September year-end accounting reminders – IFRS and UK GAAP

September 2023

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Introduction

This document relates to reporting requirements as at 30 September 2023. 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 30 September 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 of the possible impact of application if material.

This document is updated quarterly on Viewpoint.

Topical issues for all companies

Impacts of high inflation and interest rates

Many entities continue experiencing the effect of high inflation and interest rates which touch all aspects of an entity's business including increasing costs such as raw materials and wages, changes in customer behaviour and credit risk, negotiations of contract terms and investment and financing decisions. In turn, the effect on the financial statements is likely to be equally widespread, and companies need to consider the accounting implications for this year-end.

High inflation and interest rates affect fair value measurements, expected future cash flow estimates, discount rates used to determine present value of cash flows, impairment indicators and impairment tests. Some of the key IFRS Accounting Standards entities might consider in this regard include:

- IFRS 9, 'Financial instruments', and the impact on expected credit losses.
- IFRS 7, 'Financial instruments: Disclosures', in particular those relating to liquidity risk, sensitivity to market risks such as interest rate risk as well as concentration risk.
- IFRS 13, 'Fair value measurement,' and the impact on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, for example the impact on market prices for fixed rate investment securities or investment properties.
- IFRS 15 'Revenue from contracts with customers', and the impact on contracts that include a significant finance component at inception.
- IAS 2 'Inventories', and the estimation of the net realisable value (NRV) including the extent to which the costs of high inflation can be passed onto customers when estimating NRV.
- IAS 12 'Income taxes', and the impact on forecasts of future taxable income.
- IAS 19,' Employee benefits', and in particular the impact on measuring defined benefit pension liabilities.
- IAS 21 'The effects of changes in foreign exchange rates', and the impact on volatility of exchange rates when assessing whether using an average rate is appropriate.
- IAS 23, 'Borrowing costs', and the potential increase in capitalised borrowing costs.
- IAS 36,' Impairment of assets', and the impact on impairment indicators as well as cash flows and discount rates (see section on Impairment reviews) and
- IAS 37 'Provisions, contingent liabilities and assets', and the impact of discount rates and inflation estimates on provisions including decommissioning obligations, and the recognition and measurement of onerous contracts.

High inflation and interest rates may cause significant estimation uncertainty for both short and long duration assets and liabilities. Entities may therefore also need to consider new or expanded disclosures in this area. As a reminder, IAS 1 requires disclosures about sources of significant estimation certainty. This includes disclosing information about assumptions that could result in material adjustments to the carrying amount of assets and liabilities within the next financial year, and how sensitive those carrying amounts are to those assumptions. IAS 1 also requires disclosures about judgements that have a significant effect on the financial statements. For further details see UK In depth INT2022-12.

Climate change

The impact of climate change is a high-profile issue that investors and regulators are focusing on. See also the section below Reminders on climate change reporting requirements.

[The climate change section of Viewpoint] highlights key guidance on accounting, reporting and audit aspects of climate change. This section includes key useful documents on the impact of climate change risk to accounting and the financial statements, including:

[UK In brief 2022-48] highlights the impact of climate risk on financial statements including areas expected to be impacted and what entities should consider with regards to this topic for disclosures within the financial statements.

[UK In depth INT2021-11] considers the impact of the environmental, social and governance (ESG) matters, specifically focused on the effect of climate change, both from a qualitative and quantitative perspective, on the IFRS financial statements including:

- Paris aligned financial statements.
- Financial instruments: Accounting for green loans.
- Financial instruments: Expected credit losses.
- Financial instruments: Disclosures.
- Fair value measurements.
- Insurance contracts: measurement assumptions.
- Property, plant and equipment and intangibles: Impairment considerations.
- Property, plant and equipment and intangibles: Useful life and residual value.
- Other non-financial assets: considerations related to recoverability.
- Provisions and contingent liabilities.
- Emissions trading schemes.
- Disclosures about judgments and assumptions; going concern assumptions.

The FRC and the FCA, each issued a report regarding TCFD disclosures and climate in the financial statements see section below on [Additional topical issues for listed and / or large companies].

Russian invasion of Ukraine and Russian sanctions

The Russian invasion of Ukraine, alongside the imposition of international sanctions, continue to have a pervasive economic impact, not only on businesses within Russia and Ukraine, but also globally where businesses engage in economic activities that might be affected by the recent developments. This necessitates careful consideration of the resulting accounting implications by entities who are affected by these developments. For 30 September 2023 year ends, there is a need to consider a number of areas including (but not limited to):

- Russia's restricted access to foreign currency reserves and restriction of certain Russian banks' access to SWIFT.
- Impairment of financial assets (such as loans, receivables and Russian bonds) as well as fair value measurement and hierarchy.
- Impairment of non-financial assets.
- Contingencies, onerous contracts and assessment of breaches of supply contracts to determine if an obligation exists.
- Financing arrangements, including liquidity constraints and possible breaches of covenants
- Classification and availability of cash and cash equivalents which may now be restricted.
- Foreign exchange exposure and translation of foreign currency transactions.
- Level of influence or power over existing associates and subsidiaries within Russia and Ukraine
- Classification of businesses / operations as non-current assets held for sale.
- Post balance sheet event considerations regarding measurement recognition and related disclosure for non-adjusting material events.
- Going concern.
- Presentation and disclosure of Russia /Ukraine specific impacts on the primary financial statements and notes thereof.
- Modification or termination of a contract with a customer.
- Change in settlement method of share-based payment award.

ESMA have issued a report on the Implications of Russia's invasion of Ukraine on half-yearly financial reports.

For further guidance see In depth INT2022-05.

Budget updates and implications on tax accounting

In the Spring Budget 2023 held on 15 March 2023, the government confirmed that the main corporation tax rate increased to 25% from 1 April 2023. Other announcements were made and included:

- The super-deduction regime ended on 31 March 2023 and has been replaced with 'full expensing', that is, 100% capital allowances on qualifying spend, for 3 years
- A higher rate of relief for loss-making R&D intensive SMEs will be introduced. The government is also considering merging the RDEC and SME schemes.
- 12 Investment zones have been announced which will give businesses enhanced capital allowance, structure and buildings allowance, and relief from Stamp duty land tax, business rates and employer national insurance contributions.
- Intention for the government to implement a) the OECD Pillar two rules for a global minimum corporation tax rate for financial years beginning on or after 31 December 2023, and b) an electricity generator levy of 45% on 'extraordinary returns'.

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'. See UK In Brief UK2023-16 for further detail on the Bill.

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 2021/22 FRC Annual Review of Corporate reporting, the FRC continues to raise considerable concerns about the number of queries raised in relation to compliance with the requirements of IAS 7 'Statement of Cash Flows'. Errors relating to cash flow statements remain the most common reason for required references. 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. See also UK In brief 2022-66 for further guidance on cash flow classification.

Debt restructurings

Debt restructuring is a complex area of accounting which can require significant judgement. Relevant guidance is provided in IFRS Manual of accounting paras 44.106 – 44.119. Some of the key accounting considerations are summarised below.

- Determining whether the new and old debt have substantially different terms – Applying IFRS 9, it is necessary for an entity to assess if the terms are substantially different where a financial liability is exchanged, or its terms are modified but the liability remains between the same borrower and the same lender. If the terms are substantially different the transaction should be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

- Treatment of gain or loss on modification / extinguishment of debt – When a financial liability measured at amortised cost is modified without the modification resulting in derecognition, an entity should recognise a gain or loss immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate.

- If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the liability's carrying amount and are amortised over the modified liability's remaining term.

FRC thematic reviews

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.

For further details see UK In brief UK 2023-15.

FRC thematic review on business combinations

In September 2022, the FRC published its thematic review of the accounting and reporting of business combinations. This thematic review draws out the features of better reporting and disclosures, highlights common pitfalls and addresses areas for improvement with regards to the IFRS 3, 'Business Combinations' requirements, but also the disclosure requirements in the Companies Act 2006 (the 'Act') and the Disclosure Guidance and Transparency Rules ('DTR') that could apply.

See UK In brief 2022-55 for a summary of the business combinations thematic review.

FRC thematic review on deferred tax assets

In September 2022, the FRC published its thematic review on deferred tax assets. The review sets out findings as well as the FRC's expectations when companies are accounting for and disclosing deferred tax assets. FRC's key expectations are:

- Disclose company-specific information about the nature of convincing evidence supporting the recognition of deferred tax assets when there is a recent history of losses.
- Base forecasts of future taxable profit on assumptions that are consistent with other forecasts used in the preparation of the annual report and accounts (subject to some specific differences).
- Reassess the level of recognition of deferred tax assets when there are material changes to the deferred tax liabilities in the same taxable entity and tax jurisdiction.
- Disclose company-specific information about deferred tax judgements and estimates, including relevant sensitivities and/or the range of possible outcomes in the next 12 months.
- Explain the extent to which climate change risks have been reflected in deferred tax judgements and estimates, consistent with the degree of emphasis placed on those risks in the narrative reporting.
- Provide disaggregated information about material components of the tax expense and deferred tax balances.
- Provide transparent and informative tax disclosures that are consistent across the annual report and accounts.

See UK In brief 2022-51 for a summary of the deferred tax assets thematic review.

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, high inflation or the current economic impact of the Russian invasion of Ukraine, are at greater risk of a regulatory challenge to their impairment assessments and in particular the related disclosures. See UK In brief 2023-02 for common mistakes on impairment of non-financial assets.

There is a growing demand from the users of the financial statements for clear disclosures on how climate related risks are being incorporated into the impairment models. For the impact of climate change on the cash flow projections and IFRS impairment disclosures see UK In brief 2021-56. For the impacts of Russia's invasion of Ukraine, see In depth INT2022-05 for further guidance. For the considerations relating to inflation, see In depth INT2022-12.

The key points in impairment testing are:

- For the value-in-use (VIU) model – key assumptions should stand up against external market data. Cash flow growth assumptions should be comparable with up-to-date economic forecasts. The fair value-less costs of disposal (FVLCD) model, which is a post-tax model, must use market participant assumptions, rather than those of management.
- 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.

- Specific challenges might relate to incorporating cash outflows for replacing leased assets on expiry of the leases into the impairment models, for further guidance in this area see FAQ 24.84.2.
- IAS 36 requires that the VIU model uses pre-tax cash flows discounted using a pre-tax discount rate. In practice, post-tax discount rates and cash flows are used which theoretically can give the same answer but the need to consider deferred taxes makes this complicated. For guidance on how one might deal with deferred tax in a post-tax VIU model see EX 24.87.1.
- Rising costs are becoming a noticeable issue in many countries that have not suffered significant inflation for many years so it is worth noting that a VIU calculation should incorporate specific price changes as well as the effect of general inflation either by:
  - Estimating future cash flows in real terms (i.e excluding the effect of general inflation but including the effect of specific price changes) and discounting them at a rate that excludes the effect of general inflation or
  - Estimating future cash flows in nominal terms (i.e including the effect of general inflation) and discounting them at a rate that includes the effects 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.

- If impairment of goodwill is identified at the group level this will most likely trigger an impairment review of the parent entity's investment in the relevant subsidiaries in the parent's separate financial statements. VIU of an investment in a subsidiary would be determined by the present value of expected dividend receipts. The present value of the estimated post tax cash flows from the subsidiary's underlying assets might be used as a proxy for this if the subsidiary has no debt. Otherwise, the present value of expected cash flows should be reduced by the fair value of outstanding debt (both external and inter-company), in order to determine the net amount available for distribution see FAQ 24.165.2.

The required disclosures in IAS 36 are extensive. IAS 36 requires disclosure of the key assumptions (those that the recoverable amount is most sensitive to) and related sensitivity analysis. Note also IAS 1 para 125 requires disclosure of critical accounting judgements and of key sources of estimation uncertainty.

Where a reasonable possible change in key assumptions would reduce the headroom (excess of the recoverable amount over the carrying amount) of a CGU to nil, it is required to disclose this headroom as well as the specific changes in assumptions that would erode headroom to nil (for example + / – x% in sales growth or discount rates). However, in cases where no reasonably possible change would either erode headroom for CGUs when testing goodwill or give rise to a material adjustment to any carrying value in the next year, companies should take care that additional sensitivity disclosures do not give the wrong impression that any such adjustment is reasonably possible.

Given the increased uncertainty and volatility in many markets at present, the range of reasonably possible changes has widened which means that more extensive impairment disclosures will typically be required.

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. Changes to assumptions used, such as the discount rate, which has changed significantly from the previous year should be explained. Furthermore, where an impairment arises, entities would need to clearly disclose the cause of the impairment and whether this is based on external data or changes in the company's own estimates. An entity with a material impairment loss or reversal additionally needs to disclose the recoverable amount of the asset(s) or CGU(s) affected (IAS 36 para 130 [e]).

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 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 pointed out 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.

An additional issue to consider is whether previous impairments should be reversed. For all assets that have been impaired, other than goodwill, paragraph 110 of IAS 36 requires entities to assess, at the end of each reporting period, whether there is any indication that an impairment loss might no longer exist or might have decreased. 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. Paragraph 111 of IAS 36 sets out example indicators that should be considered when assessing whether an impairment loss recognised in prior periods might no longer exist or might have decreased. The indicators are arranged, as in paragraph 12 of IAS 36, into two categories: external and internal sources of information. These indicators of a potential decrease in an impairment loss mainly mirror the indications of a potential impairment loss in paragraph 12 of IAS 36. The passage of time alone (also

known as the ‘unwinding’ of the discount) would not be a sufficient trigger for reversal or impairment. Further details are in FAQ 24.153.2 and FAQ 24.154.2.

Tax legislation

On 20 December 2021, the OECD published a draft legislative framework that sets out a two-pillar solution to address the tax challenges arising from the digitalisation of the economy. The rules define the scope and set out the mechanism for the so-called Global Anti-Base Erosion (GloBE) rules under Pillar two, which introduces a global minimum corporate tax rate set at 15%. The minimum tax will apply to MNEs with revenue above EUR 750 million and is estimated to generate around USD 150 billion in additional global tax revenues annually. On 8 October 2021, expected changes to tax legislation agreement was reached between 137 countries for a two-pillar approach to international tax reform (‘the OECD agreement‘). 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 15%. 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 timing of the legislative changes in each country.

On 20 July 2022, HM Treasury released draft legislation to implement the 'Pillar two' rules with effect for years beginning on or after 31 December 2023. In the Spring budget 2023, the government reaffirmed their intent to implement the OECD Pillar two rules for a global minimum corporation tax rate for financial years beginning on or after 31 December 2023.

On 23 May 2023, the IASB issued a narrow-scope amendment to IAS 12, ‘Income taxes’, that provide a temporary relief from accounting for deferred taxes arising from the implementation of the Pillar two model rules, including any qualifying domestic minimum top up taxes. The temporary exception is effective immediately and the disclosure requirements are effective for accounting periods beginning on or after 1 January 2023, with early application permitted.. The May 2023 amendments to IAS 12 also include other related disclosure requirements, but these disclosure requirements are only effective for financial years beginning on or after 1 January 2023. For further details refer to UK In depth INT2023-10. The amendments to IAS 12 on Pillar two rules have been endorsed by the UK Endorsement Board on 19 July 2023.

At the September 2023 reporting period, there would be no impact on the recognition and measurement of deferred tax on qualifying top-up taxes where Pillar two legislation being substantively enacted. There might be some disclosure required if the entity is impacted or expected to be impacted by Pillar Two legislation.

Hyper-inflationary economies

Based on the current global economic environment and following the deteriorating economic condition and currency controls, Haiti and Ethiopia are now considered to be hyper-inflationary for the purpose of IAS 29 for reporting periods ending on or after 30 September 2023. Haiti was considered to be a hyper-inflationary economy from 31 March 2023 and Ethiopia from 31 December 2022. Ghana and Sierra Leonne are expected to become hyper-inflationary by the end of 2023 (not yet confirmed for reporting periods ending on 30 September 2023).There have been no other changes in hyper-inflationary economies for the period 1 October y 2022 to 30 September 2023. Refer to In brief INT2023-09.

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 see UK In brief 2022-29.

Implementation of IFRS 17 Insurance contracts

Disclosures prior to application

IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, requires entities to provide disclosures about the expected impact of new accounting standards which have not yet been applied. In particular, IAS 8 requires an entity to disclose known or reasonably estimable information relevant to assessing the possible impact that application of IFRS 17 will have on an entity’s financial statements in the period of initial application.

As IFRS 17 implementation continues to progress, information about its impact will become more reasonably estimable or known and therefore it is expected that entities will generally be able to provide progressively more entity-specific qualitative and quantitative information about the impact of IFRS 17. With reference to the requirements of IAS 8, we set out below our considerations with respect to matters that entities should consider when disclosing the expected impact of IFRS 17 in the September 2023 financial statements:

- the date the entity will first apply IFRS 17.
- the structure and status of the entity's implementation project.
- changes in accounting policy that will take effect, including the accounting policy choices that will be taken and any exemptions that will be applied.
- the transition approaches that the entity will use under IFRS 17 and for the modified retrospective approach, a description of the modifications the entity will use.
- the transition approach for IFRS 9 if applicable.
- the key judgements and estimates the entity has made or will need to make.
- the expected quantitative impacts of initial application (for example, quantitative impact at the transition date (e.g, 1 October, 2022), income statement and balance sheet changes from the transition date through to the date of initial application (e.g. 1 Octobery, 2023) and an explanation of how quantitative impacts have been determined or, if applicable, why particular quantitative impacts are not yet reasonably estimable).
- if IFRS 17 is expected to have a significant effect on any alternative performance measures used by investors (such as 'adjusted earnings'), the estimated quantum (or qualitative explanation) of that effect.

In May 2022, the European regulator (ESMA) issued a public statement setting out guidance on disclosures pre-application of IFRS 17. ESMA expects that the annual financial statements in the year prior to adoption of IFRS 17 will provide the quantitative impact of the application, and explain the changes compared to the amounts reported under IFRS 4, disaggregated as appropriate.

For further guidance on disclosures prior to the first set of IFRS 17 financial statements refer to In depth UK INT2022-03.

Not just for insurance companies

The previous requirements for insurance contracts (IFRS 4) allowed flexibility to follow the measurement principles of other standards. IFRS 17 is more prescriptive. This means it is critical to identify insurance contracts, to determine whether they are within the scope of IFRS 17 and, if so, to determine the accounting implications.

For further information see In depth INT2022-14, which provides guidance to help non-insurance companies identify whether they have any contracts in the 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

In December 2021, the FCA published PS21 / 23 which extended the application of climate-related financial disclosure requirements to issuers of standard listed shares and Global Depositary Receipts (GDRs) representing equity shares (excluding standard listed investment entities and shell companies). PS 21/23 includes guidance provisions to support in-scope companies in making their disclosures which are aligned with existing guidance provisions for premium listed companies. The new Listing Rule 14.3.27R applies for accounting periods beginning on or after 1 January 2022. It directly mirrors the wording and guidance for premium listed companies under LR 9.8.6R(8), that have been reporting under these requirements since 1 January 2021. New guidance from the TCFD on metrics, targets and transition plans and the updated Annex have been incorporated into both the new and existing Listing Rules. Please refer to UK In brief 2021-75 for more information on PS21 / 23. For reporting examples of disclosures please see climate change reporting examples.

For companies that have 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.

FRC's Reporting Lab report on net zero disclosures

In October 2022, the Lab produced a report on net zero disclosures and other GHG emission reduction commitments. It covers a company's internal process and breaks the related disclosures down into three elements: commitments, impact and performance. The report also includes information on investor needs and is supplemented by a separate example bank of current good practice to help companies improve their disclosures.

Other FRC publications and reports

FRC thematic review on earnings per share

In September 2022, the FRC issued a thematic review on earnings per share. The findings show that some of the main principles of IAS 33 are not always well understood or applied correctly.

The FRC's review identified how companies can improve their disclosure of EPS:

Companies should consider providing further information to explain the basis for the weighted average number of shares used in the calculation of EPS, if it is significantly different from information disclosed about issued ordinary shares and potential ordinary shares (for example, share options).Judgements that have a material effect on EPS should be disclosed in accordance with paragraph 122 of IAS 1 (or paragraph 8.6 of FRS 102).Disclosures provided for non-GAAP 'adjusted EPS' should meet the requirements of the ESMA Guidelines on Alternative Performance Measures (APMs) and explain the methodology applied in the adjusted calculation, including the basis used for tax on adjusting items.

The review also highlighted the more common errors found in EPS calculations and reminds companies of certain key requirements including: the definitions of dilutive and antidilutive; the treatment of share reorganisations that include a bonus element; adjustments required for equity preference shares; and the methodology for calculating EPS when a reverse acquisition has taken place.

To encourage improvement in the general quality of the application of IAS 33 by companies, the review includes a summary of the main requirements of the standard; examples to explain some more complex aspects of calculating EPS; and observations on the importance of EPS for investors. For further details see In brief 2022-50.

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's report on 'What makes a good Annual Report and Accounts'

In December 2022, the FRC published a report that sets out the FRC's view of the characteristics associated with high-quality, decision-useful annual reports. The report is aimed at preparers, including audit committee chairs and company secretaries and is illustrated with good practice examples.

FRC's 2022 review of corporate governance reporting by listed companies

The FRC released its annual review of corporate governance reporting in November 2022 setting out the results of its annual survey of the quality of reporting against the UK Corporate Governance Code. Although there have been year-on-year improvements in the quality of governance reporting, the FRC's view is that there are still relatively few companies that achieve a consistently high standard across all the relevant parts of the annual report. Areas discussed in the review, sometimes in significant detail, include the following.

- Companies continue not to use the 'comply or explain' approach effectively, by failing to identify areas of non-compliance or by using 'boilerplate' or vague language in explanations.
- The FRC encourages companies to articulate how they have applied the principles of the Code, rather than concentrate on compliance with the provisions.
- Companies do not usually go further than external targets on gender and ethnic diversity and the FRC encourages companies to report on wider aspects of diversity, and how it is linked to company strategy.
- Boards are encouraged to describe better how they have assessed the effectiveness of risk management and internal controls systems.
- The FRC did not see enough on director engagement with major shareholders, with particular emphasis on cases of 'significant dissent' against AGM votes.
- Governance over environmental and social aspects of the stakeholder agenda such as modern slavery and climate change are a major theme of the FRC's review, as well as the quality of reporting on engagement with key stakeholder groups.
- In relation to remuneration, the FRC notes that engagement with shareholders should not be limited to changes in policy but also cover annual outcomes.

FRC's report on navigating barriers to senior leadership for people from minority ethnic groups

In October 2022, the FRC released a research report that looks at the challenges and opportunities that minority ethnic individuals might experience in progressing to the boards of FTSE 100 and FTSE 250 companies. The report shows that,

while there are still significant challenges to be addressed, the need for change has been taken seriously across the spectrum, including senior managers, executive leaders, board chairs and executive search consultants. The report provides recommendations, including how to enhance disclosures in the annual report.

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 30 September 2023

Draft Statutory Instrument on new corporate reporting requirements

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.

This change will also have implications for the FRC's review of the UK Corporate Governance Code as the audit and assurance policy in particular was integrated into the proposals relating to the role of the audit committee.

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).

UK Corporate Governance Code consultation

The Financial Reporting Council (FRC) has launched a consultation to review the UK Corporate Governance Code with the aim of enhancing its effectiveness. The review is limited but focuses on five key areas:

- Revising parts of the Code that deal with the need for a framework of prudent and effective controls to provide a stronger basis for reporting and evidencing their effectiveness.
- Revisions to reflect the responsibilities of the board and audit committee for sustainability and ESG reporting and appropriate assurance.
- Amending the Code to take account of the new Audit Committees and the External Audit: Minimum Standard (see above for more information).
- Improving the functioning of comply-or-explain where reporting is currently weaker.
- Updating the Code to ensure that it aligns with changes to legal and regulatory requirements, including strengthening reporting on malus and clawback arrangements.

The FRC will also review the existing guidance which supports the Code. The consultation closed on 13 September 2023.

Department for Business and Trade - Smarter regulation non-financial reporting review: call for evidence

The Government released a call for evidence in March 2023, seeking 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. The Government has decided to take a fresh look at the body of requirements companies need to comply with to ensure that the UK's corporate reporting framework continues to deliver what investors and other stakeholders need to support economic growth and long-term value creation. The call for evidence is the first stage of the review process and closed in August 2023.

The International Sustainability Standards Board (ISSB)

The International Sustainability Standards Board (ISSB) issued its first two sustainability reporting standards on 26 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.

For further information see In brief INT2023-15 and UK In depth INT2023-05.

The standards are applicable for annual reporting periods beginning on or after 1 January 2024, however the UK Government is yet to determine which UK companies will be in scope and the exact effective date. 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 has been issued, closing on 11 October 2023, and the FCA has indicated that it will also consult on this matter in the first half of 2024.

Corporate Sustainability Reporting Directive (CSRD)

The Directive 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 new 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 listed on EU regulated markets and more than 500 employees for financial years starting on or after 1 January 2024.
- '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.

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

BEIS consultation on the reporting of payment practices

In January 2023, BEIS released a consultation (now closed) on payment practices following their review of the existing Regulations. Views are being sought on a range of proposals including: amending the expiry date to extend the Regulations beyond 6 April 2024; referencing payment reporting in a company's annual report; including an additional metric on the value of payments made; a clarification of how supply chain finance is reported; including a new metric on disputed invoices; and retention payments in the construction sector.

Accounting standards, IFRIC interpretations and other guidance applicable to 30 September 2023 year ends

A number of narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16

Amendments to IFRS 3, 'business combinations' update a reference in IFRS 3 to the conceptual framework for financial reporting without changing the accounting requirements for business combinations See IFRS Manual of accounting para 29.89.

Amendments to IAS 16, 'property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related costs in profit or loss. See IFRS Manual of accounting para 22.20.

Amendments to IAS 37, 'provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. See IFRS Manual of accounting para FAQ 16.72.1.Annual improvements make minor amendments to IFRS 1, 'First-time Adoption of IFRS', IFRS 9, 'Financial instruments', IAS 41, 'Agriculture' and the Illustrative Examples accompanying IFRS 16, 'Leases'.**Amendment to IAS 12 - International tax reform - pillar two model rules**

These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) 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.

Amendments to FRS 101 Reduced disclosure framework – 2020 / 2021

These amendments provide a disclosure exemption in relation to IAS 16, Property, plant and equipment and maintain consistency with IAS 1 Presentation of financial statements.

New IFRS accounting standards effective on or after 1 October 2023

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 30 September 2023 with an effective date for accounting periods beginning on or after 1 October 2022.

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

IFRS 17, 'Insurance contracts' as amended in December 2021	This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. See IFRS Manual of accounting chapter 50A Insurance contracts IFRS 17.
Published	June 2020 and December 2021
Effective date	Annual periods beginning on or after 1 January 2023.
UK and EU Endorsement status	Endorsed

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 4.80..
Published	February 2021
Effective date	Annual periods beginning on or after 1 January 2023.
UK and EU Endorsement status	Endorsed.
Amendment to IAS 12- deferred tax related to assets and liabilities arising from a single transaction	These amendments require companies 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 IFRS Manual of accounting para 3.24 – 3.31
Published	May 2021
Effective date	Annual periods beginning on or after 1 January 2023.
UK and EU Endorsement status	Endorsed
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 12 - International tax reform - pillar two model rules	These amendments give companies temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD) international tax reform. The amendments also introduce targeted disclosure requirements for affected companies. For further details see UK In depth INT2023-10
Published	May 2023
Effective date	The deferred tax exemption and disclosure of the fact that the exception has been applied is effective can be applied immediately. The other disclosure requirements are effective annual periods beginning on or after 1 January 2023.
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 a company'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*	Not yet 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 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 October 2023

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.
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.
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 October 2023

Amendment to FRS 101 Reduced Disclosure Framework – Effective date of IFRS 17 includes changes to FRS 102	These amendments allow relevant insurers to continue to apply FRS 101 for a further two years.
Published	October 2020
Effective date	Accounting periods beginning on or after 1 January 2023.
Amendments to FRS 101 and FRS 102 - International tax reform - Pillar Two Model Rules	The OECD's Pillar two model rules introduce 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 of the OECD's Pillar Two model rules, alongside targeted disclosure requirements.
Published	July 2023
Effective date	The temporary exception is effective immediately and the disclosure requirements are effective for accounting periods beginning on or after 1 January 2023, with early application permitted.

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