March year-end accounting reminders – IFRS and UK GAAP

March 2024

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Introduction

This document relates to reporting requirements as at 31 March 2024. The first section on topical issues includes items that entities might want to consider for this year end split between:

- Topical issues for all companies.
- Additional topical issues for listed and / or large companies.

The second part of the document includes the IFRS® Accounting standards and IFRIC® Interpretations that are newly applicable for 31 March year ends.

The final part of the document includes the accounting standards and IFRIC interpretations that are effective in the future but as per paragraph 30 of IAS 8 might need disclosure in the current financial statements of the possible impact of adoption if material.

This document is updated quarterly on Viewpoint.

Topical issues for all companies

Geopolitical risks

Geopolitical conflict has continued to create significant shifts in the global risk landscape, and is having a pervasive economic impact. Investors will want to understand if and how this is affecting a company's operations, risk exposure and outlook. Entities must carefully consider the impact on its financial statements and disclosures. Items to look out for include:

- Impacts of restrictions and sanctions on trade, investing, and financing (including restricted access to cash accounts and foreign currency reserves.
- Impairment, onerous contracts and contingencies.
- Breaches of supply contracts or financial covenants.
- Foreign exchange exposure and translation of foreign currency transactions.
- Assets or disposal groups held for sale.
- Level of influence or power over existing associates and subsidiaries located in areas of conflict.
- Post balance sheet events and related disclosure for non-adjusting material events.

UK In depth INT2022-05 provides accounting guidance in the context of the conflict between Russia and Ukraine, and includes considerations relevant to other geopolitical conflicts.

Disclosures relating to inflation and interest rates

Inflation and interest rates can be a significant source of estimation uncertainty, and can have a material impact on the carrying amount of assets and liabilities. Whilst for a number of jurisdictions recent spikes in inflation and interest rates may now be stabilising or decreasing, entities may still be exposed to additional risks in this regard, and may continue to need to update judgements and estimates, as well as related disclosures. Entities may also need to update sensitivity analysis to reflect a widening reasonable possible range for interest rate changes and still need to consider the impact inflation and rates have had on their 31 March 2024 financial statements

UK In depth INT2022-12 provides guidance on accounting during periods of high inflation and interest rates.

Climate change and connectivity between sustainability reporting and financial reporting

Climate-related risks can have an impact on an entity's operations and financial performance. IFRS Accounting Standards do not explicitly address climate-related risks, but the principles that underlie various judgements and estimates made in preparing the financial statements will often incorporate climate-related risk factors. Examples of specific areas to consider as climate-related issues become more significant include any financial impacts of net zero commitments, 'green loans', exchange traded climate-related credit schemes, and participation in the voluntary carbon market. In many cases, an entity's exposure to climate-related risks might not have changed significantly since its last

annual reporting period. However, climate-related risks are an important topic for many investors, and so entities should ensure that all material information affecting the financial statements in this respect is provided.

Entities should also ensure consistency between financial and non-financial reporting on key climate-related assumptions, if such consistency is necessary for compliance with IFRS. For example, if an entity publicly discusses a best estimate about the impact that an international climate agreement has on the entity in a sustainability report, and an IFRS Accounting Standard requires a best estimate approach to be used in measurement, the entity would need to consider consistency between the estimates used for financial reporting and those disclosed in the sustainability reporting.

If there are statements in the sustainability report that haven't been reflected in financial reporting (for example, because the entity is relying on a market participant's assumptions which differ) the entity should consider the need for additional commentary on why such items have been reflected on a different basis in financial reporting.

UK In brief INT2020-14 and UK In depth INT2021-11 provide guidance on reflecting climate matters in the financial statements. UK In depth INT2023-02 provides guidance on voluntary carbon markets.

The FRC issued a report regarding TCFD disclosures and climate in the financial statements, see FRC thematic review examines quality of climate-related metrics and targets disclosures.

Budget updates and implications on tax accounting

On 20 June 2023, Finance (No.2) Act 2023 (the 'Bill') completed its third reading in the House of Commons. For UK GAAP and IFRS, the measures within Finance (No 2) Bill 2023 are considered to be substantively enacted on completion of its third reading. Many of the measures in the Bill reflect the Spring Budget of 15 March 2023 and include the introduction of the global minimum effective tax rate of 15% (the OECD Pillar Two legislation effective for accounting periods starting on or after 31 December 2023), and the Electricity Generator Levy of 45% on 'extraordinary returns'.

UK In Brief UK2023-16 provides further details on the Bill.

On 5 February 2024, Finance Bill 2023-24 completed its third reading in the House of Commons. Therefore, the Finance Bill 2023-24 is considered as substantively enacted for financial reporting purposes. The summary of measures approved under this bill is as follows.

- Permanent full expensing - This measure makes "full expensing" and the 50% first-year allowance permanent for companies investing in plant and machinery.
- The new regime for Research and Development - These measures combine the current Research and Development Expenditure Credit (RDEC) and R&D SME scheme into a merged scheme, implement the enhanced support for R&D intensive SMEs and restrict the use of nominations and assignments for R&D tax credit payments.

The Spring Budget 2024 will take place on 6 March 2024.

Cash flow statements

The cash flow statement is a primary financial statement and provides extremely valuable information to users, particularly in respect of an entity's liquidity and going concern. However, cash flow statements continue to be an area of focus for regulators in the UK. In the 2022/23 FRC Annual Review of Corporate Reporting, the FRC reported that they continue to find a number of issues arising from their desktop reviews of cash flow statements and, on investigation with companies, a number of these statements did not comply with the requirements of IAS 7 'Statement of Cash Flows'. Careful attention should be paid to cash flow statements, especially around the cash flow classification and the consistency between items in the cash flow statement and the notes.

UK In brief 2022-66 provides further guidance on cash flow classification.

Offsetting (or netting) in the financial statements

Offsetting (sometimes referred to as 'netting') is the net presentation of separate assets and liabilities or income and expenses in the financial statements. Similar considerations apply to the reporting of gross or net cash flows in the cash flow statement.

Offsetting and netting are generally prohibited, except where expressly required or permitted by accounting standards. This is because it detracts from users' ability to both gain a full and proper understanding of the transactions, other events and conditions that have occurred and to assess an entity's future cash flows.

Where offsetting is permitted, there are usually specific criteria that must be met in order to offset. Most cases where the criteria for offsetting are met, offsetting must be applied – it is not a choice.

Relevant guidance with respect to the areas where we most commonly see offsetting are as follows:

Offsetting in relation to:	**IFRS guidance**
General offsetting, including in the income statement	IFRS Manual of accounting paras 4.39–4.40
Financial instruments	IFRS Manual of accounting paras 47.15–47.28
Current and deferred tax	IFRS Manual of accounting paras 14.149–14.153
Cash flow statement	IFRS Manual of accounting paras 7.15–7.18

Items that are often overlooked

When reviewing financial statements it can be challenging to identify missing transactions that should have been posted but were not. We have compiled a list of key reminders on what not to miss to assist preparers and auditors in ensuring these accounting items are properly reflected in the financial statements.

- Liabilities for financial guarantees especially in parent entities.
- Provisions for onerous contracts.
- Provisions for restoration.
- Liabilities for share repurchases.
- Structured entities - unconsolidated SPEs might exist that should be consolidated.
- Implied leases.
- Share-based payment charges in subsidiary financial statements.

UK In depth INT2023-12 provides further guidance.

FRC Annual Review of Corporate Reporting

The FRC has issued its Annual Review of Corporate Reporting for 2022/23. The review contains a summary of the FRC's areas of focus, and its expectations for company disclosures going forward. During the current review cycle, the most frequently raised issues are related to impairment of non-financial assets, and disclosures of judgements and estimates which may be reflective of the heightened economic uncertainties companies need to factor into their financial reporting. In addition, as noted above, the FRC identified a number of errors in cash flow statements.

FRC has also announced that they would focus on the following risk sectors in the coming review cycle:
- Travel, hospitality and leisure.
- Retail and personal goods.
- Construction and materials.
- Industrial transportation.

The FRC also expects companies to carefully consider how current economic conditions may impact on financial and narrative reporting in 2023/24. In particular, reporting on the effects of inflation and other uncertainties.

FRC thematic reviews

FRC thematic review on reporting by the UK's largest private companies

In January 2024, the FRC published its thematic review on the key findings that private companies and their auditors should take into account for future annual reports. This review focused on strategic report, presentation of primary statements including cash flow statement and supporting notes, revenue, judgements and estimates, provisions and contingencies and financial instruments.

In the FRC's opinion, many of the issues identified could have been avoided if a sufficiently critical review of the annual report and accounts had been conducted prior to finalisation. This review should include taking a step back to consider whether the report as a whole is clear, concise and understandable, omits immaterial information and whether additional information is necessary to understand particular transactions, events or circumstances. It should also include a review for internal consistency and more detailed presentation and disclosure matters.

UK In brief UK2024-07 provides further guidance.

FRC thematic review on FRS 17 'Insurance Contracts' Interim Disclosures in the First Year of Application

In November 2023, the FRC published its thematic review on the adequacy of disclosures regarding the effect of the transition to IFRS 17 in the first year of adoption. Whilst the review focussed on the interim financial statements of 10 listed life and general insurers, the sample also included specialty, re-insurance and bancassurance. The thematic review has also considered disclosures made by non-insurance groups where a material impact of IFRS 17 had been disclosed.

The review aims to provide examples of better practice and details the FRC's expectations for companies ahead of their more extensive, year-end disclosures, making several key observations and setting out clear reporting expectations. Whilst their reviews identified examples of good practice, the FRC concludes that there is scope for improvement.

UK In brief UK2023-38 provides further guidance.

FRC thematic review on fair value measurement

In June 2023, the FRC published its thematic review on the requirements of IFRS 13, with a particular focus on disclosures, reflecting the fact that most of the FRC's IFRS 13 challenges are prompted by poor disclosure. However, aspects of measurement where errors have been found were also addressed.

The application of IFRS 13 by banks and insurers was not considered, as they typically have specialised teams that perform valuations and the FRC believes the quality of their reporting in this area is usually high.

UK In brief UK 2023-15 provides further guidance.

Non- financial asset key reminders for impairment reviews

Impairment is an ongoing area of concern for many entities in the current economic environment. Regulators remain focused on this area and continue to push for increased transparency in disclosures. Groups holding significant amounts of goodwill and intangibles or those that are affected to a greater extent by - climate change, inflation or global conflicts are at greater risk of a regulatory challenge to their impairment assessments and in related disclosures.

For a discussion of common pitfalls we observe in impairment of non-financial assets see UK In brief 2023-02. In addition to these common pitfalls, the economic and geopolitical uncertainties discussed above as well as regulatory focus raise the following additional key points to consider in impairment testing:

Increased uncertainty due to rising inflation and interest rates and geopolitical uncertainty

- In times of greater uncertainty, it is likely to be easier to incorporate the impact of the economic environment uncertainties in impairment testing by using multiple cash-flow scenarios and applying relative probability weightings to derive a weighted average set of cash flows rather than using a single central forecast and attempting to risk adjust the discount rate to reflect the higher degree of uncertainty in the environment.
- A VIU calculation should incorporate specific price changes as well as the effect of general inflation. Where inflation assumptions could have a material impact on the financial statements, additional disclosures may be required to explain how inflation has been incorporated into the VIU.
- Where uncertainty in the economic environment has increased, the established methods for calculating the WACC should continue to be used. However, a reassessment of each input into the calculation and assessment of the overall result is needed..
- Given the increased uncertainty and volatility in many markets, the range of reasonably possible changes has widened. Key assumptions and wider ranging assumptions covering multiple Cash Generating Units ('CGUs') should be clearly disclosed. Where material assumptions specific to each CGU should be identified. Furthermore, in an impairment case, entities would need to clearly disclose the cause of the impairment and whether this is based on external data or changes in the entity's own estimates.
- Where the headroom is sensitive to changes in key assumptions, an entity would need to disclose the specific changes in assumptions that would erode headroom to nil (for example + / - x% in sales growth or discount rates).

Regulatory focus

- Regulators have observed that, whilst the long-term growth rate used to extrapolate cash flow projections (to estimate a terminal value) and the pre-tax discount rate are important, they are often not 'key assumptions' on which the cash flow projections for the period covered by the most recent budgets or forecasts are based. Therefore, attention should also be paid to the discrete growth rate assumptions applied to the cash flows projected to occur before the terminal period. Accounting policy disclosures should always be consistent with the basis used in the according impairment test. The regulators have noted that they will continue to challenge companies where the recoverable amount is measured using VIU, but the cash flow forecasts appear to include the benefits of developing new business or to rely on future investment capacity. When VIU disclosures cross refer to forecasts used in going concern and viability assessments, it should be made clear how any costs and benefits in those forecasts that relate to future improvements have been addressed for the VIU calculation.
- It's also important to consider one of the most common impairment questions we are seeing in respect of investments in subsidiaries in separate financial statements. If an impairment has been recognised in the consolidated financial statements, consideration should be given to whether there is also an impairment in respect of the 'investment in subsidiary' recognised by the parent in its separate financial statements. In addition if there is either external or internal debt at the subgroup level, the recoverable amount of this investment might be lower than the amount calculated for the CGU at the consolidated level.

Considerations related to impairment reversals

- An additional issue to consider is whether an impairment would need to be reversed. Determining whether there is an identifiable impairment reversal indicator might require the use of judgement. If there is any such indication, the entity has to recalculate the recoverable amount of the asset. Further details are provided in FAQ 24.153.2 and FAQ 24.154.2.

Global minimum tax ("GloBE rules")

In 2021, 136 countries agreed to a Two Pillar approach to international tax reform. '). Amongst other things, Pillar One proposes a reallocation of a proportion of tax to market jurisdictions, while Pillar Two seeks to apply a global minimum effective tax rate of timing of the legislative changes in each country The rules will impact current income tax when the legislation comes into ef15%. The OECD Agreement is likely to see changes in corporate tax rates in a number of countries in the next few years. The impact of changes in corporate tax rates on the measurement of tax assets and liabilities depends on the nature and fect. In the UK, the Pillar Two legislation to implement a domestic top-up tax and a multinational top-up tax was substantively enacted on 20 June 2023 when Finance (No.2) Act 2023 completed its third reading in the House of Commons. In the UK, the new domestic minimum taxes (affecting all UK entities meeting the size criteria - consolidated revenues, of €750m in at least two of the last four years regardless of whether they are part of a multinational group or not) and multinational top up taxes will apply for accounting periods beginning on or after 31 December 2023.

The IASB amended IAS 12, 'Income taxes', with immediate effect to provide a temporary relief from accounting for deferred taxes arising from the implementation of the GloBE rules, including any qualifying domestic minimum top up taxes. The temporary exception is effective immediately for December 2023 year ends (and later) and will remain in place until the IASB is in a position to make further amendments to IAS 12. The disclosure requirements are effective for accounting periods beginning on or after 1 January 2023, with early application permitted.
The narrow-scope amendments to IAS 12 introduced targeted disclosure requirements for affected companies. They require entities to disclose:

- the fact that they have applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes
- their current tax expense (if any) related to the Pillar Two income taxes; and
- during the period between the legislation being enacted or substantively enacted and the legislation becoming effective, known or reasonably estimable information that would help users of financial statements to understand an entity's exposure to Pillar Two income taxes arising from that legislation. If this information is not known or reasonably estimable, entities are instead required to disclose a statement to that effect and information about their progress in assessing the exposure.

  IAS 12 paras 88C-88D

The amendments to IAS 12 on Pillar Two rules have been endorsed by the UK Endorsement Board on 19 July 2023.

As a result, for the March 2024 reporting period, there would be no impact on the recognition and measurement of deferred tax on qualifying top-up taxes following the substantive enactment of GloBE legislation in the UK but there are disclosure requirements in respect of the potential impact of Pillar Two.

UK In depth INT2023-10 provides guidance on the global implementation of Pillar Two, particularly the impact of deferred taxes and disclosures. See also our Pillar Two Country tracker and IFRS Talks podcast episode 'Global minimum tax'.

Hyper-inflationary economies

Based on the current global economic environment and following deteriorating economic conditions, Ghana and Sierra Leone are now considered to be hyper-inflationary for the purpose of IAS 29 for reporting periods ending on or after 31 March 2024. South Sudan might no longer be a hyper-inflationary economy from 31 December 2023, and if so entities with the currency of South Sudan as their functional currency will stop applying IAS 29 at the beginning of the reporting period in which hyperinflation ceases. However, entities should consider any significant events or conditions that might contradict this conclusion between now and 31 March 2024.

There have been no other changes in hyper-inflationary economies for the period 1 April 2023 to 31 March 2024. IAS 29 requires financial statements of an entity whose functional currency is the currency of a hyper-inflationary country to be restated into the measuring unit at the end of the reporting period. Therefore, transactions in the reporting period and non-monetary balances at the end of the period would be restated to reflect a price index that is current at the balance sheet date. Comparatives are typically restated to reflect a price index that is current at the balance sheet date. This is because IAS 29 is applied as if the economy had always been hyper-inflationary. Entities are not, however, required to present an additional balance sheet as at the beginning of the preceding period.

Multinational companies that have subsidiaries that are in a hyper-inflationary economy should consider paragraph 43 of IAS 21. This requires the financial statements of a subsidiary entity that has the functional currency of a hyper-inflationary economy to be restated, in accordance with IAS 29, before being included in the consolidated financial statements. Comparative amounts of these subsidiaries that were presented previously in the parent's stable currency are not restated.

UK In brief INT2023-09 provides guidance on hyperinflationary economies, including a country tracker.

Identifying insurance contracts issued

IFRS 17 is now effective and it's not just insurance companies that need to pay attention to IFRS 17. A contract does not need to be labelled as insurance or even issued by an insurer to be in scope of IFRS 17. Any contract that transfers a non-financial risk from one party to another could potentially meet the definition of an insurance contract for the party taking on the risk if that risk transferred is judged to be significant.

The definition hasn't changed, but, unlike the predecessor standard IFRS 4, IFRS 17 attaches significant recognition and measurement consequences to that definition. That means that from now on, all companies need to maintain a good understanding of how to identify an insurance contract issued, and to know what types of arrangements are explicitly scoped out of IFRS 17.

UK In depth INT2022-14 provides guidance on identifying insurance contracts in scope of IFRS 17.

Additional topical issues for listed and / or large companies

Reporting on diversity and inclusion on company boards

The FCA released a policy statement (PS22 / 3) in April 2022, establishing requirements under the Listing rules (LR 9.8.6R(9) and LR 14.3.33R(1)) for issuers that are in scope to include a statement in their annual financial report setting out whether they have met specific board diversity targets on a 'comply or explain' basis, as at a chosen reference date within their accounting period and, if they have not met the targets, why not. This allows companies flexibility to provide relevant context on their approach to board diversity, whether or not these targets are met. The targets are:

- At least 40% of the board are women.
- At least one of the senior board positions (Chair, CEO, SID or CFO) is a woman.
- At least one member of the board is from a minority ethnic background (which is defined by reference to categories recommended by the Office for National Statistics (ONS)) excluding those listed, by the ONS, as coming from a white ethnic background).

Changes to the Disclosure guidance and Transparency Rules (DTR)

DTR 7.2.8AR requires in-scope companies to disclose in their corporate governance statement the diversity policy applied to their board, or to explain where no such diversity policy is applied. The Policy Statement expands these reporting requirements to cover the diversity policies of key board committees and to indicate that reporting on board and board committee diversity policies could consider wider diversity characteristics.

Start date

All of the final rules apply to accounting periods starting on or after 1 April 2022.

Reminders on climate change reporting requirements

Premium listed and standard listed companies have been required to report using the TCFD framework since 1 January 2021 and 1 January 2022 respectively, under LR 9.8.6R(8) and LR 14.3.27R.

For organisations that have accounting periods beginning on or after 6 April 2022, climate-related financial disclosures aligned with the TCFD framework have been extended by SI 2022/31 for companies and SI 2022/46 for LLPs (the Regulations) to certain publicly quoted companies, in addition to premium and standard listed companies, and certain large private companies and limited liability partnerships. Organisations in scope for the Regulations are as follows:

- All UK registered companies that are currently required to produce a non-financial information statement, being UK companies that have more than 500 employees AND have transferable securities admitted to trading on a UK regulated market, or are banking companies or insurance companies (that is, current Relevant Public Interest Entities (PIEs);
- UK registered companies with securities admitted to AIM with more than 500 employees;
- UK registered companies which are not included in the categories above, which have more than 500 employees and a turnover of more than £500m (these are referred to as 'high turnover' companies).
- Traded or banking LLPs with more than 500 employees and 'large LLPs' (meaning those with more than 500 employees and a turnover of more than £500m).

For companies in scope, these disclosures are required to be in the strategic report within the newly named 'non-financial and sustainability information statement'. For those companies already required to report against the TCFD framework under the Listing Rules, we expect that they will also meet their obligations under the Regulations unless they use the comply-or-explain option in the Listing Rules to a very significant extent (note that the regulations also allow companies to explain why they have omitted aspects of the regulations if they believe them not to be necessary for an understanding of the company's business). In February 2022, BEIS issued non-binding guidance to supplement the regulations.

FRC thematic review of TCFD disclosures - metrics and targets

In July 2023 the FRC released its latest thematic on climate, assessing the quality and maturity of climate-related metrics and targets disclosures. Based on the TCFD disclosures from 20 listed companies' 2022 annual reports across four sectors (materials and buildings, energy, banks, and asset managers), the report identifies areas of better reporting practice and notes that there has been incremental improvement in the quality of companies' disclosure of net zero commitments and interim targets for emissions. However, opportunities exist to improve disclosures around actions and milestones to meet targets, comparability of metrics between companies, explaining plans for transitioning to a low-carbon economy clearly and concisely, and explaining how climate targets affect financial statements. The FRC recognises that systems and disclosures are still evolving, but notes that the FRC will now be more likely to enter into substantive correspondence with companies if they do not meet the expectations set out in both this thematic and the climate thematic released in July 2022 by the FRC.

Other FRC publications and reports

Audit Committees and External Audit: Minimum Standard

In May 2023, the FRC published its minimum standard for audit committees, focusing on the appointment and oversight of the external auditor. The standard largely pulls together existing provisions of the UK Corporate Governance Code and FRC guidance into a mandatory basis for future monitoring and enforcement by ARGA. The standard applies to FTSE 350 companies on a comply or explain basis with immediate effect.

FRC Lab's guidance on 'Materiality'

In October 2023, the FRC Lab published a report looking at how companies can improve their corporate reporting by taking a more focused, strategic approach to assessing materiality. The report provides practical suggestions and examples for identifying material issues, streamlining and prioritising key messages by considering what information is material to their stakeholders when preparing annual reports.

FRC's 2023 review of corporate governance reporting by listed companies

The FRC released its Annual Review of Corporate Governance Reporting in November 2023 setting out the results of its annual survey of the quality of reporting against the UK Corporate Governance Code.

The report starts by noting that companies continue to be more transparent than they were a few years ago in reporting departures from the Code, but the related explanations under comply-or-explain sometimes lack clarity and do not set out how their alternative arrangements delivered benefits to the company and its shareholders. There is also a continued emphasis on the need for companies to “move away from a formulaic Principle by Principle approach which adds to the length of the annual report and contains little company specific information, and instead to report clearly and concisely on how application of the Principles has made a difference to actions taken by their board”.

Risk management and internal control have been central to the ongoing debate around governance reform but the FRC notes that “there has been little year-on-year improvement in the quality of reporting in this area; some companies report very well but the majority do not, and fail to demonstrate sufficiently [that] robust systems, governance and oversight are operating effectively”.

Other areas that continue to be commented on include:

- Culture, purpose & values - including an emphasis on the link with strategy and the use of metrics and assurance.
- Shareholder engagement - disclosures have been largely generic and specific comments include the need for more committee chair engagement.
- Stakeholder engagement, including the workforce - comments in this area are generally positive, though there could be more emphasis on the outcomes of engagement, and assessment of the effectiveness of the arrangements in place.
- Diversity - which is still not often linked to a company’s strategic priorities and needs to move beyond gender and ethnicity.
- Board and committee evaluation - composition and diversity should be considered at the annual evaluation of the board, and evaluations could address committees and individual directors more fully.
- Remuneration - including the use of discretion around windfall gains post COVID.

TCFD and cyber and information technology risk are also addressed, including the use of ESG or similar committees and how boards oversee the rise of AI.

FRC’s conversation starters for investors and audit committees

In April 2023, the FRC launched a new web page providing conversation starters aimed at promoting better engagement between investors and audit committees to facilitate better understanding of companies and their approach to financial reporting and internal control.

Other future reporting developments beyond 31 March 2024

Draft Statutory Instrument on new corporate reporting requirements - now withdrawn

In July 2023, following on from the Restoring trust in audit and corporate governance consultation and the Brydon and Kingman reviews, the Government laid before Parliament a draft Statutory Instrument (SI) entitled “draft Companies (Strategic Report and Directors’ Report) (Amendment) Regulations 2023”. The key elements, and their intended locations in the annual report included:

- Audit and Assurance Policy (Directors' Report).
- Material Fraud Statement (Directors' Report).
- Resilience Statement (Strategic Report).
- Disclosures about distributable profits, distributions, and the purchase of own shares (Financial Statements).
- Policy Statement on Distributions and Purchase of Own Shares (Directors' Report).

However, on 16 October 2023, the Government announced that it would be withdrawing the draft SI after concerns were raised about imposing additional reporting requirements. The Government has indicated that, instead of the draft SI, it will be proposing a new reform package and that it remains committed to the establishment of the Audit, Reporting and Governance Authority (ARGA).

Revised UK Corporate Governance Code 2024 and FRC Guidance

In May 2023 the Financial Reporting Council (FRC) launched a consultation to review the UK Corporate Governance Code. Subsequently, following the withdrawal of the statutory instrument on corporate reporting discussed above, the FRC released a policy update in November 2023 outlining their intention to take forward only a small number of the original 18 proposals in the original consultation and to stop development of the remainder, in line with the lead set by the Government. The policy update also stated that in relation to risk management and internal control, the highest profile aspect of the Code consultation, the UK approach would be clearly differentiated from the much more intrusive approach adopted in the US - again indicating a shift in priorities.   In January 2024, the FRC published the revised Code. In relation to risk and internal control, the Code now includes an annual declaration by the board on the effectiveness of material controls as at the balance sheet date (in Provision 29).

- The provision has been structured to include the board’s annual declaration and two related descriptions: of how the board has monitored and reviewed the effectiveness of the framework; and of any material controls which have not

operated effectively as at the balance sheet date, the action taken, or proposed, to improve them and any action taken to address previously reported issues

- All material controls are in scope, including financial, operational, reporting and compliance controls. The FRC has confirmed that non-financial controls (including non-financial reporting) are also in scope - this being in part the reason for the delay until 2026.

Other important updates to the Code include:

- The addition of a new principle (Principle C) which requires governance reporting to focus on outcomes; and
- Changes to the wording of the responsibilities and reporting requirements for audit committees which cross refers to the Audit Committees and the External Audit: Minimum Standard (Provisions 25 and 26).

The FRC Guidance supporting the Code was also updated in January with some substantial re-drafting, although changes to the substance are generally limited. The Guidance is now hyperlinked from the Code, which is intended to improve its accessibility.

Overall, the revised Code and Guidance respond to the Government's lead by re-emphasising the importance of principles and case-by-case judgement in the UK governance framework, including in support of the directors' declaration on the effectiveness of internal control. There have been calls for more prescriptive guidance to be issued but the FRC is clear that this would not sit well with the principles-based approach or the feedback it received during the consultation process.

The Code will apply for periods beginning on or after 1 January 2025, with the exception (as noted above) of the most high profile change, the board declaration on the effectiveness of internal control, which becomes effective for periods beginning on or after 1 January 2026.

Revised QCA Corporate Governance Code

In November 2023 the Quoted Companies Alliance (QCA) published a revised corporate governance code. The revised code will apply for financial years beginning on or after 1 April 2024, with a transition period of 12 months, and will be particularly relevant for AIM companies as, according to the QCA, over 90% of them use it. Some of the main updates relate to stakeholders (including environmental and social issues and climate change), diversity and succession planning. Structurally, the revised code also incorporates the QCA's previously supplementary guidance on remuneration and brings additional content on board composition into the main body of the code itself.

Calls for evidence connected with the Government's Green Finance Strategy

A number of calls for evidence relating broadly to undertakings set out in the Government's Green Finance Strategy have been issued since March 2023. The first, the Smarter regulation non-financial reporting review from the Department for Business and Trade, sought views on the non-financial reporting requirements UK companies need to comply with to produce their annual report, and whether company size thresholds remain appropriate. A second call for evidence was issued by the FRC in July 2023, in its role as the secretariat to the UK Sustainability Disclosure Technical Advisory Committee, focused on the proposed endorsement of the IFRS Sustainability Disclosure Standards in the UK. Finally, in October 2023, the Department for Energy Security and Net Zero issued a call for evidence on Scope 3 Emissions in the UK Reporting Landscape, including a post-implementation review of Streamlined Energy and Carbon Reporting.

The International Sustainability Standards Board (ISSB)

The International Sustainability Standards Board (ISSB) issued its first two sustainability reporting standards in June 2023. These are:

- General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1), the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain.
- Climate-related Disclosures (IFRS S2), the first thematic standard issued that sets out requirements for entities to disclose information about climate-related risks and opportunities.

In brief INT2023-15 and UK In depth INT2023-05 provide further guidance.

The standards are applicable for annual reporting periods beginning on or after 1 January 2024, however the Government is yet to determine which UK companies will be in scope and the exact effective date. As noted above, a call for evidence by the FRC in its role as The Secretariat to the UK Sustainability Disclosure Technical Advisory Committee on the prospective use of IFRS S1 and IFRS S2 closed in October 2023, and the FCA has indicated that it will also consult on this matter in the first half of 2024.

EU Corporate Sustainability Reporting Directive (CSRD)

The CSRD was published in the EU Official Journal in December 2022. As well as setting specific areas of disclosure, the Directive requires in-scope companies to adopt a set of European Sustainability Reporting Standards ('ESRS'), and to implement the EU Taxonomy on sustainable activities. Mandatory assurance of sustainability information, starting with limited assurance from 2024 and potentially moving to reasonable assurance from 2027, is also part of the Directive. In terms of applicability, for EU companies and groups there is a significant extension in scope compared with the existing non-financial reporting Directive. From a UK-incorporated group perspective the Directive has significantly wider

consequences than was originally expected, with the most common scenarios for the applicability of CSRD for UK companies being the following:

- 'Large'* non-EU (including UK) companies with securities (debt or equity) listed on EU regulated markets and more than 500 employees for financial years starting on or after 1 January 2024. Companies with securities listed on EU regulated markets, but which do not meet these size thresholds, come into scope at later dates.
- 'Large'* EU-incorporated subsidiaries or EU-incorporated subgroups of UK groups for financial years starting on or after 1 January 2025 .
- UK-incorporated parent groups with > €150m net turnover in the EU over the last two consecutive financial years, with at least one 'large'* EU-incorporated subsidiary or subsidiary listed on an EU-regulated market, or a branch generating >€40m net turnover in the preceding financial year, will need to report their group sustainability information for financial years starting on or after 1 January 2028.

In December 2023, EFRAG published three draft ESRS Implementation Guidance documents on materiality assessment, value chain and data points aimed to support the application of the sector-agnostic ESRS. The consultation on these closes in February 2024. Additionally, EFRAG has launched a Q&A platform where stakeholders can raise specific ESRS application questions.

Applicability is complex and we recommend taking legal advice where appropriate.

*Large is defined as exceeding at least two of the following three metrics on two consecutive annual balance sheet dates - total assets of €25 million, net turnover (revenue) of €50 million and an average of 250 employees. These balance sheet and net turnover thresholds include a 25% increase to account for the effect of inflation. EU Member States are to apply the new thresholds at the latest from FY24 and have the option to allow undertakings to apply the provisions from FY23.

Accounting standards, IFRIC interpretations and other guidance applicable to 31 March 2024 year ends

IFRS 17, 'Insurance contracts' as amended in December 2021

This standard replaces IFRS 4, which permitted a wide variety of practices in accounting for insurance contracts. IFRS 17 fundamentally changes the accounting by all entities that issue insurance contracts. See IFRS Manual of accounting chapter 50A for further details.

IFRS 17, 'Insurance Contracts', applies to insurance contracts regardless of the entity that issues them, and so it does not apply only to traditional insurance entities. See UK In depth INT2022-14 for guidance on how to identify whether a contract is an insurance contract in scope of IFRS 17.

Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8

The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. For further details see IFRS Manual of accounting para 4.150.

Amendment to IAS 12 - deferred tax related to assets and liabilities arising from a single transaction

These amendments require entities to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. For further details see FAQ 14.18.1

Amendment to IAS 12 - International tax reform

These amendments give entities temporary relief from accounting for deferred taxes arising from the ('Minimum Tax Implementation Handbook) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies. For further details see UK In depth INT2023-10. There are also equivalent amendments to FRS 101 and FRS 102.

Amendment to FRS 101 Reduced Disclosure Framework – Effective date of IFRS 17

These amendments allow relevant insurers to continue to apply FRS 101 for a further two years.

Amendments to FRS 101 and FRS 102 - International tax reform

The ‘Minimum Tax Implementation Handbook’ introduces a global system of interlocking top-up taxes that aim to ensure that large multinational groups pay a minimum amount of income tax. These amendments to FRS 102 introduce a temporary exception to the accounting for deferred taxes arising from the implementation ‘Minimum Tax Implementation’ Handbook, alongside targeted disclosure requirements.

New IFRS accounting standards effective on or after 1 April 2024

Paragraph 30 of IAS 8, requires an entity to disclose if there are new accounting standards that are issued but not yet effective and information relevant to assessing the possible impact that the application of the new accounting standards will have on the entity’s financial statements. This summary includes all new accounting standards and amendments issued before 31 March 2024 with an effective date for accounting periods beginning on or after 1 April 2024.

These accounting standards can generally be adopted early, subject to endorsements.

Amendment to IAS 1 - Non-current liabilities with covenants	These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these For further details see UK In brief INT2022-16.
Published	November 2022
Effective date	Annual periods beginning on or after 1 January 2024.
UK and EU Endorsement status*	Endorsed
Amendment to IFRS 16 - Leases on sale and leaseback	These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted. For further details see IFRS Manual of Accounting para 15.155.1.
Published	September 2022
Effective date	Annual periods beginning on or after 1 January 2024.
UK and EU Endorsement status*	Endorsed
Amendment to IAS 7 and IFRS 7 - Supplier finance	These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity’s liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB’s response to investors’ concerns that some companies’ supplier finance arrangements are not sufficiently visible, hindering investors’ analysis. For further details see UK In brief INT2023-03.
Published	May 2023
Effective date	Annual periods beginning on or after 1 January 2024
UK and EU Endorsement status*	Endorsed
Amendments to IAS 21 - Lack of Exchangeability	An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations. For further details see UK In brief INT2023-19.
Published	August 2023
Effective date	Annual periods beginning on or after 1 January 2025
UK and EU Endorsement status*	Not yet endorsed

New IFRS Sustainability disclosure standards effective after 1 April 2024

IFRS S1, 'General requirements for disclosure of sustainability-related financial information	This standard includes the core framework for the disclosure of material information about sustainability-related risks and opportunities across an entity's value chain. For further information see UK In brief INT2023-15 and UK In depth INT2023-05.
Published	June 2023
Effective date	Reporting periods beginning on or after 1 January 2024
UK and EU Endorsement status*	Not yet endorsed
IFRS S2, 'Climate-related disclosures'	This is the first thematic standard issued that sets out requirements for entities to disclose information about climate- related risks and opportunities. For further information see UK In brief INT2023-15 and UK In depth INT2023-05.
Published	June 2023
Effective date	Reporting periods beginning on or after 1 January 2024
UK and EU Endorsement status*	Not yet endorsed

* as at time of publication

New UK GAAP standards effective after 1 April 2024

As at time of publication no current changes effective in the future

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