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# Closing Out 2021

# Contents



In Closing Out 2021, we discuss the principal issues arising in respect of 31 December 2021 annual reports, including:

- Issues arising from climate change including new and forthcoming climate-related disclosure requirements.
- Areas of regulatory focus identified in the Financial Reporting Council's (FRC's) Annual Review of Corporate Reporting 2020/2021 ('the FRC annual review') and its areas of supervisory focus for 2022.
- The FRC's thematic reviews on:
  - viability and going concern;
  - alternative performance measures (APMs);
  - streamlined energy and carbon reporting (SECR); and
  - provisions, contingent liabilities and contingent assets.
- Other key aspects of the annual report including corporate governance, the longer-term viability statement and the strategic report.

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.

# 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. In previous years, the FRC also wrote to chief executive officers, chief financial officers, and audit committee chairs of listed companies to highlight its expectations ahead of the next reporting season. This year, it has replaced this letter with a publication entitled Key Matters for 2021/22 reports and accounts, which provides a summary of FRC findings and corporate reporting developments, with links to the related underlying reports. It has also published its areas of supervisory focus for 2022/23.

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 to large private companies, a practice which is likely to continue in the current uncertain economic climate. 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 address 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 disclosures around viability and going concern, streamlined energy and carbon reporting, presentation and use of alternative performance measures (APMs) and reporting on provisions, contingent liabilities and contingent assets. It has also published a thematic review on interim reporting; the findings of this review are dealt with in our 2021 update on half-yearly financial reporting.

Overall, the FRC was pleased to see that despite the significant challenges of reporting in the last year, particularly in the context of the COVID-19 pandemic, the quality of corporate reporting had not declined and examples of good practice were identified. However, it identified a number of issues in relation to application of newer IFRS Standards including IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*, and continues to find errors in cash flow statements. Recognition of deferred tax was also a source of numerous FRC queries, especially where loss-making companies had recognised deferred tax assets without adequate evidence to support their recovery.

> 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 to large private companies, a practice which is likely to continue in the current uncertain economic climate.

The FRC's upcoming monitoring of annual reports in 2021/22 will focus on climate-related risks and new climate-related financial disclosures and judgements and uncertainties in the face of the continuing economic and social impact of COVID-19. In particular, the FRC will be considering the quality of disclosures made by premium-listed companies in respect of the new Listing Rule requiring them to state whether they have made disclosures consistent with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD), and to explain where they have not.

**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 2021/22 (2019/20: one).

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 2020/21, 15 such references were required, consistent with 14 in 2019/20. Errors related to the cash flow statement continued to be the most common reason for required references.

The FRC saw a reduced number of complaints received in relation to company annual reports – 21 in 2020/2021 compared to 29 in 2019/20. In just over half of these cases, the complaint resulted in an approach being made to the company to resolve the issue.

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.

# FRC key expectations for 2021/2022

Driven by its top ten findings, the FRC has stated that it expects to see the following for 2021/22 reporting:

- clear explanations of the significant judgements made by management, including those used in the assessment of going concern. Sufficient detail should be included so that users are able to understand the specific judgements made and the effect on the financial statements.
- clear descriptions of key assumptions underlying major sources of estimation uncertainty. These should include information about the degree to which amounts recognised in the financial statements are sensitive to changes in those assumptions.
- consistent information and reporting throughout the annual report and accounts.
- discussion of material climate change policies, risks and uncertainties in the narrative reporting and in the financial statements, particularly where investors may reasonably expect a significant effect on the expected life or fair value of an asset or liability.
- disclosure and explanation of the nature and extent of material risks arising from financial instruments and related risk management. This should include:
  - the use of factoring and reverse factoring in working capital financing;
  - the approach to and significant assumptions made in the measurement of expected credit losses; and
  - concentrations of risks and information about covenants (where material).
- APMs should not be given greater prominence or authority than underlying GAAP/statutory measures, and the basis for classifying amounts as adjusting, 'non-underlying' or 'non-core' should be clearly explained.
- information that meets the overarching disclosure objectives of the relevant accounting standards, as well as the specific disclosure requirements.
- material information that is not obscured by immaterial items.

These are not new messages and nor should they come as a surprise to preparers but serve as reminders of the core regulatory reporting expectations for UK companies.

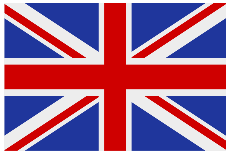
The FRC has also set out its supervisory expectations for 2022/23 and plans to conduct the following thematic reviews:

- TCFD reporting and climate-related reporting in financial statements: working with the FCA, the FRC will perform a thematic review of TCFD disclosures provided by premium listed companies in response to the new Listing Rule.
- Business combinations (IFRS 3): the FRC will undertake a general thematic review of accounting issues under this standard and identify examples of better practice.
- Earnings per share (IAS 33): miscalculations of EPS can result in material errors on the face of the income statement. The FRC will focus on those areas where it has previously identified errors.
- Deferred tax (IAS 12): the FRC will look particularly at disclosures around deferred tax assets and evidence supporting the recognition of deferred tax assets for losses.
- Discount rates: the FRC will look at the difficulties companies encounter in determining appropriate discount rates to apply.
- Judgements and estimates: the FRC will specifically look at (a) sensitivities and ranges of outcomes and (b) judgements and assumptions in estimating mineral reserves.

# Topical issues – reporting on the year to 31 December 2021

**Climate Change**

**FRC Focus Area**



## Climate change

In the wake of COP26, climate change is firmly at the top of the UK regulatory and legislative agenda. Stakeholders are increasingly asking entities how they are factoring the effects of climate change and the transition to a lower carbon economy into their strategy, business model and forecasts.

As a result, along with an increased focus on how climate-related issues are reflected in the existing requirements of IFRS Standards there are several initiatives to enhance corporate reporting to better reflect how sustainable a business is, its effect on its environment and carbon emissions, and the effect of climate change on the business.

Where disclosures of this kind are provided outside the financial statements (either under an established framework such as the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, based on local regulatory requirements or otherwise), it is important that they are consistent with the data and judgements used in preparing the financial statements themselves and supporting financial statement disclosures. In particular:

- Judgements and estimates underpinning financial statements must be consistent with the climate commitments and strategies in the narrative part of an annual report.
- Forecasts used for financial reporting purposes should reflect the entity's strategic plans and committed actions at the reporting date – based on best estimates at the reporting date.
- Investors want to understand whether these forecasts are aligned with the goals of the Paris Agreement. There are multiple possible scenarios and ranges of possible outcomes under different climate change trajectories. It is important for entities to be clear about the assumptions used and to make greater use of sensitivity analysis.

## Developing climate-related financial disclosure requirements

### TCFD recommendations and the ISSB

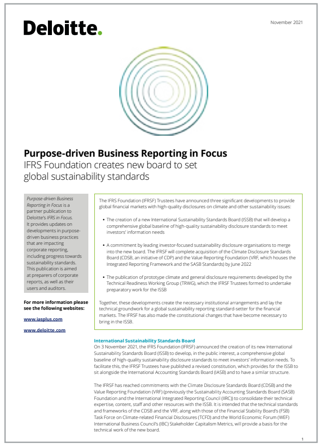
The Financial Stability Board (FSB) established the TCFD to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to understand better the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

The TCFD recommendations are organised around four core elements: Governance; Strategy; Risk Management and Metrics and Targets. These four elements, which are universally applicable to organisations across sectors and jurisdictions, are interlinked and designed to function together to provide an effective approach to responding to climate-related issues. They also provide the structure for the recommended disclosures.

Since their publication, the recommended disclosures have become a generally accepted framework used by organisations to explain their strategic response to climate change and its potential financial impacts (indeed, as discussed further below, the UK has already introduced requirements for certain companies to report against the recommendations). The recommendations and additional guidance are available on the TCFD publications page.

> More information on the TCFD recommendations is available in GAAP on DART (subscription required).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November 2021

Purpose-driven Business Reporting in Focus

IFRS Foundation creates new board to set global sustainability standards

A Deloitte [Purpose-driven Business Reporting in Focus] explains the developments around the ISSB and summarises two prototype standards on climate-related disclosures and general requirements for disclosure of sustainability-related financial information that have been published by the IFRSF.

**International Sustainability Standards Board**

In November 2021, the IFRS Foundation (IFRSF) announced the creation of the International Sustainability Standards Board (ISSB). The ISSB sits alongside the International Accounting Standards Board (IASB) with a remit to set global sustainability reporting standards. The intention is for the ISSB to play the same role for sustainability reporting as the IASB does for financial reporting.

The creation of the ISSB is a significant step in response to the urgent need for investors and other stakeholders to understand how climate and sustainability risks and opportunities faced by business affect enterprise value and financial performance. Global sustainability standards will facilitate consistent and comparable reporting across jurisdictions which will help direct capital to long-term, resilient business in the transition to a low-carbon economy.

The ISSB will prioritise a climate standard that will be based on the TCFD framework. Therefore, applying the TCFD recommendations will help organisations to build capacity, enhance transparency and be better prepared for mandatory climate-related financial disclosures based on global sustainability standards.

The UK government has stated that it intends to require UK businesses to report against the standards developed by the ISSB and that it will create a mechanism to adopt and endorse standards issued by the ISSB for use in the UK. These will form part of the UK government's Sustainability Disclosure Requirements (see *UK developments*).

A Deloitte Purpose-driven Business Reporting in Focus explains the developments around the ISSB and summarises two prototype standards on climate-related disclosures and general requirements for disclosure of sustainability-related financial information that have been published by the IFRSF.

**New disclosure requirements for UK companies**

For periods commencing on or after 1 January 2021, premium-listed commercial companies are required by the Listing Rules to include a statement in their annual financial report which sets out whether their disclosures are consistent with the TCFD recommendations, and to explain if they are not. The statement should set out:

- whether the company has included in its annual report climate-related financial disclosures consistent with the four overarching disclosures and 11 specific disclosures of the TCFD recommendations;
- if some, or all, of the disclosures consistent with the four overarching disclosures and 11 specific disclosures of the TCFD recommendations are included in a document other than the annual report:
  - the disclosures which are included in that other document;
  - a description of that document and where it can be found; and
  - the reasons for including the relevant disclosures in that document and not in the annual report;

- if the company has not made disclosures consistent with all of the four overarching disclosures and 11 specific disclosures of the TCFD recommendations in either its annual report or other document:
  - the disclosures which have not been made;
  - the reasons for not including such disclosures; and
  - any steps it is taking or plans to take in order to be able to make those disclosures in the future, and the timeframe within which it expects to be able to make those disclosures; and;
- where in the annual report (or other document) the various disclosures can be found.

Alongside the new Listing Rule, the Financial Conduct Authority (FCA) also published a Technical Note clarifying the existing disclosures that are already required to be reported by listed companies. This Technical Note is applicable to all listed issuers and took immediate effect on publication.

The FRC has stated in its annual review that it intends to focus on climate-related financial disclosures and, in particular, will consider the quality of disclosures made by premium-listed companies against the new Listing Rule. Likewise, the FCA has stated in its recently issued Primary Market Bulletin 36 that it will work collaboratively with the FRC to identify instances of non-compliance, including reporting such instances to one another where discovered, and review concerns raised by stakeholders about the quality of TCFD-aligned disclosures.

Where a premium-listed company fails to make a suitable statement under the Listing Rules, the FCA will request that the company publishes the TCFD statement via a Regulatory Information Service (RIS) in line with the Listing Rules as soon as possible after discovery, with any non-compliance leading to regulatory action and possible sanctions.

The FCA is extending these requirements to standard-listed companies, asset managers, life insurers and FCA-regulated pension providers for periods commencing on or after 1 January 2022. The disclosure requirements for standard-listed companies will be aligned to those for premium-listed companies, with exemptions available for subsidiaries included in the group report of a premium-listed parent. At the same time, the FCA will introduce TCFD-aligned disclosure requirements for asset managers, life insurers and FCA-regulated pension providers, both at entity level and at product or portfolio level.

The Department for Business, Energy and Industrial Strategy (BEIS) has laid draft legislation requiring mandatory climate-related disclosures for UK public interest entities (UK PIEs), AIM companies, "high turnover" companies and LLPs ("high turnover" is defined as turnover of more than £500m per annum, pro-rated for shorter or longer periods). Companies and LLPs with fewer than 500 employees will be exempt. These requirements will take effect for periods commencing on or after 6 April 2022. The required disclosures are similar to the TCFD recommendations and will be accompanied by non-binding guidelines to assist in implementation.

In its annual review, the FRC noted that it had seen some improvements to disclosures since its 2020 thematic review on climate, particularly around explanations of terminology such as "net zero" and descriptions of scenario testing. However, it has challenged the reporting by some companies of the effect of climate change on the financial statements; these challenges are noted in the relevant sections below.


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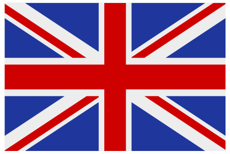
Need to know
February 2021

Need to know

**FCA Policy Statement and Listing Rule promoting better climate-related financial disclosures aligned with TCFD**

A Deloitte Need to Know – FCA Policy Statement and Listing Rule promoting better climate-related financial disclosures aligned with TCFD contains further guidance.

**FRC Focus Area**



A Deloitte Closer Look explains the regulations in more detail.

## Streamlined Energy and Carbon Reporting

This is the second December year-end for which the Streamlined Energy and Carbon Reporting regulations have been effective. In its feedback statement on proposals to introduce climate-related financial disclosures for UK PIEs, AIM companies and high turnover companies and LLPs, BEIS noted that it intends to revisit the SECR regime in the context of its new sustainability disclosure roadmap (see next section) and the development of global standards. It expects to consult on any such changes with a view to finalising these in 2023.

The FRC has undertaken a thematic review of reporting under the Streamlined Energy and Carbon Reporting regulations in 2021 as part of its wider work on how best to help companies to improve their climate-related reporting. The review covered AIM and large private companies and LLPs as well as quoted companies.

Although the FRC noted that in most cases, companies complied with the minimum statutory requirements, there were several instances where it saw room for improvement. These areas can broadly be split across four categories: emissions and energy use, methodology, ratios and measures taken to increase energy efficiency.

### Emissions and energy use

In some cases the FRC noted incomplete disclosures that did not fully comply with the legal requirements. These included:

- failure to disclose energy consumption;
- a single figure reported for all carbon emissions, rather than separate amounts for Scope 1 and Scope 2 emissions; and
- in the case of quoted companies, lack of clarity over the proportion of emissions and energy consumed in the UK and offshore area as distinct from the rest of the world.

Several companies had obtained some level of assurance over their SECR reporting. However, the level of assurance obtained was not always clearly described. The FRC cautions companies against using words such as “audited” or “verified” where only limited assurance has been obtained.

Some companies included targets or commitments relating to emissions, such as a commitment to reach “net zero” by a certain date. Where such targets or commitments are stated, the FRC expects companies to explain clearly what they mean and how they intend to achieve them. These should be linked to SECR reporting where relevant, and companies should also consider whether SECR metrics represent key performance indicators.

Finally, the FRC encourages companies to consider additional disclosure and signposts the BEIS Environmental Reporting Guidelines as a useful resource for identifying voluntary disclosures which might be useful.

### Methodology

The FRC expects clear disclosure of which entities are included within groups’ SECR disclosures. It observed that the usefulness and comparability of SECR disclosures is significantly reduced where there is a lack of clarity over which entities are reported on.

In particular, companies should be clear on the reporting boundary used. The financial control boundary is frequently used, but this is not always the case. For example, unquoted UK companies may exclude their overseas subsidiaries. Companies with significant investments in associates or joint ventures may also wish to consider whether those are clearly included or excluded from reporting. Any material omissions should be clearly identified and explained.

The actual methodology used to calculate emissions should also be disclosed clearly. Many companies refer to the GHG Protocol Corporate Standard but other methods may be appropriate. Sufficient information should be included in the annual report to enable users to understand which methodology is being applied; it is not sufficient to cross-refer outside the annual report for this purpose.

**Ratios**

Companies are required to report at least one intensity ratio which should be meaningful to the business. It was not always clear that the intensity ratio selected was the most appropriate or meaningful. The FRC expects companies to explain why the ratio used was selected.

The ratio used should be recalculable by users of the annual report; in other words they should be able to locate the source numbers and reproduce the ratio arrived at in the SECR reporting. If this is not possible – for instance because the base figure does not align to that reported elsewhere in the annual report – the FRC expects companies to explain this and, if necessary, provide a reconciliation.

**Measures taken to increase energy efficiency**

The measures disclosed should be “principal” measures. The FRC observed that it is not always clear, when a list of measures is presented, whether those are genuinely significant in the context of the company’s operations. The measures disclosed should be those which collectively have the greatest impact on the energy efficiency of the company (or group).

Where long-term initiatives are discussed, it should be clear what progress has been made against those initiatives in the year in order to meet the requirement. The FRC also flagged that to comply with the law, comparative information is required in respect of the requirement to disclose principal measures taken to increase energy efficiency.

Finally, the FRC noted that where no energy efficiency actions have been taken in the year, it is helpful to state that this is the case rather than remain silent.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Need to know

UK Government publishes Greening Finance: A Roadmap to Sustainable Investing

A Deloitte Need to Know – Greening Finance contains further detail.

## The UK government sustainability disclosure roadmap

In October 2021 the UK government published a new policy paper Greening Finance: A Roadmap to Sustainable Investing ("the roadmap"). The roadmap sets out details of new economy-wide sustainability disclosure requirements, and the legislative and regulatory changes that will be made to deliver them, in line with the UK's commitment to reach net zero greenhouse gas (GHG) emissions by 2050.

The roadmap builds on the government's Green Finance Strategy, published in 2019, and is published against the backdrop of the development of global sustainability standards described above. It sets out three phases towards greening the financial system and emphasises the need for high-quality, reliable, and internationally comparable sustainability information, with the goal of improving decision-making, building trust and addressing the risks of greenwashing.

The roadmap:

- brings together new and existing UK sustainability reporting requirements under a single framework of new economy-wide Sustainability Disclosure Requirements ("the SDR") for companies, asset managers and owners, and investment products. The SDR sets out expectations as to what requirements will be in place by 2022 (including those already published by the FCA and BEIS) and in future years;
- sets out more details on plans for a new UK Green Taxonomy, which will require relevant companies, asset owners/managers and financial products to report on which of their economic activities and investments can be described as environmentally sustainable and therefore "taxonomy-aligned"; and
- sets out government expectations as to investor stewardship and sustainability and indicates that progress against these expectations will be assessed in 2023.

The roadmap affects UK companies, asset owners and managers and investment products as it seeks to draw together a cohesive disclosure system across the economy and set out a plan for the next five years and beyond. This will also include adoption of the ISSB's global standards, once published. Although the requirements that apply for 2021 are limited only to those for premium listed commercial companies, it is critical for UK businesses to be aware of the direction of travel and to ensure they are prepared.


The Deloitte publication Annual Report Insights 2021 contains more detail on developments in reporting in the wake of COVID-19 and other key trends.

**COVID-19**

### The COVID-19 pandemic – from surviving to thriving

Almost two years on from the first outbreaks of COVID-19, the pandemic remains a significant factor across the globe, although there is now much greater variation in terms of infection and vaccination rates and in the level and nature of government actions to restrict the transmission of COVID-19 and to support industries that are adversely affected.

In the course of the last year, business focus has moved from the urgency of short-term survival to the development of longer-term resilience in the wake of COVID-19. In its recent report on risks, uncertainties, opportunities and scenarios, the FRC Lab noted that many companies have revisited and developed their internal processes and conversations in this regard, particularly as a result of COVID-19. However, this is not always clearly or fully discussed in the annual report, resulting in a gap between the information investors want and the disclosures that companies provide.

Moving forward, companies should now look to expand on these developments and other lessons learned from the COVID-19 pandemic, explaining fully how the business has changed as a result and the longer-term effect of those changes on the strategy, business model and viability of the business. In particular, discussion in the viability statement should be consistent with and supported by content elsewhere in the annual report.

The annual report should also explain the effect of COVID-19 on the company's capital allocation and cash management strategy, including consideration of how remuneration, capital allocation and dividend policies have been affected and prioritised. This is particularly important where government support has been taken; there is significant social and investor interest in this area. Disclosures about stakeholder engagement may also need to be expanded, particularly as regards employees, including explaining the effect of stakeholder engagement on decisions around longer-term changes to the business and setting out how new approaches developed as a result of the pandemic (including changes to working practices and enhancement of wellbeing initiatives) will continue to be embedded in the business going forward.

COVID-19

## Supply chain disruptions, labour shortages, commodity prices and general inflationary pressures

Supply chain disruptions, labour shortages, increasing commodity prices and general inflationary pressures have arisen in various parts of the world as a result of the lifting of COVID-19 restrictions, governmental stimulus packages and global trade tensions.

### Supply chain disruptions

Supply chain disruption is significantly increasing the production and distribution costs for many entities. If this results in a higher cost of inventory, entities should consider whether a write-down to net realisable value is required.

As well as increasing costs, supply chain disruption can increase the time taken to produce a finished product and, therefore, the volume of unfinished inventory at the reporting date. This can make the accuracy of systems and controls to ensure that raw materials and work in progress (some of which may be physically held by third parties) are properly recognised and measured more important.

When goods are being produced to satisfy an existing customer contract, increased costs might decrease the profitability of a contract or even result in a loss. If an entity is unable to raise its prices under a revenue contract with customers, it should consider the potential accounting implications of reduced or negative profitability on a revenue contract, including the period in which to record a loss if applicable.

Similarly, changes to manufacturing processes to allow for delays in receiving components or the use of alternative components will need to be reflected in inventory costing calculations.

### Labour shortages

Labour shortages may manifest themselves in the form of employee turnover and demands for higher wages at all levels of the organisation.

As costs of retaining labour increase in a production environment, entities should consider how these increased labour costs affect the cost of inventory and whether these higher costs can be recovered through price increases or whether a write-down to net realisable value is necessary. Similarly, the effect of increased employee costs on the accounting for contracts with customers should be considered carefully.

Changes to employee benefit packages (whether via bonuses, additional share-based payment awards or otherwise) will also need to be assessed carefully and accounted for in accordance with the requirements of IAS 19 *Employee Benefits* or IFRS 2 *Share-based Payment.*

Increased turnover and the shortage of employees may also put stress on an entity's internal control environments. As employee responsibilities shift, entities should assess whether the appropriately skilled and trained individuals are in place to effectively design, implement, operate and monitor controls, including controls related to information technology.

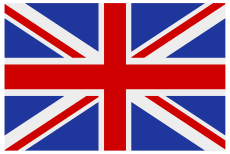
**Commodity prices**
Increasing commodity prices have also been a reality faced by many entities, with significant increases in, for example, wholesale energy prices having a direct or indirect impact across many industries. These can have a general impact on the costs of an entity's operations (resulting in the possibility of impairment or net realisable value issues or, in extreme cases, questions over whether an entity remains a going concern) or an impact on specific contracts. For example, if the cost of a commodity to be delivered to a customer (or used in the manufacture of a product for a customer) has increased and that cost cannot be passed on to the customer, the recognition of a provision for an onerous customer contract may become necessary.

**General inflation**
In addition to supply chain pressures and labour shortages directly affecting an entity's operations, general price inflation can increase the cost of inventory or of fulfilling customer contracts, resulting in the possibility of write-downs to net realisable value or the recognition of onerous customer contracts.

Inflation may also result in the renegotiation of long-term contracts, such as leases or long-term supply agreements, which in turn may have potential accounting implications. In addition, inflation may lead to an increase in interest rates and corresponding declines in the value of fixed-rate financial assets. As entities review their investment strategies in light of recent inflation, they may consider making different types of investments or moving away from holding excess cash on hand. For example, by investing in gold, digital assets (such as cryptocurrencies) or inflation-indexed debt securities. Entities contemplating such investments should consider the complex accounting and financial reporting that may result from holding them.

Further, entities should monitor the appropriateness of the discount rate used to measure any pension-related liabilities, particularly since even a seemingly small change in the discount rate can affect an entity's pension liability significantly. For example, higher interest rates may lead to decreases in pension liabilities and required employer contributions. However, such decreases may be offset by higher employee wages.

**FRC Focus Area**




A Deloitte A Closer Look publication provides more detail on the considerations surrounding capital maintenance and distributable profits and highlights expectations regarding disclosure.

## Narrative reporting

Regulatory focus continues to emphasise the need for authenticity, balance and completeness of annual reports to satisfy the needs of investors. To achieve this, the highest regarded annual reports are those which provide direct integration and connectivity between the strategic report and the rest of the annual report.

## Strategic report and the Companies Act 2006

The strategic report remains a key area of focus for the FRC, which continues to emphasise the requirement for companies to provide a fair, balanced and comprehensive analysis of the development and performance of the business in the financial year and of its position at the end of the year. In order to achieve this balance, it is imperative that the report addresses both positive and negative aspects without bias to give investors a complete picture.

The FRC noted in its annual review that, following its ongoing scrutiny of strategic reports, it has observed some improvements in this area. This has resulted in fewer challenges being made, particularly around the requirement to produce a fair and balanced report and the inclusion of principal risks. Nevertheless, there continues to be scope for improvement and the annual review highlights some examples of the challenges made during the year where annual reports lacked connectivity between the strategic report and the wider annual report and failed to address significant matters in the financial review.

The FRC also picked up on the need for improvements to be made in the non-financial information statement, particularly in relation to climate-related disclosures. Some entities did identify the existence of environmental or sustainability policies, but then failed to describe what these policies were; this is necessary to comply with the legal requirement. Furthermore, entities were challenged for failing to meet the minimum legal disclosure requirements due to the use of cross references to disclosures outside of the annual report. Whilst the use of cross references can be a useful tool to avoid repetition within annual reports, care must be taken not to omit information which is legally required to be included within the report itself.

Another topic of significant focus in this arena is capital maintenance and distributable profits, with many investors calling for clearer disclosures and greater transparency. This is one of the key challenge areas identified within the BEIS White Paper published in March 2021, which proposes reconsideration of the disclosure requirements to meet investor needs. In particular, the paper recommends that companies (parent companies in the case of a group) should disclose distributable reserves or, if this is not possible, disclose the 'known' distributable reserve, which must be greater than any proposed dividend. The paper also calls for directors to state that any proposed dividend is within known distributable reserves and that payment of the dividend will not, in the directors' reasonable expectation, threaten the solvency of the company over the next two years.

This focus is mirrored by the FRC which, in its annual review, detailed its challenges of entities in the following areas:

- a challenge was raised as to whether a dividend receivable from a subsidiary met the criteria for qualifying consideration when determining the realised profits and distributable reserves of the parent company; and
- the lawfulness of a company's distributions was questioned where these were not supported by the company's last audited accounts and where the required interim accounts had not been filed.

## The section 172(1) statement and related requirements

The requirement to prepare a section 172(1) statement was introduced for financial periods beginning on or after 1 January 2019, requiring directors of relevant companies to set out how they had regard to the matters identified in s172(1) while performing their duty to promote the success of the company for the benefit of its members as a whole. The section 172(1) statement should focus on matters that are of strategic importance to the company, should be meaningful and informative for shareholders and be consistent with the size and complexity of the business.

The FRC has highlighted increasing calls for better information on how companies are having regard to their stakeholders and how they have taken their perspectives into account when making key decisions. In July 2021, the FRC's Financial Reporting Lab issued a publication, Reporting on stakeholders, decisions and Section 172, setting out what investors are looking for in this area and how companies can improve their reporting to better meet investor needs. The report emphasises that investors are ultimately focused on how a company is progressing towards fulfilling its purpose and achieving long-term success, noting that information on stakeholders and on decisions, and therefore the disclosures made within the s172(1) statement, can help with that understanding.

The report is split into three sections covering these highly interrelated topics which companies should take into account when preparing their s172(1) statements:

### Information on stakeholders

Investors view information on a company's key stakeholders as critical to understanding the company and its prospects and want to see information on stakeholders' relevance to, and influence on, the company's purpose, business model and strategy. In addition, they want to understand how the company builds and maintains strong relationships with its stakeholders, how their interests, needs and concerns are taken into account and also how these relationships could impact the company's pursuit of long-term success. The most useful disclosures would also give an understanding of the Board's role in the engagement with key stakeholders, including how they are assessing the effectiveness of their stakeholder engagement through the use of different metrics.

### Information on decisions

Investors want to know what the principal decisions were during the period and how such decisions were made. The focus should be on those strategically important decisions which have implications for the company's long-term success. Entities should set out how stakeholders were considered in reaching each decision, including consideration of any feedback and engagement activities, and the impact of the decision on these various stakeholders. They should also set out the difficulties faced in making the decision, including how different stakeholder needs or concerns were balanced, whilst outlining any short-term negative consequences which are expected to be offset by long-term benefits. The outcome, or expected outcome should also be provided, including the impact on current performance and metrics.

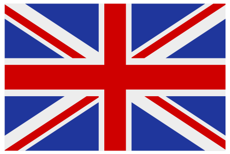
### s172(1) statement

While identification and consideration of company stakeholders certainly represents a key aspect of the s172(1) statement, care should be taken to ensure that all of the s172(1) matters are reflected to allow a better understanding of how a company is progressing in its pursuit of its purpose and long term success. Investors have noted that the best section 172(1) statements are those which link information on stakeholders and decisions, incorporating both into the statement, even if this is achieved by using cross-references. When cross-references are used from the s172(1) statement to other material of the annual report, it is important that these are accurate and precise, rather than referring to whole sections of the strategic report without any insight on what specific information can be found there.

The FRC annual review highlighted that often section 172(1) disclosures are being combined with stakeholder engagement disclosures. In certain instances this has led to aspects of the required s172(1) disclosures being omitted, such as the impact of the company's operations on the environment. The report stresses that if this combined approach is taken, companies must take care to ensure their disclosures cover both sets of requirements.


A Deloitte publication Annual Report Insights 2021 provides more observations on how directors have explained how they have complied with section 172(1).

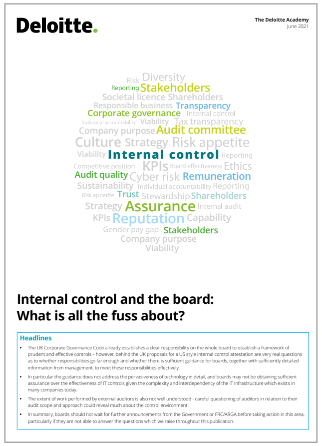
**FRC Focus Area**



### Brexit and 2021 annual reports

A number of changes resulting from the UK's withdrawal from the EU take effect for the first time for UK companies for financial years beginning on or after 1 January 2021 and are therefore effective for the first time for 31 December 2021 year-ends onwards. These include:

- The exemption from audit (and, if a dormant company, from preparing and filing accounts) for subsidiaries whose liabilities are guaranteed by a parent will only be available where the guarantee is given by a UK incorporated parent. Previously an EEA incorporated parent could provide the guarantee.
- The exemptions from preparation of group accounts on the grounds of consolidation into a larger group change. The exemption in s400 of the Companies Act 2006 is narrowed to situations where the larger group is headed by a UK parent, and that in s401 is broadened to include all non-UK parents. In practice this is likely to have little initial effect; however, if in future IFRS as adopted in the EU diverges from IFRS as adopted in the UK the availability of this exemption may change.
- Some exemptions, including adoption of the small companies regime (s384 of the Companies Act 2006), the consolidation exemption for small groups (s399), and exemptions for medium-sized companies (s467), are not available to companies that are members of an ineligible group. The definition of an ineligible group has changed such that a member of a group that is listed on an EEA regulated market will no longer cause the group to be ineligible; such a group would only be ineligible if one of its members was listed on a UK regulated market. This means, for example, that a small subsidiary of a parent listed in the EEA may now be able to apply the small companies regime.
- Large PIEs must include a 'non-financial information statement' within their strategic report (s414CA) unless they are included within a consolidated non-financial information statement. For accounting periods commencing on or after 1 January 2021, this exemption will only be available to those entities with a UK parent that prepares a consolidated non-financial information statement.




A Deloitte Governance in Focus publication provides more detail on the assessment of risk management and internal control systems.

## Corporate governance

In November the FRC published its latest Review of Corporate Governance Reporting which sets out its expectations for reporting against the UK Corporate Governance Code 2018. The report highlights areas of high-quality reporting, but also draws attention to improvements needed in areas such as compliance statements, succession planning and diversity. The report also found that more focus on reporting the effectiveness of internal control and risk management systems would enhance the level of confidence in the company's control framework.

### Compliance statement

The FRC expects companies to report on compliance with the provisions of the Code in a transparent manner. It should be clear within the statement whether there are any provisions which have not been complied with. Where a company is reporting non-compliance with any of the Code provisions, a clear and meaningful explanation must be provided. The explanation should include the following elements: the context and background; a convincing rationale for the approach being taken; any risk and mitigating actions considered; and a timescale to set out when the company intends to comply (where relevant).

### Diversity and inclusion

This continues to be an FRC focus area and enhanced reporting is expected. The report should set out both a board and a workforce diversity policy or, if not the full policy for each, then a summary and a clear link to where the policies can be found on the website. Companies should disclose how the policy on diversity and inclusion links to company strategy and the progress towards achievement of those policies. This means that measurable targets should be provided for each policy separately.

### Succession planning

The FRC expects to see an improvement in reporting on succession planning. This is particularly the case for companies that highlight succession planning as an area to improve following the outcome of a board evaluation. Succession plans should be written down, regularly reviewed and updated as the needs of the board and the make-up of the company evolves. They should be linked closely to talent pipelines and diversity and inclusion plans. Consideration should also be given to how planning arrangements are operated across the short, medium and long-term.

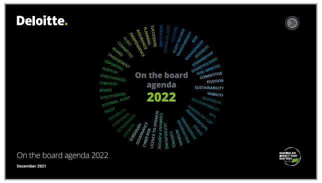
### Board oversight of purpose and culture

The report should describe clearly how the board satisfies itself with the alignment of the company's purpose with business practices. Oversight can be exercised by boards in many ways, such as requesting regular reports from executives on key areas, purpose implementation updates, and meeting company employees to hear their views directly about how the company's purpose works in practice. By reporting such matters, boards are evidencing the quality of their oversight.

Similarly, companies should take a rigorous approach to culture and set up effective ways for the board to monitor and assess both the culture of the business and its alignment with purpose.

### Review of the risk management and internal control systems

The report makes clear that, following a review of the effectiveness of risk management and internal control systems (as required by Code Provision 29), companies should comment on the outcome from any such review. The positive statement about effectiveness suggested in this report represents a clear statement of intent from the FRC around direction of travel. The FRC now expects companies to report on the outcome of their reviews, moving the bar up from current practice where most companies just describe that they have undertaken the annual review, without giving detail of the process followed and outcomes from the review.




A Deloitte publication, On the board agenda 2022, contains further detail on and insight into the key corporate governance issues and considerations affecting companies.

Companies intending to make these effectiveness disclosures should reflect carefully on the framework and process to support any additional disclosure. They should hold discussions with their auditors: there will be implications for auditors as auditing standard ISA 720 requires them to specifically conclude whether the section of the annual report that describes the review of effectiveness of risk management and internal control systems is materially consistent with the financial statements and the knowledge obtained during the audit.

The FRC has also set out clear expectations of good practice in some other areas of corporate governance reporting against the UK Corporate Governance Code, both through thematic reviews and the work of the Financial Reporting Lab. These areas include:

**Workforce engagement**
The company should set up one or a combination of measures suggested by Provision 5 of the Code, being a director appointed from the workforce, a formal workforce advisory panel, or a designated non-executive director, and explain why it is deemed to be an appropriate and effective mechanism for engagement. If the board has not chosen one or more of these methods, it should explain what alternative arrangements are in place and why it considers that they are effective.

**Remuneration**
The FRC has clarified that it expects all companies to move to full alignment of pension contributions for executive directors with the workforce as soon as possible. Until full alignment is achieved, companies must disclose this as a departure from Provision 38 of the Code. Companies reporting a departure should set out clear plans and a timetable for achieving that alignment in the near future.

The FRC also reiterated that companies should engage with their workforce meaningfully, ensuring there is a two-way dialogue. Good practice would be to separate engagement on executive remuneration policy from other workforce engagements to ensure a focused discussion. If a company has not engaged with shareholders or the workforce in relation to remuneration, it is not compliant with Provision 40 or Provision 41 of the Code.

Reporting should assure investors that the chosen performance metrics incentivise executives to pursue the company's strategic objectives. While equity-based metrics may effectively align the interests of executives with those of the shareholders, remuneration committees should consider including long-term strategic objectives, as well as environmental and sustainability performance metrics on their long term incentive plans.

**Emerging risks**
The FRC Lab has found that in most cases companies have had relevant procedures in place to identify emerging risks, but failed to explain those procedures in the annual report. The report should clearly explain this area of risk management as investors are interested in how companies determine when emerging risks and uncertainties are 'escalated to' principal risks and whether any potential opportunities are identified and exploited.

COVID-19

## Going concern and viability

Building on the reports from the Financial Reporting Lab, in September 2021 the FRC published its thematic review of companies' viability and going concern disclosures, which found several areas where viability and going concern reporting could be improved.

The FRC expects management to consider the following characteristics when reporting on viability and going concern:

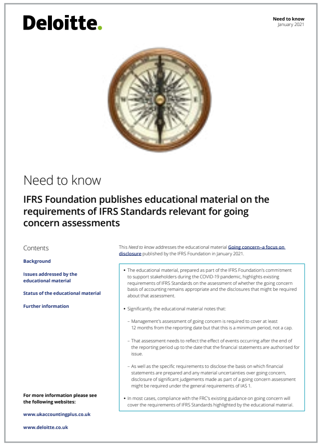
- Justification for the period of assessment, especially if it has been shortened due to the COVID-19 pandemic.
- The adequacy of assumptions, judgements and conclusions disclosed.
- How identified risks and uncertainties were reflected within modelled scenarios.
- The adequacy of the disclosure of the solvency and liquidity and reliance on facilities.
- The techniques used to form conclusions.
- The adequacy of material uncertainty disclosures.
- The adequacy of going concern-related significant judgement disclosure.
- Whether viability and going concern reporting are clear and concise.

In relation to the viability assessment period, the FRC encourages companies to provide longer term information and consider extending their assessment period as required by Provision 31 of the Code and in line with the BEIS White Paper resilience statement. When considering the assessment period, management should use reasonable expectations, taking into account such factors as debt repayment profiles, nature of the business, its stage of development, planning and investment periods, strategy and business model, capital investment and other forward-looking areas of the financial statements, such as forecasts or models used in impairment analysis and deferred tax asset recoverability.

In addition, disclosures should provide specific company and scenario details to enable users to understand which risks have been considered in which viability scenarios. It was also noted that companies tend to describe mitigations to principal risks but not how they are resilient to the threats posed to their viability.

Some key findings on going concern disclosures related to significant judgements and material uncertainties. In particular, the FRC noted that the disclosure should clearly identify any material uncertainties related to events or conditions which may cast significant doubt on an entity's ability to continue as a going concern. Further, the report should highlight the significant judgements made by management in determining whether or not the adoption of the going concern basis is appropriate and whether or not there are material uncertainties in respect of going concern to disclose.

The FRC highlighted that the main way in which improvements could be made to both viability and going concern statements relates to inputs and assumptions. Specifically, companies are expected to bring in more granularity around qualitative and quantitative information on inputs and assumptions and to align with other future-looking parts of the financial statement.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Need to know
January 2021

Need to know

IFRS Foundation publishes educational material on the requirements of IFRS Standards relevant for going concern assessments

A Deloitte Need to Know publication explains the IASB educational material in further detail and illustrates the disclosure requirements that might apply in different circumstances.

In January 2021, the IFRS Foundation published educational material titled Going concern—a focus on disclosure. The educational material notes that management may need to consider factors that relate to the entity's current and expected profitability, the timing of repayment of existing financing facilities and potential sources of replacement financing and that, in the current stressed economic environment, an entity may be affected by a wider range of factors than in the past. For instance, the COVID-19 pandemic may give rise to factors such as the effects of any temporary shut-down or curtailment of the entity's activities, possible restrictions on activities that might be imposed by governments in the future, the continuing availability of any government support and the effects of longer-term structural changes in the market (such as changes in customer behaviour).

The educational material also highlights that IAS 10 *Events after the Reporting Period* explains that management's assessment of the use of a going concern basis of preparation needs to reflect the effect of events occurring after the end of the reporting period up to the date that the financial statements are authorised for issue. If, before the financial statements are authorised for issue, circumstances were to deteriorate so that management no longer has any realistic alternative but to cease trading, the financial statements must not be prepared on a going concern basis.

### The European Single Electronic Format (ESEF)

For periods commencing on or after 1 January 2021, companies listed on UK regulated markets are required to prepare their annual reports in compliance with the European Single Electronic Format (ESEF). This requirement has been introduced by the FCA with the aim of facilitating accessibility, analysis and comparability of annual financial reports and involves preparing the annual report in an XHTML web browser format. Consolidated financial statements prepared under IFRS must be tagged using Inline XBRL, which allows unique tags to be allocated to the data included in the financial statements.

In October 2021 the FRC's Financial Reporting Lab issued an early implementation study in which it reviewed a sample of 50 early adopters across the UK and Europe (note that these requirements are already in force for EU entities). The review uncovered a significant number of issues found in the sample reports with more than 70% containing tagging errors, over 50% with issues limiting their usability and more than 25% with design issues.

The report sets out a number of practical hints and tips for companies to look to when preparing reports in the new format for the first time under three areas: process, usability and performance and tagging.

#### Process

The report states that companies should:

- understand the requirements and get the right teams involved;
- consider factors in choosing their approach such as the impact on their timetable, desired level of company involvement, design and outsourcing risks;
- consider whether to tag information voluntarily, such as sustainability-related information;
- test the approach chosen repeatedly; this can be done using a prior-year annual report; and
- set up a robust governance process.

The report notes that it is helpful if companies provide disclosures explaining their approach to governance of the structured report and stating whether it was subject to audit or assurance.

#### Usability and appearance

The report states that companies should:

- devote care and attention to their structured report as it becomes the official version of the annual report under jurisdictional transparency rules.
- make sure the structured report includes all the components of an annual financial report.
- minimise the time lag between their results announcement and the publication of the official (structured) report, to enhance the value of the report and its structured data to users.
- consider making the structured report available on their website with an Inline XBRL viewer.
- avoid specific non-standard formatting if they intend to create their structured report by converting a PDF into XHTML.
- test and review the report output, as it is unlikely that the conversion from PDF to XHTML will be perfect from the start.

 

**Tagging**

The report states that companies should:

- make sure the tags they use correctly reflect the accounting meaning of the reported information and reflect the judgements made in preparing the human-readable report.
- avoid unnecessary extensions.
- be aware that producing a structured report introduces a risk of new types of errors. Plan a review process and look out for common issues such as wrong signs (+ or -) and calculation inconsistencies.

There is no legal requirement for companies to obtain assurance that their annual reports comply with the ESEF requirements. However, given the potential challenges and pitfalls associated with these new formatting requirements, entities may wish to consider seeking such assurance from their auditors, or other assurance provider.

 

FRC Focus Area

COVID-19

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

The use of 'non-GAAP' measures (often referred to as 'Alternative Performance Measures' (APMs)) continues to be an area of regulatory concern in the UK. Following the UK's withdrawal from the EU, the FRC has confirmed that it continues to expect UK companies to apply the Guidelines on Alternative Performance Measures published by the European Securities and Markets Authority (ESMA) as they are considered to codify best practice and to be consistent with the requirements of the Companies Act 2006.

In October 2021, the FRC published a thematic review assessing the quality of APM reporting in the UK five years after the implementation of the ESMA Guidelines. It found that companies generally provided good quality disclosures around the use of APMs, with improvements noted in reconciliations, labelling and the definitions given. However, around half the companies sampled still appeared to give APMs undue prominence and authority over statutory equivalents. The FRC expects companies to ensure that APMs are not displayed more prominently than statutory measures, and that narrative reporting does not give APMs undue focus.

Through its routine reviews, the FRC noted issues with the reconciliation and calculation of APMs, with some reconciliations missing – particularly for less frequently used APMs such as net asset value per share – some reconciling items not clearly identifiable in the financial statements, some reconciling items not agreeing to corresponding amounts in the financial statements, and some defined APMs not being calculable from the information in the financial statements. Findings were also raised where the rationale for certain reconciling items (such as restructuring costs that had recurred over a number of years defined as 'non-recurring') was unclear, and where the labelling of APMs was unclear or misleading.

The FRC also explicitly discourages entities from using APM labels which could be confused with other commonly accepted financial measures. For example, the term 'EBITDA' should not be used if items other than interest, taxes, depreciation, and amortisation are adjusted from the net result. APMs disclosed should be given meaningful labels which reflect their content and basis of calculation to avoid conveying misleading messages to users.

APMs are also subject to scrutiny if they are adjusted or newly introduced solely to show the impact of COVID-19 on the entity's performance; the pandemic has caused a drastic change in world markets that can no longer be seen as a one-off event. Therefore, separate presentation of pandemic impacts may not be appropriate and it would be better to explain these changes in the narrative reporting.

Finally, APMs should be neutral. Presenting biased APMs which are adjusted to exclude only one-off losses (e.g. impairment losses) but include one-off gains of the same nature (e.g. reversal of impairments or grants) may not constitute a fair review of the development and performance of the business and the position of the entity.

FRC Focus Area

COVID-19

Climate Change

## Judgements and estimates

The disclosure of judgements and estimates is an area of reporting which has historically given rise to the highest number of questions put to companies by the FRC, and has been an area of FRC focus, including a thematic review in November 2017.

Although recent annual reviews have seen improvements in these disclosures, judgements and estimates continue to be identified as the most frequently raised topic by the FRC in its 2020/21 annual review.

IFRS Standards recognise the importance that users assign to judgements and estimates by including specific disclosure requirements in many Standards together with general requirements in IAS 1 *Presentation of Financial Statements* to disclose:

- The judgements, apart from those involving estimations that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
- Information, including when necessary sensitivity analyses, about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The requirement to disclose key sources of estimation uncertainty applies when there is a significant risk of material adjustment within the next financial year. Voluntary disclosure of possible changes in the longer-term are useful but should be clearly distinguished to help users identify the most critical areas of estimation uncertainty in the immediate future.

With regard to significant accounting judgements, entities should explain why the judgement was necessary, which factors were considered in applying the judgement, and if any alternative judgements could reasonably have been made instead. The accounting outcomes of any significant judgements should be explained sufficiently.

The FRC notes that the disruption and uncertainty caused by the COVID-19 pandemic has contributed to the importance of detailed, clear disclosure of material judgements, assumptions, and sensitive estimates. As outlined in its Guidance for companies on Corporate Governance and Reporting, issued in response to the COVID-19 pandemic in March 2020 and updated in December of that year, the FRC expects and encourages disclosures which provide as much context as possible for the assumptions and predictions underlying the amounts recognised in the financial statements.

The majority of the findings identified by the FRC related to key sources of estimation uncertainty, and in particular related to the quantification of information when disclosing key sources of estimation uncertainty. The carrying amounts of assets and liabilities subject to estimation uncertainty and the key assumptions underlying the measurement of assets or liabilities subject to significant estimation uncertainty were not always clearly identified.

The FRC, investors and other stakeholders are increasingly comparing significant judgements or estimation uncertainties with other areas of the annual report. Apparent inconsistencies between judgements and estimates and, for example, disclosure of the principal risks faced by the entity or significant accounting matters discussed in the audit committee report, are likely to be scrutinised.


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GAAP: In depth

Need to know

Spotlight on key judgements and estimates disclosures

Contents

Why these disclosures matter

Two key IAS 1 requirements

Prominence given to disclosures

Judgements made in applying accounting policies other than those involving estimations

Assumptions about the future and other sources of estimation uncertainty

Cutting out the clutter

Interaction with other disclosures in the annual report

What really matters to readers of accounts

Why these disclosures matter

November 2017

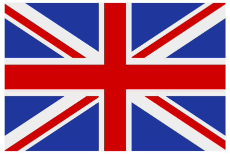
A Deloitte Need to Know publication provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Assumptions related to the impact of climate change or the transition to a lower carbon economy may have a significant risk of resulting in a material adjustment within the next financial year (for example, to the useful life of an asset). This might arise from changes to expected cash flows within the next year or to longer-term assumptions which are at risk of significant revision within the next year. These disclosures should be presented in a manner that helps users of the financial statements to understand the judgements management has made about the future. The nature and extent of the information to be disclosed will vary according to the nature of the assumptions.

In addition to the above requirements, IAS 8:39 requires disclosure of the nature and amount of a change in estimate that either has an effect in the current period or is expected to impact future periods. There is a number of areas where changes in estimates may occur due to climate-related factors.

The transition to a low carbon economy may also give rise to new transactions for which significant judgements may be required in developing accounting policies. For example, there are no specific requirements as yet addressing the treatment of 'green' bonds and carbon offsetting or emission trading schemes.

**FRC Focus Area**



## Revenue recognition

Revenue recognition policies, and the related disclosures, remain a focus area for the FRC, being the second most common topic for FRC substantive questions to companies. In its 2020/21 annual review, the FRC identified the significant findings it has made as part of both routine reviews and its September 2020 thematic review on IFRS 15 *Revenue from Contracts with Customers*. The most consistently raised findings are summarised below.

### Variable consideration

The FRC found that the descriptions of the types of variable consideration that exist within customer contracts, the disclosure of the methods used to estimate variable consideration and how the variable consideration constraint was applied were sometimes unclear or incomplete.

### Performance obligations

Scope for improvement was identified with regard to the disclosure of timing of revenue recognition and whether this is over time or at a point in time. It was also found that accounting policies for revenue from significant performance obligations were sometimes unclear or missing.

There was insufficient information in some financial statements about both exactly when revenue is recognised for "point-in-time" performance obligations and the methods used to measure and recognise revenue under "over time" performance obligations.

### Principal versus agent

The FRC noted that it was sometimes unclear how a company had concluded whether it was acting as an agent or principal in its revenue transactions, with the related judgements not always being explained.

### Contract balances

The FRC found that accounting policies and disclosures in relation to contract balances, such as the nature of the balance, significant changes, how the timing of satisfaction of performance obligation relates to the typical timing of payment, and the corresponding effect on contract assets and liabilities, were sometimes missing.

### Other queries

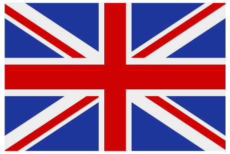
Following on from the above section, it is important to remember that entities applying IFRS 15 are required to disclose significant accounting judgements made in the application of the Standard. This could include judgements made in determining:

- The timing of satisfaction of performance obligations (e.g. judgements made in evaluating when a customer obtains control of promised goods or services for performance obligations satisfied at a point in time).
- The transaction price and the amounts allocated to performance obligations.

Queries were also raised by the FRC where it found that disclosures in relation to the costs to obtain or fulfil a contract, and the accounting for claims recoverable from third parties, were missing or unclear. The FRC also queried whether variations on construction contracts were accounted for as contract modifications and where disaggregated revenue disclosures were inconsistent with other areas of the annual report.

**FRC Focus Area**



## Statement of cash flows

Significant concern over the quality of cash flow statements continues to be expressed by the FRC, which, in their annual review, noted that six companies restated their statement of cash flows as a result of their enquiries.

In response to their concerns, the FRC also performed a thematic review on cash flow and liquidity disclosures, published in November 2020.

The FRC noted in both reviews that many of the errors that have resulted in queries and, in some cases, restatement of statements of cash flows, were basic in nature. It highlights the importance of robust review procedures that should be performed by companies as part of the pre-issuance financial statement close process, which would have easily avoided these errors.

### Cash and cash equivalents

At a basic level, the function of a statement of cash flows is to present movements between the opening and closing balances of 'cash and cash equivalents'. As such, the determination of what instruments form part of that balance is critical. In particular, care should be taken in determining whether any bank borrowings (including overdrafts), short term investments (noting the stipulation in IAS 7 *Statement of Cash Flows* that only investments with a maturity of less than three months at acquisition can normally qualify as cash equivalents) or investments in money market funds can be said to form part of cash equivalents.

### Reported cash flows

Most of the FRC's findings were related to the general reporting of cash flows, with issues identified such as inconsistencies between amounts disclosed in the statement of cash flows and amounts disclosed elsewhere in the annual report, confusing or misleading subheadings in the cash flow statement, incorrect application of the indirect method of reporting cash flows from operating activities and inappropriate reporting of cash flows on a net basis.

### Classification of cash flows

Queries were also raised with respect to the classification of cash flows, with inconsistent classifications being applied for similar items, such as interest on leases and interest on borrowings, and parent company accounts reporting amounts borrowed from subsidiaries as investing rather than financing cash flows or amounts lent to subsidiaries as financing rather than investing cash flows.

### Accounting policies

The FRC continued to challenge companies with accounting policies that suggested 'cash equivalents' included amounts with a maturity great than three months.

Queries were also raised where companies overlooked the requirement to present, as a component of cash and cash equivalents in the statement of cash flows, borrowings that are repayable on demand and which form an integral part of an entity's cash management.

### Disclosures

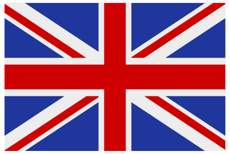
As with other elements of an annual report, clear disclosures and consistency (both within the cash flow statement itself and with information reported elsewhere) are important features of cash flow reporting. For example, inconsistencies within the cash flow statement (for example, some interest payments classified as operating cash flows and others as financing) should be avoided and the descriptions of cash flows used should be clear and consistent with related terminology elsewhere in the financial statements.

A specific disclosure requirement that might be affected by developing economic circumstances is that of "the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group" (often referred to as 'restricted cash'). As well as amounts held 'in escrow' for specific purposes, this can also be relevant to cash held by subsidiaries that cannot easily be remitted to the parent due to exchange restrictions in existence in several jurisdictions.

The requirement to disclose movements (both cash and non-cash) in financing liabilities, which was introduced in 2017, continues to be the subject of scrutiny, particularly where previously voluntary disclosures continue to be provided which might not meet the specific requirements as written. An agenda decision by the IFRS Interpretations Committee in September 2019 provided additional guidance on the application of this requirement, noting in particular the need to clearly identify the balances considered to be 'liabilities from financing activities' and to avoid inappropriate aggregation in presenting a reconciliation between opening and closing balances.

The FRC also raised queries regarding a number of apparent errors and omissions, such as insufficient disclosure of the nature and amount of material supplier financing arrangements and omitted explanations in relation to material cash flows and other disclosures required by IAS 7.

**FRC Focus Area**



## Supplier financing

In its 2020/21 annual review, the FRC commented that factoring and reverse factoring arrangements remain an area on which users need transparent disclosures, covering the nature of any material arrangements, the liquidity implications and the relevant amounts.

In December 2020, the IFRS Interpretations Committee (the Committee) published an agenda decision that addressed supplier financing (or 'reverse factoring') arrangements and how these should be presented in the statement of financial position, the statement of cash flows and the notes to the financial statements.

In its statement of financial position, an entity applies the requirements in IAS 1 to determine how to present liabilities that are part of a reverse factoring arrangement. If the liabilities are similar in nature and function to trade payables, for example, when they are part of the working capital used in the entity's normal operating cycle, an entity presents such liabilities as trade payables. If the size, nature or function of those liabilities makes separate presentation relevant to an understanding of the entity's financial position, an entity presents such liabilities as a separate line item. For this determination, an entity considers the amounts, nature and timing of those liabilities, including factors such as whether additional security is provided as part of the arrangement that would not be provided without the arrangement, or the extent to which the terms of the liabilities that are part of the arrangement differ from the terms of the entity's trade payables that are not part of the arrangement.

An entity assesses whether and when to derecognise a liability that is (or becomes) part of a reverse factoring arrangement applying the derecognition requirements in IFRS 9. An entity that derecognises a trade payable to a supplier and recognises a new financial liability to a financial institution applies the guidance above in determining how to present that new liability in its statement of financial position.

Applying IAS 7, an entity determines whether the cash flows from reverse factoring arrangements are operating or financing cash flows. The Committee observed that if the entity considers the related liability to be a trade or other payable that is part of the working capital used in the entity's principal revenue-producing activities, the entity presents cash outflows to settle the liability as arising from operating activities in its statement of cash flows. In contrast, if the entity considers that the related liability is not a trade or other payable because the liability represents borrowings of the entity, the entity presents cash outflows to settle the liability as arising from financing activities and provides the disclosures required by IAS 7:44A on changes in liabilities arising from financing activities.

Investing and financing transactions that do not require the use of cash or cash equivalents are excluded from an entity's statement of cash flows. Consequently, if no cash inflow or cash outflow occurs for an entity in a financing transaction, (e.g., derecognition of a trade payable with recognition of a new financial liability), the entity discloses the transaction elsewhere in the financial statements in a way that provides all the relevant information about the financing activity.

Applying IFRS 7 *Financial Instruments: Disclosures*, an entity would be required to provide information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed. The Committee observed that reverse factoring arrangements often give rise to liquidity risk. An entity would disclose:

- How exposures to risk arising from financial instruments, including liquidity risk, arise.
- The entity's objectives, policies and processes for managing the risk.
- Summary quantitative data about the entity's exposure to liquidity risk at the end of the reporting period (including further information if this data is unrepresentative of the entity's exposure to liquidity risk during the period).
- Concentrations of risk.

In addition, an entity applies IAS 1 in determining whether to provide additional disclosures about the effect of reverse factoring arrangements on its financial position, financial performance, and cash flows. An entity discloses the judgements that management has made in assessing how to present liabilities and cash flows related to reverse factoring arrangements if they are among the judgements made that have the most significant effect on the amounts recognised in the financial statements. In addition, an entity provides information about reverse factoring arrangements in its financial statements to the extent that such information is relevant to an understanding of any of those financial statements.

FRC Focus Area

COVID-19

Climate Change

## Impairment and the useful lives of assets

Impairment reviews have been an area of significant FRC focus for a number of years, consistently being one the most frequently questioned areas, and the subject of an FRC thematic review, published in October 2019.

The most substantial area of challenge from the FRC highlighted in its annual review was around key inputs and assumptions in impairment testing, with queries raised over:

- the consistency of assumptions with past experience and external sources of information;
- the consistency between narrative disclosures elsewhere in the annual report that indicate uncertainties leading to possible impairments, and the financial statement disclosures in which it is not clear how these uncertainties have been addressed; and
- the possible use of inappropriate discount rates.

Entities will need to assess whether any impairment triggers have arisen due to, for example, adverse changes in the market or technical obsolescence of the entity's assets. In addition, the determination of either value-in-use or fair value less costs to sell (particularly if applying an income approach as set out in IFRS 13 *Fair Value Measurement*) for the purposes of an impairment review under IAS 36 *Impairment of Assets* necessitates the forecasting of an entity's cash flows, potentially extending many years into the future. Both climate change and the ongoing impact of COVID-19 add volatility and uncertainty into the forecast of cash flows used in an impairment review. For example, government action following the COP26 summit in Glasgow might be expected to render some carbon-intensive assets obsolete or the nature and extent of public health measures to combat COVID-19 might be unknown.

Careful consideration of the cash flow projections, growth rate(s) and discount rate(s) will be critical in terms of the supportability and reasonableness of impairment calculations. When estimating future cash flows, entities must ensure that assumptions are consistent with external sources of information, as well as with their climate strategy and any public commitments made in that respect. Projected cash flows should be based on what could have reasonably been known at the reporting date of the conditions that existed at that date (importantly, in the case of a value in use calculation, excluding the effects of restructurings to which the entity was not committed at the reporting date). Key assumptions used in performing impairment tests are likely to represent a source of significant estimation uncertainty and therefore the information required by IAS 36 may, in some cases, need to be supplemented by the information required by paragraphs 125-133 of IAS 1, such as sensitivity analyses other than those required in respect of goodwill impairment testing.

The discount rate to be used is an estimate of the rate that a market participant would expect on an equally risky investment. Hence, to the extent that risk and uncertainties about the ongoing impact of the COVID-19 pandemic and/or the effects of climate change or the move to a low-carbon economy are not reflected in the projected cash flows of the asset or CGU being tested, they should be reflected in the discount rate applied.

The FRC's climate thematic review, published in November 2020, found that climate change is generally not addressed in disclosures of management's approach to determining key assumptions in impairment assessments. Companies should therefore consider the impact of climate change on their impairment reviews. This is especially true in industries where climate change may be reasonably expected to significantly affect future estimated cash flows: an area of FRC challenge has been whether climate change and the move to decarbonisation by carbon intensive companies were considered impairment indicators.

The FRC's COVID-19 thematic review, published in July 2020, explains that the adverse impact of COVID-19 is expected to be a strong indication that one or more impairment indicators in IAS 36 have been triggered and that an impairment test is required, even if a test was performed at an earlier reporting period.

While the outlook on the future economic conditions may have improved for some industries, it remains uncertain, and entities are expected to update any assumptions used in previous interim periods to reflect the latest available information. It is recommended that entities disclose how the assumptions and measurements have changed, if at all, compared to the last annual and interim reporting. Such factors should be incorporated into a review of an asset's useful life and residual value, with any change accounted for as a prospective change in depreciation or amortisation with suitable explanation and disclosure.

The easing of restrictions related to COVID-19 might also give rise to potential reversals of impairments (other than for goodwill, for which reversals are prohibited). Entities will need to assess whether there has been a change in the estimates used to determine the recoverable amount of the assets since the last impairment loss was recognised which could lead to a reversal of impairment. In particular, it is important to note that a reversal of impairment can only arise due to a positive change in forecast cash flows, not merely from the passage of time as a discount unwinds or expected negative cash flows occur (and, as a result, no longer appear in a forward-looking calculation).

The FRC also noted in its annual review that it continues to raise queries with parent companies with impairment indicators, such as net assets of the parent company exceeding market capitalisation, yet no disclosure in relation to the impairment review of the parent company's investments in subsidiaries.

**FRC Focus Area**

**COVID-19**

## Financial instruments

Financial instruments remain an FRC focus area in routine reviews. In its annual review, the FRC noted that most queries were raised regarding the recognition and measurement of financial instruments and the scope of IFRS 9 Financial Instruments, and with regard to expected credit loss (ECL) provisions and credit risk.

It was also found in several cases that bank overdrafts and similar liabilities were offset against cash and cash equivalents in the statement of financial position, but it was not clear how the offsetting criteria in IAS 32 *Financial Instruments: Presentation* had been met.

The FRC noted that, when it raised queries, it was not clear how specific transactions or financing arrangements were reflected in the financial statements, which factors management considered in developing appropriate accounting policies, or that disclosures fully explained the financial risks or mitigating actions taken. The FRC also noted that factoring and reverse factoring arrangements will remain an area where users expect transparent disclosures.

### Expected credit losses

Downturns from the COVID-19 pandemic can, among other things, lead to borrowers experiencing difficulties in meeting their commitments under loan contracts. Lenders or holders of financial receivables will need to reflect that in their assessment of expected credit losses (ECL). Under IFRS 9, these are measured in a way that reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.
- The time value of money.
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

While banks and other lending businesses continue to face the biggest challenges with regard to ECL (including the effects of climate change on credit risk in the longer term), the effect can also be significant for corporates. The following points will be key consideration for financial institutions, but they might also be relevant to corporate entities with material exposure to variations in ECL.

- **Management overlays:** Material adjustments that are used in the measurement of ECL require enhanced disclosure to fulfil the disclosure objective in IFRS 7. These adjustments often take the form of ECL model revisions, including updates of the model inputs, or are applied outside the primary models. For each material adjustment, it would be expected that the entity provides detailed and specific information on its impact on the ECL estimate, the rationale for the adjustment and the method applied. The description of the methodology should include significant inputs and assumptions. It should also be disclosed if the adjustments relate to a specific impairment stage and what impact they have on staging of the underlying instruments. It is also recommended that entities consider how their ECL sensitivity disclosures in the notes to the financial statements can incorporate material management overlays. Significant changes in the methodologies and assumptions from the previous reporting period should be explained, together with the reasons for those changes. Users should be able to see the extent of the movements, their nature and the reasons for the development of adjustments.

- **Significant changes in credit risk:** Entities are required by IFRS 7:35F-G to disclose the basis for the inputs and assumptions and the estimation techniques used to determine whether a significant increase in credit risk has occurred for financial instruments since their initial recognition or whether a financial asset is credit impaired. The disclosure should include the quantitative and qualitative factors applied and any material differences in the application of the factors across portfolios. If borrowers have been provided with significant relief measures that have not resulted in the derecognition of the loan, lenders should describe how they determined whether there has been a significant increase in credit risk for these loans or whether they are impaired. Furthermore, if entities are applying the 'low credit risk' expedient, entities should describe the main types of transactions or portfolios that are impacted by these expedients, including qualitative and quantitative criteria used to define 'low credit risk'. If the entity grouped instruments together to determine whether there is a significant increase in credit risk, the expectation is that key risk characteristics for the grouping are explained and how the collective assessment was performed.
- **Forward-looking information:** Regulators expect that entities continue to give detailed explanations on how they considered the impact of the pandemic in the macroeconomic scenarios used in determining ECL. Entities should provide specific disclosures on the main judgements and estimations related to uncertainties that have been taken into account when defining scenarios and their weight. This includes quantitative information on the macroeconomic variables considered for each scenario and main geographical areas and/or sectors. Providing granular disclosures on the sensitivity analysis will be important, including the quantitative impact of this analysis on the ECL and, where appropriate, on staging.
- **Changes in loss allowances:** Entities are reminded that the tabular reconciliation of the loss allowance (impairment amount) from the opening balance to the closing balance should be disaggregated by class of financial instrument and it should separately provide information about the changes in loss allowances for off-balance sheet commitments. A narrative explanation should be given in addition to the tabular format, including an analysis of the reasons for changes in the loss allowance during the period. Reconciliations should be disclosed both at the entity level and for significant portfolios with shared credit risk characteristics. In addition, entities should explain how significant changes in the gross carrying amount during the period contributed to changes in the loss allowance.
- **Changes in credit risk exposure:** When providing quantitative information on credit risk exposures, entities should provide an appropriate level of disaggregation to make significant credit risk concentrations transparent. Regulators find it useful to provide a breakdown by stages for all levels of disaggregation. Quantitative disclosures and the narrative descriptions provided in different parts of the financial statements or of the management report should be clearly linked to each other. Disclosures on credit enhancements should be sufficiently granular to enable users to understand material concentrations of credit risk. Where appropriate, disaggregation of exposures by loan to value ranges can be provided.

FRC Focus Area

COVID-19

## Provisions and contingencies

Irrespective of whether provisions are quantitatively large in the context of an entity's statement of financial position, the circumstances to which they relate can often be of great significance to investors as they shine a light on an entity's obligation to, for example, remediate environmental damage caused by its operations. The recognition and measurement of provisions is an inherently judgemental area and clear disclosure of the key judgements involved is important. This is an area of focus for the FRC, which conducted a thematic review on the subject, published in October 2021. In this and its annual review, a number of findings continue to be identified.

Explanations of provisions and contingencies in the financial statements should be clear and concise. The level of detail for these explanations should be guided by the complexity of the provision and its potential impact on the entity's financial position, financial performance, or cash flows. It is important to describe the underlying obligating event, particularly in circumstances such as restructuring, dilapidations of property, or self-insurance where determining whether such an event has occurred can require significant judgement. Classes of provisions should be labelled to be specific and to convey informational value.

The method for arriving at the best estimate for a provision must also be explained sufficiently. It should be clear to users whether the entity has applied the 'expected value' or the 'most likely outcome' approach to arrive at the estimate. If entities are unable to estimate the amount of probable or possible economic outflow, they are encouraged to explain the reasons why they were unable to do so and provide information regarding the magnitude of the potential impact.

Entities are also expected to provide information about the anticipated timing of cash outflows associated with a provision, particularly if the provision is long-term in nature. Where the effect of discounting a provision is material, the discount rate used must be explained, together with a description of the method used to determine the rate.

The discount rate and the cash flow forecasting may represent key sources of estimation uncertainty, in which case the requirements in IAS 1 may also apply (see Judgements and estimates above). In particular, it is expected that material sensitivity of the provision amount to the discount rate and/or cash flow forecasting is explained.

The FRC emphasises, however, that the disclosure requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are broader than those in IAS 1:125, and notes that it expects that uncertainties should be disclosed regardless of the timescale over which they might materially affect the carrying amount of a provision.

The most significant area of challenge from FRC reviews was in relation to disclosures. It noted instances of narrative information disclosed elsewhere in the annual report, which implied the existence of provisions or contingent liabilities that were unrecognised or undisclosed in the financial statements.

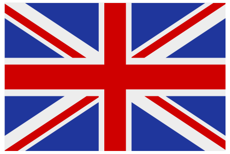
Although the FRC noted numerous instances of good practice in its thematic review, it found scope for improvement in disclosures about several specific areas such as:

- quantitative information on the expected timing of future economic outflows
- key assumptions used to estimate those outflows
- uncertainties associated with those assumptions
- the nature of costs included within certain types of provision
- more specific accounting policies, and
- more quantitative information about contingent liabilities, such as an order of magnitude of any contingent liability, or a range of possible outcomes.

The FRC also notes that it expects companies to provide better information about long-term sources of uncertainty, such as climate change, when estimating provisions. Indeed, climate change may be expected to have significant effects on certain types of provisions, such as asset retirement obligations.

The thematic review includes a number of examples of better disclosures, as well as general guidance on all improvement areas.

**FRC Focus Area**



## Leases

The FRC has focused on lease accounting, particularly by lessees, since IFRS 16 *Leases* was introduced in 2019. A thematic review, published in September 2020, reviewed the disclosures in the first year of application.

The FRC continues to remind preparers that accounting policies with regard to leases should be entity-specific and include the policies for sale and leaseback transactions, lease incentives, items outside the scope of IFRS 16 and non-lease components. Lessors should remember to explain the basis for classifying their leases as operating or financing.

The following should be considered by entities that have lease agreements:

- Lessees with significant variable payment features (such as features linked to sales or inflation) must explain the nature and the potential accounting effect of those features.
- Characteristics of the lease contracts and judgements exercised to determine the lease term shall be disclosed.
- Where the reasonable certainty of not exercising a lease extension or exercising a termination option was identified as a significant judgement the required quantitative and qualitative disclosures about potential future cash outflows not recognised shall be provided.
- The maturity analysis of lease liabilities must be sufficiently disaggregated consistently with the assessment of lease terms and should not include time bands that comprise several years.
- Changes in the lease liability must be consistent with the cash flow statement and finance cost disclosures.

In its annual review, the FRC outlined the topics with the most frequently raised queries from both the thematic and routine reviews.

### Accounting policies

The most frequently raised topic area was companies' accounting policies. In some cases the rationale for material transactions being out of scope of IFRS 16 was unclear, while in others accounting policies for some elements, such as 'sale and leaseback' transactions, were missing or confusing. For lessors, the basis for classification of leases as operating or financing was not always explained.

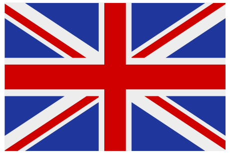
### Disclosures

The FRC found in some instances where lessees had significant variable payment features, disclosures did not always explain the nature and potential accounting effect of those features. It was also found that extension and termination options may have been identified, but the quantitative and qualitative disclosures about future cash outflows not recognised required by IFRS 16 were not provided.

### Transition

The FRC found that material aspects of the transition adjustments from IAS 17 *Leases* were not clearly explained.

**FRC Focus Area**



## Reporting the effects of income taxes

The reporting of income tax remains an area of high focus, both from the point of view of quality reporting and more generally as a result of regulatory and media scrutiny of entities' tax affairs. In its annual review, the FRC noted that it has been raising an increasing number of queries related to income taxes.

The determination of whether deferred tax assets (DTAs) should be recognised is similar to an impairment review in that it requires a forecast of future performance (albeit, of future taxable profits rather than of cash flows). As such, this assessment is equally sensitive to uncertainties generated by climate, COVID-19 and other sources of uncertainty.

The nature of evidence supporting the recognition of deferred tax assets by loss-making entities is, therefore, equally subject to scrutiny. Where material DTAs are recognised despite the uncertainty, particularly if the entity is loss-making and utilisation of the DTAs depends on future profits, the FRC expects that there will be corresponding disclosure of significant accounting judgements and sources of estimation uncertainty.

In addition, disclosure of the significant accounting judgements (e.g. how the probability of recoverability of deferred tax assets was determined) and significant sources of estimation uncertainty (including the carrying amounts affected and an explanation of the effect of any significant changes in key assumptions on the recovery of DTAs) is often required.

More helpful disclosures describe the identity of the taxable entity, its location and the applicable tax rules as well as negative and positive evidence considered. They also include the periods over which the DTAs are expected to be recovered.

In addition, all entities are required to disclose:

- The amount (and expiry date, if any) of deductible temporary differences, unused tax losses or unused tax credits for which no deferred tax asset is recognised.
- For each type of temporary difference and unused tax losses, the amount of DTAs recognised and related movements in profit or loss.

If there is a significant difference between the implied rate on the underlying item for a DTA and the standard or effective rate of tax reported by the entity, this difference should be explained.

Furthermore, entities are reminded that they should give explanations for significant reconciling items (particularly large one-off items) affecting the relationship between income tax expense and accounting profit multiplied by the applicable tax rate.

The FRC also raised a number of queries in relation to the tax reconciliation, which in some cases was unclearly explained, or not explained at all. The disclosure of the explanation of the relationship between tax expense or income and accounting profit or loss as 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 should be drawn between significant one-off or unusual items and those that are expected to recur.

COVID-19

Climate Change

### Government assistance

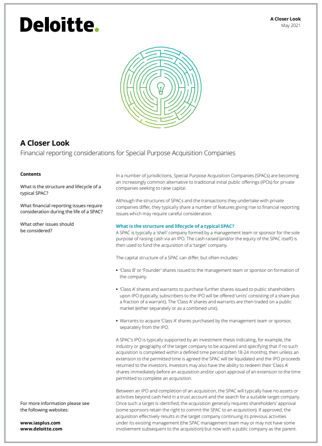
Government assistance assumed an increased level of importance in 2020 in many jurisdictions as governments implemented measures to support businesses affected by the COVID-19 pandemic. Many of those programmes continued to operate in 2021 and government assistance in various forms might be expected to continue to be a feature of various industries (both in response to COVID-19 and for other purposes, for example to incentivise the move to a low carbon economy).

The accounting for such support depends upon the precise features of each scheme, but an important judgement is often the determination of which IFRS Standard should be applied. For example, government support might come in the form of:

- A government grant in the scope of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*.
- A tax credit in the scope of IAS 12.
- A loan extended at a below market rate of interest, requiring recognition of a government grant under IAS 20:10A.

Once the appropriate standard is identified, care is needed in determining the appropriate recognition of the benefit of government support in accordance with that standard.

Disclosure of government support (both in terms of the actual impact of government assistance measures in terms of eligibility, conditions and consequences and also of any significant judgements made in determining how it should be accounted for) also remains important.



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A Closer Look
May 2021

A Closer Look
Financial reporting considerations for Special Purpose Acquisition Companies

A Deloitte A Closer Look describes the accounting implications for SPACs in detail and also touches on other issues relevant for entities considering a SPAC transaction.

## Special purpose acquisition companies (SPACs)

Special purpose acquisition companies (SPACs) are an alternative to traditional initial public offerings (IPOs) for private companies seeking to raise capital. Although the structures of SPACs and the transactions they undertake with private companies differ, they typically share a number of features giving rise to financial reporting issues which may require careful consideration.

A SPAC is typically a 'shell' company formed by a management team or sponsor for the sole purpose of raising cash via an IPO. The cash raised (and/or the equity of the SPAC itself) is then used to fund the acquisition of a 'target' company.

The capital structure of a SPAC can differ, but often includes:

- 'Class B' or 'Founder' shares issued to the management team or sponsor on formation of the company.
- 'Class A' shares and warrants to purchase further shares issued to public shareholders upon IPO (typically, subscribers to the IPO will be offered 'units' consisting of a share plus a fraction of a warrant). The 'Class A' shares and warrants are then traded on a public market (either separately or as a combined unit).
- Warrants to acquire 'Class A' shares purchased by the management team or sponsor, separately from the IPO.

The lifecycle of a typical SPAC might be summarised as a 'pre-acquisition phase', followed by the acquisition of a target company (assuming that is achieved within the allotted time), followed by a post-acquisition phase in which the SPAC is the parent entity of a 'normal' publicly quoted group. Although financial reporting issues can span each of these phases, many are specific to one of those three stages.

### Pre-acquisition stage

In the pre-acquisition stage, the entity determines the classification of the Class A shares, Class B shares and warrants. All of those could be either equity or financial liabilities, applying IAS 32, depending on their features. For Class B shares, the entity needs to determine whether they are in the scope of IAS 32, or whether IFRS 2 *Share-based Payment* applies.

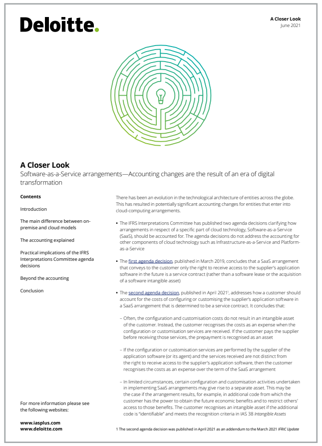
### Acquisition stage

The primary accounting consideration in this stage is to identify the acquirer applying IFRS 3 *Business Combinations*. The entity will have to determine whether the accounting follows the legal form of the acquisition or whether, in substance, the reverse has occurred. Once the acquirer has been identified, the entity considers whether the transaction should be accounted for as a business combination or an asset acquisition.

It is often the case that the SPAC will be identified as the accounting acquiree in this transaction, resulting (if the SPAC itself does not meet the definition of a business) in accounting for the transaction as a 'capital restructuring' or 'reverse asset acquisition' by the target company.

### Post-acquisition stage

The group headed by the SPAC will in many senses be a 'normal' publicly quoted group. However, there may be issues arising from the history of the SPAC that continue to affect the group's reporting after the acquisition.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A Closer Look

Software-as-a-Service arrangements—Accounting changes are the result of an era of digital transformation

A Deloitte A Closer Look gives more detail on the different variations of SaaS arrangements, their accounting treatment, practical implications and considerations beyond the immediate accounting.

## Software as a service (SaaS)

The Interpretations Committee has published two agenda decisions (one in 2019, the other in 2021) clarifying how arrangements in respect of a specific part of cloud technology, Software-as-a-Service (SaaS), should be accounted for by the customer.

The 2019 agenda decision concludes that a SaaS arrangement that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contract (rather than a software lease or the acquisition of a software intangible asset).

The 2021 agenda decision goes further by addressing how a customer should account for the costs of configuring or customising the supplier's application software in a SaaS arrangement that is determined to be a service contract. It concludes that:

- Often, the configuration and customisation costs do not result in an intangible asset of the customer. Instead, the customer recognises the costs as an expense when the configuration or customisation services are received. If the customer pays the supplier before receiving those services, the prepayment is recognised as an asset.
- In limited circumstances, certain configuration and customisation activities undertaken in implementing SaaS arrangements may give rise to a separate asset. This may be the case if the arrangement results, for example, in additional code from which the customer has the power to obtain the future economic benefits and to restrict others' access to those benefits. The customer recognises an intangible asset if the additional code is 'identifiable' and meets the recognition criteria in IAS 38 *Intangible Assets*.
- When the configuration and customisation activities do not give rise to an intangible asset, if the configuration or customisation services are performed by the supplier of the application software (or its subcontractor) and the services received are not distinct from the right to receive access to the supplier's application software, the customer recognises the costs as an expense over the term of the SaaS arrangement. If instead, the configuration or customisation services are performed by a third-party supplier, the customer recognises the costs as an expense when the third-party supplier configures or customises the application software.

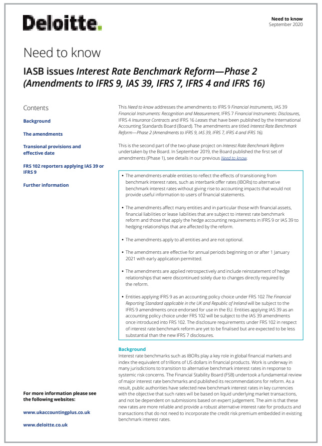
The conclusions reached in the agenda decisions may change current accounting practice for cloud-computing arrangements. Every SaaS arrangement is unique. The analysis and determination of the appropriate accounting treatment of configuration and customisation costs incurred in implementing SaaS arrangements could require significant judgement and often also require a deep understanding of certain technical aspects of the arrangement. This may require collaboration between various departments, e.g. finance and IT, to ensure all the information is considered.

Where a change in accounting policy is required to apply the conclusions reached by the Committee, an entity must account for the change applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. For example, an entity may be required to derecognise costs previously recognised as an intangible asset and restate the comparative period(s).

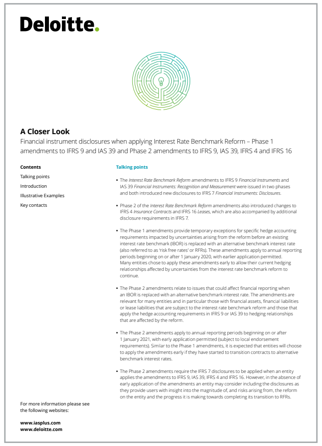
## Interest rate benchmark reform

In 2020, the Phase 1 amendments I*nterest Rate Benchmark Reform—Amendments to IFRS 9/IAS 39 and IFRS 7* became effective. These amendments modified specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments are amended as a result of the interest rate benchmark reform.

The Phase 2 amendments *Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16* are now also mandatory for reporting periods beginning on or after 1 January 2021 (and have been endorsed for use in both the UK and EU). Adopting these amendments enables entities to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.




A Deloitte Need to Know explains the Phase 2 amendments in detail.




A Deloitte A Closer Look discusses the disclosure requirements for the interest rate benchmark reform amendments.

## Other current issues

### Costs necessary to sell inventories

In June 2021, the Interpretations Committee published an agenda decision about the costs an entity includes as the 'estimated costs necessary to make the sale' when determining the net realisable value of inventories. In particular, the agenda decision addresses whether an entity includes all costs necessary to make the sale or only those that are incremental to the sale.

The Committee concluded that the requirement in IAS 2 *Inventories* to estimate the cost necessary to make the sale does not limit such costs to only those that are incremental. Applying IAS 2, an entity would instead estimate the costs necessary to make the sale in the ordinary course of business. The Committee observed that an entity uses its judgement to determine which costs are necessary to make the sale considering its specific facts and circumstances, including the nature of the inventories.

### Attributing benefit to periods of service

In April 2021, the Committee published an agenda decision with regard to IAS 19 *Employee Benefits* that addresses the periods of service to which an entity attributes benefit for particular defined benefit plans. These plans entitle employees to a lump sum benefit payment when they reach a specified retirement age, provided they are employed by the entity when they reach that retirement age. The amount of the retirement benefit to which an employee is entitled depends on the length of employee service with the entity before the retirement age and is capped at a specified number of consecutive years of service.

The Committee made their observations in the agenda decision based on an example in which the retirement age is 62 and the calculation of the retirement benefit is capped at 16 years of service. In that example, if employees join before the age of 46, any service the employee renders before the age of 46 does not lead to benefits under the plan. Accordingly, the entity's obligation to provide the retirement benefit arises for employee service rendered only when the employee reaches the age of 46. For employees who join the entity on or after the age of 46, any service the employee renders lead to benefits under the plan.

The Committee's observation aligns with the outcome set out in an example that is part of IAS 19 and therefore the Committee concluded that the principles and requirements in IAS 19 provide an adequate basis for an entity to determine the periods to which retirement benefit is attributed.

**Currency and hyperinflation**

Another symptom of uncertainty in the world economy is increasing levels of inflation which may reach hyperinflationary level in some economies and result in governments imposing restrictions on exchange between local and internationally traded currencies. These issues present financial reporting challenges in:

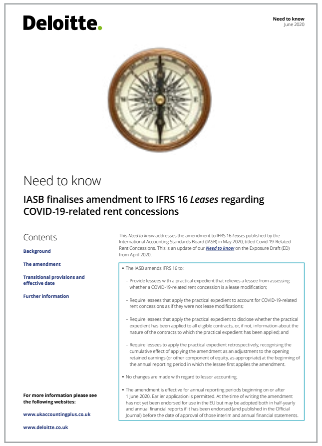
- Determining whether an economy is hyperinflationary (as that term is defined in IAS 29 *Financial Reporting in Hyperinflationary Economies*, which includes several characteristics of hyperinflation, including a cumulative inflation rate over three years that approaches or exceeds 100%) and, if so, which general price index should be applied to amounts in the financial statements.
- Determining an entity's functional currency in circumstances where both a local and international currency are in common use. This can be particularly significant where the local currency is hyperinflationary, as IAS 29 is only applied by entities whose functional currency is the currency of a hyperinflationary economy (rather than by any entity operating in that economy).
- 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.

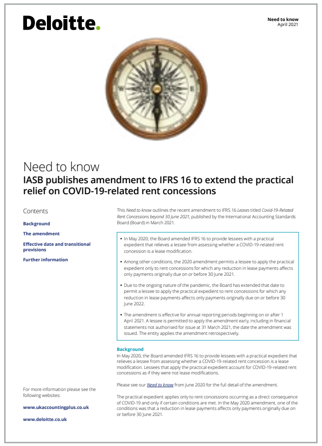
When inflation or exchange issues result in a significant judgement or give rise to a source of estimation uncertainty, disclosure should be provided as required by IAS 1:122 and 125.

Based on data available at the time of writing, including inflation forecasts from the International Monetary Fund (IMF) and the indicators laid out in IAS 29, the following economies 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 2021:

- Argentina
- Islamic Republic of Iran
- Lebanon
- South Sudan
- Sudan
- Suriname
- Syrian Arab Republic
- Venezuela
- Yemen
- Zimbabwe




Two Deloitte Need to Know publications provide more details on the amendments to IFRS 16—Covid-19-Related Rent Concessions and its subsequent extension beyond 30 June 2021.

## Appendices

## UK GAAP developments

### Amendments to UK and Republic of Ireland accounting standards – UK exit from the European Union

As a result of the UK's exit from the European Union, changes were required to UK company law to ensure that it continues to operate effectively. Consequential amendments were also made to UK accounting standards.

The effective date for these amendments is accounting periods beginning on or after 1 January 2021. Early application is permitted in some circumstances to provide UK entities with the option to use IAS that are adopted for use within the UK after 31 December 2020, in addition to IFRS that have been adopted in the EU as at this date. This is consistent with the transitional arrangements provided in UK company law for entities preparing 'IAS accounts'.

The amendments were limited to those necessary to ensure consistency with UK company law and largely updated legal references and terminology used in the standards.

### Interest rate benchmark reform

Amendments have been made to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, providing relief in the accounting for financial instruments and hedge accounting, to avoid unnecessary disruption as agreements are modified in order to transition to alternative benchmark rates as interest rate benchmarks are being reformed.

The first set of amendments, which related to hedge accounting, took effect for periods commencing on or after 1 January 2020; the second stage takes effect for accounting periods beginning on or after 1 January 2021, with early application permitted.

### COVID-19 related rent concessions

In October 2020, FRS 102 was amended to require entities to recognise changes in operating lease payments that occur as a direct consequence of the COVID-19 pandemic, and meet specified conditions, on a systematic basis over the periods that the change in lease payments is intended to compensate.

Subsequent amendments have been made to extend the application of these requirements so that they apply to rent concessions for payments due on or before 30 June 2022, provided the other conditions are also met.

The amendments are effective for accounting periods beginning on or after 1 January 2021, with early application permitted.

### Going concern assessments in interim accounts

Amendments have been made to FRS 104 *Interim Financial Reporting*, clarifying the requirement to assess the going concern basis of accounting, and requiring the disclosure of any related material uncertainties, when preparing interim financial statements in accordance with FRS 104.

The amendments are effective for accounting periods beginning on or after 1 January 2021, with early application permitted.

### Updates to FRS 101 Reduced Disclosure Framework

The FRC carries out an annual review of FRS 101 to provide additional disclosure exemptions as IFRS evolves and to respond to stakeholder feedback about other possible improvements. Amendments were made as part of the 2020/21 review cycle. This primarily provided a disclosure exemption in relation to IAS 16 Property, Plant and Equipment and to maintain consistency with IAS 1.

The 2021/22 FRS 101 review cycle is currently in progress. In December 2021, the FRC issued a Financial Reporting Exposure Draft (FRED) which proposes no amendments. Comments on this proposal are open until 1 March 2022.

**Periodic Review of UK and Republic of Ireland accounting standards**

The next periodic review of UK and Republic of Ireland accounting standards is underway; a request for views to inform the review closed on 31 October 2021.

Proposed changes to the standards will be subject to public consultation and are currently expected to be effective for accounting periods beginning on or after 1 January 2024 at the earliest.

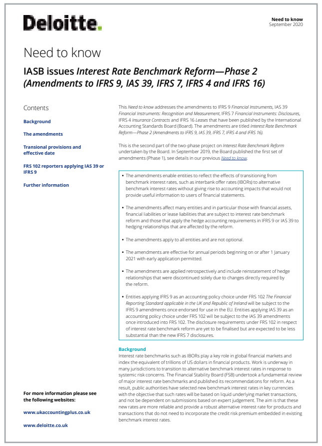
**New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2021**

**Amendments to IFRS 16—Covid-19-Related Rent Concessions, including Covid-19-Related Rent Concessions beyond 30 June 2021**

The amendments to IFRS 16 provide lessees with a practical expedient, allowing them not to assess whether a COVID-19-related rent concession meeting specific criteria is a lease modification, but instead to treat it as if it were not a lease modification in accordance with IFRS 16 (for example, by treating a waiver of lease payments as a variable lease payment).

As originally issued, the amendment applied only to concessions relating to payments originally due on or before 30 June 2021. In March 2021, the IASB extended the relief to cover concessions on payment due up to 30 June 2022.

Two Deloitte Need to Know publications provide more details on the amendments to IFRS 16—Covid-19-Related Rent Concessions and its subsequent extension beyond 30 June 2021.



Deloitte.

**Need to know**
September 2020

Need to know

IASB issues *Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*

Contents

Background

The amendments

Transional provisions and effective date

FRS 102 reporters applying IAS 39 or IFRS 9

Further information

This *Need to know* addresses the amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases* that have been published by the International Accounting Standards Board (Board). The amendments are titled *Interest Rate Benchmark Reform—Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)*.

This is the second part of the two-phase project on *Interest Rate Benchmark Reform* undertaken by the Board. In September 2019, the Board published the first set of amendments (Phase 1), see details in our previous Need to know.

- The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.
- The amendments affect many entities and in particular those with financial assets, financial liabilities or lease liabilities that are subject to interest rate benchmark reform and those that apply the hedge accounting requirements in IFRS 9 or IAS 39 to hedging relationships that are affected by the reform.
- The amendments apply to all entities and are not optional.
- The amendments are effective for annual periods beginning on or after 1 January 2021 with early application permitted.
- The amendments are applied retrospectively and include reinstatement of hedge relationships that were discontinued solely due to changes directly required by the reform.
- Entities applying IFRS 9 as an accounting policy choice under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* will be subject to the IFRS 9 amendments once endorsed for use in the EU. Entities applying IAS 39 as an accounting policy choice under FRS 102 will be subject to the IAS 39 amendments once introduced into FRS 102. The disclosure requirements under FRS 102 in respect of interest rate benchmark reform are yet to be finalised but are expected to be less substantial than the new IFRS 7 disclosures.

**Background**

Interest rate benchmarks such as IBORs play a key role in global financial markets and index the equivalent of trillions of US dollars in financial products. Work is underway in many jurisdictions to transition to alternative benchmark interest rates in response to systemic risk concerns. The Financial Stability Board (FSB) undertook a fundamental review of major interest rate benchmarks and published its recommendations for reform. As a result, public authorities have selected new benchmark interest rates in key currencies with the objective that such rates will be based on liquid underlying market transactions, and not be dependent on submissions based on expert judgement. The aim is that these new rates are more reliable and provide a robust alternative interest rate for products and transactions that do not need to incorporate the credit risk premium embedded in existing benchmark interest rates.

**For more information please see the following websites:**

www.ukaccountingplus.co.uk

www.deloitte.co.uk

A Deloitte Need to Know publication provides more details on the Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16—Interest Rate Benchmark Reform (Phase 2).

**Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 Insurance Contracts and IFRS 16 – Interest Rate Benchmark Reform (Phase 2)**

The amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 are intended to enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offer rates (IBORs) to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

To this end, the amendments:

- Provide specific guidance on how to treat financial assets and financial liabilities where the basis for determining the contractual cash flows changes as a result of interest rate benchmark reform. This includes a practical expedient requiring that, in certain circumstances, such a change be accounted for prospectively through a change in the instrument's effective interest rate. A similar practical expedient applies to lease liabilities in the financial statements of the lessee
- Introduce an exception to the existing requirements of both IAS 39 and IFRS 9 so that changes in the formal designation and documentation of a hedge accounting relationship that are needed to reflect the changes required by interest rate benchmark reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship
- Require that an entity provide disclosures that enable a user to understand the nature and extent of risks arising from interest rate benchmark reform, how the entity is managing those risks, its progress in completing the transition from interest rate benchmarks to alternative benchmark interest rates and how it is managing the transition

Consequential amendments are made to IFRS 4 to ensure that insurers still applying IAS 39 will treat the effects of IBOR reform in a manner consistent with that now required by IFRS 9 and the amendments do not have a fixed end date, instead being designed to naturally cease to be relevant as the effect of interest rate benchmark reform work their way through the financial system.

## IFRS Interpretations Committee Agenda Decisions in 2020 and 2021

Along with its activity developing formal interpretations of IFRS Standards and proposing that the IASB make amendments to Standards, the 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.

In August 2020, The Trustees of the IFRS Foundation issued an updated IFRS Foundation Due Process Handbook establishing that the explanatory material in the agenda decisions published by the IFRS Interpretations Committee derives its authority from the IFRS Standards themselves and, therefore, that its application is required.

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

The following agenda decisions have recently been published by the Committee:

| | |
|---|---|
| December 2020 IFRIC Update | Supply Chain Financing Arrangements – Reverse Factoring |
| March 2021 IFRIC Update | IAS 38 – Configuration or Customisation Costs in a Cloud Computing Arrangement |
| April 2021 IFRIC Update | IAS 19 – Attributing Benefit to Periods of Service |
| | IFRS 9 – Hedging Variability in Cash Flows due to Real Interest Rates |
| June 2021 IFRIC Update | IAS 2 – Costs Necessary to Sell Inventories |
| | IAS 10 *Events after the Reporting Period* – Preparation of Financial Statements when an Entity is No Longer a Going Concern |
| September 2021 IFRIC Update | IFRS 16—Sale and Leaseback with Variable Payments |
| | IAS 12—Deferred Tax related to an Investment in a Subsidiary |
| | IAS 38 Intangible Assets—Player Transfer Payments |

## New and revised standards available for early application in years ending 31 December 2021

IAS 8:30 requires entities to consider and disclose the potential impact of new and revised IFRS Standards that have been issued but are not yet effective.

The list below reflects new and revised IFRS Standards issued but not yet effective as at 31 December 2021. The potential impact of the application of any new and revised IFRS Standards issued by the Board after that date, but before the financial statements are issued, should also be considered and disclosed.

For each, a link is provided to a Deloitte Need to Know publication presenting an overview of the new or amended IFRS Standard.

To be available for application in the UK, the standard or amendment must have been endorsed by the UK Endorsement Board.

| IFRS | Effective Date – periods commencing on or after: | UK endorsed* |
|---|---|---|
| **New standards** | | |
| IFRS 17 *Insurance Contracts* including *Amendments to IFRS 17* | 1 January 2023 | N |
| | | |
| **New Amendments** | | |
| Amendments to IFRS 3—References to the Conceptual Framework | 1 January 2022 | N |
| Amendments to IAS 16—Property, Plant and Equipment—Proceeds before Intended Use | 1 January 2022 | N |
| Amendments to IAS 37—Onerous Contracts—Cost of Fulfilling a Contract | 1 January 2022 | N |
| Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 *Agriculture*—Annual Improvements to IFRS Standards 2018-2020 | 1 January 2022, except for the amendment to IFRS 16 for which no effective date is stated as it regards only an illustrative example. | N |
| Amendments to IAS 1—Classification of Liabilities as Current or Non-current including Classification of Liabilities as Current or Non-current—Deferral of Effective Date | 1 January 2023 | N |
| Amendments to IAS 12—Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 | N |
| Amendments to IAS 1 and IFRS Practice Statement 2—Disclosure of Accounting Policies | 1 January 2023 | N |
| Amendments to IAS 8—Definition of Accounting Estimates | | |

* At the time of writing. Please refer to the current endorsement status at https://www.endorsement-board.uk/adoption-status-report.

# 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 2021 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 2021 – Surveying FTSE reporting**

Our dedicated annual report insights site provides access to Annual report insights 2021: Surveying FTSE reporting, detailing the hot topics that companies themselves are focusing on, including climate change and the effects of the global pandemic.  Our survey examines reporting trends across five areas – purpose, people, planet, prosperity, and the pandemic. It includes insight on responses to changing report requirements, areas for improvement, regulatory hotspots and examples of disclosure.

**On the board agenda 2022**

On the board agenda 2022 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 a series of short articles covering a number of hot topics from resilience to workforce strategies to the public interest statement to executive remuneration to name a few.

**Climate change website**

Our dedicated climate change website and video learning programme is designed to help businesses and finance professionals learn more about tackling climate change.

**The Deloitte Accounting Research Tool (DART)**

DART is a comprehensive online library of accounting and financial disclosures literature, allowing access to the full IFRS Standards and UK accounting standards, linking to and from:

- Deloitte's authoritative, up-to-date manuals which provide guidance for reporting under UK GAAP and IFRS Standards; and
- Model financial statements for entities reporting under UK GAAP and IFRS Standards.

To apply for a subscription to DART, click here to start the application process and select the *GAAP in the UK* package.

For more information about DART, including pricing of the subscription packages, click here.

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