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Closing Out
Areas of Focus for Corporate Reporting

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Contents

Closing Out is a one stop guide for corporate reporting issues to be aware of when approaching year-end and interim reporting. It highlights areas relevant to preparers of annual and interim reports, including:

- accounting and reporting issues arising from the ongoing uncertain macroeconomic and geopolitical environment
- areas of regulatory focus throughout the annual report as highlighted in the Financial Reporting Council's (FRC's) Annual Review of Corporate Reporting 2023/2024 ('the FRC's annual review') and the FRC's 2024 Review of Corporate Governance Reporting
- the FRC's thematic reviews of climate-related financial disclosures, large private companies, offsetting, insurance contracts and the outputs from recent research projects carried out by the FRC
- new requirements for 31 December 2024 year-ends onwards and an overview of forthcoming developments affecting corporate reporting, including sustainability reporting.

Although this publication discusses financial reporting in terms of IFRS Accounting Standards, it is also relevant to those preparing accounts under FRS 101 and FRS 102. However, there are significant differences between the requirements of IFRS Accounting Standards and FRS 102 in respect of the following areas discussed in this publication: financial instruments, revenue recognition, business combinations and lease accounting by lessees.

Deloitte's full guidance is available on DART, a comprehensive online library of accounting and financial disclosures literature. It provides access to the full IFRS Accounting Standards, IFRS Sustainability Disclosure Standards, EU sustainability reporting requirements and UK accounting standards, linking to and from Deloitte's authoritative, up-to-date manuals which provide related guidance. This publication is updated periodically to reflect current issues and new developments in corporate reporting.

Last updated: March 2025

Key regulatory expectations for 2024/2025

The FRC's annual review outlines the top ten findings from its 2023/24 review cycle. In view of these findings, the FRC expects to see the following for 2024/2025 reporting:

- entities should have robust review processes in place to identify common technical issues. The FRC notes that many issues, such as corrections or restatements, could be prevented by conducting pre-issuance checks that review the annual report and accounts against the top ten issues it challenges
- disclosures about uncertainty and risk should be sufficient for users to understand the positions taken in the financial statements and the potential effect of changes in estimations
- management should give adequate consideration to narrative reporting. The strategic report should include a fair, balanced and comprehensive review of an entity's development, position, performance and future prospects. Care should also be taken in complying with any applicable climate-related reporting requirements; in particular, these disclosures should be concise and material information should not be obscured
- management should perform a "stand back assessment" of the reporting as a whole. In particular, the FRC expects the annual report and accounts to:
  - tell a consistent and coherent story across both narrative reporting and the financial statements
  - be clear, consistent and understandable
  - include all material and relevant information, including information not specifically required by law or reporting standards where necessary for a user's understanding
  - include only material and relevant information; good quality corporate reporting does not necessarily mean a greater volume of disclosure.

Applying a materiality mindset

'In order to communicate clearly and compellingly, boards and management have to apply judgement and determine what information is material for reporting. Information is typically understood to be material when omitting, misstating, or obscuring it could be reasonably expected to influence investor decision-making.'

FRC Lab, Materiality in practice: applying a materiality mindset (2023)

In October 2023, the FRC Lab (now divided into the Market Intelligence and Digital Reporting functions of the FRC) released its report, 'Materiality in practice: applying a materiality mindset', which aims to help boards and management report clearly and in a compelling way on those issues that they consider to be of greatest importance to stakeholders. While some information is always required regardless of materiality by law, regulation or accounting standards, the majority of corporate reporting information is subject to a materiality assessment. Determining what information is important is often subjective. As outlined in the FRC's annual review, one of the key regulatory expectations is that all material and only material information is included in an entity's corporate reporting (see **Key regulatory expectations for 2024/2025**). The FRC Lab report includes a toolkit on how to adopt a materiality mindset which can help entities in performing the "stand back assessment" of their reporting.

Investor needs and decision-making

When making investment decisions, investors seek to understand:

- how does this business generate value?
- what is the future strategy?
- what potential risks are there?

In addition, investors use and evaluate information in the annual report to:

- challenge their own assumptions
- understand and assess the board's and management's plans, performance, and stewardship of the entity
- evaluate how the entity's performance compares to its peers and competitors
- provide an informative comparison to their investment portfolio
- build and challenge valuations.

Understanding the questions investors ask, and how they evaluate and use information, provides a helpful initial step for management and the board when determining what information is material for reporting.

A holistic approach to materiality

Materiality is intrinsically linked to the entity's strategy and business model. The FRC Lab report outlines three perspectives on materiality that entities and their advisers told them they use in practice:

- quantitative financial thresholds: typically a set monetary threshold for correcting errors and including disclosures about significant transactions
- qualitative financial aspects: generally an informal understanding of 'what's important' that frames narrative reporting
- sustainability-related information: a separate assessment of sustainability-related issues, typically collecting multiple stakeholder viewpoints and mapping these on a matrix.

Each perspective is dependent on the other, and while each has a role, the FRC Lab notes that "Materiality means connecting wider considerations, such as strategy, risks and controls. Looking at just one perspective in isolation can cause companies to miss interdependencies and potentially lead to duplication of effort." The report provides a step-by-step guide on how to approach materiality more holistically with these three perspectives in mind and leverage existing processes and the right people. The guide also helps management identify any process or operational control gaps to be filled.

Embedding a materiality mindset

The FRC Lab report includes practical tips for how entities can embed a materiality mindset when thinking about their annual report and accounts. Boards and preparers should reflect on 'how the report works as a package', taking into account the following recommendations:

- ensure the key messages identified upfront are communicated clearly and consistently in the annual report and other materials, such as investor presentations
- assess whether all the information necessary to understand the entity's business model, strategy and future prospects are included
- ensure the messaging is balanced, i.e. material information should be presented more prominently
- where issues are qualitatively material but quantitatively immaterial, ensure the disclosures are sufficient and balanced
- ensure there is connectivity across the narrative disclosures and the financial statements.

For the issues covered in *Closing Out*, this materiality mindset can help in determining whether information included in the annual report 1) will be decision-useful for investors; 2) is holistically material and takes into account a range of perspectives; and 3) enables the annual report to work as a package.

Topical issues for 31 December 2024 year-ends and beyond

Macroeconomic uncertainty

Macroeconomic and geopolitical environment and the challenges for corporate reporting

Entities are grappling with significant uncertainty due to the ongoing uncertain macroeconomic and geopolitical environment. Investors and regulators are expecting entities to be transparent in how they are dealing with this challenging landscape.

Entities therefore need to consider how to assess and address these sources of uncertainty when preparing their annual reports. Whilst entities may by now be familiar with the challenges of reporting in times of uncertainty, timely and high-quality annual reporting that reflects the ongoing uncertainties entities face and their response to those uncertainties remains as important to investors, creditors, and broader stakeholders as ever.

Global trade

The introduction of new tariffs and other impacts on global trade may affect multiple aspects of corporate reporting.

For example, existing and new/proposed tariffs, and retaliatory tariffs may affect all entities (importers and exporters) in the following ways:

- increased cost of supplies, which could have an impact on profit margins depending on currency adjustments and the ability to find alternative sources of supplies and/or pass costs on to customers
- delayed or reduced capital expenditures on new equipment, technology, and facilities
- higher logistics and transition costs for adapting supply chains
- temporary increases in inventory levels and associated carrying costs
- changes to pricing strategies, which may affect consumer demand for price-sensitive products.

These changes and the related uncertainty may affect multiple aspects of corporate reporting, in particular those that depend on the forecasts of future cash flows and present value calculations such as:

- impairment of non-financial assets, for example, the supply-chain challenges highlighted above may require entities to assess whether a write-down of inventories to net realisable value is required. In addition, the changes in tariffs may represent an indication that an impairment test applying IAS 36 *Impairment of Assets* is required
- onerous contracts provisions, for example, if increases in inventory prices cannot be passed on to customers
- impairment of financial assets, as entities may need to consider whether changes are required in the models to incorporate new sources of uncertainties or to attribute different weight to scenarios considered
- recoverability of deferred tax assets
- going concern.

Each of these areas, and others that may be relevant to an entity based on its facts and circumstances, are addressed in this publication. In addition, in a rapidly changing environment, entities should carefully evaluate information that becomes available after the end of the reporting period but before the date of authorisation of the financial statements (see **Events after the reporting date**).

When reporting in uncertain times, it is particularly important to provide users of the financial statements with appropriate insight into how the entity addressed the impact of uncertainty and how it has incorporated it in the key assumptions and judgements made when preparing financial information (see **Judgements and estimates**).

Macroeconomic uncertainty

General inflation and interest rates
Whist inflation and interest rates had started stabilising or decreasing in some economies, the recent changes in the geopolitical environment may contribute to new increases in inflation. As a result, the considerations below may still be applicable as entities continue to be exposed to the associated risks.

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

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

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

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

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

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

The FRC's annual review highlights that, although some of the inflation-driven economic uncertainties of recent years have started to diminish, concerns about geopolitical tensions and low growth persist. These uncertainties and risks remain relevant to a number of areas frequently challenged by the FRC, such as **impairment**, **fair value measurement** and **financial instruments**. Entities should therefore consider carefully, and disclose clearly, the effect of these risks and uncertainties on their financial performance and position and the assumptions underpinning forward-looking forecasts and the values of assets and liabilities.

Volatility in energy prices

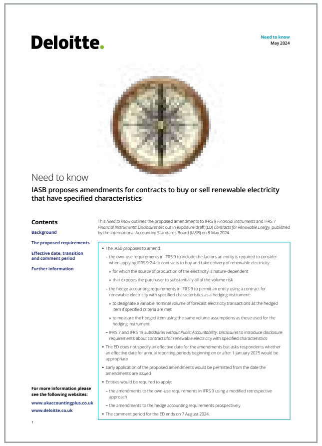
Prompted by volatility in energy prices and actions taken to reduce the effects of climate change, entities are increasingly entering into long-term renewable energy contracts such as *physical power purchase agreements* (PPAs).

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

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

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

Similar to physical PPAs, an assessment is required of whether VPPAs meet the own-use requirements in IFRS 9:2.4. However, in a VPPA, only the RECs are delivered under the contract and as a result the own-use assessment relates only to the RECs. The variable pricing element, linked to the price of electricity, represents a non-closely embedded derivative. If the purchase of RECs meets the own-use requirements and is accounted for as an executory contract, the non-closely related embedded derivative is accounted for separately at fair value through profit or loss (FVTPL). Although, in theory it may be possible to establish a hedging relationship in which the non-closely related embedded derivative is used as a hedging instrument for the highly probable purchase of electricity at spot rate, in practice it is unlikely to be achieved due to the variability in the volume (the notional amount) of the contract.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Need to know
May 2024

Need to know

IASB proposes amendments for contracts to buy or sell renewable electricity that have specified characteristics

A Deloitte Need to Know: IASB proposes amendments for contracts to buy or sell renewable electricity that have specified characteristics outlines the amendments proposed.

In December 2024, the IASB issued *Contracts Referencing Nature-dependent Electricity* which amends the own-use and hedge accounting requirements in IFRS 9 applicable to certain contracts to buy and take delivery of renewable electricity – see **Selected new IFRS requirements and future developments**.

Uncertainty and financial risks disclosures

Interest and inflation risk

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

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

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

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

Liquidity risk

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

Entities that rely on the extended financing terms provided by supplier finance arrangements to manage liquidity risk through the option to pay the financial institution later than it would have paid the supplier(s) should ensure that the impact of these arrangements is properly disclosed (e.g. terms and conditions of the arrangements, impacts on the financial statements – see **Supplier Finance Arrangements** for the newly introduced disclosure requirements that apply from 2024). Indeed, if a financial institution were to withdraw the arrangement this could adversely affect the entity's ability to settle liabilities, particularly if the entity were already in financial difficulties. Similar considerations may be relevant in respect of reliance on factoring arrangements.

Also, higher inflation and interest rates may affect an entity's ability to comply with covenants included in loan arrangements. When this is the case, an entity should consider the requirements in IAS 1:76ZA to disclose information that enables users of financial statements to understand the risk that the liabilities classified as non-current could become repayable within twelve months after the reporting period.

See **Classification of liabilities as current or non-current** for the related newly introduced requirements that apply from 2024.

Uncertainty and fair value measurement and disclosure

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

For example, an entity that previously determined the fair value of its investment properties based on comparable transactions may find itself with limited relevant data due to a decline in activity in the real estate market. As a result, the entity may need to apply additional valuation methods to ascertain that the fair values estimated using the comparable transactions approach are within a reasonable range of values in the circumstances.

The entity would also need to consider the requirements in paragraph 91 of IFRS 13 *Fair Value Measurement* to describe any significant changes in valuation measurements (such as changes in valuation techniques and transfers between levels in the fair value hierarchy) and the reasons for those changes. In addition, entities will need to ensure that their disclosures comply with the disclosure objectives in IFRS 13, paying attention to the disclosure of all key inputs such as capitalisation rate and/or rate of return.

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

In addition, IFRS 13:93 requires an entity to provide additional information with respect of level 3 fair value measurement of financial assets and financial liabilities measured at fair value on a recurring basis. This information includes quantitative information when a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, that fact, the effect of those changes, and how the effect of such a change is calculated. In a context of uncertainty, the range of reasonably possible alternative assumptions may be broad. The sensitivity disclosures should be sufficiently detailed to provide meaningful information to users of the entity's financial statements.

In the FRC's annual review, fair value measurement remains a top ten area of challenge. The FRC highlights that it expects clear and entity-specific information should be provided on the valuation techniques and assumptions used. Details of the FRC's findings and the thematic review of fair value measurement are included in the **Fair value measurement** section of this publication.

Uncertainty and IFRS 9

Expected credit losses

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

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

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

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

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

Reporting on financial instruments, including in relation to ECL and hedging arrangements, appeared again as one of the FRC's top ten findings in its 2023/24 annual review. Further details of its findings and expectations are included in the **Financial instruments** section of this publication.

FRC

FRC focus area

Sustainability reporting

Reporting requirements for sustainability- and climate-related matters continue to develop at pace. Many UK listed companies have been required to report on their consistency with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations for some time now (see **TCFD reporting in the UK**), with a wider set of companies and LLPs required to report on climate-related governance, strategy, risk management and metrics and targets under the Companies Act 2006 as amended by the Climate-related Financial Disclosure (CFD) Regulations (see **Climate-Related Financial Disclosure Regulations**).

The UK government intends to adopt the two standards issued so far by the International Sustainability Standards Board (ISSB): IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* ("the ISSB standards"). The UK adoption process is currently ongoing (see **ISSB adoption in the UK**) with an endorsement decision expected in 2025. In addition, the UK Transition Plan Taskforce (TPT) has published a framework for developing and reporting on transition plans and the UK government has confirmed its intention to require the most economically significant entities in the UK to develop and report on their transition plans, with a consultation expected in 2025. The UK government has also consulted on the development of a UK Green Taxonomy (see **UK Green Taxonomy**).

In 2023, the previous UK government issued a call for evidence seeking views on the non-financial reporting requirements applicable to UK entities, with a view to a) simplifying and streamlining the sustainability and non-financial reporting regime in place in the UK while b) considering the best way to integrate the ISSB standards, and any additional sustainability-related reporting initiatives such as the TPT framework, into the UK's sustainability reporting regime. In March 2024, the previous UK government issued a feedback statement and also an impact assessment which set out the first stage of planned measures to reform the UK non-financial reporting framework. These were updated by the current UK government following the July 2024 general election and the first set of regulations were laid on 10 December 2024.

Meanwhile, European Sustainability Reporting Standards (ESRSs) started to take effect from 1 January 2024 for many businesses based both in and outside of the EU under the Corporate Sustainability Reporting Directive (CSRD) (see **Europe**), and in the US, three bills have been signed into law in California requiring climate-related disclosures for certain public and private US or non-US entities doing business in California, and a climate-related rule has been published for SEC registrants (see **USA**). Looking at sustainability matters more broadly, the Taskforce on Nature-related Financial Disclosures (TNFD) has published its framework (see **TNFD reporting**), the ISSB issued a feedback statement in June 2024 setting out its agenda for the next two years and the Taskforce on Inequality and Social-related Financial Disclosures (TISFD) was launched in September 2024.

Climate-related financial disclosures

Regulatory expectations on climate reporting across the annual report

The FRC and FCA expect businesses to consider climate-related matters and their effects when providing a balanced and comprehensive analysis of their position and performance, together with a description of the principal risks and uncertainties that they face. The FRC identified TCFD and climate-related narrative reporting as a top ten issue in its 2023/24 annual review for the first time (see **TCFD reporting in the UK**) and it reiterates that disclosures about climate change in the narrative reporting should be consistently reflected in entities' financial statements. Entities should also continue to bear in mind the key themes and expectations from the FRC's 2022 thematic review of TCFD disclosures and climate in the financial statements, which are equally relevant to those reporting under the CFD Regulations:

- **granularity and specificity:** information about climate change should adequately explain the potential impact on different businesses, sectors and geographies, and the link with financial planning should be clear and quantified.
- **balance:** entities should ensure that the discussion of climate-related risks and opportunities is balanced. In particular, discussions on the opportunities arising from climate change and the transition to a low carbon economy should specify the expected size of the opportunity relative to existing, more carbon-intensive

businesses, and be linked to any dependencies on new or future technology. Balance is also necessary in describing the probabilities and dependencies of risks and opportunities. For example, the loss of current, carbon-intensive, income streams might be an inevitable result of decarbonisation whilst replacement income streams might currently be dependent on nascent or developing technologies. Disclosure of these dependencies is important to avoid giving the impression that transition risks will naturally be balanced out by opportunities in a lower carbon economy

- **interlinkage with other narrative disclosures:** TCFD and climate-related disclosures should be integrated with other elements of the narrative reporting and entities should consider the effects of climate-related scenario analysis on, for example, the entity's business model, strategy and viability statement, or they should explain how climate-related risks have been assessed and prioritised compared to other risks
- **materiality:** entities should ensure that they explain how they have applied materiality to their TCFD disclosures, being clear on how they have taken into account Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures (which includes the Guidance for All Sectors and Supplemental Guidance for Financial and Non-Financial Groups) (the "all-sector guidance") and other documents referenced in the UK Listing Rules when determining whether their disclosures are consistent with the TCFD recommendations. Where a disclosure is omitted, it should be clear whether this is because it is considered immaterial. The FRC has indicated that it may challenge companies claiming consistency with a recommended disclosure where it is not clear that all relevant and material elements of the recommended TCFD disclosures – including the all-sector guidance and, where appropriate, the relevant supplemental guidance - have been addressed
- **connectivity between TCFD and the financial statements:** the degree of emphasis placed on climate change risks and uncertainties in the narrative reporting should be consistent with the extent of disclosure about how those uncertainties have been reflected in judgements and estimates applied in the financial statements. The FRC confirmed that it may challenge entities disclosing significant climate risks or net zero transition plans in narrative reporting, but without an appropriate explanation as to how this has been taken into account when preparing their financial statements. Entities should also consider explaining whether:
  - assumptions and sensitivities considered in climate scenarios, including any Paris-aligned scenarios, are consistent with those applied in the financial statements or explain any differences
  - the effects of any emissions reduction commitments and strategies have been appropriately reflected in the financial statements
  - the scale of growth of businesses and the extent of progress against climate-related opportunities discussed in the narrative reporting is reflected in the segmental disclosures
  - discussion of matters which may have an adverse effect on asset values or useful lives in the narrative reporting is consistent with related disclosures in the financial statements.
- **governance:** entities should provide specific information on the oversight of climate-related matters, such as consideration of climate-related performance objectives and the effect of climate on decisions about major capital expenditure, acquisitions and disposals. Entities should also consider disclosing how climate-related risks are controlled and how climate-related metrics affect remuneration policies

- **strategy:** information on strategy should be granular and the level of detail included in scenario analyses should be consistent, including quantitative measures. Entities' discussions of risks and opportunities should not be disproportionately weighted towards opportunities. Where climate-related risks and opportunities are discussed, it is important to quantify the potential impact of each to the extent possible rather than only using qualitative descriptors such as 'high' or 'low'. This is particularly important in indicating the extent to which the impact of climate opportunities might, or might not, outweigh those of risks
- **risk management:** climate-related matters should be integrated into overall risk management processes. Particularly, processes for assessing the priority and materiality of climate-related risks should be well explained. To the extent possible, the potential impact of climate-related risks and opportunity should be quantified rather than only described using terms such as 'high' or 'low'. This is particularly important in indicating the extent to which the impact of climate-related opportunities might, or might not, outweigh those of risks
- **metrics and targets:** metrics should not only focus on Scope 1 and 2 greenhouse gas (GHG) emissions but also include other climate-related risk and opportunity metrics. Historical data and explanations of movements should be provided to support the reader's understanding of progress against targets (see **Metrics and Targets** for further considerations)
- **assurance:** entities should clearly explain the level of any assurance given and what it covered. Terms such as 'verified' should be avoided as it may imply a higher level of assurance than has actually been obtained.

FRC

FRC focus area

TCFD reporting in the UK

Certain listed companies are required by the UK Listing Rules to make climate-related financial disclosures consistent with the recommendations and recommended disclosures of the Task Force on Climate-related Financial Disclosures (TCFD), on a 'comply or explain' basis.

In its 2023/24 annual review, the FRC identified TCFD and climate-related narrative reporting as a top ten issue for the first time following increased scrutiny of entities' climate-related reporting. The FRC generally challenged entities in relation to their statements of compliance with the TCFD framework and identified scope for more concise, company-specific disclosures.

The FRC expects entities to provide sufficient detail in their disclosures, whilst ensuring their disclosures remain concise and do not obscure material information. Entities should clearly explain how material impacts of climate change have affected the financial statements. Many entities in the scope of TCFD disclosures under the UK Listing Rules will also be in scope of the CFD Regulations, and the FRC reminds entities to ensure that both sets of requirements are met (see **Climate-related Financial Disclosure Regulations**).

Entities that did not provide TCFD disclosures despite being in scope of the UK Listing Rules were challenged by the FRC. The FRC also questioned entities where:

- disclosures were unclear about the extent of compliance, did not clearly identify areas of non-compliance or did not explain how non-compliance is being addressed and in what timeframe
- strategy-related disclosures and those about metrics and targets were unclear
- undue prominence was given to their green initiatives whilst providing relatively little information about the business activities that generated most of their GHG emissions or where it was unclear how climate change had been reflected in impairment testing.

The FRC encourages entities to refer to its findings in its 2022 thematic review of TCFD disclosures and climate in the financial statements and 2023 thematic review of climate-related metrics and targets which remain relevant.

Metrics and targets

In July 2023, the FRC published a thematic review of climate-related metrics and targets having identified areas for improvements in its correspondence with 75 entities about TCFD and climate-related disclosure during 2022-23 especially in relation to metrics and targets. The FRC has stated that it will challenge entities where it considers reporting of climate-related metrics or targets to be unclear or potentially misleading, and it will refer any false or misleading claims including the omission of material facts to the FCA where they breach FCA rules.

Entities should provide clear explanations of metrics and targets reported, including, where relevant, any data limitations, methodologies, reporting boundaries and any changes to data. Disclosures should be transparent and explain the actions the entity is taking to develop the extent and reliability of the data collected for climate-related reporting, including that outside of their direct control.

The FRC also encourages entities to disclose challenges in data collection, especially difficulties in relation to the identification, collection and reporting of Scope 3 GHG emissions. Details of the assumptions used should be provided, outlining the limitations of the reliability of any data. The FRC states that entities should consider the impact on the company's statement of consistency with TCFD when Scope 3 emissions are material but not reported.

The FRC expects entities to:

- consider the impact of climate-related targets and transition plans on the financial statements, taking into account the IASB's educational material
- provide an appropriate level of disclosure, including any significant judgements or assumptions that have been made in reaching their assessment, when there is a reasonable expectation that the climate-related targets and transition plans could impact the financial statements

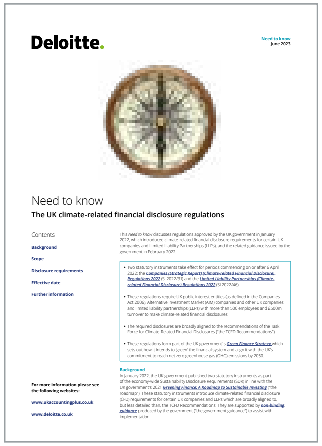
- avoid boilerplate wording such as 'climate has been incorporated into our impairment review assumptions' which provides limited insight without describing the relevant assumptions, uncertainties and the position taken
- consider explaining why certain targets do not have a material impact where investors may reasonably expect them to do so.

In relation to climate-related metrics that entities report, the FRC expects entities to:

- report material cross-sector climate-related metrics and keep relevant standard industry metrics under review
- ensure that any linkage between risks and opportunities and metrics used to measure, monitor or manage them is clear, and also explain which metrics are used to track net zero progress
- consider whether additional disaggregation of metrics and targets by business line or geography would aid understandability
- provide definitions and methodologies for entity-specific metrics
- state and explain the reporting period for the metric if different to the financial statements.

In relation to climate-related targets, the FRC expects entities to:

- clearly explain what 'net zero' or 'carbon neutrality' terms mean in the context of the entity, ensuring that disclosures about such commitments are not misleading
- clearly explain whether net zero targets or commitments include Scope 3 emissions
- provide explanations of targets, including relevant information such as the time period, reporting boundaries, the emissions scopes covered, and any metrics used to measure them
- explain areas of significant challenges or uncertainties, such as new technology, required to meet targets
- ensure that linkages between targets are explained if a number of targets need to be met in order to achieve an overall objective
- explain whether carbon offsetting represents a significant part of an entity's strategy to reach net zero
- provide comparative information alongside current reporting to enable performance against the target to be assessed. If any updates are made to targets, such as restatements or updates to baselines, these should be disclosed and explained.



A Deloitte Need to Know: The UK climate-related financial disclosure regulations discusses the scope of the CFD Regulations and availability of exemptions in more detail including guidance from the government's FAQs.

Climate-related Financial Disclosure Regulations

Certain UK companies and LLPs are in scope of the Climate-Related Financial Disclosure (CFD) Regulations which took effect for periods commencing on or after 6 April 2022 and amended the Companies Act 2006 and related LLP legislation to introduce eight climate-related financial disclosures based on those set out in the TCFD recommendations.

The four disclosure requirements a)-d) related to governance, risk management and strategy disclosures about principal climate-related risks and opportunities are always required, while the four requirements e)-h) related to other strategy disclosures and metrics and targets do not need to be disclosed if they are not considered necessary for an understanding of the entity's business. However, the reason for any such omissions must be explained.

Companies are required to report this information in a clearly identifiable non-financial and sustainability information (NFSI) statement within the strategic report. LLPs are required to report the information in the energy and carbon report, except for traded and banking LLPs, which need to include it in the strategic report.

While these requirements were not specifically referenced in the FRC's 2023/24 annual review, the FRC published a thematic review of the application of the CFD requirements by AIM listed and large private companies in January 2025. In its review, the FRC observed that, although most companies attempted to satisfy the disclosure requirements, the quality of CFD reporting was variable, with areas for improvement identified in most cases. The FRC acknowledged that for many of the entities reviewed, it was the first time they had prepared climate-related financial disclosures, and it expects entities to improve their disclosures in subsequent periods.

While almost all companies complied with the requirements related to governance arrangements, these disclosures were often unstructured and/or spread out across the report without clear cross references. With regard to risk assessment and risk management, the FRC found that entities generally provided adequate information on the risk assessment process, including how it is integrated with the overall risk management process, but some entities failed to explain the way in which climate-related risks and opportunities were identified. In addition, although most entities disclosed information about risks, opportunities were not always identified and the timeframes over which both risks and opportunities were assessed was not always described.

The FRC also identified that climate-related scenario analysis disclosures were often either not provided, or were not sufficiently entity-specific; and although it noted that these are challenging disclosures to prepare, it expects improvements in this area over time. Regarding metrics and targets, only half of companies reviewed provided sufficient information about climate-related targets and an assessment of progress against those targets using KPIs.

Some entities voluntarily used the TCFD framework in preparing CFD disclosures but failed to present one or more disclosures required by law whilst others referred to climate-related disclosures that were presented outside of the annual report, which does not comply with the requirements of the Companies Act. Although there is significant overlap, TCFD and the CFD requirements are not identical (for example TCFD disclosures are required on a 'comply or explain' basis and can be presented outside the annual report) and companies should ensure that all requirements of the Companies Act are met when presenting their CFD disclosures.

For future reporting, the FRC expects entities to provide all disclosures required by the CFD Regulations within the annual report and accounts; these disclosures should be clear, concise and entity-specific. Entities should provide a qualitative or quantitative scenario analysis of the resilience of their business model and strategy.

Entities are also expected to describe the targets used to manage climate-related risks and opportunities, and the KPIs used to measure progress against those targets. Where material and relevant, the financial statement effect of strategies introduced to manage climate-related risks and opportunities should also be explained.

The UK government has issued a set of non-binding FAQs to help with application of the CFD requirements and to set out its expectations as to what should be disclosed. It also encourages in-scope entities to review the FRC's Guidance on the Strategic Report when considering how best to integrate the CFD information with other disclosures in the strategic report.

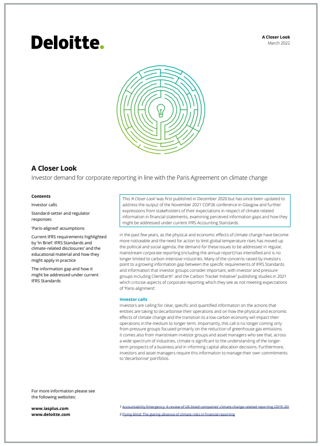
Interaction between the TCFD UK Listing Rules and the CFD Regulations

Many listed companies will find themselves subject to both the requirements under the CFD Regulations and the TCFD disclosure requirements set out in the UK Listing Rules. The government FAQs state that for companies subject to both sets of requirements, disclosure in a manner consistent with all of the TCFD recommendations and recommended disclosures in its annual report is normally likely to meet the requirements of the CFD Regulations as well.

However, while the UK Listing Rules permit the TCFD disclosures to be presented in a separate document outside the annual report, this is not permitted by the CFD Regulations. Therefore, the annual report itself needs to contain sufficient disclosure to meet the CFD requirements. The FRC reminds entities in its 2023/24 annual review that the disclosures required under the CFD Regulations must be in the annual report and included in the non-financial and sustainability information (NFSI) statement, either directly or by cross-reference to another section of the annual report.

Companies subject to both sets of requirements may find themselves explaining some inconsistencies with the TCFD recommendations yet still meeting the requirements of the CFD Regulations. This may be because of the increased level of detail expected in TCFD disclosures under the UK Listing Rules, which requires companies to have regard to the all-sector guidance when assessing consistency with the TCFD recommendations. However, as the CFD Regulations do not permit a 'comply or explain' approach, companies explaining inconsistencies in their TCFD statement of consistency should evaluate their disclosures carefully to determine whether sufficient information is included in the annual report to meet the requirements under the CFD Regulations.

Although there is no requirement to state compliance with the CFD Regulations, it may be helpful if the statement of consistency with TCFD also confirms whether a company has complied with the CFD Regulations, particularly where inconsistencies with TCFD are explained.



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

Climate-related risks in the financial statements

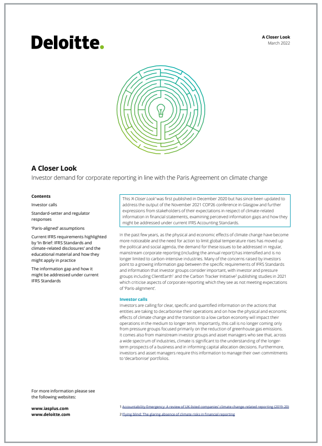
For some time regulators have been urging entities to pay particular attention to climate-related matters and their effects when providing a balanced and comprehensive analysis of the development and performance of the entity's operations and financial position together with a description of the principal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

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

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

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

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

Investor demand for corporate reporting in line with the Paris Agreement on climate change

A Deloitte A Closer Look discusses investor demand for corporate reporting in line with the Paris Agreement on climate change.

Consistency of information

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

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

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

Impairment of non-financial assets

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

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

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

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

Other areas of the financial statements

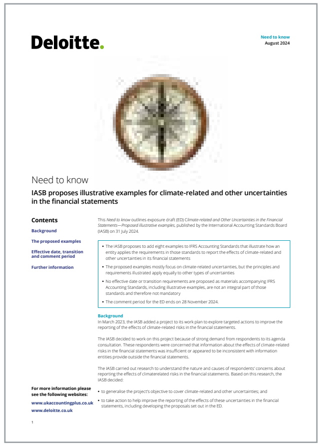
Entities may also need to consider the following specific topics when assessing the impact of climate-related matters on their financial statements:

- if an entity has concluded that climate-related matters are not expected to have a material financial impact on its operations and/or in the measurement of its assets and liabilities, regulators expect the entity, in particular if it operates in a highly-exposed sector, to disclose the assessments performed, judgements made and the time horizon used to reach such a conclusion. The disclosures should be tailored to the specific circumstances of individual entities
- entities that are either legally required or have decided voluntarily to offset their carbon emissions should ensure that appropriate disclosure is provided of the resulting impacts on their financial performance, financial position and cash flows, including the associated financial statements line items. This may include, for example, disclosure of the accounting policies used for the recognition, measurement and presentation of the associated financial statements items (e.g. assets for GHG allowances or carbon offsets and/or provisions for emissions), the main terms and nature of the schemes in which they participate (including whether the schemes are mandatory or voluntary) and the amount of carbon allowances or renewable energy certificates acquired, owned, owed, consumed or sold
- financial institutions engaged in green financing (e.g. issuance of ESG-indexed loans) need to consider disclosing the information necessary for users of their financial statements to understand the impacts and assess the nature and extent of the specific risks associated with these financial instruments (e.g. the key characteristics of the instruments, carrying amounts, maturities, environmental criteria, the specific risks associated with those instruments, their impact and sensitivity on cash flows and how these risks are managed). Disclosure may also be required if significant judgements was involved in the application of the entity's accounting policy, for example when assessing whether the contractual cash flows of ESG-linked financial assets are payments of principal and/or interest on the principal amount outstanding.

In October 2024, ESMA issued a public statement *Clearing the Smog: Accounting for Carbon Allowances in Financing Statements* that aims to raise entities' awareness regarding the financial statements considerations related to carbon pricing programs.

The publication reminds entities to carefully analyse the contractual features of the carbon pricing programmes they have entered, or plan to enter, and any other requirements or regulations to which the entity (its industry or sector) may be subject. Different contractual features and instruments may entail different accounting treatments. Issues to consider include:

- Whether the carbon pricing programme gives rise to rights that meet the definition of assets under IFRS Accounting Standards? If so, what is
- the nature, timing of recognition and measurement of the assets?
- Does the entity have an obligation to acquire carbon allowances? If so, when should the liability be recognised and how should it be measured?
- What is the nature of items of income or expenses that the carbon pricing programme generates and at which point should these amounts be recognised?
- How should cash flows related to the carbon pricing programme be classified in the cash flow statement?
- What disclosures are needed to enable a user of the financial information to understand the impact of the carbon pricing programme?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Need to know
August 2024

Need to know

IASB proposes illustrative examples for climate-related and other uncertainties in the financial statements

Contents

Background

The proposed examples

Effective date, transition and comment period

Further information

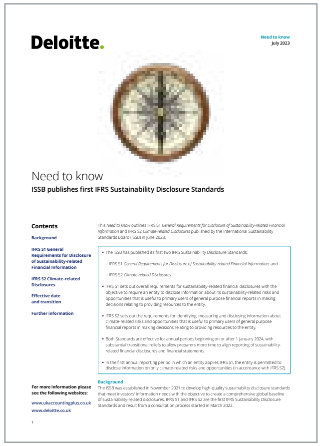
A Deloitte Need to know outlines the illustrative examples proposed.

The recent amendments to IFRS 9 and IFRS 7 (see **Selected new IFRS requirements and future developments**) have modified the requirements on how an entity assesses whether the contractual cash flows of a financial asset are consistent with a basic lending arrangement. This is intended to assist entities to apply these requirements to financial assets with ESG-linked features, making it more likely that such instruments are measured at amortised cost.

Whilst the amendments are effective for annual reporting periods beginning on or after 1 January 2026, an entity is permitted to apply all amendments or only the amendments related to the classification of financial assets for an earlier period, subject to endorsement for use in the UK by the UK Endorsement Board.

In addition, in April 2024, the IFRS Interpretations Committee published an agenda decision explaining the analysis to be performed to assess the impact of an entity's climate-related commitments on its financial statements.

In July 2024, the IASB published Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements—Proposed illustrative examples*. The IASB proposes to add eight examples to IFRS Accounting Standards that illustrate how an entity applies the requirements in those standards to report the effects of climate-related and other uncertainties in its financial statements. The proposed examples mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties. The comment period for the exposure draft ended on 28 November 2024.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Need to know

ISSB publishes first IFRS Sustainability Disclosure Standards

A Deloitte [Need to know: ISSB publishes first IFRS Sustainability Disclosure Standards] discusses the content and requirements of the ISSB standards in more detail.

UK developments

ISSB Sustainability Disclosure Standards and adoption in the UK

To date, the ISSB has issued two standards: IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* ("the ISSB standards"):

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

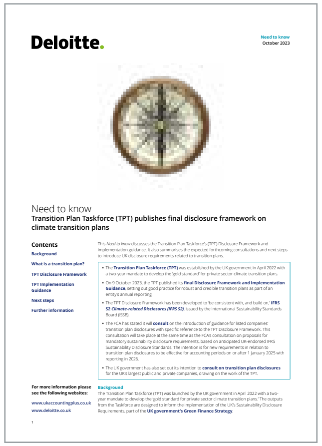
The ISSB is in the process of updating references to jurisdiction-specific laws and regulations in the SASB Standards to improve their international applicability, as well as carrying out research into other sustainability topics including biodiversity and human capital.

In addition, the following non-authoritative educational material developed by the ISSB staff is available to support entities implementing IFRS S1 and IFRS S2:

- *Sustainability-related risks and opportunities and the disclosure of material information* – which describes the characteristics of material information and the concept of sustainability-related risks and opportunities, and explains the requirements related to identifying and disclosing material information about sustainability-related risks and opportunities that could reasonably be expected to affect an entity's prospects
- *Applying IFRS S1 when reporting only climate-related disclosures in accordance with IFRS S2* – which explains the requirements in IFRS S1 that are applicable when an entity discloses information only on climate-related risks and opportunities as permitted in the first annual reporting period in which IFRS S1 is applies.

The UK government intends to adopt the ISSB standards for use in the UK in the form of UK Sustainability Reporting Standards (UK SRSs) following a formal assessment of the standards. This assessment is ongoing via two advisory committees: the Policy Implementation Committee (PIC) responsible for considering public policy; and the Technical Advisory Committee (TAC), supported by the FRC, responsible for considering how the standards will sit alongside existing UK reporting requirements. An endorsement decision is expected in 2025.

The FCA is expected to consult on proposals to update the UK Listing Rules to refer to UK SRSs and is aiming to finalise its policy position on this matter once the standards are available for use. The UK government will consider separately how to integrate UK SRSs into the UK legislative framework, and the scope of entity that it intends to apply the standards in due course, taking into account feedback from its ongoing review of the UK non-financial reporting framework (see **Other narrative reporting requirements**).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Need to know
October 2023

Need to know
Transition Plan Taskforce (TPT) publishes final disclosure framework on climate transition plans

A Deloitte Need to know: Transition Plan Taskforce publishes final disclosure framework discusses the TPT framework in more detail.

Transition Plan Taskforce Disclosure Framework

The Transition Plan Taskforce (TPT) Disclosure Framework sets out recommendations and good practice for robust and credible transition plan disclosures, structured around the following three principles:

- **ambition:** transition plans should reflect the urgency to act, arising from the observed changes in the climate and the latest scientific findings about climate change
- **action:** A transition plan should translate ambitious objectives and priorities into concrete steps to be taken in the short, medium and long term
- **accountability:** A transition plan is integral to an entity's wider corporate strategy. Delivery of a transition plan should therefore be fully integrated into the entity's organisational processes for business and financial planning, and for governance.

The recommendations in the framework are structured around five elements: (1) Foundations; (2) Implementation strategy; (3) Engagement strategy; (4) Metrics & targets; and (5) Governance. These recommendations are then sub-divided into a further 19 sub-elements and are designed to be consistent with, and build on, IFRS S2.

The framework recommends that an entity adopts a 'strategic and rounded' approach in setting its strategic ambition. This includes considering three inter-related channels in designing its transition plan – decarbonising the entity, responding to the entity's climate-related risks and opportunities, and contributing to an economy-wide transition.

It also recommends that material information about the transition plan, including progress updates, is reported annually as part of broader climate-related disclosures in the entity's general purpose financial reports. It further indicates that, as good practice, an entity should publish a standalone transition plan periodically – at least every three years, and sooner where there are significant changes to the plan.

The TPT Disclosure Framework is currently a voluntary framework. However, companies required under the UK Listing Rules to make a statement of consistency with the TCFD recommendations are required to 'describe their plans for transitioning to a low-carbon economy' and in its December 2022 Primary Market Bulletin, the FCA encouraged companies to go further and consider the proposed TPT outputs when making transition plan disclosures.

The FCA has stated that it plans to consult on introducing guidance aligned with the TPT Framework in 2025, at the same time as consulting on proposals for mandatory sustainability disclosure requirements based on UK SRSs (see **ISSB Sustainability Disclosure Standards and adoption in the UK**).

The Deloitte Corporate Reporting Insights 2024 series includes a report on how the first 50 FTSE 100 December 2023 reporters report their transition plans compared to the TCFD recommended disclosures and expected future requirements. The full report can be found here.

UK Green Taxonomy

In November 2024, the UK government issued a consultation on the development of a UK Green Taxonomy, which closed for comment on 6 February 2025. The consultation was wide-ranging and sought to assess whether a UK Green Taxonomy would be complementary to existing policies such as the implementation of the ISSB standards and the TPT Framework in meeting the overall objectives of mitigating greenwashing and channelling capital towards sustainable activities, as well as to consider how best to maximise usability and the key features that should be incorporated in the design of a taxonomy. The consultation also emphasised the importance of aligning the Taxonomy with established international standards to facilitate data comparison and avoid market fragmentation.

Jurisdictional developments with significant extraterritorial reach

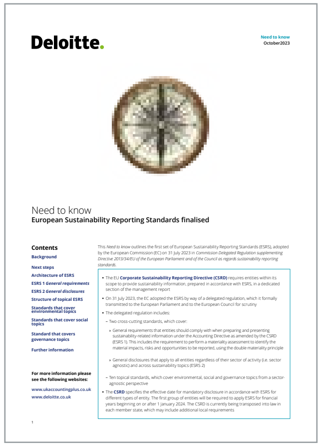
Europe

The Corporate Sustainability Reporting Directive (CSRD), alongside the EU Green Taxonomy and the European Sustainability Reporting Standards (ESRSs), forms part of the wider EU Sustainable Finance Package, a set of measures which is intended to improve the flow of capital towards sustainable activities. The CSRD aims to improve sustainability reporting in an entity's management report for investors, civil society and other stakeholders, thereby contributing to the transition to a fully sustainable and inclusive economic and financial system in line with the European Green Deal and the UN Sustainable Development Goals.

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

The first set of ESRSs includes:

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



A Deloitte Need to Know: ESRSs finalised discusses the requirements of the first set of ESRSs in more detail.

A Deloitte Need to Know: EU Taxonomy outlines the requirements of the EU Taxonomy Regulation.

A Deloitte Need to Know: Fair presentation under the Corporate Sustainability Reporting Directive (CSRD) addresses considerations relating to 'fair presentation' under the CSRD and its implications for the preparation of sustainability statements.

A Deloitte Need to Know: EU Commission proposes significant reduction in sustainability and due diligence reporting requirements sets out several pieces of proposed legislation ("omnibus proposal") that aim to reduce significantly the sustainability and due diligence reporting burden for entities and were published by the European Commission (EC) on 26 February 2025

The CSRD specifies the effective date for mandatory disclosure in accordance with ESRSs for different types of entities. The first group of entities are required to apply ESRSs for periods beginning on or after 1 January 2024. The time and effort needed for an effective and timely transition to the new requirements may be substantive. Key organisational decisions in terms of governance, data collection, internal controls, and procedures supporting the mandatory assurance requirement will therefore need to be carefully considered.

In January 2025, the European Commission (EC) published EU Compass to Regain Competitiveness which included an announcement of a series of legislative proposals (including so-called omnibus proposals) to reduce the regulatory and administrative burden on companies. In February 2025, the EC published the first batch of omnibus proposals in the series that aim to reduce significantly the sustainability and due diligence reporting requirements arising from the CSRD, the Corporate Sustainability Due Diligence Directive and the EU Taxonomy

The following documents are available to entities implementing these requirements:

- in November 2024, the EC published a set of 90 frequently asked questions (FAQs) in the Official Journal, originally published in draft form in August 2024. The FAQs provide clarifications interpreting certain sustainability reporting requirements under the CSRD, as well as a number of FAQs on ESRS, EU Taxonomy Regulation disclosures, digital format requirements, assurance and the Sustainable Finance Disclosures Regulation
- in May 2024, EFRAG issued three ESRS Implementation Guidance documents: *EFRAG IG 1: Materiality Assessment*, *EFRAG IG 2: Value Chain*, and *EFRAG IG 3: Detailed ESRS Datapoints* and accompanying *Explanatory Note*
- in addition, EFRAG periodically updates its *Compilation of Explanations* document, which includes technical ESRS questions that were received through the EFRAG ESRS Q&A Platform. These documents are non-authoritative.

In July 2024, the European Securities and Markets Authority (ESMA) published a public statement on the first application of ESRSs by large issuers highlighting five areas of attention which, in ESMA's view, are of particular relevance in the preparation of ESRS sustainability statements:

- establishing governance arrangements and internal controls that can promote high-quality sustainability reporting
- properly designing and conducting the double materiality assessment and being transparent about it
- being transparent about the use of transitional reliefs
- preparing a clearly structured and digitalisation-ready sustainability statement
- creating connectivity between financial and sustainability statements

In addition, ESMA stresses the importance to carefully consider any guidance from the European Commission when implementing the new requirements and strongly encourages entities to consult the EFRAG support material which provides insights for practical use of the standards and illustrations.

In its common enforcement priorities for 2024, ESMA identifies the following items as priorities related to sustainability statements:

- materiality considerations in reporting under ESRSs
- scope and structure of the sustainability statement
- disclosures related to the EU Taxonomy.

With regard to materiality, ESMA:

- emphasises the need for detailed disclosures on the materiality assessment process itself, including in respect of engagement with affected stakeholders
- reminds that certain disclosure requirements (DRs) and their datapoints are mandatory, irrespective of materiality
- highlights that whilst entity-specific information is required when a material IRO is not, or only insufficiently addressed by an ESRS, such information should only be included if it is material and meets the qualitative characteristics of information described in ESRS 1
- stresses the requirement to list the DRs complied with in the sustainability statement, including page numbers and paragraphs, include a table of all datapoints derived from other EU legislation as listed in ESRS 2:Appendix B and indicate whether the identified IROs are covered by applying ESRSs DRs as opposed to entity-specific disclosures.

With regard to the scope and structure of the sustainability statement, ESMA:

- reminds that the sustainability statement should be for the same reporting entity as the financial statements
- notes that the information provided in the sustainability statement is extended to include information on material IROs connected with the entity's value chain (subject to the application of transitional reliefs)
- recommends that entities that relied extensively on alternative presentation formats for their sustainability statement in the past assess whether their approach is compliant with the structure of the sustainability statement as prescribed in ESRS 1
- recommends that entities that intend to use internal cross-referencing and incorporation by references ensure that the general presentation objectives, which include facilitating access and understanding of the reported information, are complied with
- reminds that, when monetary amounts or other quantitative information are included in both the sustainability statement and the financial statements, ESRS 1:124 requires a reference from the former to the latter.

With regard to the EU Taxonomy, ESMA:

- reminds that the use of the templates set out in the Disclosure Delegated Act is mandatory, without adaptation or amendments and independently of the level of eligibility and alignment of an entity's economic activities (templates may be omitted only in very limited circumstances)
- underlines the importance to avoid double-counting, which requires entities to pay particular attention to situations where an economic activity is eligible to more than one environmental objective. It highlights that in such circumstances the most relevant objective should be indicated in bold and that appropriate implementation of the disclosure requirements may require an entity to disaggregate the activity over several lines in the templates
- reminds that the various elements included in the turnover and CapEx KPIs should include reference to the financial statements
- notes that ESRS E1 DR E1-1 which requires disclosures on transition plans for climate change mitigation includes an explanation of any objective or plans for alignment of the activities with the EU Taxonomy and stresses the importance of consistency between the EU Taxonomy disclosures and the transition plan disclosures, if applicable
- notes that if a financial entity voluntarily discloses estimates of taxonomy alignment for exposures that are excluded from the KPIs or when the entity lacks information to demonstrates taxonomy alignment, such disclosure should be clearly separated from the required KPIs and include appropriate explanation on the methodology applied.

More information about sustainability reporting requirements in the EU can be found in volume H of GAAP in the UK on the Deloitte Accounting Research Tool (DART).

Interoperability guidance

In May 2024, the IFRS Foundation and EFRAG published *Interoperability Guidance* to support entities that apply both IFRS Sustainability Disclosure Standards and ESRSs. The guidance provides an overview of the alignment between the two sets of standards. It notes that the definition of financial materiality in ESRSs is aligned with the definition of materiality in the IFRS Sustainability Disclosures Standards, there are many commonly defined terms, and almost all the disclosures in IFRS Sustainability Disclosure Standards related to climate are included in ESRSs.

However, this does not mean that entities can apply one set of standards and automatically claim compliance with the other. Care needs to be taken to consider the objectives and requirements of each set if applying them together. For example, entities will need to make sure they have identified additional climate-related disclosure requirements prescribed by each set of standards, especially in ESRSs. In addition, entities need to be mindful that ESRSs are intended to meet the information needs of a broader audience (given the application of the double-materiality principle) than users of general purpose financial reports.

The interoperability guidance must be read in conjunction with the relevant standards. An entity cannot rely on this guidance in isolation to meet the requirements in IFRS Sustainability Disclosure Standards or ESRSs.


Deloitte.

Need to know
October 2023

Need to know
California Climate Legislation

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Overview
Scope
The requirements
Effective date
Monitoring and compliance
Other resources
Further information

A Deloitte [Need to know: California Climate Legislation] discusses the California law in more detail.

USA

In March 2024, the US SEC adopted a rule requiring registrants, including foreign, to provide climate-related disclosures in their annual reports and registration statements. Subsequently, the SEC voluntarily stayed (suspended) the effective date of the final rule pending judicial review of petitions challenging it. On 11 February 2025, SEC Acting Chair Uyeda issued a public statement that the SEC will seek additional time from the court for oral arguments, so that the Commission can decide on next steps in the litigation; his statement indicated the Commission is considering changing its position and may stop defending the rule.

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

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

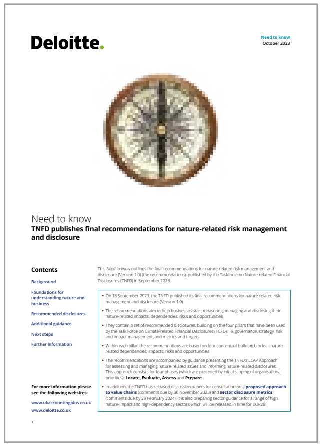
In addition, the California assembly bill, AB-1305 Voluntary Carbon Market Disclosures, is intended to combat greenwashing of climate-related emission claims and establishes requirements for both US and international entities that market or sell voluntary carbon offsets (VCOs) within California as well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

SB-219 Greenhouse gases: climate corporate *accountability: climate-related financial risk*, which was signed into law in September 2024, should help reduce the financial burden of complying with SB-253 by allowing:

- entities to provide a consolidated parent-level emission disclosure report
- California Air Resource Board to establish a schedule for scope 3 GHG emission reporting.

Under SB-253, entities would report Scope 1 and Scope 2 GHG emissions starting in 2026 based on 2025 GHG emissions data. Entities would begin reporting Scope 3 GHG emissions in 2027, on the basis of 2026 GHG emissions data. The California Air Resources Board is required to issue regulations for reporting required by SB-253 no later than 1 July 2025. Under SB-261, an entity must post a climate-related financial risk report on its website on or before 1 January 2026, and biennially thereafter.

Legal challenges to SB-253 and SB-261 are ongoing. The plaintiffs in Chamber of Commerce of the United States of America v. California Air Resource Board (filed in January 2024) assert that SB-253 and SB-261 "unlawfully attempt to regulate speech related to climate change" and that the bills violate the First Amendment as well as other federal laws. They are asking the US District Court for the Central District of California to declare SB-253 and SB-261 null and void, with no force or effect. However, SB-253 and SB-261 will remain in effect pending the resolution of such legal challenges.



Deloitte.

Need to know
October 2023

Need to know
TNFD publishes final recommendations for nature-related risk management and disclosure

Contents

A Deloitte [Need to know: TNFD publishes final recommendations for nature-related risk management and disclosure] discusses the TNFD framework in further detail.

Other developments

TNFD reporting

The Taskforce for Nature-related Financial Disclosures (TNFD) was launched in 2021 to develop and deliver a risk management and disclosure framework for organisations to report and act on evolving nature-related risks, with the ultimate aim of supporting a shift in global financial flows away from nature-negative outcomes and toward nature-positive outcomes. In September 2023, the TNFD published its final recommendations for nature-related risk management and disclosure. The recommendations are designed to enable a stronger understanding of the concentrations of nature-related risks and opportunities, based on insights into nature dependencies and impacts.

The recommended disclosures build on the four pillars that have been used by the TCFD, i.e. governance, strategy, risk and impact management, and metrics and targets. Within each pillar, the recommendations are based on four conceptual building blocks - nature-related dependencies, impacts, risks and opportunities. TNFD's disclosure recommendations also leverage the wording used by the ISSB to describe core content in IFRS S1, with the TNFD adding impact management to IFRS S1's 'risk management' content.

FRC

FRC focus area

Other narrative reporting requirements

The FRC's 2023/24 annual review confirmed that fewer substantive challenges were raised in relation to non-financial reporting disclosures compared to last year. However, the FRC still commonly raised challenges where strategic reports did not appear fair, balanced and comprehensive.

Entities should ensure that the strategic report provides an unbiased discussion of positive and negative aspects of performance, gives a clear articulation of the effects of economic uncertainty on the business and addresses significant movements in the financial statements. The FRC challenged entities where the strategic report had not discussed material balances, cash flow items or significant changes in balances from the prior year, reminding entities that the strategic report should not only focus on the financial performance of the entity, but should also address significant movements in its financial position and cash flows. The FRC also raised queries where there was no narrative discussion of significant events during the year which had been disclosed elsewhere in the annual report.

Challenges were also raised on the balance of the narrative reporting, in particular, where more prominence was given to alternative performance measures (APMs) and no IFRS measures were included in the strategic report, and where more prominence was given to green initiatives with little discussion of the rest of the business. The FRC also queried whether strategic report disclosures that only discussed parts of the business or did not provide information about key performance indicators were fair, balanced and comprehensive.

The FRC encourages entities to refer to its Guidance on the Strategic Report and What Makes a Good Annual Report and Accounts publication, which provide principle-based guidance when preparing a strategic report

In 2023, the previous UK government issued a call for evidence seeking views on the non-financial reporting requirements applicable to UK entities, with a view to simplifying and streamlining the sustainability and non-financial reporting regime in place in the UK. In March 2024, it issued a feedback statement and also an impact assessment which set out the first stage of planned measures to reform the UK non-financial reporting framework. These were updated by the current UK government following the July 2024 general election and the first set of regulations were laid on 10 December 2024.

The key changes include the following:

- uplifting size thresholds: the Companies Act 2006 company size monetary thresholds are increased by 50% in order to reflect historical and future inflation
- removing requirements from the directors' report: a number of current requirements within the directors' report are removed either because they are duplicative or no longer considered to provide useful information.

The changes made by the regulations will come into force for periods commencing on or after 6 April 2025. When considering qualification as a particular company size by reference to a previous financial year, the amendments made by these regulations are treated as having applied in those previous years, enabling companies and LLPs to benefit from the new thresholds as soon as possible after the legislation comes into force. However, the new size thresholds do not change the size thresholds used for the streamlined energy and carbon reporting (SECR) requirements; these remain the same as previously.

In addition, on 3 March 2025, the UK government published draft regulations to remove requirements from the directors' remuneration report and directors' remuneration policy, relating to content introduced into UK law as a result of implementing the EU Shareholder Rights Directive.

In May 2024, the previous UK government issued a further consultation proposing to uplift the medium-sized companies employee threshold from 250 up to 500 employees and to exempt medium-sized companies from the requirement to prepare a strategic report. The consultation period closed on 27 June and a summary of responses was published in October 2024. However, the current UK government has confirmed that these proposals are not being taken forward at this time, but will be considered as part of a broader non-financial reporting consultation on the future of corporate reporting, which is expected to be issued in 2025.

In October 2024, the UK government published the findings of a research study into the value of non-financial reporting to investors. The study concludes that the current non-financial reporting requirements in the UK are beneficial for investors, stemming from their role in helping investors understand the risks and opportunities associated with investing in entities. The research study was informed by a literature review and an analysis of qualitative and quantitative data gathered from surveys, interviews and consultations. Its key findings include:

- almost all investors, both professional and private, use non-financial information to some extent when making investment decisions, including screening investments based on ethical criteria and aligning investments with their goals
- non-financial reporting impacts investment decisions, with investors relying on non-financial information to understand company management, risks, future opportunities and long-term performance
- investors believe that the UK non-financial reporting requirements result in more and better quality non-financial information being available
- investors would place greater value on improved assurance and comparability of information across entities as compared to greater volume of sustainability information being made available.

The findings of the study will be used to inform the government's broader review of non-financial reporting in 2025.

FRC

FRC focus area

'Overall, while reporting quality remains strong, there is still a need for more concise, outcomes-focused disclosure and enhanced reporting on risk management and internal controls.'

The FRC's Review of Corporate Governance Reporting 2024

Corporate governance

Focus areas for corporate governance reporting

In November 2024, the FRC published its Review of Corporate Governance Reporting which is based on a review of a sample of 100 companies drawn from the whole listed market, focusing on providing good practice examples and exploring areas of improvement.

The review sets out a number of key messages to draw attention to areas recommended for further improvement, including:

- explanations of non-compliance should be clear and provide sufficient detail to aid understanding of why a provision is not being followed, as well as to allow key stakeholders to determine whether the alternative governance approach implemented serves the company's interests, while also demonstrating good governance
- disclosures in the governance report should focus on the board's actions during the year and the resulting outcomes rather than extensive disclosure of policies and practices
- companies are encouraged to provide more transparency about the time commitments of board directors and any policies adopted to avoid over-boarding, e.g. requiring prior approval of additional appointments
- audit committees are encouraged to include updates on adherence to Audit Committees and the External Audit: Minimum Standard
- where there has been an AQR inspection during the year, audit committees are encouraged to consider disclosing the scope of the inspection as well as the results and resulting actions by the audit committee to support overall improvements to audit quality
- in relation to the viability statement, companies should include sufficient qualitative and quantitative information to enable readers to fully understand the statement, as well as the rationale for the assessment period chosen and longer-term information
- reporting on principal risks should not be static and should show changes during the year, and over years
- good disclosures should provide a summary of how the board has monitored and reviewed the effectiveness of the risk management and internal control framework together and any plans to take forward actions for improvement
- disclosure should make clear the rationale behind key decisions on remuneration.

UK Corporate Governance Code 2024

In January 2024, the FRC issued an updated UK Corporate Governance Code ("the 2024 Code") which applies for accounting periods commencing on or after 1 January 2025 with the exception of Provision 29 – which includes the new declaration on the effectiveness of material controls – which will apply for accounting years commencing on or after 1 January 2026 to allow sufficient time for implementation. Until then, existing Provision 29 of the 2018 UK Corporate Governance Code applies.

The following Deloitte Corporate Governance Disclosure Checklists are designed for use by preparers of annual reports setting out the key disclosure requirements impacting the annual report of listed companies along with regulatory guidance. There are currently three checklists available depending on the relevant reporting period:

- for periods commencing prior to 1 January 2025;
- for periods commencing on or after 1 January 2025;
- for periods commencing on or after 1 January 2026.

Board responsibilities for the risk management and internal control framework

Code Principle O will require the board to establish and maintain an effective risk management and internal control framework.

This amended Principle is reinforced by an extension of the existing Code provision (Provision 29) in relation to the board's responsibility to monitor the company's risk management and internal control framework and, at least annually, carry out a review of its effectiveness. Building on this review and monitoring activity, the board will need to:

- describe how it has monitored and reviewed the effectiveness of the framework
- make a declaration of effectiveness of the material controls as at the balance sheet date
- describe any material controls which have not operated effectively as at the balance sheet date, any action taken, or proposed, to improve them and any action taken to address previously reported issues.

This declaration will cover "material controls" which are intended to cover controls over both financial and non-financial reporting. It is for the board to decide which controls are material but these could include controls over:

- risks that could threaten the company's business model, future performance, solvency or liquidity and reputation (i.e. principal risks)
- external reporting (financial or non-financial) that is price-sensitive or that could lead investors to make investment decisions, whether in the company or otherwise
- fraud, including override of controls
- information and technology risks including cybersecurity, data protection and new technologies (e.g. artificial intelligence).

Other changes which boards should focus on

Activities and outcomes - governance reporting should focus on board activities during the year and the outcome of board decisions in the context of a company's strategy and objectives.

Culture – Provision 2 has been amended to include that boards should not only assess and monitor culture, but also how the desired culture has been embedded.

'Audit committees and the external audit: Minimum Standard' - to avoid duplication, the 2024 Code removes the elements covering the work of the audit committee in relation to external audit and instead refers companies to the Standard.

Diversity - Principle J has been amended to promote diversity, inclusion and equal opportunity, without referencing specific groups. The list of diversity characteristics has been removed to indicate that diversity policies can be wide ranging.

Malus and clawback remuneration arrangements – additional reporting requirements have been included on the circumstances for, and use of, malus and clawback.

The remuneration policy – existing Provision 40 setting out characteristics of effective remuneration policy and practices has been removed.

Guidance to support the 2024 UK Corporate Governance Code

The FRC has also issued *guidance to help with implementing the 2024 Code*. The new guidance aims to bring together the most relevant content from previous publications into a single, condensed, digitally accessible and user-friendly resource. The FRC has reiterated that the guidance is not part of the Code, but a separate collection of information designed to help the application of the Code to different companies' needs.

UK Listing Rules Handbook

In July 2024, the FCA published PS 24/6 Primary Markets Effectiveness Review: Feedback to CP23/31 and final UK Listing Rules. This finalised the FCA's update to the Listing Regime, with changes to the regime for initial public offerings (IPOs) and for listed entity transactions. It also completed a change to the listing categories, removing the separate "premium listed" and "standard listed" category and instead introducing a single "commercial companies" category.

Entities previously in the "standard listed" category have been mapped into either a transitional category, in which case their existing requirements for reporting will be unchanged, or into the new "commercial companies" category, in which case they will need to comply with the same reporting regime as previous premium listed entities, including reporting under the UK Corporate Governance Code, effective immediately for any annual reports finalised on or after 29 July 2024, in line with newly listed entities. PS 24/6 also includes the new UK Listing Rules (UKLR) Handbook which also took immediate effect from 29 July.

The FRC has launched a consultation on updates to the UK Stewardship Code, with a focus on streamlining reporting requirements, reducing burdens for signatories and ensuring a clearer focus on the purpose of stewardship and the outcomes that it delivers. The consultation follows extensive engagement with over 1,500 stakeholders during 2024 and includes the following key proposals:

- a revised and enhanced definition of stewardship that emphasises the need to create long-term sustainable value for clients and beneficiaries as a key outcome of good stewardship
- a streamlined reporting process separating policy and activity disclosures to reduce reporting burdens
- targeted principles for different types of signatories and service providers, including for the first time, a dedicated Principle for proxy advisors
- new guidance to support effective implementation and help signatories with the transition to the new reporting arrangements.

The consultation period ended on 19 February 2025.

FRC

FRC focus area

Legal and regulatory reporting issues

In its 2023/24 annual review, the FRC queried a number of entities in relation to the lawfulness of dividends and share repurchases in particular where these had not been supported by the last audited accounts and, for public companies, where appropriate interim accounts had not been filed at Companies House. In addition, the lawfulness of dividends was questioned in cases where a public company's net assets were lower than the total of its share capital and undistributable reserves.

Companies should ensure that they comply with the legal requirements for making distributions and share repurchases, including the requirement for public companies to file interim accounts that show sufficient distributable profits to support the transaction, if the distribution or repurchase exceeds distributable profits reported in the most recent annual accounts.

The FRC challenged entities that took advantage of the small company audit exemption, despite forming part of a large group. Entities were also questioned when significant differences existed between the share premium balance disclosed in the consolidated and parent company financial statements.

Large private companies

In January 2024, the FRC published its thematic review of reporting by the UK's largest private companies. The review surveyed 20 large private companies, focusing on areas across the annual report which were considered of most importance to users and where the FRC expected the highest risk of poor compliance. Overall, the quality of reporting was described as "mixed", and in particular private companies need to consider how they explain complex or judgemental matters.

The FRC found that the best strategic reports focused on elements of company development, performance and position that were key in understanding the company and were consistent with disclosures in the financial statements. Within the strategic report, private companies are encouraged to provide clearer disclosure on their group structure, principal activities and how the reporting company forms part of the wider group's operations.

Companies should avoid boiler-plate wording relating to accounting policies for complex balances and transactions and continue to review these policies to ensure they are complete, relevant and accurate. This is particularly critical for revenue, where companies are encouraged to tailor their accounting policies for users of the financial statements to understand the nature of revenue streams, the timing of revenue recognition and how the value of the revenue is determined.

For judgements and estimates, better reporters included the detail of the specific judgement involved within an account balance or transaction and the rationale behind the conclusion reached., The degree of estimation uncertainty within the carrying amount of an asset or liability was also more apparent when a sensitivity analysis was provided.

In relation to material provisions, most disclosures lacked sufficient detail for users of financial statements to understand the risks affecting the company. Companies should provide clearer and more detailed disclosure on the nature of the obligation and the associated uncertainty in the timing and amount of the provision.

Financial instrument risks, specifically liquidity risks, were also identified as not being disclosed in sufficient detail. Disclosure in this area could be enhanced by describing the specific nature of the risk and demonstrating its relevance by quantifying the exposure of the risk and its sensitivity to potential changes.

The FRC noted that a number of these issues could have been avoided if companies had undergone a critical review of the annual report prior to finalisation. Companies are encouraged to perform internal reviews, with the objective of evaluating whether the annual report as a whole is clear, concise and understandable and whether it omits immaterial information, as well as assessing internal consistency and wider presentation and disclosure matters.

Non-GAAP and alternative performance measures (APMs)

Significant economic changes or unusual events often lead to a desire to highlight their effects on performance or what an entity's profit may have been had an event not occurred. However, care must be taken in following such an approach. The pervasive nature of the impact of such changes or events means that a separate presentation may not faithfully represent an entity's overall financial performance and may be misleading to users' understanding of the annual report and financial statements.

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

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

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

In addition, the definition and calculation of APMs should be consistent over time. In particular, entities should carefully assess whether the intended adjustments or new APMs provide transparent and useful information, improve comparability, reliability and/or comprehensibility of the APMs and of the financial information disclosed.

When including non-GAAP measures or APMs in management reports, entities should also consult the ESMA Guidelines on Alternative Performance Measures (updated in 2020) and the FRC's Thematic review: Alternative Performance Measures (APMs) 2021 which remain relevant.

FRC

FRC focus area

Macroeconomic uncertainty

A Deloitte A Closer Look answers some common questions on applying IAS 36, addressing potential pitfalls and providing reminders of certain key requirements of the standard.

Impairment of assets

Impairment of assets continues to be the most common topic for which substantive questions were raised by the FRC in its 2023/24 annual review. The issues identified are largely comparable to those noted in the prior year. In addition, this year a number of restatements were required in parent company financial statements to impair investments held in subsidiaries, whereas no such instances were noted in the prior year (see **Recoverability of parent company's investments in subsidiaries**).

In addition to the requirement to perform an annual impairment test for certain assets (including goodwill), IAS 36 requires entities to assess at the end of each reporting period (including interim reporting dates) whether there is any indication that an asset (within the scope of IAS 36) may be impaired. The standard sets out internal and external indicators that entities need to consider in assessing whether an asset may be impaired. These indicators are not intended to be an exhaustive list. Entities will need to consider their own facts and circumstances, including the impact of the current macroeconomic and geopolitical environment on their operations, to assess whether an impairment test should be conducted at the reporting date.

Entities often rely on discounted cash flows in estimating recoverable amounts of non-financial assets. 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.

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).

The discount rate to be used is an estimate of the rate that a market participant would expect on an equally risky investment. In these uncertain times, management may face significant challenges in preparing the budgets and forecasts necessary to estimate the recoverable amount of an asset (or a cash generating unit). Management may determine that using an expected cash flow approach is the most effective means of reflecting the multiple dimensions of uncertainty in its estimates of recoverable amount. This approach reflects all expectations about possible cash flows instead of the single expected outcome. While an expected cash flow approach is highly dependent on assigning probabilities to estimates of future cash flows, such judgements on the inputs may nevertheless be more transparent and more readily tied to underlying commercial expectations than the addition of an 'uncertainty' risk premium to the discount rate that may be more arbitrary and for which there is no evidential base to support the quantum of the adjustment.

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 need to be supplemented by the information required by IAS 1:125-133, such as sensitivity analyses other than those required in respect of goodwill impairment testing.

Companies should take care to ensure that impairment disclosures provided are complete and consistent with other information provided elsewhere in the annual report and accounts. For further guidance, including examples of better disclosure practice, the FRC encourages entities to refer to its previous thematic reviews of impairment of non-financial assets and discount rates.

Key inputs and assumptions
Entities should ensure that they provide adequate disclosures which cover the key inputs and assumptions used in their impairment testing and include the sensitivity disclosures required by IAS 36 or IAS 1. Entities are also reminded that justification of the use of financial budgets/forecasts for periods longer than five years should be provided.

Care should be taken when performing value-in-use (VIU) calculations to ensure that the impact of tax is applied consistently across both the discount rate and the cash flows. Entities should also ensure the forecasts used for VIU calculations reflect the asset in its current condition and exclude all cash flows which have occurred before the date of testing. Furthermore, where relevant, the FRC expects disclosures to comment on how climate change risk has been factored into the assumptions used. See **Climate-related risks in the financial statements** for more detail on assessing exposure to climate-related risks as a possible indicator of impairment.

Allocation to cash-generating units
The allocation of assets, including goodwill, to cash-generating units (CGUs) should be clearly explained and should be consistent with information provided elsewhere in the report and accounts, such as segmental reporting. Where there has been a change in methodology from previous years, an explanation should be provided.

Recoverability of parent company's investments in subsidiaries
The FRC raised queries with entities when it was not clear whether a parent's investments in subsidiaries had been assessed for impairment, for example, when the net assets of the parent company exceeded the group market capitalisation at the reporting date, and the disclosures did not evidence that an impairment assessment had been performed or the basis thereof. Questions were also raised in cases where it was unclear whether the value of intercompany loans receivable had been taken into account in the parent company's impairment testing.

FRC

FRC focus area

Cash flow statements

Cash flow statements remained one of the most commonly challenged areas in the FRC's 2023/24 annual review with several restatements arising as a result of the FRC's enquiries. Classification of cash flows was the most common cause of restatements and in many cases these could have been avoided by careful pre-issuance reviews. Other queries were raised due to a lack of clear explanations about the transactions and the rationale for the treatment of the related cash flows.

The FRC expects entities to ensure they comply with the appropriate definitions and criteria in IAS 7 *Statement of Cash Flows* when classifying cash flows and identifying cash equivalents and avoid improper netting of cash flows within the consolidated or parent company financial statements. Entities should also maintain consistency between the amounts and descriptions used for cash flows within the cash flow statement and other sections of the annual report and financial statements. The FRC also reminds entities to exclude non-cash transactions from the cash flow statement appropriately and ensure that disclosure of any material transactions of this nature are provided elsewhere in the financial statements.

The guidance and better disclosure examples in the FRC's cash flow and liquidity disclosures thematic review remain relevant and provide details of the issues the FRC raises as well as the consistency checks it performs when reviewing cash flow statements.

The FRC's 2024 thematic review of offsetting reminds companies that cash inflows and outflows within investing and financing activities should be presented gross unless specific conditions are met. In particular, the FRC will challenge companies that present net cash flows in relation to short-term borrowings within financing activities where the liquidity risk disclosures show maturity periods of more than three months. Companies should also consider whether it would be more appropriate to exclude overdrafts from cash and cash equivalents where the overdrafts remain overdrawn across several reporting periods.

The IASB has also added the cash flow statement and related matters to its work plan as one of its priorities for 2022-2026. It will initially perform research into the nature and extent of perceived deficiencies in the reporting of cash flows and then determine whether IAS 7 requires targeted improvements or a more comprehensive review.

Classification of cash flows

The FRC raised concerns regarding the classification of certain cash flows, noting instances where entities misclassified payments to non-controlling interests and debt repayments related to subsidiary acquisitions as investing rather than financing cash flows. The FRC also challenged the classification of loan repayments to group undertakings as operating instead of financing cash flows and payments of contingent remuneration to employees of acquired businesses as investing rather than operating cash flows. Additionally, the FRC emphasised that cash flows from derivatives should be classified consistently with the transactions they relate to, for example payments on swaps used to hedge debt should be classified as financing cash flows.

Reported cash flows

The FRC noted inconsistencies between amounts in the statement of cash flows and amounts disclosed elsewhere in the annual report, for example, where cash flows related to the acquisition of a subsidiary were inconsistent with the disclosures in corresponding notes to the financial statements, or where the presentation of gross or net cash flows was inconsistent with other disclosures in the financial statements.

Other issues related to the inclusion of non-cash investing and financing transactions, such as the addition of right-of-use assets via lease arrangements, which should be excluded from the cash flow statement and disclosed elsewhere if material. Entities should also ensure that the description of items in the cash flow statement appropriately reflects the nature of amounts and that the parent entity cash flow statement (where provided) is compliant with IAS 7.

Cash and cash equivalents

The FRC enquired about inclusion of deposit certificates in, and exclusion of restricted cash balances from, cash and cash equivalents. The FRC also questioned where bank overdrafts were included as part of cash and cash equivalents in the parent company cash flow statement, but not in the consolidated cash flow statement.

FRC

FRC focus area

Macroeconomic uncertainty

Financial instruments

Similar to the prior year, the FRC raised questions in its 2023/24 annual review about expected credit loss (ECL) provisions, with increased challenges resulting in a higher ranking of financial instruments as a topic in the current year. The FRC mostly queried non-financial companies and parent company financial statements, with questions principally related to companies outside the FTSE 350. The FRC noted that, in most cases, these questions could have been avoided if companies included more complete and specific disclosures about relevant accounting policies and financial risks.

Other challenges related to lack of clarity on accounting treatment and policies for significant items and the basis on which cash and overdraft balances were offset.

The FRC expects entities to disclose entity-specific accounting policies and sufficient information on all material financial instruments. They should provide adequate disclosure of the nature and extent of material risks arising from financial instruments, particularly in relation to material exposure to credit risk. The approach to, and significant assumptions made in, the measurement of expected credit losses should be appropriate and concentrations of risks should be considered (where material). Entities should ensure that disclosures are consistent across financial risk assumptions and relevant disclosures elsewhere in the financial statements.

Scope, recognition and measurement

The FRC expects accounting policies to be provided for all material financial instruments. Entities should also provide additional information where external evidence could contradict the accounting treatment applied to financial instruments. In particular, entities need to provide clearer explanations of the accounting treatment in areas such as:

- non-derecognition of financial assets when external evidence indicates they had been disposed before year end
- whether the entity has contractual rights to amounts recognised as financial assets
- significant items such as issued warrants, debt factoring activities, financial liabilities arising from the sale of income units and debt breakage costs
- loan relationships with a counterparty where external information indicates that the counterparty has been liquidated.

ECL provisions and credit risk

The FRC expects entities to discuss their approach and significant assumptions in measuring ECL provisions, including:

- how the ECL requirements had been applied to material amounts owed by group companies in parent company financial statements
- provision of adequate credit risk disclosures when other disclosures imply the existence of a material risk or when ECLs have been disclosed as a key source of estimation uncertainty
- explanation of reasons for not recognising an impairment where a counterparty is in financial difficulty.

For non-financial institutions, the FRC noted some cases where insufficient information was given to explain why percentages used in the ECL model varied significantly across different categories of receivables.

Offsetting of financial instruments

The FRC's 2024 thematic review of offsetting noted that it is essential to establish the terms of a cash pooling arrangement (CPA) and whether there is an intention to settle on a net basis when determining whether the qualifying criteria for offset are met. In particular, notional CPAs do not generally satisfy the offset criteria as they do not usually involve the physical transfer of individual bank balances to one bank account. The FRC may also challenge companies where the overdraft shown in the parent company's separate financial statements is greater than that shown in the consolidated financial statements without explanation.

The FRC further observes that the offsetting criteria in IAS 32 *Financial Instruments: Presentation* do not apply to income and expenses (or gains and losses) from financial instruments.

Other disclosures

The FRC also identified areas for improvement related to consistency between disclosures about compliance with covenants where a material uncertainty in relation to going concern had been reported and disclosures about foreign exchange risk where significant foreign currency gains and losses have been recorded.

FRC

FRC focus area

Revenue

The number of queries regarding revenue recognition and related disclosures increased in the FRC's 2023/24 annual review compared to the prior year. Most FRC enquiries related to the adequacy of accounting policies and critical accounting judgement disclosures, which entities were generally able to address by providing more explanation and agreeing to enhance disclosures in future reports.

The FRC reminds entities to disclose sufficient information for all significant revenue streams and about any significant judgements in relation to revenue. In particular, accounting policies should be in place for all significant performance obligations and should address timing of revenue recognition, the basis for recognising any revenue over time, the methodology applied and whether any significant financing components exist. Entities should ensure that revenue by class of business and by geographical market is disclosed, when relevant. There should also be appropriate disclosure relating to principal versus agent assessments, including about the contractual arrangements in place, especially where the assessment involves significant judgement.

For more guidance, entities should refer to the FRC's 2019 Thematic Review: IFRS 15 *Revenue from Contracts with Customers* and the 2020 follow up report.

Presentation of financial statements

In its 2023/24 annual review, the FRC raised an increasing number of queries relating to presentation of financial statements. The most common areas of challenge included:

- the rationale behind the classification of current and non-current balances, particularly regarding intercompany balances
- non-disclosure of material impairment losses on the face of the income statement
- gross presentation of expenses and their reimbursements in different lines, and gross presentation of income and expenses arising from derivative financial instruments when these income and expenses are settled on a net basis
- presentation of tangible asset impairments outside operating profit under UK GAAP.

Questions were also asked where an entity's accounting policy disclosure for material balances or amounts was insufficient, material balances were not separately disclosed in the notes and when there were inconsistencies between going concern disclosures and other information included in the annual report.

Entities should provide clear and entity-specific disclosure about their material accounting policies and ensure that disclosures on going concern and related matters are consistent with information elsewhere in the annual report. The FRC encourages entities to carefully review the financial statements to avoid common areas of non-compliance with IAS 1.

The FRC's 2024 thematic review of offsetting notes that companies should disclose material accounting policy information relating to offsetting. The FRC may challenge companies where labels used for line items in the primary financial statements suggest that income and expenses or assets and liabilities may have been offset and the reason for using that label has not been given.

FRC

FRC focus area

Macroeconomic uncertainty

Judgements and estimates

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

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

Judgements and estimates is an area where reporting has improved, with this topic dropping from being the second most challenged area by the FRC in the prior year to the seventh position in its 2023/24 annual review. However, the need for clearer and more detailed disclosures relating to judgements and estimates, especially in view of the ongoing economic and geopolitical uncertainties, was emphasised by the FRC.

The FRC expects entities to describe and explain significant judgements and estimates in sufficient detail, including information about any uncertainties and sensitivities involved. Significant estimates should also be clearly distinguished from other estimates and contain appropriate entity-specific information; a list of uncertainties is not sufficient.

The FRC encourages entities to refer to its previous thematic review: Judgements and estimates for guidance and best practice.

Key sources of estimation uncertainty

The FRC raised a number of questions related to estimation uncertainty, in particular where disclosures did not provide enough information to be useful and when there were no disclosures about estimation uncertainty in relation to matters disclosed as principal risks that appeared to involve estimation uncertainty.

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

Significant accounting judgements

The FRC noted that, based on information elsewhere in the report, in some cases it appeared that significant judgements in relation to accounting treatments had been made but IAS 1-related disclosures relating to significant judgements had not been provided. The FRC also challenged entities where disclosures about significant judgements used specialist terminology that may not be understood by users.

FRC

FRC focus area

Macroeconomic uncertainty

Income taxes

Fewer queries were raised by the FRC in its 2023/24 annual review in relation to income taxes. The most common issues raised related to support for the recoverability of deferred tax assets and clarification of reconciling items within effective tax rate reconciliations.

The FRC's 2022 thematic review of deferred tax assets includes guidance on improved disclosure in relation to deferred tax assets and its thematic review of tax disclosures addresses other areas of disclosure including the effective tax rate reconciliation, both of which remain relevant. In addition, in its 2024 thematic review of offsetting, the FRC states that it may challenge companies that fail to explain why deferred tax asset and liability balances have not been offset when the companies operate in a single tax jurisdiction, or why all deferred tax asset and liability balances have been offset when the companies operate in multiple tax jurisdictions.

The FRC expects companies to ensure that they include the new disclosures required in relation to Pillar Two income taxes, where relevant (see **OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)**). More generally, it also called for entities to make sure that their tax disclosures are transparent, informative and consistent with disclosures and assumptions elsewhere in the annual report.

Recoverability of deferred tax assets

IAS 12 *Income Taxes* requires convincing supporting evidence for the recognition of material deferred tax assets where entities have a recent history of losses; the FRC challenged entities where disclosure about the evidence supporting recognition of deferred tax assets and any related uncertainties were not sufficient.

Recognition of deferred tax assets and liabilities

The FRC reminds entities that they need to consider the tax effects of prior year restatements. Where prior year restatements impact profit before tax, any tax effects arising from such restatements should be disclosed. Entities should also ensure that they recognise any deferred tax liability which arises in relation to the recognition of intangible assets in a business combination.

Effective tax rate reconciliation

Information in the effective tax rate reconciliation should be consistent with information included elsewhere in the financial statements. Entities should also ensure that a reconciliation of material deferred tax balances is provided by type of temporary difference.

Other disclosures

The FRC also expects entities to provide:

- meaningful descriptions of the types of temporary difference to which deferred tax balances relate
- clear explanations for any deferred tax asset movements that are recognised directly in other comprehensive income or equity
- clear accounting policies relating to Research and Development Expenditure Credits (RDEC) and related tax implications.

> In October 2017, the European Commission opened an investigation into whether the UK Group Financing Exemption contained within the UK Controlled Foreign Company tax rules complied with EU State Aid rules.
>
> The initial judgment of the General Court of the European Union (GCEU) was that the group finance exemptions were unlawful. As a result of this GCEU judgement, affected entities may have paid amounts, or recognised a provision or a contingent liability, to His Majesty's Revenue and Customs (HMRC) in respect of the purported State Aid.
>
> Following an appeal, the final judgment was handed down by the Court of Justice of the European Union (CJEU) on 19 September 2024. The CJEU followed the recommendation of the Advocate General's Opinion to set aside the judgment of the GCEU and annul the previous European Commission opinion.
>
> Since then, the UK Government has implemented the Controlled Foreign Companies (Reversal of State Aid Recovery) Regulations 2024 to affect the CJEU ruling in UK legislation, and HMRC has issued guidance to affected taxpayers to outline its approach to repayment of State Aid repayments and the associated interest. Affected entities that are due repayment in respect of this State Aid issue should reflect the latest HMRC guidance when recognising and measuring an asset for any purported State Aid previously paid.
>
> In its 2023/24 annual review, the FRC noted that some entities had disclosed the EU State Aid investigation as a key judgement. However, following the CJEU conclusion, this will no longer be considered a key judgement.

OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS)
IIn March 2022, the OECD released technical guidance on its 15% global minimum tax agreed as the second 'pillar' of a project to address the tax challenges arising from digitalisation of the economy. This guidance elaborates on the application and operation of the Global Anti-Base Erosion (GloBE) Rules agreed and released in December 2021 which lay out a co¬ordinated system to ensure that multinational enterprises with revenues above €750 million pay tax of at least 15% on the income arising in each of the jurisdictions in which they operate.

Entities that may be subject to the rules will need to monitor the legislation process in the jurisdictions in which they operate and assess whether the Pillar Two legislation has been enacted (or substantively enacted) in any such jurisdictions. A Deloitte Global Pillar Two Legislative Tracker provides updates on legislation being introduced to implement Pillar Two.

The Finance Bill No.2 2023, which includes the UK's implementation of the OECD Pillar Two tax rules, was substantively enacted on 20 June 2023.

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

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

See **Pillar Two in interim financial statements** for interim reporting considerations with respect to Pillar Two income taxes.

FRC

FRC focus area

Macroeconomic uncertainty

Fair value measurement

The FRC continued to challenge compliance with IFRS 13 *Fair Value Measurement* with the number of queries increasing slightly from the prior year. The most common issue raised in the 2023/24 annual review related to a lack of clarity on how companies had applied the IFRS 13 requirements to their fair value measurements and the valuation techniques they had used.

In a challenging economic environment and with the additional risks posed by climate change, the degree of estimation uncertainty and management judgement involved in fair value measurement is likely to be increased. Many IFRS Accounting Standards require or permit fair value measurement. Therefore, clear and transparent disclosures of fair value measurements are important, including entity-specific explanations of valuation techniques and assumptions used and adequate quantitative information about unobservable inputs to, and sensitivity of, fair values.

The FRC's 2023 thematic review of fair value measurement provides examples of better disclosure and opportunities for improvement, which remain relevant.

Determining fair value

The valuation techniques and assumptions used should be explained and be in line with the measurement requirements of IFRS 13. For example, fair value measurements should use market participants' assumptions and these assumptions should be explained in the disclosure.

Key inputs used in the valuation technique should be identified in the disclosure, including defining which inputs are observable and which are unobservable. During its review, the FRC noted valuation techniques used for Level 2 measurements appeared to include significant unobservable inputs, indicating that it should have been classified as Level 3.

Information on fair value measurement should be consistent across the annual report and accounts and should reflect the significant risks facing the business. Management commentary should complement and further explain fair value measurements when this enhances the users' understanding.

Sensitivity analyses

Sensitivity analyses provide useful information and the FRC challenged entities that did not provide disclosures of the effect of reasonably possible alternative assumptions on the fair value of financial assets and liabilities.

Quantification of unobservable inputs

Entities should disclose the significant estimation uncertainty in relation to fair value measurements and provide meaningful quantitative details of the significant unobservable inputs for measurements categorised within Level 3 of the fair value hierarchy. Entities should not provide a wide range of values when quantifying inputs as this does not provide meaningful information to readers.

FRC

FRC focus area

Retail sector

Over the last six years, the FRC has identified retail as a priority sector due to economic risks and other challenges it faced. In its 2023/24 annual review the FRC outlines findings from targeted research into issues of particular relevance to retailers where accounting and reporting can be complex, contentious or where there is diversity in practice.

The FRC's findings cover impairment testing, APMs, leases and supplier income arrangements. The FRC expects retail sector entities to consider its findings to ensure they provide adequate, entity-specific disclosures about material accounting policies and significant judgements.

Impairment testing: identification of cash-generating units and allocation of online sales

Impairment of assets has consistently been in the FRC's top ten topics more generally (see **Impairment of assets**). The FRC's research into the retail sector showed that individual stores are normally identified as CGUs and some retailers are now allocating a proportion of online sales to individual stores; however, judgement is required in doing so. Entities should analyse the relationship between online sales and physical stores and determine whether it is appropriate to allocate a proportion of online sales to individual stores. The FRC notes that there is diversity in practice as some entities have insufficient data to make an allocation.

The factors that are typically considered in determining whether and how to perform an allocation relate to touchpoints between online sales and stores and the sources and reliability of supporting data. Touchpoints include 'click and collect' sales, stores fulfilling online orders locally, in-store ordering from online ranges and customers browsing in-store before ultimately completing their purchase online, with sources of supporting data relating to these touchpoints including transaction histories of online customers who have previously shopped in-store, data from in-store devices used to order online, and customer surveys.

The FRC notes that, where there is a lack of clear evidence of a touchpoint between an online sale and a store, it is harder to justify an allocation of the related revenue and to evidence that the supporting data is sufficiently reliable, especially where results have been extrapolated from limited data.

Online operations will typically rely on an entity's infrastructure, such as software and hardware assets, third-party costs of cloud computing as well as costs related to, for example, employees, sales and marketing, and distribution. The FRC reminds entities that it would be inappropriate to allocate online revenues without also allocating such related costs and assets.

The FRC expects entities to clearly identify and explain their CGUs and allocated assets and when and how online revenues are allocated to individual stores as part of impairment assessments. This would include giving an indication of the amount of online revenues allocated to individual stores, the nature and reliability of the underlying data used in the allocation process, and an explanation of how relevant costs are included in the impairment assessment and the method of allocation.

Alternative performance measures (APMs)

APMs have historically been an area subject to regulatory focus (see **Non-GAAP and alternative performance measures**) and the FRC's routine reviews of corporate reporting identified that the retail sector used 'like-for-like' (LFL) and 'pre-IFRS 16' APMs more frequently compared to other businesses, reflecting the prevalence of a 52/53-week financial year and the importance of changes in the property estate from year-to-year and of leased properties in the retail sector. The FRC also observed inconsistencies in how entities adjust profit to present 'underlying' or 'core' performance. The findings of the FRC's thematic review: Alternative Performance Measures (APMs) 2021 remain relevant.

Like-for-like (LFL) measures

The FRC identified that entities often make adjustments for one or more year-on-year variables but with no standard method of calculation, reducing the comparability of apparently equivalent measures. The FRC also found instances of apparently inconsistent definitions of LFL measures in different parts of individual annual reports and accounts.

The FRC expects entities to clarify how LFL measures have been calculated and reconcile LFL measures to amounts in the financial statements. For example, if entities disclose LFL measures for variable reporting periods, they should explain whether they have calculated the adjusted measure on a pro-rata basis or by including/excluding a discrete part of the period; if entities disclose LFL measures on a 'constant currency basis', they should explain which exchange rates had the most significant effect and how the adjusted measure was calculated.

Adjusted profit measures
The FRC notes that the exclusion of costs from adjusted profit measures raises concerns about comparability. In particular, there is diversity in practice as to whether the costs of opening and closing branches are regarded as 'restructuring' and impairment losses as 'exceptional', or whether such costs are treated as inherent expenses of managing a store estate.

The FRC reminds entities to apply the ESMA Guidelines on APMs, and highlights good practice where entities provided an explanation of the rationale for specific adjustments, reconciled the APM to IFRS figures and flagged potential differences from peers' APMs.

Pre-IFRS 16 measures
The FRC highlights that profit measures excluding right-of-use asset depreciation and finance charges may be established internal metrics or required for specific purposes such as compliance with loan covenants. In such circumstances, the FRC expects entities to provide explanations for their continued use. When pre-IFRS 16 measures are expected by a specific stakeholder group but not used for internal purposes, this should also be explained.

Leased property
The FRC notes that the prevalence of leased properties in the retail sector can result in challenges in the application of IFRS 16, including for indefinite tenancies, variable turnover rents and the volume of arrangements to assess.

Lease term
The FRC identified different approaches to accounting for leases beyond the end of their contractual term, where occupation continues, including when the Landlord and Tenant Act 1954 applies. Some entities treated such leases as short-term, expensing rental costs when incurred, whilst others treated the tenancy as a term lease with renewal options whose exercise are reasonably certain. The FRC expects clear disclosure about the policies entities have selected and whether their decisions involved the exercise of significant judgement.

The FRC also noted that accounting policies for determining the lease term in other circumstances tended to be boilerplate, without company-specific disclosure of factors affecting whether the company was reasonably certain to continue in occupation beyond the effective dates of renewal or termination options.

The FRC expects entities to provide explicit and specific disclosure of these factors, of how continuing tenancies are treated and of any related significant judgements to assist users' understanding of the entity's position and aid comparability of accounting policies despite different circumstances.

Accounting for right-of-use assets and owned assets installed in the premises
The FRC identified some cases where impairment testing of right-of-use assets incorporated cash flows projected beyond the end of the lease term, but entities did not disclose the basis for this approach or the period over which these cash flows are extrapolated.

The FRC expects that entities should generally have consistency between the lease term, the asset life used for depreciation of the right-of-use asset, and the value-in-use forecast assumptions used in impairment testing. Any differences between these parameters due to IFRS requirements or an entity's specific circumstances should be clearly explained.

Supplier income arrangements

Supplier income arrangements are common in, but not exclusive to, the retail industry and include arrangements such as discounts, volume rebates, reimbursement of promotional or advertising costs, margin or price protection, fees in return for giving a product advantageous placement in a physical or online store (slotting fees), and fees to enter into a contract.

The FRC reminds entities of the need for relevant information to be disclosed when amounts involved are material, as previously emphasised in its press release from December 2014.

Judgements, estimates and other disclosures

The FRC observed that retailers have indicated reduced complexity in supplier income in recent years, driven by clearer contracts reducing the need for judgement and giving a sound basis for estimating amounts receivable at the reporting date. However, the FRC notes that there may still be a degree of negotiation in determining the amounts actually paid.

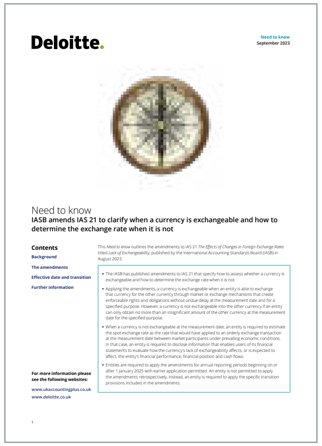
Where supplier income is material, the FRC expects entities to disclose a detailed accounting policy that explains the types of income recognised, how amounts are determined and where these are reported in the financial statements. If significant judgement or estimation uncertainty are involved, such as determining the period to which income relates, the disclosures required by IAS 1 *Presentation of Financial Statements* should be provided.

Entities should also disclose the amount of material supplier income recognised together with the relevant line items in the income statement where such income is included and material supplier income receivable amounts that have been offset against accounts payable.

Recognition and presentation

The FRC notes that entities consistently recognise supplier income as a reduction in cost of sales, inventory cost or other expenses. Additional consideration may be required when assessing whether supplier income requires allocation between goods already sold and those in inventory, or where the contract is not explicit that the income is a discount or reimbursement.

The FRC expects that supplier income would not normally qualify as revenue under IFRS 15 *Revenue from Contracts with Customers*.


Deloitte.

Need to know
September 2023

Need to know
IASB amends IAS 21 to clarify when a currency is exchangeable and how to determine the exchange rate when it is not

Contents
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A Deloitte [Need to know: IASB amends IAS 21 to clarify when a currency is exchangeable and how to determine the exchange rate when it is not](#) discusses the amendments and provides further guidance.

Other financial reporting considerations

Currency and hyperinflation

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

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

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

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

- Argentina
- Ethiopia
- Ghana
- Haiti
- Iran
- Lao PDR (new)
- Lebanon
- Malawi (new)
- Sierra Leone
- South Sudan (new)
- Sudan
- Suriname
- Syria
- Türkiye
- Venezuela
- Zimbabwe

Yemen

Yemen is no longer identified as a hyperinflationary economy for reporting periods ending on or after 30 June 2024.

Egypt

As at September 2024, the three-year cumulative inflation in Egypt stood at 100.6% (as per the Central Bank of Egypt). Inflation has slowed significantly in recent months. Although the IMF World Economic Outlook report released in October 2024 did not include a forecast for December 2024, it included a forecast three-year cumulative inflation to June 2025 of 100.8%. Given the small margin by which the current and forecast three-year cumulative inflation exceed 100% and the recent slowing of inflation. Egypt is not currently identified as a hyperinflationary economy but should be monitored closely.

Nigeria
Although the three-year cumulative inflation stood at 103.1% as at September 2024 (as per the Nigerian National Bureau of Statistics), a rate exceeding 100% in 2024 was not forecast in the IMF World Economic Outlook report released in April 2024. In addition, the IMF World Economic Outlook report released in October 2024 forecasts a lower three-year cumulative inflation to December 2024 (101.8%) and the new Dangote oil refinery is expected to have a significant downward effect on inflation late in 2024 and into 2025. As a result, Nigeria is not currently identified as a hyperinflationary economy but should be monitored closely.

If a decrease in the three-year cumulative inflation is not observed in the coming months, Egypt and/or Nigeria may be identified as hyperinflationary economies for reporting periods ending on or after 30 June 2025.

Other countries
As of 15 November 2024, other countries whose currencies should be monitored for hyperinflation include Angola, Burundi, Myanmar, Pakistan and Sri Lanka. In particular, Burundi shows increasing levels of inflation that might result in a three-year cumulative inflation rate exceeding 100% early in 2025.

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

Defined benefit pensions – UK High Court ruling

In June 2023, the UK High Court issued a ruling in the case of *Virgin Media Limited* v *NTL Pension Trustees II Limited and others* relating to the validity of certain historical pension changes. In July 2024, this ruling was upheld by the Court of Appeal. This case may have implications for the validity of past amendments to other defined benefit schemes in the UK.

Between 1997 and 2016, it was possible for schemes to be 'contracted-out' from the Additional State Pension (also known as the State Second Pension, being an amount payable in excess of the basic state pension) in exchange for reduced National Insurance contributions. In such cases, members accrued certain benefits under Section 9(2B) of the Pension Schemes Act 1993, which replaced earlier provisions on Guaranteed Minimum Pensions (GMP). Contracted-out schemes had to pass an overall scheme quality test related to the members' Section 9(2B) rights.

When making an amendment affecting Section 9(2B) rights, Section 37 of the Pension Schemes Act 1993 and Regulation 42 of the Occupational Pension Schemes (Contracting-out) Regulations 1996 required confirmation in writing from the scheme actuary that a scheme would continue to satisfy the scheme quality test for those rights. The *Virgin Media* case focused on the consequences of failing to obtain such actuarial confirmation. The case related to the validity of a trust deed and rules change from 1999, for which no Section 37 actuarial confirmation had been located.

The Court was asked to proceed on the assumption that no Section 37 actuarial confirmation was issued, because at the time of the case no such confirmation had been found. The Court decided that the failure to obtain actuarial confirmation meant that the amendments were invalid and void, both in relation to past and future service. The Court also decided that the requirement for actuarial confirmation applied to changes that would improve 9(2B) benefits as well as those that would or could adversely affect those benefits. This ruling was appealed but in July 2024 was upheld by the Court of Appeal.

Entities with defined benefit pension schemes that were contracted out between 1997 and 2016 should now look to progress their assessments of whether the ruling is relevant (i.e. because amendments were made during that period that could have impacted Section 9(2B) rights) as a priority and if so, determine whether the potential impact could be material and whether actuarial confirmations appear to have been obtained. Where the written actuarial confirmation cannot be located, the question of whether or not a confirmation was obtained would legally be a question of fact for a Court to decide on the balance of probabilities based on the available evidence.

When assessing evidence, a Court might consider applying the legal concept of the 'presumption of regularity'. There are material differences in how the legal concept of the 'presumption of regularity' has been applied in Scotland versus England and Wales, and the extent to which the Courts have relied on it. In Scotland, there may well be additional scope for Courts to assume something has been done correctly (i.e. that an actuarial confirmation was obtained) as long as there is no substantive reason to think that it has not been. In contrast, in England and Wales, the available evidence would still be key to any assessment by a Court. This means that the 'presumption of regularity' is unlikely to increase the scope to assume something has been done correctly and some evidence of having done it correctly may ultimately be required to establish validity.

Affected entities not currently able to determine whether actuarial confirmations were obtained should seek to gather evidence to support, on a balance of probabilities, any conclusion that a challenge would be unsuccessful. Where there is indication that there is potential for an amendment to be considered void, an entity should provide disclosure in relation to the *Virgin Media* case, the fact that it could have a potential impact on the entity's pension obligation and the extent of possible impact or that it continues to be assessed. Entities that have concluded that confirmations were not obtained will need to consider further the impact on the scheme as well as the accounting consequences, including disclosure.

In February 2025, the Institute of Chartered Accountants in England and Wales (ICAEW) published a helpsheet which outlines the key judgements and considerations that might be relevant for trustees, sponsoring entities, and auditors.

The ICAEW notes that despite the Court ruling, there remains further uncertainty at present about future rulings and regulations, and that most trustees have not yet made a detailed assessment. Sponsoring entities of defined benefit pension schemes will need to consider how to reflect the potential impact of the ruling in their financial statements and the helpsheet summarises potential accounting treatments that, depending on the specific circumstances of the scheme and on the course of action taken, may be appropriate for a sponsoring entity under both IFRS Accounting Standards and FRS 102:

- **do not recognise any amounts or make any disclosure:** such an approach would only likely be suitable for schemes where the trustees are confident that the ruling does not apply. This might be the case if the scheme was not contracted out or no amendments to scheme benefits were passed during the relevant period, or if there is evidence that the required confirmations are in place and therefore the liability is correctly measured, or the pension scheme is not material to the sponsoring entity. In less clear situations, this approach may still be appropriate but sponsoring entities should anticipate challenge from auditors
- **include a disclosure in the pension note:** for most sponsoring entities, it is likely not to be clear at present whether remeasurement of the defined benefit obligation is needed or how the liability would change as a result. In such circumstances, it may be appropriate to disclose entity- and scheme-specific information about the additional uncertainty when measuring the defined benefit obligation highlighted by the ruling
- **remeasure the defined benefit obligation and recognise a change to the liability:** because of the remaining uncertainty and lack of detailed assessment, it is unlikely at present that sponsoring entities will be able to recognise a change in the defined benefit obligation as a result of this ruling. The ICAEW notes that any remeasurement will likely result in a prior year adjustment as, unlike previous rulings on Guaranteed Minimum Pension (GMP) equalisation, ruling has not created new requirements for schemes; it has only highlighted the consequences of not following existing requirements.

The ICAEW highlights the importance of early communication between sponsoring entities and their auditors, noting that auditors may want to know what legal advice has been obtained by sponsoring entities or trustees, and what actions trustees intend to take. Sponsoring entities and their auditors are reminded that legal advice obtained by the trustees may not always be shared.

A Deloitte Need to Know: IFRS Foundation publishes educational material on the requirements of IFRS Standards relevant for going concern assessments discusses the IASB's educational material in more detail.

Going concern

It is possible that economic pressures or changes might render a business model unviable or access to necessary financing might be limited. In such circumstances, it is necessary to assess whether the entity might be unable to continue as a going concern, which in accordance with IAS 1 should be for a period of at least, but not limited to, 12 months from the reporting date. In line with the FRC's *Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks*, when assessing whether the going concern basis is appropriate, UK entities should consider a period of at least 12 months from the date the financial statements are authorised for issue.

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

In February 2025, the FRC issued updated Guidance on the Going Concern Basis of Accounting and Related Reporting ("the Guidance") to support entities in preparing their going concern disclosures. It replaces the FRC's previous Guidance on the Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risk, issued in 2016 ("the 2016 Guidance").

The Guidance is non-mandatory and is designed for UK companies other than small companies and micro-entities, although the FRC acknowledges that other entities may also find it useful. It brings together the requirements and provisions of company law, accounting standards, auditing standards, UK Listing Rules, the UK Corporate Governance Code and other regulation relating to reporting on the going concern basis of accounting and solvency and liquidity risks.

The Guidance is comprehensive and is intended to encourage directors to take a broader view, over a longer term, of the risks and uncertainties affecting companies. It covers:

- understanding the scope of the Guidance and the underlying requirements and relevant disclosures
- the assessments required relating to both the going concern basis of accounting and solvency and liquidity risks
- detailed guidance regarding the assessment process, including factors to consider and techniques that could support the process (sensitivity analysis, stress test, scenario analysis, reverse stress test)
- how materiality is applied to the reporting requirements and considerations for the placement of disclosures
- group considerations.

The Guidance also reminds entities to consider materiality and proportionality in their work in this area.

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

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

Business combinations and other acquisition transactions
Business combinations and other similar transactions can be complex and their accounting may involve significant judgement, for example, to determine:

- whether the transaction meets the definition of a business combination or should be accounted for as an asset purchase
- if the transaction is a business combination, identifying the elements of the transaction that form part of the business combination and those that should be accounted for as separate transactions (for example, whether certain payments from part of the purchase price or should be accounted for as remuneration)
- whether the transaction results in control, joint control or significant influence over an investee. This assessment may be particularly judgemental when factors other than voting rights come into play, for example:
  - the existence of special rights under contracts between shareholders pertaining to voting or nominating directors
  - if the investee is subject to specific legal regimes, for example regarding involvement of government agencies or the nomination of directors
  - whether the entity (the investor) is subject to legal provisions, for example limiting its capital involvement in the investee
  - options or other potential voting rights held by the entity or third parties.

As business combinations and other acquisition transactions can be highly significant, entities should give clear and consistent explanations of the impact of these transactions and of the significant judgements made in determining to how to account for these transactions. This may include:

- judgements involved in determining whether a group of assets is a business combination and should be accounted for applying IFRS 3
- an explanation of factors giving rise to goodwill , by reference to the business combination in question, rather than boilerplate disclosures
- an explanation of contingent consideration arrangements and the potential variability in the amounts payable
- the information required by paragraphs 7-9 of IFRS 12 *Disclosure of Interest in Other Entities* on the significant judgements made when assessing control, joint control and significant influence.

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

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

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

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

Earnings per share (EPS)

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

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

- the determination of whether potential ordinary shares are dilutive or antidilutive must be based on profit or loss from continuing operations
- share reorganisations that involve a bonus element require retrospective adjustment in the weighted average number of ordinary shares used for the calculation of basic and diluted EPS for all periods presented
- when preference shares are classified as equity, earnings used for the calculation of basic and diluted EPS are adjusted for all the effects of those preference shares, including dividends and any premiums arising on redemption.

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


Deloitte.

A Deloitte [A Closer Look](#) provides guidance on aspects of IFRS 17 that non-insurers should consider when they assess whether contracts they issue are within the scope of IFRS 17.

Insurance contracts

In September 2024, the FRC published its thematic review: IFRS 17 *Insurance Contracts* Disclosures in the First Year of Application, following on from its 2023 thematic review of interim accounts. Although the FRC identified some areas for improvement, it commented that the general quality of IFRS 17 disclosures was good, and many of the issues identified in the 2023 thematic review had been addressed. Where further issues were observed, these often related to areas which are commonly raised as part of routine reviews, such as judgements and estimates (see **Judgements and estimates**) and APMs (see **Non-GAAP and alternative performance measures**).

The FRC has set out its findings in the report alongside examples of better practice which it expects entities to take into account in their future reporting. In particular, the FRC expects entities to:

- consider the appropriate level of disaggregation for disclosures of insurance contracts and provide sufficient information to allow users to understand the financial effects of material portfolios of insurance and reinsurance contracts
- provide entity-specific disclosures of the key judgements made in applying IFRS 17, including details of inputs, assumptions and methods used and any meaningful sensitivities to changes in assumptions, avoiding boilerplate language
- explain clearly how the risk adjustment has been determined under IFRS 17 and the confidence level used
- provide an explanation of how liquidity risk is managed for insurance contracts and a maturity analysis of cash flows for each of the first five years after the reporting date
- provide quantitative and qualitative disclosures of the contractual service margin (CSM), including how coverage units are determined, the movement in CSM during the period, and quantification of the expected recognition of CSM in appropriate time bands
- ensure APMs are clearly labelled and defined, even where common industry terminology is used and avoid the use of labels such as 'group revenue' which could be interpreted as being an IFRS measure.

In October 2024, ESMA also issued a report, *From 'Black Box' to 'Open Book' – Evidence from the First Application of IFRS 17*, which provides observations and recommendations from a review of the financial statements of a sample of European insurance companies. In particular, ESMA observes that a sample of entities presented disclosures about the nature and extent of risks that arise from insurance contracts outside of the financial statements (e.g. in the narrative reporting within the annual report), including using cross-references from the financial statements, which is not permitted under IFRS 17. The disclosures required by IFRS 17 should be included into the notes to the financial statements.

Interim financial reporting

Timely and high-quality interim disclosure is important to primary users of financial statements. Deloitte's *Model half-yearly financial report for the year ended 30 June 2024* publication illustrates typical disclosures which will be required of a UK listed company in its half-yearly financial report in accordance with IAS 34 *Interim Financial Reporting*, together with an overview of applicable requirements and key messages and expectations from the FRC and ESMA that should be considered in conjunction with the messages in this publication, when preparing half-yearly financial reports.

The areas of consideration which are most likely to be relevant when preparing interim financial statements – in addition to those already described throughout this publication – are discussed below.

Important events and transactions

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

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

Estimates

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

Impairment of assets

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

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

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

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

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

Going concern

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

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

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

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

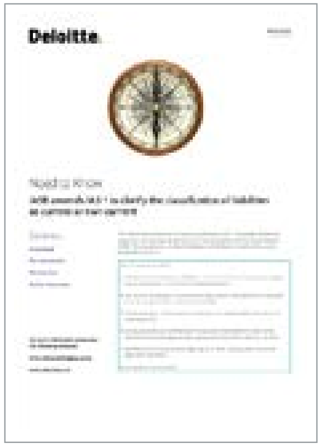
Other disclosures
As explained above, the overarching objective in IAS 34 is that the interim financial statements should provide an explanation and an update to the relevant information included in the annual financial statements. In addition to the specific considerations explained above, entities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

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

Pillar Two in interim financial statements
In accordance with IAS 34:B12, Pillar Two income tax is accrued in an interim period using the tax rate applicable to estimated total annual earnings. This rate is determined based on estimated adjusted covered taxes and the estimated net GloBE income for the year.

The estimated annual effective income tax (AETR) rate should be estimated using the tax rates (and tax laws) that have been enacted, or substantively enacted, by the end of the interim period.

In practice, the determination of expected annual GloBE Income at an interim reporting date and the attribution of the expected annual GloBE income to interim periods may involve significant estimates. As noted in IAS 34:B14, if different income tax rates apply to different categories of income, to the extent practicable, a separate rate is applied to each individual category of interim period pre-tax income. However, this may not be achievable in all cases and a weighted average of rates across categories of income may be used if it is a reasonable approximation of the effect of using more specific rates.



A Deloitte Need to Know: Classification of liabilities as current or non-current discusses the amendments to IAS 1 in more detail.

A Deloitte Need to Know: Supplier finance arrangements discusses the amendments in more detail.

Selected new IFRS requirements and future developments

This section highlights the key new requirements under IFRS Accounting Standards and IFRS Interpretations Committee agenda decisions, as well as those available for early adoption, subject to endorsement for use in the UK. For a full list of new and forthcoming IFRS requirements (including current UK endorsement status), please refer to the **Appendix**.

New IFRS requirements for periods commencing on or after 1 January 2024

A complete list of forthcoming IFRS requirements for periods commencing on or after 1 January 2024 is included in the Appendix, with some key new requirements discussed in more detail below.

Classification of liabilities as current or non-current

The 2020 and 2022 amendments to IAS 1:

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

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

Supplier finance arrangements

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

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

The objective of these disclosure requirements is to enable users of an entity's financial statements to assess the effects of the supplier finance arrangements on its liabilities and cash flows and its exposure to liquidity risk. To meet this objective, the following should be taken into consideration when preparing the required information in respect of all material supplier financing arrangements:

- terms and conditions of arrangements that have dissimilar terms and conditions should be disclosed separately. An entity should ensure that the level of aggregation (or disaggregation) used avoids omitting or obscuring material information
- if the range of payment due dates are wide, it may be necessary to disclose additional ranges (e.g. stratified range) and/or provide information on the judgements made when defining the ranges.

A Deloitte Need to Know: IASB finalises amendments on contracts that reference nature-dependent electricity explains the key amendments.

A Deloitte Need to Know: IASB issues amendments to the classification and measurement requirements of financial instruments explains the key amendments.

New IFRS requirements for periods commencing on or after 1 January 2026

A complete list of forthcoming IFRS requirements for periods commencing on or after 1 January 2026 is included in the **Appendix**, with the key new requirements discussed in more detail below.

Amendments to the Classification and Measurement of Financial Instruments

In December 2024, the IASB issued *Contracts Referencing Nature-dependent Electricity* which amends IFRS 9 and IFRS 7 to:

- add application guidance to IFRS 9 to address whether a contract to buy electricity generated from a source dependent on natural conditions is held for the entity's own-use expectations
- permit an entity to designate a variable nominal amount of electricity as the hedged item when an entity applies the hedge accounting requirements in IFRS 9 and designates a contract referencing nature-dependent electricity with a variable nominal amount as the hedging instrument
- add related disclosure requirements to IFRS 7.

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued *Amendments to the Classification and Measurement of Financial Instruments* which amend IFRS 9 and IFRS 7 and address the following topics:

- derecognition of a financial liability settled through electronic transfer
- classification of financial assets—contractual terms that are consistent with a basic lending arrangement
- classification of financial assets—financial assets with non-recourse features
- classification of financial assets—contractually linked instruments
- disclosures—investments in equity instruments designated at FVTOCI
- disclosures—contractual terms that could change the timing or amount of contractual cash flows on the occurrence (or non-occurrence) of a contingent event.

New IFRS requirements for periods commencing on or after 1 January 2027

IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 *Presentation and Disclosure in Financial Statements* which replaces IAS 1. The new standard carries forward many of the requirements in IAS 1 unchanged and complements them with new requirements to:

- present specified categories (operating, investing, financing, income taxes and discontinued operations) and defined subtotals in the statement of profit or loss
- provide disclosures on management-defined performance measures in the notes to the financial statements
- improve aggregation and disaggregation.

Some of the requirements in IAS 1 are moved to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and IFRS 7. The IASB also made minor amendments to IAS 7 and IAS 33.

IFRS 18 requires retrospective application with specific transition provisions. An entity is required to apply IFRS 18 for annual reporting periods beginning on or after 1 January 2027 with earlier application permitted.

A Deloitte [Need to Know: IASB publishes new standard on presentation and disclosure in financial statements] explains the key requirements of IFRS 18.

A Deloitte [Need to Know: IASB introduces reduced disclosure framework for subsidiaries] explains the key requirements of IFRS 19.

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

In May 2024, the IASB issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures* which permits an eligible subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements.

A subsidiary is eligible for the reduced disclosures if it does not have public accountability and its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

IFRS 19 is optional for subsidiaries that are eligible, and such subsidiaries can apply IFRS 19 in their consolidated, separate or individual financial statements.

The new standard is effective for reporting periods beginning on or after 1 January 2027 with earlier application permitted.

Given qualifying subsidiaries can already apply FRS 101 *Reduced Disclosure Framework*, it is unclear at the time of writing whether and, if so, to what extent IFRS 19 will be endorsed for use by UK companies.

Selection of recent IFRS Interpretation Committee agenda decisions

June 2024 IFRS Interpretations Committee agenda decision 'Disclosure of Revenues and Expenses for Reportable Segments'

The agenda decision considers the requirement in paragraph 23(f) of IFRS 8 Operating Segments to disclose, for each reportable segment, material items of income and expense disclosed in accordance with IAS 1:97.

The key points highlighted in the agenda decision include:

- an entity is required disclose the specified amounts for each reportable segment when they are:
  - included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM), even if they are not separately provided to or reviewed by the CODM or
  - regularly provided to the CODM, even if they are not included in the measure of segment profit or loss
- the material items to be disclosed include, but are not limited to, the items listed in IAS 1:98 (e.g. write-downs of assets, restructuring expenses or gains/losses on disposal)
- an entity is not required to disclose, by reportable segment, each item of income and expense presented in its statement of profit or loss or disclosed in the notes
- in determining the information to disclose for each reportable segment, an entity applies judgement and considers
  - the principles of materiality and aggregation in IAS 1
  - the core principle of IFRS 8, which requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Entities that

- include material items of income and expense in the measure of segment profit or loss reviewed by the chief operating decision maker (even if they are not separately provided to or reviewed by the CODM) or
- provide information on such material items to the CODM (even if they are not included in the measure of segment profit or loss)

should consider whether the information disclosed in their segment information is consistent with the explanatory material in the IFRS Interpretations Committee agenda decision.


Deloitte

A Deloitte Need to Know: Amendments to FRS 102 - Periodic review 2024 outlines the amendments in more detail.

New UK GAAP requirements and future developments

Periodic review of UK and Republic of Ireland accounting standards

In March 2024, the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024* (the 2024 periodic review amendments) which introduce changes to FRS 102 and other UK and Republic of Ireland financial reporting standards as a result of the second major review of FRS 102.

The amendments are focused on updating UK GAAP accounting requirements to reflect changes in IFRS Accounting Standards and making other incremental improvements and clarifications.

The following principal amendments have been made:

- new accounting requirements have been introduced for revenue in FRS 102 and FRS 105 based on the five-step model for revenue recognition from IFRS 15, with appropriate simplifications. The extent to which this will change an entity's revenue recognition in practice will depend on the nature of its contracts with customers
- new lease accounting requirements have been introduced in FRS 102, based on the on-balance sheet model from IFRS 16, with appropriate simplifications. This is expected to affect the financial statements of most entities that are lessees. No equivalent change has been made to FRS 105.

In addition, the following improvements and clarifications to FRS 102 have been made:

- greater clarity for small UK entities applying Section 1A *Small Entities* regarding which disclosures need to be provided in order to give a true and fair view
- a revised Section 2 *Concepts and Pervasive Principles*, updated to reflect the IASB's *Conceptual Framework for Financial Reporting*, as issued in 2018
- a new Section 2A *Fair Value Measurement*, replacing the Appendix *Fair Value Measurement* to Section 2 and reflecting the principles of IFRS 13 *Fair Value Measurement*
- new disclosure requirements about supplier finance arrangements within Section 7 *Statement of Cash Flows*
- additional guidance within Section 26 *Share-based Payment* to aid preparers in applying the principles in certain situations
- new guidance in Section 29 *Income Tax* on accounting for uncertain tax positions
- improvements and clarifications to existing guidance in Section 34 *Specialised Activities* and consequential changes as a result of other amendments
- removal of the option to newly adopt the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* under paragraphs 11.2(b) and 12.2(b) (unless needed to achieve consistency with group accounting policies), in preparation for the eventual removal of this option. Entities already applying the IAS 39 option are permitted to continue to apply it.


Deloitte

A Deloitte [Need to Know: Amendments to FRS 102 Section 23 Revenue from Contracts with Customer - Periodic review 2024] provides an overview of the amendments to Section 23 of FRS 102.

The 2024 periodic review amendments also include many smaller proposed improvements and clarifications, affecting almost all Sections of the standard, although most of those changes are unlikely to have a significant impact in practice.

The FRC has not made changes to introduce an expected credit loss model, consistent with IFRS 9 *Financial Instruments*, and no changes have been made to align the standards with IFRS 17 *Insurance Contracts*. The FRC has stated that any alignment with IFRS 17 or further alignment with IFRS 9 will be subject to further consultation as part of a future project.

The principal effective date of the amendments is accounting periods beginning on or after 1 January 2026, with early application permitted provided all amendments are applied at the same time. Separate earlier effective dates apply to the new disclosures about supplier finance arrangements in Section 7 of FRS 102 (periods beginning on or after 1 January 2025, with early application permitted) and a new requirement in Section 6 *Transition to this FRS of FRS* 103 Insurance Contracts (periods beginning on or after 1 January 2024). Transitional provisions are included.

Review of FRS 101 *Reduced Disclosure Framework* (2023/24 cycle)
In August 2024, the FRC published *Amendments to FRS 101 Reduced Disclosure Framework – 2023/24 cycle*. Changes include a disclosure exemption from presenting certain comparative information, and a conditional exemption for qualifying entities in respect of certain disclosures about supplier finance arrangements required by IAS 7.

Review of FRS 101 Reduced Disclosure Framework (2024/25 cycle)
In December 2024, the FRC issued FRED 86 *Draft amendments to FRS 101 Reduced Disclosure Framework*. The proposed changes include exemptions from some new requirements in IFRS 18, including those that require disclosure in relation to management-defined performance measures, and an amendment preventing qualifying entities from applying both FRS 101 and IFRS 19. The exposure draft closed for comment on 7 March 2025.

Appendix

New and revised IFRS Standards and Interpretations

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

The list below reflects a cut-off date of 28 February 2025. The potential impact of the application of any new and revised IFRS Accounting Standards issued by the IASB after that date, but before the financial statements are issued, should also be considered and disclosed.

The table below provides a summary of the pronouncements as at 31 December 2024, for various quarterly reporting periods. For each, a link is provided to a Deloitte publication presenting an overview of the new or amended IFRS Accounting Standard.

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

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

Pronouncement	Effective date	Application to 31 December 2024			
		Q1	Q2	Q3	Q4
Non-current Liabilities with Covenants (Amendments to IAS 1), along with Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2024	Mandatory	Mandatory	Mandatory	Mandatory
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024	Mandatory	Mandatory	Mandatory	Mandatory
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024	Mandatory	Mandatory	Mandatory	Mandatory
Lack of Exchangeability (Amendments to IAS 21)	1 January 2025	Optional	Optional	Optional	Optional
Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	1 January 2026*	Optional	Optional	Optional	Optional
Annual improvements to IFRS Accounting Standards—Volume 11	1 January 2026*	Optional	Optional	Optional	Optional
Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7)	1 January 2026*	Optional	Optional	Optional	Optional
IFRS 18 *Presentation and Disclosures in Financial Statements*	1 January 2027*	Optional	Optional	Optional	Optional
IFRS 19 *Subsidiaries without Public Accountability: Disclosures*	1 January 2027*	Optional	Optional	Optional	Optional

* Please refer to the current endorsement status at Adoption Status Report | UK Endorsement Board (endorsement-board.uk)

Recent IFRS Interpretations Committee agenda decisions

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

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

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

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

March 2024 *IFRIC Update*	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—Climate-related Commitments IFRS 3 *Business Combinations*—Payments Contingent on Continued Employment during Handover Periods
June 2024 *IFRIC Update*	IFRS 8 *Operating Segments*—Disclosure of Revenues and Expenses for Reportable Segments
November 2024 *IFRIC Update*	IAS 7 *Statement of Cash Flows*—Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts

Key changes made to this publication over the last 12 months

Date	Section	Change
March 2025	Macroeconomic and geopolitical environment and the challenges for corporate reporting	Discussion of global trade added
March 2025	Impairment of assets	Discussion of impact of macroeconomic and geopolitical uncertainties added
March 2025	Going concern	Reference to 2025 FRC Guidance on the Going Concern Basis of Accounting and Related Reporting
March 2025	Defined benefit pensions – UK High Court ruling	Overview of ICAEW helpsheet added
March 2025	IFRS Sustainability Disclosure Standards	Overview of the ISSB supporting materials added
March 2025	European Union Corporate Sustainability Reporting Directive (CSRD) and European Sustainability Reporting Standards (ESRSs)	Overview of the EU *Compass to Regain Competitiveness* and the first batch of omnibus proposals added
March 2025	Selected new accounting requirements	Overview of *Contracts Referencing Nature-dependent Electricity* (Amendments to IFRS 9 and IFRS 7) added
March 2025	Climate-related Financial Disclosure Regulations	Findings of FRC's thematic review of climate-related financial disclosures by AIM and large private companies
March 2025	New UK GAAP requirements and future developments	Overview of FRED 86 *Draft amendments to FRS 101 Reduced Disclosure Framework*
December 2024	Defined benefit pensions – UK High Court ruling	Update on Virgin Media case
December 2024	Various	Findings of FRC's 2023/24 Annual Review of Corporate Reporting
December 2024	Other narrative reporting requirements	Overview of UK government research into the value of non-financial reporting and impact assessment of the non-financial reporting review
December 2024	Income taxes	Update on conclusion of EU State aid case
December 2024	Corporate governance	Findings of FRC's Annual Review of Corporate Governance Reporting 2024
December 2024	Currency and hyperinflation	List of hyperinflationary economies updated

December 2024	Selected new IFRS requirements and future developments New and revised IFRS Accounting Standards and Interpretations Recent IFRS Interpretations Committee agenda decisions	List and descriptions of pronouncements updated
September 2024	Climate-related risks in financial statements	Overview of IASB's ED *Climate-related and Other Uncertainties in the Financial Statements—Proposed illustrative examples* added
September 2024	Europe	Overview of EC's FAQs and ESMA's public statement on first application of ESRSs added
September 2024	Various	Findings of FRC's 2024 thematic review on offsetting added
September 2024	New IFRS requirements and future developments	Overview of *Annual Improvements—Volume 11* added
September 2024	Recent IFRS Interpretations Committee agenda decisions New and revised IFRS Standards and Interpretations	List of recent agenda decisions and pronouncements updated
June 2024	Volatility in energy prices	Overview of the Exposure Draft *Contracts for Renewable Electricity* added
June 2024	Sustainability reporting	Overview of the IFRS Foundation and EFRAG *Interoperability Guidance*, and other EFRAG documents added
June 2024	Currency and hyperinflation	List of hyperinflationary economies updated
June 2024	Selected new IFRS requirements and future developments	Overview of IFRS 18, IFRS 19 and Amendments to IFRS 9 and IFRS 7 added
June 2024	Interim financial reporting	Considerations for accounting for Pillar Two in interim financial statements added
June 2024	Recent IFRS Interpretations Committee agenda decisions New and revised IFRS Standards and Interpretations	List of recent agenda decisions and pronouncements updated
February 2024	Sustainability reporting	Overview of the US SEC final rule added
February 2024	Other narrative reporting requirements	Summary of the government's feedback statement and impact assessment following its call for evidence on the UK non-financial reporting regime

February 2024	Corporate governance	New section on the FRC's UK Corporate Governance Code 2024
February 2024	Large private companies	New section summarising the FRC's thematic review of the UK's largest private companies
February 2024	Income taxes	Link to Deloitte Global Pillar Two Legislative Tracker added
February 2024	New UK GAAP requirements and future developments	New section on key amendments to FRS 102 and other FRSs as a result of the FRC's 2024 periodic review
February 2024	Other financial reporting considerations – business combinations	Overview of IOSCO Recommendations on Accounting for Goodwill
February 2024	New and revised IFRS Standards and Interpretations	List of pronouncements updated

Deloitte resources

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

Corporate Reporting Insights 2024
The Deloitte Corporate Reporting Insights 2024 page contains a number of reports with topical observations designed to help navigate new disclosure requirements, emerging practices, and growing expectations for greater transparency and accountability. Topics covered include diversity and inclusion and climate transition plans.

Governance in focus
Our Governance in focus series provides deeper dives, guidance and views on key aspects of the latest developments in corporate governance. This includes our On the Board Agenda publication which looks across the board's remit and provides a round-up of articles covering some of the hot topics that boards should be aware of across the governance landscape.

The Deloitte Accounting Research Tool (DART)
DART is a comprehensive online library of accounting and financial disclosures literature, allowing access to the full IFRS Accounting Standards, IFRS Sustainability Disclosure Standards, EU sustainability reporting requirements and UK accounting standards, linking to and from:

- Deloitte's authoritative, up-to-date manuals which provide guidance for reporting under UK GAAP (including UK legal and regulatory requirements), IFRS Accounting Standards, IFRS Sustainability Disclosure Standards and EU sustainability reporting requirements
- model financial statements for entities reporting under UK GAAP and IFRS Accounting 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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