intangible assets are allocated to these.
- **Impairment: events and circumstances** – it is important to identify the cause of an impairment loss, including whether it is prompted by external events or changes in internal estimates. Explanations should be specific to the company and its circumstances and, where due to a gradual change in circumstance, companies should convey this appropriately in the annual report by disclosing trend information such as a history of headroom. Impairment losses and their causes should also be addressed in the strategic report in a consistent manner. The FRC advises that it is preferable to provide a single, thorough explanation which is cross-referenced from other areas of the report as relevant.
- **Impairment: other disclosures** – Most of the companies with a material impairment loss or reversal failed to disclose the recoverable amount of the assets or CGUs affected, as required by IAS 36:130(e).
- **Recoverable amount: key assumptions** – the FRC encourages companies to disclose key assumption values to meet investor demand.
- **Recoverable amount: value in use** – the FRC confirmed that it will continue to challenge companies where value in use calculations appear to include the benefits of developing new business or to rely on future investment in capacity. Companies should also review accounting policies in this area to ensure they are consistent with the basis for determining recoverable amount actually used in a given period.
- **Recoverable amount: discount rate** – companies need to explain in specific terms why a certain discount rate has been selected; it is not sufficient to say merely that merely that the company has estimated a rate that reflects the current market assessment of the time value of money and the risks specific to the asset or cash-generating unit.

- **Recoverable amount: growth rate** – significant changes in growth rate should be explained or cross-referenced to discussion elsewhere in the annual report.
- **Sensitivity analysis** – no companies reviewed met all the requirements of IAS 36 in this respect, with areas for improvement including disclosure of the headroom of each cash-generating unit (or group of cash-generating units) and explanation of how changes in key assumptions could reduce headroom to nil.
- **Estimation uncertainty** – the FRC expects companies to consider the requirements of IAS 1 to disclose sources of estimation uncertainty in the context of impairment of non-financial assets, particularly where the company's net assets exceed its market capitalisation, indicating a possible impairment, but no loss has been recognised.
- **Parent company accounts: investments in subsidiaries** – the FRC noted that companies should consider whether impairment of intercompany balances may be indicative of the investment also being impaired.

Other issues noted included the interaction of IAS 36 with IFRS 16 and the treatment of right of use assets, the interaction with IAS 37 regarding onerous contracts and the IASB project on goodwill and impairment. As discussed above, the FRC also highlighted the effect of climate change on impairment testing, noting that only one company made overt reference to the implications of climate change in the context of impairment.

Going forward, the FRC intends to engage with companies in the sample to address substantive questions arising from the review. In particular it will continue to challenge companies whose IAS 36 disclosures:

- omit required disclosures;
- do not apply the requirements for identifying cash-generating units and groups of cash-generating units correctly;
- include inappropriate cash flows such as enhancement expenditure in value-in-use calculations; or
- are inconsistent with other areas of the annual report.

FRC Focus Area

Statement of cash flows

The FRC annual review highlights that errors in the preparation of the statement of cash flows continue to be a primary reason for the amendments to financial statements with a required reference to the FRC's involvement (four companies were required to make such a reference in respect of corrections to their statement of cash flows in 2018/19).

The issues identified were primarily around the classification of cash flows (for example, the inclusion of movements in debt balances as operating, rather than financing, cash flows.

Examples of operating cash flows incorrectly included within investing included:

- fees received from associates and joint ventures;
- restructuring and post-acquisition integration costs; and
- purchase and sale of rental fleet assets.

In relation to the latter, the FRC notes that while purchases and sales of fixed assets would generally give rise to investing cash flows, IAS 7 is clear that cash flows from the purchase or sale of assets held for rental to others are operating cash flows.

Examples of investing cash flows incorrectly included within operating included:

- disposal of investments in joint ventures; and
- non-trading advances to joint ventures.

Examples of financing cash flows incorrectly included within operating included repayments of loans from joint ventures.

The FRC observed that most of the errors found were apparent from a desktop review of the financial statements, highlighting the need for due care and an effective control environment over the final stages of preparing financial statements. A recent FRC Lab report 'Disclosures on the Sources and Uses of Cash' sets out good practice and example disclosures addressing how cash is generated and used, including linkage to strategy and capital allocation.

Other disclosures supporting the statement of cash flows should also not be overlooked. For example, the basis for inclusion or exclusion of amounts such as overdrafts and current asset investments within cash and cash equivalents should be made clear.

In 2017, amendments to IAS 7 came into effect that require the disclosure of changes in liabilities from financing activities (sometimes termed a 'gross debt reconciliation'). In September 2019, the IFRS Interpretations Committee published an agenda decision that reminds entities about the disclosure objective and makes it clear that a reconciliation alone might not be sufficient.

It should be noted that the reconciliation suggested in IAS 7 is different from a net debt reconciliation because it should only present movements in liabilities arising from financing activities and not movements in a net debt balance, which often includes cash and other assets that do not give rise to financing cash flows. In summary, the reconciliation required by IAS 7 should:

- not include any cash or cash equivalent balances;
- include all liabilities that give rise to cash flows that are classified as financing activities in the statement of cash flows (e.g. borrowings or lease liabilities, as well as supplier payables if they form part of the entity's financing activities);
- include all derivatives that give rise to cash flows that are classified as financing activities in the statement of cash flows, for example because they are hedging instruments for a liability that gives rise to financing cash flows;
- include both changes arising from cash flows and non-cash changes; and
- reconcile with the statement of cash flows.

The FRC challenged several companies about the completeness of this disclosure and whether it met the stated objectives.

FRC Focus Area

Supplier financing arrangements

Supplier financing arrangements (also referred to as 'reverse factoring') are often designed to benefit both buyer and the supplier liquidity. In the UK, they have become common in response to government policies that encourage prompt payment to suppliers.

The terms of 'supplier financing' arrangements vary, but typically involve suppliers being paid in line with, or in advance of, invoice terms by a third-party financial institution which is then reimbursed by the purchaser at a later date, which may be in line with invoice terms.

Arrangements of this type raise important financial reporting questions around:

- The classification of liabilities as either trade payables (as the original obligation arose from the purchase of goods or services) or borrowings (as the eventual payment will be made to a financial institution, possibly on a significantly deferred basis).
- The presentation of payments and receipts in the statement of cash flows when the liability is classified as borrowing (whether, following the form of the transaction, only a financing cash outflow arises on final payment to the financial institution, or whether the transaction should be 'grossed up' to present an operating cash outflow to the supplier and to impute a simultaneous financing inflow from the financial institution).

These issues should be considered carefully based on the facts and circumstances of the arrangement (which can vary significantly). Critically, full and clear disclosure should be provided of:

- The nature and terms of significant supplier financing arrangements.
- The approach to the presentation of significant supplier financing arrangements and (in accordance with IAS 1:122) the judgements made in applying that policy.
- The carrying amount of the liabilities in question and the line item(s) in which they are presented.
- How supplier financing transactions have been reflected in the entity's statement of cash flows, including the amount of any 'gross up' applied for liabilities classified as borrowings. The revised requirements of IAS 7 *Statement of Cash Flows* on the disclosure of movements in financing liabilities should also not be overlooked should any cash flows be presented as financing.

- When supplier financing arrangements have been used as a tool to manage liquidity risk, the disclosures required by IFRS 7:39(c).

Suppliers should also consider the effects of their participation in such arrangements, both in terms of accounting and disclosure. Similar to a 'traditional' factoring arrangement, this includes consideration of whether the arrangement is made on a 'recourse' or a 'non-recourse' basis and, as such, whether the receivable from the customer has been extinguished and a separate liability to the financial institution now exists.

The FRC continues to raise concerns about the adequacy of disclosures provided to explain supplier financing arrangements although it does believe that there has been an increase in both the number and quality of disclosures. The FRC expects disclosures in this area to contain:

- an explicit statement to confirm reverse debt factoring is not used where this is the case;
- the accounting policy applied;
- whether the liability to suppliers is derecognised;
- whether the liability is included within KPIs such as net debt;
- the cash flows generated by such arrangements; and
- the existence of any concentrations of liquidity risk which could arise from losing access to the facility.

The FRC Lab report 'Disclosures on the Sources and Uses of Cash', published in October 2019, also addresses supplier financing, highlighting that investors want to see disclosures that clearly describe the nature and significance of any supplier financing arrangements, describe the connection to other processes (such as risk and viability assessments) and clarify the level of review and assurance over the arrangement, such as consideration by the audit committee of the accounting treatment and level of disclosure. In its research, the Lab did not identify any good examples of disclosure that fully answered investors' questions in situations where reverse factoring was important for working capital. It has therefore included an example of fuller disclosure in the report.

FRC Focus Area

ESMA
Enforcement Priority

Reporting the effects of income tax

The reporting of income tax remains an area of regulatory and investor focus. In respect of financial statements, the effective tax rate reconciliation required by IAS 12 *Income Taxes* is an important source of information on the sustainability of an entity's effective tax rate and the factors affecting it. The nature of reconciling items and why they have arisen should be clearly explained and a clear distinction drawn between significant one-off or unusual items and those that are expected to recur. This year the FRC has particularly challenged companies whose descriptions of adjusting items in the tax reconciliation were not specific enough to enable a reader to understand their nature.

Income tax is a common source of estimation uncertainty, particularly in respect of uncertain tax positions, to be disclosed in accordance with IAS 1. Significant risks of material adjustment in the next financial year should be disclosed, including quantitative information such as sensitivities or ranges of possible outcomes. The possibility of material adjustments in later periods is also valuable information which could be included in, for example, the tax note.

The effects of income tax should be appropriately reflected in any APMs. For example, a policy on presentation of 'adjusted' or 'underlying' profit should cover the reporting of items such as one-off tax credits.

Recognition of deferred tax assets

In July 2019, ESMA issued a Public Statement that sets out its expectations regarding the application of the requirements in IAS 12 relating to the recognition, measurement and disclosure of deferred tax assets (DTAs) arising from unused tax losses.

The Public Statement echoes challenges raised by regulators in various jurisdictions and while it addresses recognition of deferred tax assets arising from unused tax losses, similar considerations may also apply to the assessment of other deductible temporary differences.

When considering probability that future taxable profits will be available, there is no specific time restriction in IAS 12 regarding the length of the 'look-forward' period used to determine whether taxable profits will be available, issuers are reminded that:

- the length of the period used will depend on a number of entity-specific factors, including the entity's historical profitability, accuracy of budgetary controls and expected future activities;
- caution should be used when the planning period used to determine whether sufficient taxable income will be available exceeds an entity's normal planning cycle;
- although reliability decreases the further out into the future the forecast extends, it would generally not be appropriate for an entity to limit the number of years it uses to estimate future taxable profits solely on the basis of the subjective nature of estimates and it may be possible to project additional years of taxable profit with sufficient reliability on the basis of historical operating results; and
- in some circumstances, there may be a limited number of years over which future taxable income can be estimated because significant changes are expected in the business (e.g. probable future withdrawal from the jurisdiction); in such circumstances, the time frame used would be limited and should not change until a change in facts and circumstances warrants an adjustment.

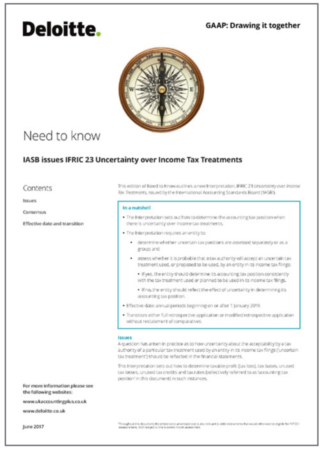
The reliability of an entity's estimate of future profits may be assessed by considering factors such as:

- the reasonableness of management's business plan and its impact on future taxable profits, including management's history of implementing its stated plans and its ability to carry out its plans (given contractual commitments, available financing, or debt covenants);
- the consistency with relevant industry data, including short- and long-term trends in the industry;
- the reasonableness of financial projections based on historical operating results;
- the reasonableness of financial projections when current economic conditions are considered;
- whether the assumptions are consistent with those used in prior periods and projections used in other financial statements estimates (e.g., goodwill impairment analysis), noting that key differences may be justified and expected when they reflect the differences in the objectives and requirements of other financial statements estimates;
- the persuasiveness of tax planning strategies and opportunities, including their consistency with the communicated business strategy; and
- the volatility of the entity's historical results (or lack of volatility).

Uncertainty over income tax treatments
2019 December year-ends will be the first in which entities have to account for uncertain tax positions applying IFRIC 23 *Uncertainty over Income Tax Treatments*, which is an interpretation of IAS 12. The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The conclusions it reaches are consistent with previously effective accounting.

In brief, its conclusions are as follows:

- Uncertainties in income tax liabilities or assets should be reflected in recognising a tax liability or asset only when payment or recovery is probable.
- Judgement is required in identifying the unit of account to be applied in assessing the probability of payment or recovery (i.e. whether there is a single tax uncertainty or group of related uncertainties).
- Full 'detection risk' (i.e. all relevant information being available to the tax authorities) is assumed in making these judgements.
- The effect of the uncertainty should be reflected by using either the most likely amount or the expected value, depending on which is expected to better predict the resolution of the uncertainty.


Deloitte.
GAAP: Drawing it together
Need to know
IASB issues IFRIC 23 Uncertainty over Income Tax Treatments

A Deloitte Need to Know provides more detail on the requirements of IFRIC 23.

Presentation of uncertain tax liabilities and assets

- In September 2019, the IFRS Interpretations Committee issued an agenda decision that clarifies whether an entity is required to present uncertain tax liabilities (or assets) as current or deferred tax liabilities (or assets), or instead can present such liabilities (or assets) within another line item such as provisions.
- The Committee observed that uncertain tax liabilities (or assets) recognised applying IFRIC 23 are liabilities (or assets) for current tax as defined in IAS 12, or deferred tax liabilities or assets as defined in IAS 12.
- As neither IAS 12 nor IFRIC 23 contain requirements on the presentation of uncertain tax liabilities or assets, the presentation requirements in IAS 1 apply. Current and deferred tax assets and liabilities as defined in IAS 12 are listed as minimum line items in IAS 1, with IAS 1 explaining that those minimum line items are sufficiently different in nature or function to warrant separate presentation in the statement of financial position.
- Accordingly, the Committee concluded that, applying IAS 1, an entity is required to present uncertain tax liabilities as current tax liabilities or deferred tax liabilities, and uncertain tax assets as current tax assets or deferred tax assets.

Changes resulting from the Interest Rate Benchmark Reform

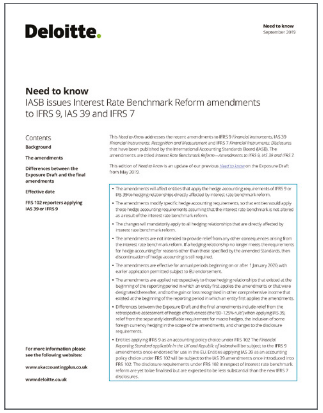
Interest rate benchmarks such as interbank offered rates (IBORs) play a key role in global financial markets and index trillions of dollars in financial products. However, work is underway in multiple jurisdictions to transition to alternative risk free rates (RFRs) as soon as 2020. This will result in rates that are more reliable and provide a robust alternative for products and transactions that do not need to incorporate the credit risk premium embedded in the IBORs.

The IASB has issued *International Rate Benchmark Reform—Amendments to IFRS 9, IAS 39 and IFRS 7* to address accounting issues arising from the uncertainty about the long-term viability of some existing interest rate benchmarks.

With these amendments, the IASB has modified specific hedge accounting requirements to enable entities to apply hedge accounting assuming that the interest rate benchmark on which the hedged cash flows and cash flows of the hedging instrument are based is not altered as a result of the interest rate benchmark reform.

The amendments affect the following areas:

- Highly probable requirement for cash flow hedges (IFRS 9 and IAS 39).
- Reclassification of the amount in the cash flow hedge reserve to profit or loss (IFRS 9 and IAS 39).
- Assessment of the economic relationship between the hedged item and the hedging instrument (IFRS 9).
- Prospective assessment and retrospective assessment (IAS 39).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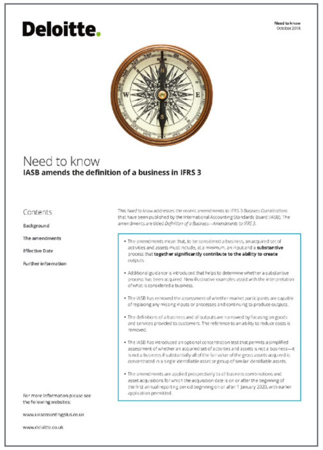
Need to know
IASB issues Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7

A Deloitte Need to Know publication provides more detail on the Interest Rate Benchmark Reform amendments.


Deloitte.

Need to know
IASB amends the definition of a business in IFRS 3

A Deloitte Need to Know publication provides more detail on the amendments to the definition of a business.

- Designation of a component of an item as a hedged item (IFRS 9 and IAS 39).
- End of application of the relief (IFRS 9 and IAS 39).
- Disclosures (IFRS 7).

The amendments apply for annual periods beginning on or after 1 January 2020, with early application permitted, subject to endorsement by the EU (or, depending on the status of the UK's exit from the EU, by a UK endorsement body). They are applied retrospectively to those hedging relationships that existed at the beginning of the reporting period in which an entity first applies the amendments or were designated thereafter, and to the gain or loss in other comprehensive income that existed at the beginning of the reporting period in which an entity first applies the amendments.

Changes to the definition of a business

In October 2018, the IASB published *Definition of a Business (Amendments to IFRS 3)* to clarify the definition of a business as a result many stakeholders' concerns about how to interpret and apply the definition of a business when applying IFRS 3.

The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. The impact of the amendments is likely to be most significant for real estate e entities and those in the pharmaceutical and extractive industries.

The key changes include:

- Clarification that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.
- Additional guidance to help determine whether a substantive process has been acquired. New illustrative examples assist with the interpretation of what is considered a business.
- Removal of the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs.
- The definitions of a business and of outputs are narrowed by focusing on goods and services provided to customers. The reference to an ability to reduce costs is removed.
- An optional concentration test permits a simplified assessment of whether an acquired set of activities and assets is not a business – it is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.
- A reminder to apply judgement where it is not clear whether an integrated set of activities and assets should be regarded as a business.

Currency and hyperinflation

Increasing levels of inflation and restrictions on exchange between local and internationally traded currencies are a feature of many economies around the world. These issues present financial reporting challenges in:

- Determining whether an economy is hyperinflationary (as that term is defined in IAS 29 *Financial Reporting in Hyperinflationary Economies*, which includes several characteristics of hyperinflation, including a cumulative inflation rate over three years that approaches or exceeds 100 per cent) and, if so, which general price index should be applied to amounts in the financial statements.
- Identifying a suitable exchange rate for translating monetary items in individual financial statements and in retranslating the financial statements of a foreign operation in its parent's presentation currency.

When the 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 and the indicators laid out in IAS 29, the following economies should be considered hyperinflationary economies for the purposes of applying IAS 29 and for retranslation of foreign operations in accordance with IAS 21 *The Effect of Changes in Foreign Exchange Rates* in financial statements for the year ending 31 December 2019:

- Argentina
- South Sudan
- Sudan
- Syrian Arab Republic
- Venezuela
- Zimbabwe

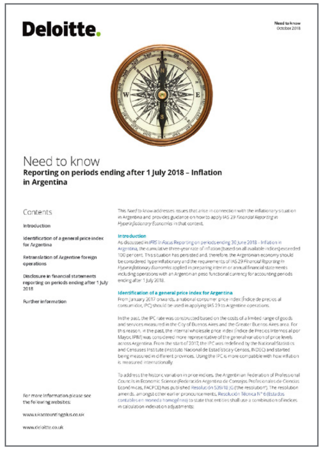
Angola was considered hyperinflationary as at 31 December 2018 but following a decrease in inflation levels in 2019 it is currently not considered to be until further notice.

Inflation and exchange issues currently affecting two significant economies from the above list are discussed below.

Argentina – New regulation on currency control

The Argentine economy continues to be considered hyperinflationary.

Since that publication, the Argentine government has issued a decree on 1 September 2019 that imposes currency controls on both companies and individuals. On the same day, Argentina's central bank (BCRA) issued a communication that sets out details of how the exchange control procedures will operate in practice. The currency control regulations, which respond to the recent rapid devaluation of the Argentine peso, apply from 1 September 2019 through 31 December 2019.


Deloitte.

Need to know
Reporting on periods ending after 1 July 2018 – Inflation in Argentina

A Deloitte Need to Know publication provides more details on the measurement of inflation in Argentina.

Under the regulations, exporters are required to enter and convert into Argentinean pesos the foreign currency obtained, and both companies and individuals are required to obtain authorisation from the BCRA to purchase foreign currency on the local foreign exchange market (MULC) or to transfer funds abroad, in certain situations. The BCRA will regulate transactions involving bonds and any other instruments to ensure that the currency control rules are not circumvented.

Additionally, a tax reform re-established the adjustment for inflation procedures in the income tax law.

Discussions are ongoing locally and internationally to assess the impact of the restrictions on various transactions (transfer dividends, purchase of US dollars, etc) as well as the significant devaluation. Entities with material exposures to the Argentine economy should provide relevant disclosure of the impact of the recent events on their business and financial information.

Zimbabwe – Inflation accounting as of 1 July 2019
In February 2019, Zimbabwe introduced the Real Time Gross Settlement (RTGS) dollar as the local currency and allowed its value to float against the US dollar. Since June 2019, local trade must be conducted in RTGS dollar.

The annual inflation rate through June 2019 increased to 176 percent (based on inflation rates published by the National Reserve Bank of Zimbabwe), resulting in a three-year inflation rate for Zimbabwe of 185 percent. The latest forecasts from the International Monetary Fund, indicate that cumulative inflation in Zimbabwe for the three years to December 2019 is expected to be over 300 per cent.

IAS 29 requires that the financial statements of entities whose functional currency is that of a hyperinflationary economy to be adjusted for the effects of changes in a suitable general price index, with paragraph 42 of IAS 21 The *Effects of Changes in Foreign Exchange Rates*, then requiring that all amounts in the financial statements of a foreign operation be translated into its parent's presentation currency at the closing rate of exchange. These requirements apply equally to annual financial statements and interim statements prepared under IAS 34 *Interim Financial Reporting*.

IAS 29 also stresses the need for consistency between entities in the application of inflation accounting, with IAS 29:4 stating that "it is preferable that all entities that report in the currency of the same hyperinflationary economy apply this Standard from the same date" and IAS 29:37 that "it is preferable that all entities that report in the currency of the same economy use the same index."

For entities with material operations in Zimbabwe that have concluded that the RTGS is the functional currency, there is a general agreement that inflation accounting should be applied for interim and annual financial statements for periods ending on or after 1 July 2019.

Application of these requirements as at 31 December 2019 therefore requires the identification of an appropriate price index and (for retranslations of Zimbabwean foreign operations) exchange rate at that date.

Annual official inflation statistics ceased being available in August 2019, although monthly inflation statistics are available and are being used to determine an annual rate.

Although the official exchange rate, as at the date of publication, is the only legal exchange rate, entities will also need to monitor whether multiple legal rates emerge as a result of the foreign currency restrictions implemented by the Zimbabwean government which would require determination of the appropriate exchange rate for measurement.

IAS 21 also requires that entities reconsider their functional currency when events occur that may result in a change. Entities in Zimbabwe that previously determined that their functional currency was the US dollar should consider whether this continues to be appropriate or whether the functional currency is now the RGST.

Other topics

Other items to consider include:

- **Provisions and contingent liabilities** – The appropriate discount rate should be applied to provisions balances (not the rate used for impairment reviews, as the requirements of IAS 36 and IAS 37 are quite different in this respect). Also, reimbursement rights such as insurance assets should not be netted against provisions in the statement of financial position. The FRC is challenging companies' disclosures relating to provisions – either they were missing or unclear or were not consistent with information disclosed elsewhere in the annual report.
- **Fair value measurement** - The FRC has raised concerns about the application of IFRS 13 especially regarding the disclosure of the valuation techniques and inputs used for fair value measurements categorised within levels 2 and 3 of the fair value hierarchy, including quantitative information about the significant unobservable inputs used. Companies were also challenged where fair value hierarchy disclosures were not provided for all fair values disclosed or, where they were provided, companies were challenged if they were inconsistent with disclosure elsewhere. These challenges were predominantly in relation to the fair value measurement of financial instruments including derivatives.
- **Defined benefit pension plans** – Given the size of many defined benefit obligations, judgements on issues such as mortality assumptions and the recoverability of plan surpluses can be highly material and should be clearly disclosed.
- **European Single Electronic Format (ESEF)** – Issuers that are subject to the requirements of the EU Transparency Directive to make their annual financial report public will be required to prepare their annual report containing consolidated financial statements for financial years beginning on or after 1 January 2020 using ESEF from 1 January 2020. The new format aims to improve accessibility and make the information more user-friendly. For UK companies, the effect of ESEF is not yet clear as implementation will depend on whether, and when, the UK leaves the EU.

Negative discount rates for defined benefit obligations

IAS 19 *Employee Benefits* requires that the discount rate applied to defined benefit obligations be determined by reference to market yields on high quality corporate bonds with a currency and estimated term consistent with the obligation (or, if a deep market in such bonds does not exist, on government bonds).

In the current economic climate, bond yields in some currencies have become negative. IAS 19 has no 'floor' for the discount rate at zero and if it is determined that the most appropriate market rate at the reporting date is negative then that rate should be applied to the defined benefit obligation.

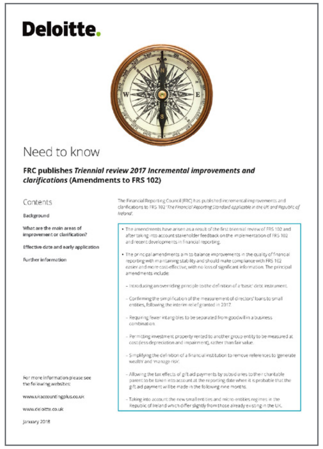
Appendices

UK GAAP developments

FRS 101

In July 2019 the FRC issued 'Amendments to FRS 101 Reduced Disclosure Framework - 2018/19 cycle'. These amendments change the definition of a qualifying entity so that insurers cannot apply FRS 101 from the effective date of IFRS 17 *Insurance Contracts*.

FRS 101 requires the application of the recognition and measurement requirements of EU-adopted IFRS with reduced disclosures. Unlike accounts that apply IFRS in full (IAS accounts), those prepared in accordance with FRS 101 (non-IAS accounts) must comply with detailed accounting requirements set out in company law. Some of these requirements conflict with the requirements of IFRS 17. The primary conflict is in relation to the formats required for the primary statements; the approach and methodology that underpins IFRS 17 is so fundamentally different that presenting amounts determined in accordance with that standard, within the formats laid down in law for non-IAS accounts, is not possible.



A Deloitte Need to Know publication provides more detail on the amendments to FRS 102.

Consequently, the amendments change the definition of a 'qualifying entity' such that entities that are required both to comply with Schedule 3 to the Regulations and have contracts within the scope of IFRS 17 may not be qualifying entities. This means that these entities cannot apply FRS 101 from the effective date of IFRS 17.

The amendments take effect for accounting periods beginning on or after 1 January 2021. If an entity applies the recognition, measurement and disclosure requirements of IFRS 17 early, the amendments to FRS 101 are applied at the same time.

FRS 102

Triennial review

A number of incremental improvements and clarifications to FRS 102 take effect for 31 December 2019 annual reports. These amendments are not intended to fundamentally change the operation of FRS 102, but rather to make it simpler and more cost effective to apply.

The principal amendments include:

- The introduction of an overriding principle to the definition of a 'basic' financial instrument.
- Limiting the circumstances in which intangible assets are required to be recognised separately from goodwill in a business combination.
- Permitting investment property rented to another group company to be measured at depreciated cost rather than at fair value.
- Simplification of the definition of a 'financial institution'.

Multi-employer defined benefit plans

In May 2019 the FRC issued 'Amendments to FRS 102 – Multi-employer defined benefit plans'. These amendments are made in response to a current financial reporting issue by introducing new requirements to Section 28 of FRS 102 requiring that the impact of transition from defined contribution accounting to defined benefit accounting be presented in other comprehensive income.

Such a transition is required by FRS 102 when sufficient information becomes available for an employer participating in a multi-employer defined benefit plan to apply defined benefit accounting for the first time. The amendments do not affect the requirement to recognise the relevant liability (or asset) in relation to the plan.

The amendments are effective for accounting periods beginning on or after 1 January 2020, with early application permitted.

IBOR reform

In July 2019, the FRC published FRED 72 'Draft amendments to FRS 102 – Interest rate benchmark reform'.

The exposure draft proposes narrow scope amendments to specific hedge accounting requirements in Section 12 of FRS 102 to provide relief that will avoid unnecessary discontinuation of hedge accounting as interest rate benchmarks are reformed. Entities will apply those hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of interest rate benchmark reform.

FRED 72 is based on similar proposals issued by the IASB, and has a proposed effective date of 1 January 2020, with early application permitted.

New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2019

IFRS
New Standards: IFRS 16 – Leases
Amended Standards: Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued in the Annual Improvement Cycle 2015-2017 Amendments to IFRS 9 – Prepayment Features with Negative Compensation
IFRIC Interpretations: IFRIC 23 – Uncertainty over Income Tax Treatments

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in financial statements of both lessees and lessors. Issues arising in the application of IFRS 16 are discussed in the main body of this publication.

Amendments to IAS 28 *Investments in Associates and Joint Ventures* – Long-term interests in Associates and Joint Ventures

The amendments clarify that IFRS 9, including its impairment requirements, applies to long-term interests in associates and joint ventures that form part of an entity's net investment in these investees.

Amendments to IFRS 9 *Financial Instruments* – Prepayment Features with Negative Compensation

The amendments remedy an unintended consequence to the notion of 'reasonable additional compensation'. The amendments allow financial assets with a prepayment option that could result in the option's holder receiving compensation for early termination to meet the SPPI condition if specified criteria are met.

Additionally, the amendments include in the Basis for Conclusions the IASB's observations about the appropriate accounting for financial liabilities that are modified or exchanged but are not derecognised. The IASB observes that the accounting in such cases is the same as it is for modifying a financial asset. If the gross carrying amount is changed it will lead to an immediate gain or loss in profit or loss.

Amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* issued in the Annual Improvement Cycle 2015-2017

- The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest in the joint operation to fair value.
- The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its previously held interest in the joint operation.
- The amendments to IAS 12 clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits.
- The amendments to IAS 23 clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Amendments to IAS 19 *Employee Benefits* – Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position or a minimum funding requirement applies).

The amendments also require the use of updated assumptions from measuring the current service cost and the net interest on the net defined benefit liability (asset) to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments clarify that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 by the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments*

The Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as a group; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
  - If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

IFRS Interpretations Committee agenda decisions in 2019

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

Whilst the commentary included in an agenda decision is not formally part of IFRS Standards, it is an important and persuasive source of guidance that should be carefully considered when selecting a suitable accounting policy for a transaction. In many jurisdictions, there is an expectation from regulators that entities will take into consideration agenda decisions when applying IFRS Standards.

In December 2018 the IASB confirmed its view that it expects companies to be entitled to sufficient time to implement changes in accounting policy that result from an agenda decision published by the Committee. The IASB also agreed to ensure that this view is visible to stakeholders, including by proposing that it be added to the Due Process Handbook.

The IASB did not define what it meant by sufficient time as it depends on the particular facts and circumstances. It will depend on the accounting policy change required and the specific circumstances of the reporting entity. Preparers, auditors and regulators will need to apply judgement to determine what is sufficient. But the IASB confirmed that it had in mind a matter of months rather than years.

In 2019, the following agenda decisions have been published by the Committee. The agenda decisions are also available in one document are also available in one document titled *Compilation of Agenda Decisions – Volume 1*.

January IFRIC Update	IAS 37 – Deposits relating to taxes other than income tax
	IFRS 15 – Assessment of promised goods or services
	IAS 27 – Investment in a subsidiary accounted for at cost: Partial disposal
	IAS 27 – Investment in a subsidiary accounted for at cost: Step acquisition
March IFRIC Update	IFRS 9 – Application of the highly probable requirement when a specific derivative is designated as a hedging instrument
	IFRS 9 – Physical settlement of contracts to buy or sell a non-financial item
	IFRS 9 – Credit enhancement in the measurement of expected credit losses
	IFRS 9 – Curing of a credit-impaired financial asset
	IFRS 11 – Sale of output by a joint operator
	IFRS 11 – Liabilities in relation to a joint operator's interest in a joint operation
	IAS 23 – Over time transfer of constructed good
	IAS 38 – Customer's right to receive access to the supplier's software hosted on the cloud
June IFRIC Update	Holdings of cryptocurrencies
	IFRS 15 – Costs to fulfil a contract
	IFRS 16 – Subsurface rights
	IAS 19 – Effect of a potential discount on plan classification
September IFRIC Update	IFRS 15 – Compensation for delays or cancellations
	IFRS 16 – Lessee's incremental borrowing rate
	IFRS 9 – Fair value hedge of foreign currency risk on non-financial assets
	IAS 1 – Presentation of liabilities or assets related to uncertain tax treatments
	IAS 7 – Disclosure of changes in liabilities arising from financing activities
	IAS 41 – Subsequent expenditure on biological assets

November IFRIC Update IFRS 16 and IAS 16—Lease term and useful life of leasehold improvements

New and revised IFRS Standards and Interpretations available for early application in years ending 31 December 2019

Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to consider and disclose the potential impact of new and revised IFRS Standards that have been issued but are not yet effective. As discussed above, the sufficiency of these disclosures is a current area of regulatory focus.

The list below reflects a cut-off date of 30 November 2019. The potential impact of the application of any new and revised IFRS Standards issued by the IASB after that date but before the financial statements are issued should also be considered and disclosed.

It should be noted that IFRS Standards and amendments cannot be applied in the UK until they have been endorsed for use in the EU (or, depending on the status of the UK's exit from the EU, by a UK endorsement body).

IFRS	Effective date – periods commencing on or after	Endorsed for use in the EU?**
New Standards		
IFRS 17 – Insurance Contracts	1 January 2021*	N
Amended Standards		
Amendments to the Conceptual Framework for Financial reporting, including amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020	N
Amendments to IFRS 3 – Definition of a Business	1 January 2020	N
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020	N
Amendments to IAS 39, IFRS 7 and IFRS 9 – Interest Rate Benchmark Reform	1 January 2020	N

*In June 2019, the IASB issued Exposure Draft Amendments to IFRS 17. In this Exposure Draft, the IASB proposes to defer the mandatory effective date of IFRS 17 by one year, so that entities would be required to apply IFRS 17 for annual periods beginning on or after 1 January 2022 and that the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 should be amended so that all entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2022.

**At the time of writing. For the most recent EU endorsement status please visit www.efrag.org/endorsement.

A Transition Resource Group for Insurance Contracts has been set up following publication of IFRS 17. At this point, there are no further TRG meetings scheduled. However, the TRG remains in place for the time being and issues can still be submitted to the group. Details of this group's discussions can be found here.

Deloitte resources

There are several resources prepared by Deloitte that can assist you during the upcoming reporting season. Many have been highlighted throughout this publication; key resources are listed below.

The Closing Out 2019 page on UK Accounting Plus
A dedicated page on UK Accounting Plus, providing links to a full suite of resources. This page will continue to be updated to reflect developments after the date of this publication.

Annual report insights 2019 – Surveying FTSE reporting
Our dedicated annual report insights site provides access to Annual report insights 2019: Surveying FTSE reporting, detailing the findings from our review of 100 listed UK company reports, covering a variety of contemporary issues in corporate reporting such as Brexit, climate change, companies' social licence to operate, value creation for different stakeholders, employee engagement and key reporting metrics.

On the board agenda – the 2020 reporting season
On the board agenda 2020 highlights the recent and upcoming changes in the corporate governance environment, including the ever-increasing reporting requirements regarding company activities. There is much to consider. This year our flagship publication for boards is structured around four key themes: responsible business; risk and viability; remuneration; and year-end reporting and assurance.

Climate change website
Deloitte, in collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW), has launched a dedicated climate change website and video learning programme that is designed to help businesses and finance professionals learn more about tackling climate change.

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