Financial Reporting Council

Annual Review of Corporate Reporting

2021/22

October 2022

Contents

1. Introduction

We are living in a period of heightened economic and geopolitical uncertainty. The Covid-19 pandemic has changed patterns of consumer demand, disrupted global supply chains and resulted in a tight labour market. Russia's invasion of Ukraine has exacerbated the economic damage caused by the pandemic, has resulted in an energy crisis in Europe, has contributed to the slowing down of economies and has intensified inflationary pressures worldwide. Central banks of many countries have started raising interest rates to rein in inflation. Against this, the effects of climate change around the world present an increasingly concerning backdrop.

At times of increased uncertainty, some areas of financial reporting may pose particular challenges, for example, measurement of assets and liabilities. The Corporate Reporting Review (CRR) team of the Financial Reporting Council (FRC), plays an important role in this regard by working to ensure that company annual reports and accounts comply with the relevant financial and narrative reporting requirements and deliver high quality decision-useful information for investors and other stakeholders.[1]

We highlight key matters and key expectations relevant to companies' reporting in uncertain times in section 5. We also outline specific considerations in respect of inflation and rising interest rates throughout this report.

Quality of corporate reporting

Financial reporting

We are pleased to note that, despite the challenging environment, the quality of corporate reporting within the FTSE 350 has been maintained. Overall, we raised fewer substantive questions in relation to the top ten areas of challenge (top ten) compared with the prior year.

We welcome the open and constructive way in which most companies respond to our enquiries, which generally leads to a more efficient resolution.[2]

We saw improvements in companies' reporting of judgements and estimation uncertainty, impairment of non-financial assets, alternative performance measures (APMs) and revenue. These financial reporting matters are particularly critical to users in an uncertain environment. CRR has been driving improvements in these areas over a number of years. We are pleased with this year's positive development, which we expect to be maintained. To this end, we set out specific issues and reminders for companies on each of the top ten in section 3.

However, scope for improvement remains in some areas of financial reporting, particularly financial instruments and deferred tax. We are disappointed that the number of restatements prompted by our reviews nearly doubled in 2021/22, compared with last year (see section 6.2). Many of these errors could have been picked up by robust pre-issuance reviews.

1 Please see page 68 for details on the scope of our work and section 6.4 for possible future changes in scope.
2 Page 69 explains how to deal with our enquiry.

1. Introduction (continued)

Cash flow statements remain an area of considerable concern, with almost twice the number of errors found in this review cycle, compared with the prior year. Companies and their auditors can, and must, do better. Cash and cash flow statements have been identified as an area of focus of audit quality inspections for the 2022/23 review cycle to help drive the necessary improvements in the audit of this important area.

We asked more questions about financial instruments this year - in many instances, our queries could have been avoided by clearer accounting policies and disclosures. We continued to raise questions about expected credit loss (ECL) provisions, which will remain an area of focus given the current economic climate.

We also raised an increased number of queries in respect of accounting for income tax. In several cases, there was only boilerplate disclosure of the evidence supporting the recognition of deferred tax assets by entities with recent losses, despite this being highlighted as a matter requiring improvement in our last annual review.

Climate-related reporting

This year saw a significant advance in climate-related reporting with the introduction of a Listing Rule requiring premium listed entities to provide, on a comply or explain basis, disclosures consistent with the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations (see section 4.1.2).

In view of our joint responsibility for monitoring accounting requirements of the Listing Rules, and in accordance with the FRC Statement of Intent, CRR, together with the Financial Conduct Authority (FCA), undertook a thematic review of companies' climate-related reporting. The companies in the FRC sample, which focused on larger premium listed companies more impacted by climate change, had generally risen to the challenge of mandatory TCFD reporting and were mostly able to provide the disclosures 'particularly expected', as identified by the Listing Rule.

There was, however, a range of maturity in companies' disclosures, and our report highlighted five main areas for companies to consider going forwards. In addition, a significant number of companies referred to the impact of climate change and the climate transition in their financial statements, although these disclosures were often quite generic in nature.

The FCA's broader review found that some companies claimed compliance with the TCFD's recommended disclosures when it appeared that they had not complied; where this is the case, we and the FCA may take action.

We encourage preparers to take account of the findings of both reviews and consider the characteristics of the better practice examples included in our thematic report to help progress the quality of their future reporting in this area.

1. Introduction (continued)

Priority sectors

2021/22

As announced in December 2020, the focus of our work during this cycle has been on companies in the following sectors, assessed by the FRC to be of higher risk:

- travel, hospitality and leisure (including airlines, travel companies, hotels and restaurants)
- retail (particularly involving discretionary expenditure)
- property (particularly retail and office)
- financial services

2022/23

Our internal review of the market at the end of 2021 was conducted against the continuing economic backdrop of an uncertain recovery, compounded by other supply-side shocks. We announced in December[3] that we would prioritise the following sectors when selecting companies for review in 2022/23, based on an analysis of the risks and challenges they faced:

- travel, hospitality and leisure
- retail
- construction materials
- gas, water and multi-utilities

Our monitoring work will consider disclosures that address risks and uncertainty in the challenging economic environment, including those relating to climate change. Companies need to assess and clearly articulate the impact of these risks on their strategy, business model, viability and going concern assessments, ensuring consistency across the annual report and accounts.

3 https://www.frc.org.uk/news/december-2021-(1)/frc-announces-areas-of-supervisory-focus

1. Introduction (continued)

Purpose of the report

Who is this report for?

This report is primarily aimed at preparers and auditors, investors and other users of corporate reports and accounts. It is supplemented by the following companion documents:

- A Corporate Reporting Highlights document – a summary of our key messages intended for those who do not need the detail in the main report or would find a summary helpful.
- Key Matters for 2022/23 Annual Reports and Accounts – a summary of key considerations for the forthcoming reporting season.

What is this report for?

This annual review reports on outcomes of CRR monitoring work for cases opened in the year to 31 March 2022. The annual reports and accounts reviewed in this cycle had year ends ranging from 31 March 2020 to 31 October 2021. The report also provides an overview of financial reporting developments and the most recent activities of the FRC Lab (the Lab).

This report sets out our view of the current state of corporate reporting in the UK, what makes for better quality reporting, and where we see shortcomings requiring improvement. It also explains our expectations for the next reporting season. These are shaped by our findings, as well as developments in reporting requirements and the business environment.

Our findings and case studies

We include case studies to illustrate enhancements in financial reporting made by companies as a result of our reviews (see section 3).

1. Introduction (continued)

Overview of our monitoring activities and outcomes

We performed 252 reviews as part of our 2021/22 review cycle, compared with 246 in 2020/21 and 216 in 2019/20. As in prior years, our monitoring work was weighted in favour of the FTSE 350. A notable exception to this approach was our Streamlined Energy and Carbon Reporting (SECR) thematic review, which included a larger sample of UK AIM-quoted companies, large private companies and Limited Liability Partnerships (LLPs).

We wrote to 103 companies (2020/21: 97; 2019/20: 96) with substantive questions, asking for additional information or further explanation to help us better understand their reporting. Section 6.1 provides further details of our monitoring work for the year.

As with previous years, the majority of these cases resulted in companies volunteering or agreeing to make improvements to their future disclosures. We expect companies to fulfil their undertakings and we, as a matter of course, check they have done so once the company has published its next report and accounts. Where an undertaking is not adequately fulfilled, or a new significant breach is identified during the undertakings check, we will reopen the case. We reopened one case in each of 2021/22, 2020/21 and 2019/20.

We ask companies to refer to our enquiries in their next annual report and accounts where more significant changes are made as a result of o ur enquiry. In 2021/22, we asked 27 companies (2020/21: 15; 2019/20: 14) to include such a reference, in most cases because the company restated comparative information in primary financial statements. The majority of these were related to the cash flow statement and are explained in section 6.2.

No Press Notices in relation to companies' accounts were issued during the year or last year (2019/20: one).

The vast majority of companies voluntarily provide information in response to our enquiries and we rarely need to invoke our statutory powers to obtain information. We used this power in one case in 2021/22. We did not use it in 2020/21. In 2019/20, we used this power once, at the company's request.

Since March 2021, in response to a need for greater transparency and in advance of expected legislation to implement one of the Kingman recommendations, the FRC has published summaries of its findings of closed cases that resulted in substantive enquiries. Currently, legal restrictions mean that we can only publish case summaries with the consent of the relevant companies. Only two companies so far have not consented to the publication of a case summary.

1. Introduction (continued)

Thematic reviews

Just over a third of our work was covered by thematic reviews. These reviews, on which we reported in section 4.1 of last year's annual review, were:

- Interim reporting
- Viability and going concern
- Alternative performance measures (APMs)
- Streamlined energy and carbon reporting
- IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'

We have performed six thematic reviews as part of our 2022/23 cycle:

- Discount rates
- TCFD disclosures and climate in the financial statements
- Deferred tax assets
- Business combinations
- Earnings per share
- Judgements and estimates

Our findings from these reviews are outlined in section 4.1 of this report. The findings of substantive enquiries that arose from 2021/22 thematic reviews have been incorporated into the overall findings in section 3.

Later this year, we will publish 'What Makes a Good Annual Report and Accounts'. It will form part of our 'What Makes a Good ...' series[4] and will advise preparers of the characteristics of a well-drafted annual report and accounts from our perspective as a regulator.

4 FRC 'What Makes a Good Audit?' report was published in November 2021.

2. Findings: top ten at a glance

The table below shows the ranking of the ten topics that arose most frequently in our correspondence with companies over the last three years.

Topic	2021/22	2020/21	2019/20
Cash flow statements	1	3	7=
Financial instruments	2	6	4
Income taxes	3	9=	–
Strategic report and other Companies Act 2006 matters	4	7	6
Revenue	5	2	3
Provisions and contingencies	6	8	7=
APMs	7	5	5
Judgements and estimates	8	1	1
Impairment of assets	9=	4	2
Presentation of financial statements and other disclosures	9=	–	–
Leases	–	9=	–
Fair value measurement	–	–	9=
Business combinations	–	–	9=

Section 3 analyses each of the above topics in further detail.

3. Findings: in greater depth

This section explores CRR's top ten topics in detail, providing bullet point summaries of the more significant or common issues identified during our reviews. These summaries are not a substitute for knowing the relevant reporting requirements, but they do provide insights into common areas for improvement. We encourage preparers to read the summaries and consider whether the matters raised are relevant to their own reports and accounts.

This year, leases did not make it into our top ten findings. However, we have highlighted some of the recurring issues identified in section 3.2.1.

Historically, the majority of our work, primarily obtaining disclosure improvements, has happened behind the scenes. However, since March 2021, we have published case summaries (as explained in section 6.2), which gives us the opportunity to provide examples of the mainstay of our enquiries. This year, we include two case studies which illustrate the disclosure improvements companies make in response to our reviews.

The case studies (in sections 3.1.5.1 and 3.1.9.1) include extracts from our case summaries, together with extracts from the companies' annual report and accounts, and comments to illustrate the improvements made.

We have included these case studies as good examples of the constructive way in which companies respond to our enquiries.

None of the disclosures in the examples were precleared.

The examples will not be relevant for all companies or all circumstances, but each demonstrates a characteristic of useful disclosure. Inclusion of a company's disclosure in this report should not be seen as an evaluation of that company's reporting as a whole.

Represents relevant requirements of a standard or guidance

Represents key points to consider when preparing annual reports and accounts

Represents specific considerations relating to inflation and interest rates

3.1.1 Cash flow statements

We remain disappointed by the number and type of errors we find in cash flow statements given our previous messages on this topic and the publication of our cash flow and liquidity disclosures thematic in 2020. The frequency of questions raised on the cash flow statement was consistent with the prior year. However, this year, 15 companies (2020/21: eight) restated their cash flow statements as a result of our enquiries, the majority of which related to the classification of cash flows.

Several of the errors identified related to parent company cash flow statements or the reporting of cash flows in relation to leasing arrangements. Details of the restatements are provided in section 6.2, while the findings below cover the other issues identified from our routine reviews.

We encourage companies to consider the guidance in our cash flow and liquidity disclosures thematic, which provides a more detailed analysis of the issues we have raised on the cash flow statement in recent years. The thematic sets out, in the appendix, the consistency checks we perform and, together with issues discussed in this report, provides a comprehensive review of the errors we find in cash flow statements.

Classification of cash flows

- We queried the classification of cash flows as operating activities in parent company cash flow statements where they appeared to relate to funding from and to subsidiaries.
- Some companies demonstrated inconsistent application of accounting policies for similar items, such as interest payments on leases being classified as financing cash flows, while interest on borrowings was classified as operating cash flows.

Cash advances and loans made to other parties and repayments thereof are examples of investing cash flows.[5] Cash proceeds from, or repayments of, borrowings are examples of financing activities.[6]

5 IAS 7 'Statement of Cash Flows', paragraphs 16(e) and 16(f)
6 IAS 7, paragraphs 17(c) and 17(d)

3.1.1 Cash flow statements (continued)

Reported cash flows

- Non-cash transactions were included in the cash flow statement, such as additions to right-of-use (ROU) assets.
- There were discrepancies between amounts in the cash flow statement and amounts disclosed elsewhere in the financial statements, for example, between capitalised internally generated intangible assets and the related cash outflow.
- We queried the net presentation of cash flows. In many cases, this was where the parent company cash flow statements offset intra-group borrowing and lending cash flows.
- Reconciling items in the reconciliation to cash generated from operations were not given meaningful descriptions or were inappropriately aggregated within 'other' adjustments.

Disclosures

- Some disclosures required by IAS 7 were missing, such as narrative to explain significant non-cash transactions or details about restrictions over cash and cash equivalents.
- In one case, the reconciliation of liabilities from financing activities would have benefited from greater disaggregation by separating out movements between lease disposals and lease modifications.

Companies should ensure that …

- reported cash flows are consistent with amounts reported elsewhere in the annual report and accounts.
- non-cash items are excluded from the statement and adjustments for material non-cash transactions are disclosed.
- classification of cash flows, cash and cash equivalents comply with relevant definitions and criteria in the standard.
- cash flows are not inappropriately netted.
- the parent company cash flow statement (where provided[7]) complies with the requirements of the standard.

7 FRS 101 'Reduced Disclosure Framework' offers entities applying FRS 101 a disclosure exemption from preparing a cash flow statement (paragraph 8(h)).

3.1.2 Financial instruments

This year, we raised more substantive questions in relation to financial instruments compared with the prior year. Its overall ranking in the top ten reflects this increase as well as the effect of fewer queries raised in some of the other top ten areas. In 2021/22, two companies (2020/21: two) restated their primary statements as a result of our enquiries on this topic. Details of these restatements are included in section 6.2. Our findings from the other issues raised are set out in this section.

We asked several companies for further information where the accounting policies or disclosures did not fully explain how particular transactions or financing arrangements were reflected in the financial statements**.** We continued to raise questions about companies' ECL provisions, which included issues identified for non-banking companies. As noted in section 4.2, the quality of ECL disclosures by major banks continues to be good.

Scope, recognition and measurement

- In some instances, the accounting treatment for derivatives used in cash flow hedges was insufficiently explained.
- We asked one company to clarify the specific factors considered in determining whether certain non-financial contracts were derivatives in scope of IFRS 9 'Financial Instruments'.
- In one case, the effective interest rate method was not used to calculate the interest income on loans receivable.
- We queried whether a guarantee provided to an associate's lender was a financial guarantee contract and, if so, how it was accounted for.
- In some cases, the accounting for forward purchase contracts of own shares and options over non-controlling interests was not clear.
- We challenged the discount rate used in determining, on initial recognition, the fair value of a related party receivable.

An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.[8]

8 IFRS 7 'Financial Instruments: Disclosures', paragraph 31

3.1.2 Financial instruments (continued)

ECL provisions and credit risk

- Information about the impairment assessment for financial assets other than trade receivables was missing, for example, for contract assets, amounts owed by group undertakings and related party receivables.
- Certain credit risk-related disclosures[9] were missing for some non-banking companies, such as:
  - the inputs, assumptions and estimation techniques used to apply the IFRS 9 impairment requirements; and
  - information about credit risk management practices, including the company's definitions of default and the basis for selecting those definitions.
- We questioned some financial institutions about the adjustments made to ECL models, where there was insufficient information provided to explain the post-model adjustments and overlays.

Other disclosures

We identified several instances where liquidity disclosures could have been improved, including:

- Invoice discounting arrangements appeared to be in use, but the extent to which such arrangements were utilised was not always clear.
- We challenged one company's basis for concluding that short-term lease liabilities did not give rise to liquidity risk.
- The maturity analysis for lease liabilities did not include the gross contractual cash flows.[10]
- Information about the terms and conditions of bank loans and borrowings was either missing or inconsistent with information reported elsewhere in the annual report and accounts.
- A breach, and subsequent waiver of the breach, of certain loan covenants was disclosed but the terms of the covenants, including quantification of the thresholds, was not provided.

9 IFRS 7, paragraphs 33 – 38
10 IFRS 7, paragraph 39

3.1.2 Financial instruments (continued)

Companies should ensure that …

- the nature and extent of material risks arising from financial instruments (including inflation and rising interest rates) and related risk management are adequately disclosed, including:
  - the methods used to measure exposure to risks and any changes from the previous period; and
  - any hedging arrangements put in place to fix interest rates or hedge against the effects of inflation.[11]
- the approach and significant assumptions applied in the measurement of ECL; and concentrations of risks, where material, are disclosed.
- in making ECL assessments, historical default rates are reviewed and adjusted for forecast future economic conditions.
- accounting policies are provided for all material financing (including factoring and reverse factoring) and hedging arrangements, and any changes in the arrangements.
- information about banking covenants is provided unless the likelihood of any breach is considered remote.
- the effect of refinancing and changes to covenant arrangements is explained.

11 IFRS 9, paragraph B6.3.13, contains a rebuttable presumption that unless inflation risk is contractually specified, it cannot be designated as a risk component of a hedged item, except for limited cases.

3.1.3 Income taxes

This year, we raised more queries in relation to income taxes. We wrote to several companies asking for clarification of reconciling items in their effective tax rate reconciliations. We also challenged companies' accounting for income tax on arrangements such as share-based payments and cash flow hedges. A number of our enquiries also centred on the evidence supporting the recognition of deferred tax assets.

In 2021/22, one company restated its primary statements as a result of our questions on this topic. Details of this restatement are included in section 6.2. In the light of the effect of the Covid-19 pandemic on companies' profitability, we conducted a thematic review as part of our 2022/23 monitoring, the findings of which are outlined in section 4.1.3.

Recoverability of deferred tax assets (DTAs)

In several cases, we asked for details of the evidence supporting the recognition of DTAs arising from losses for companies with a recent history of losses. In such instances, the companies were encouraged, or agreed, to improve the related disclosures in future annual report and accounts.

In such cases, where a group operates in several jurisdictions, it may be more meaningful to aggregate reconciliations prepared using the domestic rate in each individual jurisdiction [12] and to disclose a weighted average tax rate applied to accounting profit.

Effective tax rate reconciliation

- In several cases, we questioned inadequate explanations for significant reconciling items affecting the relationship between income tax expense and accounting profit multiplied by the applicable tax rate.
- In one case, we queried the tax rate used to calculate the deferred tax assets and liabilities as the effective tax rate reconciliation did not include a reconciling item to reflect the effect of changes in tax rates.
- We asked companies to explain why certain reconciling items were not included as expected, given other disclosures in the annual report and accounts.
- We challenged the usefulness of using the parent company's tax rate of 0% in the effective tax rate reconciliation and a single material reconciling item which represented the effect of overseas subsidiaries being taxed at different rates.

12 IAS 12 'Income Taxes', paragraph 85

3.1.3 Income taxes (continued)

Recognition of deferred tax assets and liabilities

- We queried the accounting for deferred tax on cash flow hedging instruments where no deferred tax was recognised in relation to the net asset position of the hedging instruments.
- One company had significant deferred tax liabilities in respect of accelerated capital allowances and disclosed material unrecognised DTAs. We asked the company to clarify whether it had considered the reversal of taxable temporary differences in assessing the recognition of the deferred tax asset.[13]
- One company did not disclose sufficient information to explain its exposure to tax-related disputes, including the accounting treatment and the amounts recognised.

Other IAS 12 issues

- In some cases, we asked companies to explain the accounting for current and deferred tax in relation to share-based payments. In one instance, the company recognised the tax effect of the tax deduction received in excess of the cumulative expense through other comprehensive income rather than directly in equity.[14]
- Meaningful descriptions of the types of temporary difference were not always provided for deferred tax recognised.
- Material adjustments to current and deferred tax amounts in respect of prior periods were not fully explained.
- We asked one company to explain its approach to allocating tax on defined benefit pension contributions between the income statement and other comprehensive income.
- In one case, we requested a reconciliation of the movement in the current tax receivable where we were unable to understand the movement in the balance from the disclosures in the financial statements.

13 IAS 12, paragraph 36(a)
14 IAS 12, paragraph 68C

3.1.3 Income taxes (continued)

Companies should ensure that …

- forward-looking assessments take account of the difficult economic environment ahead of us. Companies should remain alert to changes in tax regimes introduced in response to the inflationary environment.
- where material deferred tax assets are recognised by loss-making entities, the nature of the evidence supporting their recognition is disclosed. Significant accounting judgements and sources of estimation uncertainty will also often need to be disclosed in such cases.
- tax-related disclosures are consistent throughout the annual report and accounts, and material reconciling items in the effective tax rate reconciliation are adequately explained.

3.1.4 Strategic report and other Companies Act 2006 matters

This year, we raised more questions on the strategic report and other issues related to the non-financial reporting requirements of the Companies Act 2006 (CA 2006). Our findings include enquiries made as part of our 2020/21 SECR thematic. Several arose where large private companies had omitted disclosures required by relatively recent requirements, for example, energy and carbon reporting and certain stakeholder engagement disclosures.

Consistent with recent years, we challenged fewer companies about whether their strategic reports were – as CA 2006 requires – fair, balanced and comprehensive. However, there remains scope for improvement in certain aspects, as evidenced by our findings below.

Fair, balanced and comprehensive

- In some cases, the financial review focused on the financial performance of the company, with limited or no information on significant movements in the statement of financial position or cash flow statement.
- We challenged companies where information was omitted or lacked specific detail about matters that appeared significant to the company, such as prior year restatements, government funding and climate-related matters.

A new edition of the FRC's Guidance on the Strategic Report was issued in June 2022 to reflect recent changes in the requirements, including those related to the SECR rules.

We encourage companies to consider the guidance in our SECR thematic.

SECR

- Several large private companies omitted energy and carbon reporting disclosures.[15]
- One listed company did not disclose its energy consumption, separate emission figures and the methodology used to calculate the annual emissions.

Section 172 statement and stakeholder engagement

- In several cases, the annual report and accounts of large private companies did not include a statement about the company's engagement with suppliers, customers and others in a business relationship, and the effects on the principal decisions taken by the company during the year.[16]
- One company did not provide a section 172 statement.

15 The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 – effective for accounting periods starting on or after 1 April 2019.
16 Paragraph 11B of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 – effective for accounting periods starting on or after 1 January 2019.

3.1.4 Strategic report and other Companies Act 2006 matters (continued)

Where we identify company law-related matters, such as lawfulness of distributions, we raise these with companies even when, strictly, they are outside of our statutory powers. We are pleased to note that companies generally respond constructively to these enquiries.

Distributable profits

- We queried the lawfulness of dividends that were not supported by the company's last audited accounts and where the required interim accounts had not been filed at Companies House.[17]
- In another case, we questioned the lawfulness of a company's share repurchase where the supporting interim accounts appeared to be filed at Companies House after the date of the share buyback.
- We asked one company for information about the company's distributable profits and challenged the lawfulness of distributions made.
- In one instance, a parent company had capitalised a share-based payment expense within its investment in a subsidiary. We asked the company to confirm that the corresponding credits were treated as unrealised profits and how this was factored into the company's assessment of the lawfulness of dividends paid.

Other Companies Act 2006 matters

- We asked one public company to explain the steps it had taken to address its duty to call a general meeting when the net assets were half or less of its called-up share capital.[18]
- In another case, we questioned whether the company had considered the provisions in CA 2006 which prohibit public companies from providing financial assistance for the purpose of acquiring its own shares in connection with an acquisition.[19]

17 Sections 830 and 836 of CA 2006
18 Section 656 of CA 2006
19 Section 678 of CA 2006

3.1.4 Strategic report and other Companies Act 2006 matters (continued)

Companies should ensure that …

- the strategic report:
  - articulates the effect of economic and other risks and uncertainties facing the business (including inflation, rising interest rates, supply chain issues and labour relations in the inflationary environment);
  - explains the mitigation strategies; and
  - where relevant, links to the discussion of the entity's strategy and business model, and information disclosed in the financial statements.
- the strategic report explains significant movements in the statements of financial position and cash flows, and not be limited to an explanation of financial performance.
- linkages between information presented within the strategic report and the accounts are highlighted and explained.
- they comply with specific legal requirements around distributions, including the requirement to file interim accounts to support distributions in excess of distributable profits shown in the relevant accounts (usually the most recent audited accounts).

3.1.5 Revenue

We were pleased to raise fewer substantive queries on revenue recognition and related disclosures in comparison with recent years. In 2021/22, one company (2020/21: two) restated its income statement as a result of our questions on this topic. Details of this restatement are included in section 6.2.

Our questions in this area centred on the identification of performance obligations or whether revenue should be recognised at a point in time or over time. We continued to challenge companies where accounting policies for contract modifications were missing or variable consideration information lacked entity-specific details. We encourage companies to read our 2019 IFRS 15 'Revenue from Contracts with Customers' thematic and 2020 follow up thematic on this subject.

As explained in section 3, we have included a case study to illustrate how one company has enhanced its revenue recognition disclosures, following one of our recent reviews.

Performance obligations

- In some cases, we queried the company's conclusion that certain goods or services transferred to customers were distinct from other promises in the contract.
- Some companies could have provided fuller explanations in relation to judgements made in identifying separate performance obligations in multi-element arrangements. There was also scope for companies to provide better information about the assumptions used to allocate transaction prices and discounts to the identified performance obligations.
- We queried the timing of revenue recognition, including whether it should be recognised at a point in time or over time.
- We asked one company to explain why the input method used to recognise revenue over time provided a faithful depiction of the transfer of goods or services.

Determining transaction price (including variable consideration)

- Some accounting policies did not adequately explain the nature of variable consideration.
- One company disclosed that deductions for charges were made in determining the transaction price. We queried whether these related to expenses incurred by the company or adjustments to determine the transaction price for the specific goods or services.

3.1.5 **Revenue** (continued)

Principal versus agent considerations

In some instances, it was unclear how a company had determined that it was acting as an agent or principal. There was scope for improvement to explain the related judgements.

Contract modifications

We asked some companies to clarify whether variations in contracts were accounted for as contract modifications.

Other IFRS 15 points

- One company accounted for repurchase agreements as financing arrangements but incorrectly recognised revenue and costs of sales on the initial sale.[20]
- Narrative disclosures within the annual report indicated the existence of certain revenue streams but the accounting for these transactions was missing or insufficiently explained in the revenue accounting policies.
- We asked one company to clarify the inconsistent presentation of contract liabilities between provisions and other payables in the statement of financial position.
- Companies did not adequately explain the nature of certain revenue-related balances, such as refund liabilities.

Companies should ensure that …

- inflationary features in contracts with customers and accounting for such clauses (that is, whether the feature is an embedded derivative or variable consideration) are disclosed.
- accounting policies are provided for all significant performance obligations and address:
  - the timing of revenue recognition;
  - the basis for recognising any revenue over time; and
  - the methodology applied.
- significant judgements made in relation to revenue recognition are disclosed (for example, in relation to the allocation of the transaction price and the timing of satisfaction of performance obligations).

20 IFRS 15, paragraphs 38(c), B64 – B76

3.1.5.1 Case study – revenue disclosures

Revenue recognition

…

We sought explanations of: the company's **principal types of performance obligations**, the timing of their satisfaction, **the method(s) used for measuring progress towards satisfying performance obligations over time** and the nature of variable consideration receivable. We considered the information and explanations the company provided, and observed that users would benefit from more specific descriptions of the extent of variability within contracts and of **how the company applies the constraint on variable consideration**. The company also **agreed to remove disclosure relating to combining contracts**, on the basis that the relevant contracts are neither individually nor collectively material.

Extract from the summary of findings (published in September 2021) for **DWF Group plc, 30 April 2020.**

Revenue

The Group generates revenue primarily by delivering professional services to clients, with the types of services offered being similar within each of its divisions. These services, when delivered to individual clients, are almost always bespoke in nature. However, the performance obligations tend to be consistent from client to client and the two that the Group most commonly satisfies are:

- Legal advice and services
- Non-legal advice and services that are complementary to legal services

…

The consideration the Group receives is primarily based on one of two types of fee arrangements:

- Time and materials; and
- Fixed fee

The Group also has a small number of contingent fee arrangements that are not, at present, a material part of the Group's revenue …

DWF Group plc,
Annual Report and Accounts 2021, pp. 132-133

The company has clarified the types of performance obligation and removed the disclosure that related to combining contracts.

3.1.5.1 Case study – revenue disclosures (continued)

... Fee arrangements are constrained in accordance with the requirements of IFRS 15. In virtually all fee arrangements the Group has an enforceable right to payment for services rendered and, given the bespoke nature of the services provided, recognises revenue over time as such services are rendered.

The Group measures progress in satisfying the performance obligations as follows:

- For time and materials arrangements, revenue is recognised as the work is performed, as captured daily by fee earners recording time against specific matters at contracted rates. The contracted rates are constrained to a true recovery rate. The revenue constraint is determined with reference to historical recovery rates, specific agreements with clients and amounts considered irrecoverable by fee earners.
- For fixed fee arrangements, the appropriate proportion of revenue to be recognised is measured by assessing time incurred to date, at an hourly rate that reflects the seniority and expertise of each individual, as a proportion of the total expected time at these rates for the arrangement.

DWF Group plc,
Annual Report and Accounts 2021, pp. 132-133

The company has improved the policy by explaining the methods used to recognise revenue over time, including how the revenue is constrained.

3.1.6 Provisions and contingencies

This year, we raised more substantive questions in relation to provisions and contingencies. Our findings include enquiries made as part of our 2020/21 thematic on IAS 37. In 2021/22, one company restated its statement of financial position as a result of our enquiries (see section 6.2 for details). We challenged several companies where it was not clear how they had accounted for insurance/self-insurance arrangements and associated reimbursement assets.

We encourage preparers to read our thematic report on this subject, which includes our expectations of future reporting, as well as examples of better practice disclosures.

Recognition and measurement

- We queried the accounting treatment for dilapidation costs where the accounting policy was unclear or where there was an apparent inconsistency in its application across the company's portfolio of leased properties.
- In some instances, we requested further information about how the best estimate for a provision was determined and why no potential range of outcomes could be provided for the provision.

Disclosures

- Several queries were prompted by information in the annual report (or elsewhere) that indicated there were unrecognised provisions or undisclosed contingent liabilities, such as for potential litigation.
- We asked for further information about material 'other' provisions where there was limited or no disclosure of the nature of the obligation or related uncertainties.
- We challenged one company where material increases and releases of provisions were not explained.

3.1.6 Provisions and contingencies (continued)

Presentation

- One company classified a claims-related liability as other payables rather than as a provision.
- In several cases, we queried the accounting treatment for insurance/self-insurance arrangements where it appeared that the company had presented the provision for the underlying obligation net of any potential reimbursement asset recoverable.

As set out in our IAS 37 thematic, we expect a clear description of the underlying claims covered by insurance/self-insurance arrangements to help users understand the nature of the company's exposure.

Reimbursement assets that are virtually certain to be received should be presented separately from the related provision.[21]

Companies should ensure that ...

- the inputs used in measuring provisions follow a consistent approach in incorporating the effects of inflation. Nominal cash flows, which include the effect of inflation, should be discounted at a nominal rate and real cash flows, which exclude the effect of inflation, should be discounted at a real rate.[22]
- details of how the inflation assumptions have been calculated are provided where they have a material impact on the financial statements.
- clear and specific descriptions of the nature and uncertainties are disclosed for each material exposure for which a provision is recognised or a contingent liability is disclosed, as well as the timeframe over which it is expected to crystallise and the basis for determining the best estimate of the probable or possible outflow.

21 IAS 37, paragraph 53
22 Please see page 11 of our thematic on discount rates.

3.1.7 Alternative performance measures

We have been pleased by the way in which companies have responded to the investor need for improvements in the quality of APM reporting and raised fewer challenges of companies in this area this year. The most common queries raised related to reconciliations for APMs and the potential undue prominence given to these measures.

Our findings include enquiries made as part of our 2020/21 thematic review on APMs. We encourage companies to refer to this thematic as it includes guidance and more detail about recurring matters we have identified in this area, as well as relevant examples of better practice.

Reconciliations and calculations

- Reconciliations to the most directly reconcilable line item, subtotal or total presented in the financial statements were omitted for some APMs.
- In some cases, reconciling items did not agree to the corresponding amounts in the financial statements.
- Explanations or calculations for certain APMs were not provided, such as constant currency measures or financial ratios.

Prominence

- Key sections of the annual report (or interim report), such as the Chair's Statement and CEO's Review, focused just on the adjusted measures or did not discuss the corresponding IFRS measures.

We expect companies to apply the European Securities and Markets Authority (ESMA) Guidelines on Alternative Performance Measures (the ESMA Guidelines) when preparing annual and interim reports.

3.1.7 Alternative performance measures (continued)

Other points

- Some items were not included as 'adjusting', which appeared inconsistent with the company's definition of 'adjusting items'.
- Covid-19 related items were included as 'adjusting items' without explaining how such items were identified and quantified or how any potential future reversals would be tracked.
- Multi-year restructuring programmes were referred to as 'one-off' or 'non-recurring' and information covering the costs to date, the total expected costs and timeframes was not provided.
- Inconsistent labelling of 'adjusted' and IFRS measures.
- The tax effect for 'adjusting' items was not always disclosed.

Companies should ensure that ...

- APMs are not displayed with more prominence, emphasis or authority than measures directly stemming from financial statements.
- the basis for classifying amounts as adjusting, 'non-underlying' or 'non-core' and any changes to APMs are explained, together with the reasons for those changes.
- APMs are reconciled to the most directly reconcilable line item of the financial statements.

3.1.8 Judgements and estimates

There were notably fewer instances this year where we challenged companies' significant judgements and estimates disclosures. Historically, this has been a topic which has given rise to the highest number of questions, so we are pleased to see a marked improvement in this area, particularly as this has been achieved when reporting in a challenging environment. As a result of the Covid-19 pandemic, we highlighted the heightened significance of providing quality disclosures in this area when reporting in times of uncertainty, as set out in our Covid-19 thematic. Given the importance of this topic, we performed a follow up thematic to our previous judgements and estimates thematic report. Our findings from this and our routine reviews show that companies have responded well by enhancing these disclosures.

However, in the light of the continued uncertainty in the economic environment, this topic remains a significant area to users and there remains scope for further improvements. The findings from this year's routine reviews are set out below and the findings of the thematic are summarised in section 4.1.6.

Key sources of estimation uncertainty

- Disclosure of key assumptions used in the measurement of assets and liabilities subject to significant estimation uncertainty was not always provided.
- In some cases, it was unclear whether the estimation uncertainty had been disclosed because there was a significant risk of material adjustment in the following year[23] or for another reason.
- The carrying amount of the assets and liabilities at risk of material adjustment was sometimes not disclosed.
- Disclosure of sensitivities or ranges of potential outcomes were missing in some cases or it was not clear whether the sensitivities performed represented reasonably possible changes within the next financial year.

23 IAS 1 'Presentation of Financial Statements', paragraph 125

3.1.8 Judgements and estimates (continued)

Significant accounting judgements

- In certain instances, we asked companies to explain the specific factors considered and the judgements made, where the information provided was not sufficiently detailed to understand the judgements made in relation to complex or unusual transactions.
- We challenged apparent inconsistencies between a significant judgement or a significant estimation uncertainty disclosure and information elsewhere in the annual accounts, for example, as indicated in the audit committee report.
- One company's sustainability report explained that decarbonisation was expected to have a high impact on the company but the estimation uncertainty disclosures did not explain the effect of climate on the assumptions made.

Companies should ensure that ...

- significant judgements involved in going concern assessment and accounting for inflationary features are explained and sensitivity quantified where inflation represents a significant source of estimation uncertainty.
- sources of estimation uncertainty and the related disclosures are updated at the balance sheet date.
- sensitivity disclosures are provided in the most meaningful way for readers, by, for example, sensitising the most relevant assumptions, choosing alternative assumptions that are considered reasonably possible and explaining changes to the assumptions, particularly, where the range of possible outcomes has widened under the more uncertain environment.
- estimates with a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are clearly distinguished from other sources of estimation uncertainty.

3.1.9 Impairment of assets

This year, we raised fewer queries relating to the impairment of assets. We have seen improvements in the quality of disclosures in this area, but there remains scope for further improvement. This is particularly important due to the ongoing uncertainties in the economic environment.

Many of our queries could have been avoided by clearer disclosures to explain some of the key assumptions or inputs applied in the impairment assessments performed. We remind companies of the guidance set out in our recent thematics on impairment of non-financial assets and the financial reporting effects of Covid-19. In addition, our thematic on discount rates (see section 4.1.1) includes some relevant guidance to consider when calculating discount rates and preparing impairment-related disclosures.

As explained in section 3, we have included a case study to illustrate how one company enhanced its disclosures on this topic, following a recent review.

Key inputs and assumptions

- We asked one company to justify the use of financial budgets/forecasts for periods longer than five years[24] in its value in use (VIU) calculations.
- We queried apparent inconsistencies between assumptions used for VIU calculations and information disclosed elsewhere in the financial statements (for example, periods used in cash flow forecasts compared with the lease term of properties).
- In certain cases, we asked how climate change and the move to decarbonisation was considered in estimating the cash flow forecasts used in VIU calculations.

Impairment indicators and impairment method

- We questioned whether goodwill acquired in the year as part of a business combination had been tested for impairment.
- We queried whether the inclusion of cash flows in VIU calculations arose from improving the asset's performance capability, rather than being based on its current condition.
- Some companies did not sufficiently explain the composition of cash generating units (CGUs).
- In one case, we enquired whether the CGU contained assets other than goodwill as it appeared that the resulting impairment loss was recognised against goodwill only.
- The basis for allocating goodwill to CGUs or groups of CGUs was not always clear.

24 IAS 36 'Impairment of Assets', paragraph 33(b)

3.1.9 Impairment of assets (continued)

Investments in subsidiaries

We wrote to companies where there were impairment indicators but no evidence of an impairment assessment having been made, for example, where the parent company's net assets exceeded market capitalisation.

Companies should ensure that ...

- they explain the sensitivity of recoverable amounts to changes in assumptions, particularly where the range of reasonably possible outcomes has widened under a more uncertain outlook.[25]
- the effects on the assumptions made in the impairment assessment relating to potential reduced customer demand, increased costs and other factors that affect the business in the current environment are disclosed.
- the inputs used in VIU calculations are consistent in incorporating the effect of inflation (nominal cash flows are discounted at a nominal rate and real cash flows are discounted at a real rate).[26]
- impairment reviews and/or disclosures appropriately reflect information elsewhere in the report and accounts.
- the composition of CGUs and the basis for the allocation of goodwill to CGUs or groups of CGUs is adequately explained.

25 Pages 44-47 of our Covid-19 thematic review set out further considerations in relation to the impairment of non-financial assets in an uncertain environment.
26 IAS 36, paragraph 40

3.1.9.1 Case study – impairment of asset disclosures

Case summary

…

Parent company's investment in subsidiary

We requested information about the impairment review performed for the parent company's investment in its subsidiary. The company provided an analysis of the assessment performed. We closed the matter based on the company's undertaking to improve the disclosure of the impairment review in the next annual accounts, by providing additional information about the assumptions made and their sensitivity to changes.

Extract from the summary of findings (published in December 2021) for **Smiths News plc for the period ended 29 August 2020.**

The company in its 2021 annual report and accounts has quantified the key assumptions applied, which includes both the pre-tax and post-tax discount rate.

The Company indirectly owns three cash generating units (CGUs): Smiths News Trading Limited (Smiths News), Dawson Media Direct Group (DMD) and its joint venture investment in Rascal Solutions Limited. Each cash generating unit was independently valued using value in use calculations; the Company prepares cash flow forecasts derived from the most recent budgets and three year plans. Cash flows beyond this three year period are extrapolated using a terminal growth rate based on management's future expectations.

…

The key assumptions in the value in use calculations are the rates of revenue decline, level of cost mitigation to maintain margins, terminal growth rates and the risk-adjusted post-tax discount rate. The post-tax discount rates are derived from a risk adjusted weighted cost of capital using an average market participant capital structure, the inputs of which include a UK risk free rate, risk premium, small company risk premium and a risk adjustment (beta). The post-tax discount rate used is 9.4% (FY2020: 8.1%) for the primary Smiths News CGU. The pre tax discount rate used for the Smiths News CGU is 12.7% (FY2020: 9.9%) …

Smiths News plc
Annual Report and Accounts 2021, p176

3.1.9.1 Case study – impairment of asset disclosures (continued)

The core newspaper and magazine market (and associated revenues) are in long term structural decline and it is assumed that revenue is expected to fall each year over the longer term. Any such decline in revenue is considered to be consistently within a historically tight range, allowing management to plan appropriate cost savings measures each year to mitigate the impact of any fall in revenue such that profitability and cash flows are maintained or impacted to a lesser extent by such declining revenues. As such a terminal growth rate of 0% (FY2020: 0%) is used in the calculations.

The company enhanced its disclosures by providing additional information to explain key assumptions made, such as in respect of the terminal growth rate.

As disclosed in the accounting policies (see Note 1), the cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and small movements in these assumptions could lead to a change in the impairment loss. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions and in reference to the Company's principal risks.

The company also provided information about the sensitivity analysis performed.

	Terminal growth rate %	Post-tax discount rate %	Value in use £'m	Headroom/ (impairment) £'m
Expected case	0%	9.4%	197.7	(3.0)
+1% Discount rate	0%	10.4%	171.9	(28.8)
-1% Discount rate	0%	8.4%	229.6	28.9
+1% TGR	1%	9.4%	220.9	20.2
-1% TGR	(1%)	9.4%	178.9	(21.8)
Scenario 1	0%	9.4%	176.9	(23.8)
Scenario 2	0%	9.4%	169.4	(31.3)
Scenario 3	0%	9.4%	161.4	(39.6)

Scenario 1 – Assumes one third of cost reductions to mitigate revenue decline are not achieved
Scenario 2 – Assumes additional inflation of 5% impacting subcontracted driver and warehouse operative costs
Scenario 3 – Assumes failure of a publisher or customer (3% additional reduction in margin and delivery service charge)

Smiths News plc
Annual Report and Accounts 2021, p176

3.1.10 Presentation of financial statements and related disclosures

A small increase in the number of substantive questions raised in this area this year has resulted in its inclusion in the top ten. In 2021/22, three companies restated their primary statements as a result of our enquiries on this topic. Details of these restatements are provided in section 6.2.

The findings below cover other issues identified from our routine reviews. We wrote to several companies where the accounting for material transactions was either not covered by an accounting policy or not sufficiently explained.

Presentation of primary statements

- We questioned companies where items of income and expense appeared to be inappropriately offset.
- We challenged the classification of assets and liabilities as current or non-current.

Disclosures and other matters

- In several cases, we wrote to companies where the accounting for material transactions or amounts was either not covered by an accounting policy or not sufficiently supported by relevant detail for readers to understand their substance.
- We queried inconsistent presentation or classification of similar items in the financial statements where the current year presentation differed from that applied in the comparative period.[27]

Companies should ensure that ...

- material accounting policy information is clearly disclosed.[28]
- additional company-specific disclosures are provided when compliance with the specific requirements in IFRS is insufficient to explain the impact of particular transactions, events and conditions on the company's financial position and financial performance.[29]

27 IAS 1, paragraph 45
28 IAS 1, paragraph 117, as amended for accounting periods beginning on or after 1 January 2023 (please see page 52).
29 IAS 1, paragraph 31

3.2.1 Other findings: leases

This year, leases did not make it into our top ten findings. However, we would like to highlight some of the recurring issues identified on this topic, as IFRS 16 'Leases' is a relatively new standard. The questions we raised were spread across a number of issues, which are summarised below.

We remind companies that our recent IFRS 16 thematic provides additional guidance on this area and helpful examples of better practice.

Scope, recognition and measurement

- Accounting policies were sometimes missing or not clear, for example, in relation to items outside scope, lease incentives and sale and leaseback transactions.
- The accounting for changes to lease arrangements was sometimes insufficiently explained.
- In one case, we challenged the company's conclusion that the transfer of an asset in a sale and leaseback transaction was a sale.[30]
- We asked some companies to explain the judgements made in determining the lease term, for example, the factors considered in the assessment of the reasonably possible exercise of extension or termination options.[31]

Where the assessment of the lease term requires significant judgement, we expect the judgement to be disclosed and explained.

Disclosures

- Potential future cash flows from extension options not included in the measurement of lease liability were not always quantified.
- Movements in the lease liability were sometimes inconsistent with disclosures related to the cash flow statement and finance expense disclosures.
- In some cases, we queried significant movements in the ROU assets or/and lease liabilities where there were apparent inconsistencies with information included elsewhere in the financial statements.

Companies should ensure that ...

- they explain the nature and the potential effect of significant variable payment features[32] (for example, those linked to inflation or sales).
- they consider whether the inflation-related feature requires separation[33] from the host contract and explain any significant judgements made.

30 IFRS 16, paragraph 99
31 IFRS 16, paragraph 18
32 IFRS 16, paragraphs 59(b) and B49
33 IFRS 9, paragraphs 4.3.3 and B4.3.8(f)

4.1.1 Thematic review: discount rates

This thematic considers the use of discounted cash flows and discount rates under IFRS. Determining an appropriate discount rate is a complex area of financial reporting and can be an area of significant estimation uncertainty and a source of errors in financial reporting. Although not featuring directly in CRR's top ten, discount rates underlie a number of them (for example, impairment) and have featured in some of CRR's most challenging cases and significant findings. The principal findings of the thematic review are set out below.

Assumptions for discount rates and cash flows

Assumptions used for discount rates and cash flows should be internally consistent, and care should be taken to avoid double-counting risks. For example, when nominal rates are used, the cash flows should also include the effect of inflation.

Specialist third-party advice

Companies may need to consider whether specialist third-party advice is required when valuing a material item, and where there is no internal expertise.

Importance of high-quality disclosures

There is general scope for improvement in the usefulness of the disclosures provided by many companies, with high-quality disclosures including both the discount rate used, and an explanation of how it was determined.

Narrative disclosures should also be clear and consistent with other disclosures in the financial statements.

We were pleased to find some good examples where companies had clearly explained what factors had been considered in determining the discount rate, for example, explaining if risk and inflation were included in the cash flows or the discount rate.

4.1.2 Thematic review: TCFD disclosures and climate in the financial statements

For reporting periods beginning on or after 1 January 2021, premium listed commercial companies are required to provide climate reporting consistent with TCFD recommendations on a comply-or-explain basis. This thematic review, which was carried out in collaboration with the FCA in accordance with our agreed monitoring approach,[34] assessed the quality of the disclosures provided in response to this new requirement.[35] We also considered the extent to which the financial statements of the companies included in our sample reflect the impact of climate change.

We found that the companies in our review had generally risen to the challenge of mandatory TCFD reporting and, in the main, provided the TCFD disclosures relating to governance, risk management and strategy that are 'particularly expected' by the Listing Rules.[36] The increased information will go some way to meeting calls from investors for more information on the potential effects of climate change and the climate transition on companies' businesses. However, companies could significantly improve their climate-related reporting in the following five ways:

Granularity and specificity

We expect companies to provide granular climate-related disclosures that are specific to both the company and the individual disclosure requirement in question, including a clear link to financial planning.

Balance

We expect companies to ensure that the discussion of climate-related risks and opportunities is balanced and to consider linking the description of climate-related opportunities to any technological dependencies.

Interlinkage with other narrative disclosures

Companies should ensure clear links of TCFD disclosures with other narrative disclosures in the annual report. For example, they may need to consider the output of climate-related scenario analysis elsewhere in the strategic report when discussing the company's business model and strategy, or to explain how climate-related risks have been assessed and prioritised compared with other risks.

Materiality

We expect companies to clearly articulate how they have considered materiality in the context of their TCFD disclosures when preparing the TCFD 'statement of compliance' required by the Listing Rule. We may challenge companies if it is unclear why some TCFD disclosures have not been provided.

Connectivity between TCFD and financial statements disclosures

We expect companies to consider the connectivity between TCFD disclosures and the financial statements. We may challenge those that disclose significant climate risks or net zero transition plans in narrative reporting, but do not adequately explain how this has been taken into account when preparing their financial statements.

34 Primary Market Bulletin 36
35 Listing Rule 9.8.6R(8)
36 Listing Rule 9.8.6EG

4.1.3 Thematic review: deferred tax assets

This thematic considered the basis of recognition for, and disclosure in relation to, deferred tax assets in the light of the Covid-19 pandemic. It updates on opportunities for improvement noted in our previous tax thematic report, issued in October 2016.

Recognition

We did not identify any obvious issues in relation to the amount of deferred tax recognised, although in some cases it was more difficult to make a full assessment due to the lack of informative disclosure. However, we remind companies to reassess the extent of deferred tax liabilities in the same tax jurisdiction and taxable entity when considering the recognition of DTAs.

Disclosures

Specificity of convincing evidence

Loss-making companies often gave only boiler-plate disclosures about the nature of evidence used to assess the recoverability of net DTAs. However, we identified some examples of good disclosure (for example, explanations of specific improvements in profitability expected to occur in the forecast period or of the loss having been the result of a one-off event).

Companies should give more specific disclosures about the nature of the convincing evidence supporting the recognition of DTAs when there is a recent history of losses.

Transparency

We identified some good examples of informative, transparent tax disclosures. Examples included disclosure of the expected period of recovery of DTAs, and geographical analysis of tax disclosures.

A few companies omitted disclosures required by IAS 12 or disclosed material deferred tax balances, or movements in balances, that were not explained by the disclosures in the accounts.

Consistency

The underlying assumptions used in companies' estimates of future taxable profit should be consistent with their impairment, viability and going-concern forecasts.

Companies' deferred tax and other tax disclosures should generally be consistent throughout the annual report and accounts, including any related narrative in the strategic report.

Judgements and estimates

We expect company-specific disclosure of significant judgements made, and major sources of estimation uncertainty, in recognising DTAs.

When relevant, companies should provide sensitivities to changes in assumptions or a range of possible outcomes.

A small number of companies disclosed that the potential effect of climate change on the recoverability of DTAs had been considered.

4.1.4 Thematic review: business combinations

Business combinations tend to be significant but infrequent transactions that give rise to issues outside the routine work of the accounting function. They can have a profound effect on a company's annual report, with disclosures being required in both the front and back end of the report.

This thematic looked at the annual report and accounts of companies who had recently completed a business combination, and sought to highlight areas of better practice whilst also noting areas for improvement.

Examples of good practice

Overall, we were pleased with the quality of reporting of business combinations. The best reports sought to link the disclosures given in the strategic report to the financial statements, with thought given as to how to convey the information in a clear and concise way.

When APMs were used to explain the impact of the combination, the best examples heeded our recommendations from our recent APM thematic.

When detailing how assets and liabilities were fair valued, the better disclosures provided an explanation of the valuation technique applied, the key assumptions used and did this by significant class of assets and liability.

Some companies used a three-column approach to present fair value adjustments to the previous carrying values. This was particularly helpful to highlight how material adjustments would unwind over time.

Areas for improvement

The requirements to determine whether share-based payments should be part of the consideration or accounted for as a post combination expense are complex, and companies could improve their explanations of how such payments have been accounted for.

Explanations of the contingent consideration arrangements were often boiler-plate, and it was hard to understand the potential variability in the amounts.

Boiler-plate disclosures were also an issue when companies explained the factors that make up goodwill, with few companies providing company-specific disclosure of the elements that made up the amount.

Acquisition cost cash flows should be classified as operating. Some companies reported them as investing cash flows.

We remind companies that business combinations can give rise to additional deferred tax balances, for example, when revaluing assets to fair value or reassessing the recoverability of assets.

4.1.5 Thematic review: earnings per share (EPS)

All companies with listed ordinary shares are required to report EPS in accordance with IAS 33 'Earnings per Share'. EPS is a well-understood metric widely used by companies and investors, but some aspects of its calculation are not straightforward. Our findings show that some of the main requirements of IAS 33 are not always applied correctly. EPS does not feature in CRR's top ten, but we raise it reasonably frequently with companies. On several occasions, our queries have resulted in a restatement of a company's reported EPS in the following year.

This thematic highlights some of the more common issues and errors we have found.

Key messages

We recommend that companies provide further information to explain the basis for the weighted average number of shares, if it is significantly different from information disclosed about issued ordinary shares and potential ordinary shares (for example, share options).

We expect judgements that have a material effect on EPS to be disclosed in accordance with IAS 1.

We expect the disclosures provided for 'adjusted' EPS measures to meet the requirements of the ESMA Guidelines and to explain the methodology applied in calculating 'adjusted' EPS, including the basis used for tax on 'adjusting' items.

Reminders

The IAS 33 definition of whether potential ordinary shares are dilutive or antidilutive is based on the profit or loss from continuing operations.

Share reorganisations that involve a bonus element require retrospective adjustment in the weighted average number of ordinary shares used for EPS for all periods presented.

When preference shares are classified as equity, earnings used for EPS are adjusted for all the effects of those preference shares, including dividends and any premiums arising on redemption.

A company whose listing was achieved using a reverse acquisition should apply the methodology in IFRS 3 'Business Combinations' for calculating the weighted average number of shares for the period of the reverse acquisition and comparative periods.

4.1.6 Thematic review: judgements and estimates

This thematic was issued as a follow-up to our previous judgements and estimates thematic report published in November 2017. The report focused on three relevant topics: the use of sensitivity and range-of-outcome disclosures, mineral reserve estimates, and judgements and estimates relating to climate change. The thematic review and recent routine monitoring identified some improvement in the quality of judgement and estimate disclosures. We have identified, below, several areas where there was room for further improvement.

Principal findings

Our review identified many good examples of detailed, granular disclosure explaining management's judgements and the nature of the uncertainties relating to significant estimates. We were pleased that we did not find much in the way of irrelevant or boilerplate narrative; companies had generally made an effort to tailor their disclosures.

Significant estimates were supported by quantification, such as assumption information and the specific amount at risk of material adjustment, and most companies reviewed provided some degree of sensitivity analysis.

We observed many instances of effective linkage and the use of cross-referencing to achieve well-integrated estimate disclosures.

Many companies mentioned climate change within their estimate disclosures, with several explaining that the impact was factored into significant estimates. Better disclosures clearly articulated the expected timing of any impact, with some companies separately providing additional sensitivity analyses showing the potential longer-term impact.

Areas for further improvement

Companies should explicitly state whether estimates have a significant risk of a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Where additional estimate disclosures are provided, such as those carrying lower risk, having smaller impact or crystallising over a longer timeframe, they should be clearly distinguished from those with a significant short-term effect.

Sensitivity disclosures should be provided more frequently and in the way that is most meaningful to readers.

Sources of estimation uncertainty may vary from year to year. Companies should reassess whether disclosures made in a previous year need to be revised.

4.2 Cross-FRC thematic review

Auditing and reporting considerations for the classification, measurement and expected credit losses of financial instruments held by banks

This review is part of a wider cross-FRC thematic review which is primarily focused on the audit methodology and procedures performed by the auditors. CRR considered the quality of disclosures in respect of expected credit losses and the classification and measurement of financial instruments made. We also considered the consistency of reporting with the recommendations for reporting expected credit losses issued by the Taskforce on Disclosures about Expected Credit Losses (DECL Taskforce)[37] published in December 2019. As the major UK banks have not implemented the IFRS 9 hedging requirements (pending the finalisation of the macro hedging project of the International Accounting Standards Board (IASB)), hedging was excluded from our review.

IFRS 9 and the related disclosure requirements under IFRS 7 are now firmly embedded since IFRS 9 came into effect in 2018. Since we last reported on the quality of IFRS 9 disclosures in our report 'IFRS 9 Thematic Review: Review of Disclosures in the First Year of Application', disclosures made by the banks have evolved. The large UK banks continue to be at the forefront of reporting expected credit losses, in part due to the work performed by the DECL Taskforce.

While we have still yet to complete our review, we can report that, for those banks reviewed to date, we have found no significant issues.

The quality of ECL reporting by these banks, in addition to banks reviewed as part of our ongoing monitoring work, continues to be good.

The final report will be published later this year.

37 The DECL Taskforce 'Recommendations on a comprehensive set of IFRS 9 Expected Credit Loss disclosures', published in December 2019. Please also note the most recent report issued by the DECL Taskforce in September this year.

4.3 FRC Lab

The work of the Lab has continued to focus on better practice reporting to meet the needs of investors. The Lab's work is currently focussed on two themes: environmental, social and governance (ESG) and technology. Below are findings from the Lab's most recent completed or ongoing projects.

Digital security risk disclosure

Digital security is fundamental to business continuity, resilience and the ability of companies to generate value; particularly critical for investors in times of economic uncertainty.

The Lab's review of relevant disclosures identified that, overall, investor needs are not being met, as disclosure is often boilerplate and does not reflect changes in the risks, business model or business environment. The report focuses on what investors would value by way of information and provides recommendations for audit committees to consider that could help them ensure that their disclosures best meet investor needs. The report also identifies best practice examples.

ESG data production

Increasingly, companies are having to make more and better disclosures on ESG matters to both meet investor demand and regulatory requirements. The Lab report on ESG Data production explored the processes and systems used to generate and collect ESG data for internal decision-making and external reporting. This is an area of development for many companies, some of whom still rely on manual processes and spreadsheets. Those companies with more mature systems are increasingly treating ESG data in the same way as financial data and integrating it into their existing systems and controls. The report highlights challenges companies face, particularly those with limited resources, in terms of time and resource constraints to meet changing requirements and demands across different frameworks.

The report also includes actions for better practice, including collaboration across the organisation on ESG matters to avoid siloed thinking and better embed ESG data in decision-making. The next phase of the Lab's ESG data project will explore distribution and consumption.

Net zero

Companies are increasingly referencing net zero commitments in their ESG disclosures. However, explanation on what these commitments mean for the business, as well as how they will be met in practice, often falls short of investor needs. This report explores investor preferences to reporting in a number of areas, including how companies explain what is in and outside the scope of a commitment, how the commitment may impact the company's strategy and business model, and how companies measure performance. It highlights questions for preparers to consider and provides some good practice examples.

Implementation of the European Single Electronic Format (ESEF) in the UK

The Lab recently completed a review of the implementation of ESEF in the UK.[38] The review shows that while there has been some positive steps on design, there remain significant issues with process and data quality. The report identifies key areas of focus for companies. It also highlights areas to consider regarding the tagging of notes (mandatory this year). The FRC and the FCA have jointly written to companies and have stressed the need for companies and boards to pay due care and attention to the structured digital report.

38 DTR, paragraph 4.1.14 R

5.1 Reporting in uncertain times

The Russian invasion of Ukraine in February sent geopolitical shockwaves around the world and exacerbated the economic uncertainty created by the Covid-19 pandemic. Rising inflation, slowing economic growth, increasing interest rates, stresses in supply chains, constraints in the labour market and changing consumer behaviour, are some of the challenges businesses are currently facing. In this environment of heightened uncertainty, businesses need to be agile and continually reassess the evolving risks, which they will need to reflect in their strategy and reporting.

- Companies should clearly explain the risks and changes in the business environment they are facing and how the risks and uncertainties have been reflected in the strategy, business model and going concern and viability assessments.[39]

- Explanation of the business performance and financial position at the end of the year should be made in the context of the business strategy and reflect the risks.
- Any changes to definitions and/or calculations of APMs (for example, inflation-adjusted measures) should be adequately explained (please see page 20 of our APM thematic and page 32 of our Covid-19 thematic for our expectations).

Principal risks and changes in business environment → **Strategy and business model** → **Going concern and viability** → **Business performance and position** → **Financial reporting**

Companies should consider the effect of uncertainty on the recognition, measurement and disclosures, which may include:

- The net realisable value of inventories may be affected by the changing economic environment.
- Impairment assessments of non-financial assets should reflect the most recent management expectations, budgets and forecasts and asset-specific risks.
- ECL measurements of financial assets need to be updated to take account of forward-looking information and historical default data adjusted accordingly.
- Deferred tax assets may no longer be recoverable due to uncertainty over future profitability.
- Contracts may become onerous and a liability may need to be recognised for the unavoidable costs.
- Investing, financing and hedging strategies may need to be revisited and appropriately reflected in the financial statements.
- Entities will need to consider the impact of inflation on the business and financial reporting (please see the next page).
- More areas of financial reporting may involve significant judgements and estimation uncertainty, which will need to be disclosed (for example, going concern assessment and fair value measurement).
- Key assumptions and estimation uncertainty involved in the measurement of recognised assets and liabilities need to be explained and appropriate sensitivity provided.

39 Please see our thematic on Viability and Going Concern for guidance in this area.

5.1 Reporting in uncertain times (continued)

Inflation and rising interest rates

With inflation rising, entities will have to consider its impact on the different elements of corporate reporting.

Strategic report

Entities will have to consider, among other things, how resilient their business model is to an inflationary environment, changes to the principal risks and uncertainties and the related mitigation actions, and the impact of inflation on suppliers, customers and employees.

Inflationary clauses in contracts

The entities need to consider whether inflationary features embedded in revenue, supply, leasing and other financing contracts need to be separated and accounted for as derivatives [40]. The entities need to disclose information relevant for the users of their financial statements in relation to such contractual features, for example:

- the nature of inflationary features in contractual arrangements;
- accounting policy adopted for such features;
- significant judgements made by management; and
- the potential effect of such features on the financial statements – for example, the prevalence of inflationary features in leasing contracts, the key variables and the magnitude of variable lease payments relative to fixed payments. Please see page 10 of our leases thematic review for an example.

Discount rates

The inputs used in measurement (for example, provisions, fair value measurement and VIU calculations) need to follow a consistent approach in incorporating the effects of inflation (that is, nominal cash flows, which include the effect of inflation, should be discounted at a nominal rate and real cash flows, which exclude the effect of inflation, are discounted at a real rate).[41]

Material assumptions

Where inflation assumptions represent a source of significant estimation uncertainty (please see section 3.1.8), we expect entities to explain how the inflation assumptions have been calculated and disclose sensitivity.

Pension schemes

Companies should clearly explain their investment strategy and associated risks, including details of any asset-liability matching arrangements (such as liability driven investments). Please see page 13 of our thematic review 'Pension Disclosures'.

Government support

Companies need to provide details about the use of, and accounting policies applied to, government support schemes, and whether the funds available under these schemes have been incorporated in cash flow forecasts prepared for impairment testing, going concern and viability assessments and deferred tax asset recognition.

40 IFRS 9, paragraphs 4.3.3 and B4.3.8(f)
41 Please see page 11 of our thematic report on discount rates.

5.1 Reporting in uncertain times (continued)

Various guidance has been issued by the FRC in recent years that can be helpful for preparers in reporting at times of increased uncertainty. Although some of the guidance was issued in response to the Covid-19 pandemic, similar considerations apply in the current environment.

The Lab

The Lab has produced extensive guidance on topical subjects in narrative reporting, linking it where relevant to the financial reporting aspects. This includes the following:

- Reporting on stakeholders, decisions and Section 172
- Supply chain disclosure
- Risks, uncertainties, opportunities and scenarios
- Risk and viability reporting
- Suite of reports on COVID-19 reporting

Please see the Lab's webpage for the full list of publications.

CRR

CRR thematic reports are available on our thematic reviews webpage. Some of our earlier reports remain relevant in the current environment, including:

- Review of financial reporting effects of Covid-19
- Impairment of non-financial assets
- Cash flow and liquidity disclosures
- Viability and Going Concern

5.2 Key disclosure expectations for 2022/23

Our overall expectations for disclosure include:

... unambiguous description in the strategic report of risks facing the business, their impact on strategy, business model, going concern and viability, and cross-referenced to relevant detail in the reports and accounts.

... specific, balanced and well-integrated information about the impact of climate change on the company in narrative reporting, and appropriate reflection of material climate-related commitments, risks and uncertainties in the financial statements; clarity about the relationship between assumptions and sensitivities considered in any TCFD scenarios[42] (including any Paris-aligned scenarios) and those applied in the financial statements.

... impairment disclosures that assign values to, and explain how, the key assumptions used have been determined, with reference to future expectations regarding external conditions and the company's own strategy.

... clear disclosure of significant management judgements and key assumptions underlying major sources of estimation uncertainty, including information about the sensitivity of reported amounts to changes in assumptions.

... transparent disclosure of the nature and extent of material risks arising from financial instruments, including changes in investing, financing and hedging arrangements; the use of factoring and reverse factoring in working capital financing and the approach to and significant assumptions made in the measurement of expected credit losses; concentrations of risks and information about covenants (where material).

... company-specific information that meets the disclosure objectives of the relevant accounting standards and not just the specific disclosure requirements. Additional information (beyond the standards' requirements) should be included where needed to understand the impact of particular transactions, events or circumstances.

... clear explanation of the nature of significant inflationary features in revenue, supply, leasing and other financing contracts, and their effect on the financial statements.

... clear, concise and understandable disclosure that omits immaterial information.

See also section 3 for reminders to companies on the top ten areas we challenge.

42 Where required by the Listing Rules, or an explanation of the reasons for not doing so.

5.3 Developments in corporate reporting

For financial reporting periods beginning on or after 1 April 2021, UK companies reporting under IFRSs are required to use UK-adopted international accounting standards. We summarise below the forthcoming changes to the financial reporting requirements and the status of the UK adoption at the date of this report.[43]

IFRS financial statements

Periods beginning on or after

1 April 2021

- Covid-19-Related Rent Concessions (Amendment to IFRS 16): original amendment applying to rent concessions due on or before 30 June 2021 – extended to 30 June 2022 by subsequent amendment. (1) (E)

1 January 2022

- Annual Improvements to IFRS Standards 2018 - 2020 Cycle (2) (E)
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16 'Property, Plant and Equipment') (3) (E)
- Onerous contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) (4) (E)
- Reference to the Conceptual Framework (Amendments to IFRS 3) (5) (E)

6 April 2022

1 January 2023

- IFRS 17 'Insurance Contracts' and Amendments to IFRS 17 (E)
- Initial Application of IFRS 17 and IFRS 9: Comparative Information (10)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) (6)
- Definition of Accounting Estimates (Amendments to IAS 8) (7)
- Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2) (8)

1 January 2024

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1): under current proposals effective date to be deferred until not earlier than (9)

Other developments

- 1 January 2022: Standard listed companies to report in line with TCFD recommendations on a comply-or-explain basis. (11)
- 6 April 2022: Mandatory climate-related financial disclosure requirements for publicly quoted companies, large private companies and Limited Liability Partnerships apply. (12)

Keys: (E) – indicates standards that have been endorsed by the UKEB (1) – indicates reference to further information on the following slides

43 The latest status of the UK adoption and the UK Endorsement Board (UKEB) workplan are available on the UKEB website.

5.3.1 Developments in corporate reporting: amendments to various IFRSs

1 Covid-19-Related Rent Concessions beyond 30 June 2021

The amendment increases the eligibility period for the application of the practical expedient under the previous amendment from 30 June 2021 to 30 June 2022. It provides a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions are lease modifications, and, instead, to account for those rent concessions as if they were not lease modifications.

2 Annual Improvements to IFRS Standards 2018-2020 Cycle

Subsidiary as a First-time Adopter (Amendment to IFRS 1 'First-Time Adoption of International Financial Reporting Standards')

This amendment simplifies the application of IFRS 1 by a subsidiary that becomes a first-time adopter after its parent in relation to measurement of cumulative translation differences.

Taxation in Fair Value Measurements (Amendment to IAS 41 'Agriculture')

The amendment removes a requirement to exclude cash flows from taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in other IFRS Standards.

Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to IFRS 9)

The amendment to IFRS 9 clarifies which fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

3 Proceeds before Intended Use (Amendments to IAS 16)

The amendments to IAS 16 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, such sales proceeds and related cost are recognised in profit or loss.

4 Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendment to IAS 37 clarifies that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

5.3.1 Developments in corporate reporting: amendments to various IFRSs (continued)

5 Reference to the Conceptual Framework (Amendments to IFRS 3)

The amendments updated IFRS 3 by replacing a reference to an old version of the IASB's Conceptual Framework for Financial Reporting with a reference to the latest version, which was issued in March 2018.

The IASB also inserted an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37.

6 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrowed the scope of the initial recognition exemption so that it no longer applies to transactions (such as leases) that, on initial recognition, give rise to equal taxable and deductible temporary differences to reduce diversity in such cases.

7 Definition of Accounting Estimates (Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors')

These amendments introduced a definition of 'accounting estimates' and included other amendments to IAS 8 to help entities distinguish changes in accounting policies from changes in accounting estimates.

8 Disclosure of Accounting policies (Amendments to IAS 1 and IFRS Practice Statement 2)

These amendments to IAS 1 require entities to disclose their material accounting policy information rather than their significant accounting policies. To support this amendment, the IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

9 Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments clarify a criterion in IAS 1 for classifying a liability as non-current: the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period.

However, the IASB has subsequently tentatively decided to amend IAS 1 to clarify how companies would classify debt with covenants. These proposals would change the requirements introduced in the amendments published in January 2020 and also defer the effective date of the 2020 amendments to reporting periods beginning on or after 1 January 2024.

5.3.1 Developments in corporate reporting: IFRS 17

10 Overview of the standard and related amendments

The objective of IFRS 17 is to provide more transparent and useful information about insurance contracts. IFRS 17 introduces consistent principles, improving international comparability compared with current accounting practices. As a result of the significant change expected for the insurance sector, it is important that insurers provide high-quality disclosures on the impact that IFRS 17 will have.

The effective date of IFRS 17 is 1 January 2023. This means that for most companies the 2022 annuals will be the last financial statements produced under IFRS 4 'Insurance Contracts', and the 2023 interims will be the first financial statements applying IFRS 17. Many insurance companies will have applied the temporary exemptions from applying IFRS 9, and so will apply IFRS 9 for the first time at the same time as applying IFRS 17.

While IFRS 17 is expected to have a greater impact on the reporting in the insurance sector, companies outside the insurance sector will need to assess whether they have any contracts within its scope, which could include certain warranties, breakdown or product replacement cover, and performance or financial guarantees.

2022 annual financial statements

Paragraphs 30 and 31 of IAS 8 require disclosure of known or reasonably estimable information relevant to assessing the possible impact of a new standard on the financial statements, where the new standard has been issued but is not yet effective.

We recognise that the level of detail provided will depend on both the company's transition and on the significance of the matters to the financial statements, and therefore judgement will be required.

As IFRS 17 introduces a completely new measurement model for insurance contracts, there will be a need to explain to users how amounts currently recognised in the financial statements will map to the new measurement approach.

2023 interim and annual financial statements

Once IFRS 17 is applied in the financial statements, paragraphs 114 to 116 of the standard contain disclosures required on transition amounts recognised on initial application of the standard.

Paragraph 16A(a) of IAS 34 'Interim Financial Reporting' requires disclosure in interims of changes in accounting policies since the most recent annual report, which would include the adoption of new standards, such as IFRS 17.

Paragraph 28 of IAS 8 contains detailed disclosures requirements on the effect of adopting a new IFRS.

In addition to the disclosures required by accounting standards, we expect companies to carefully consider the impact of IFRS 17 on narrative reporting, APMs and key performance indicators in the first interim and annual reports applying IFRS 17.

5.3.2 Developments in corporate reporting: climate-related disclosures

11 Comply-or-explain TCFD reporting for listed companies

For accounting periods beginning on or after 1 January 2022, comply-or-explain TCFD reporting has been extended to commercial companies with a UK standard listing. Such companies will be required to include a statement in their annual report setting out:

- whether they have made disclosures consistent with the TCFD recommendations in their annual report;
- where they have included some, or all, of the disclosures in a document other than the annual report, an explanation of why and a reference to where the disclosures can be found; and
- where disclosures have not been made, an explanation of why, and a description of any steps taken or planned to be able to make consistent disclosures in the future – including relevant time frames.

For all listed companies, TCFD disclosures given for accounting periods beginning on or after 1 January 2022 will need to be consistent with the revised TCFD guidance published in 2021. The main changes include:

- more detailed disclosure of transition plans;
- more explicit disclosure of the potential financial impact;
- further guidance on the metrics and targets to be used;
- an explicit requirement to disclose scope 1 and 2 emissions regardless of materiality, and further encouragement to disclose scope 3; and
- disclosure of interim targets.

12 Mandatory climate-related financial disclosure requirements for certain listed companies, large private companies and LLPs

For accounting periods starting on or after 6 April 2022, mandatory climate-related financial disclosure requirements will apply to:

- traded [44], banking, insurance and AIM companies, and groups with more than 500 employees; and
- private companies and LLPs with more than 500 employees and a turnover of more than £500m.

These entities will be required to disclose climate-related financial information in line with the four overarching pillars of the TCFD recommendations (Governance, Strategy, Risk Management, Metrics and Targets) on a mandatory basis.

International Sustainability Standards Board (ISSB)

The recently formed ISSB has published two exposure drafts to address the need for a framework for sustainability-related information. The FRC's comment letters on these proposals are available on our website.[45]

44 As defined in s 474(1) of the Companies Act 2006.
45 Please also see the UKEB project page for further information on the proposals and the work of the UKEB in this area.

5.3.2 Developments in corporate reporting: other

UK GAAP

Recent amendments to FRS 101 to 105

New editions of FRS 101 to 105 were issued in January 2022. Other than minor editorial amendments, these introduced no new changes, but consolidated the amendments made to each standard since the previous editions issued in March 2018.

Upcoming developments in UK GAAP

The periodic review of UK and Republic of Ireland accounting standards continues. Proposed changes to the standards will be subject to public consultation. Publication of a financial reporting exposure draft (FRED) is currently expected before the end of 2022. Amendments to the standards will not be effective until at least 1 January 2025.

FRED 80 Draft amendments to FRS 100 'Application of Financial Reporting Requirements Application Guidance: The Interpretation of Equivalence' was published on 20 May 2022 and the consultation period is now closed. The proposed amendments to the application guidance reflect changes in and the UK's legal requirements status subsequent to the UK's exit from the European Union.

The next annual review of FRS 101 – 2022/23 cycle will commence shortly.

Narrative reporting

A new edition of Guidance on the Strategic Report was issued in June 2022. This was updated to incorporate the following matters:

- climate-related financial risks and opportunities, in line with the TCFD recommendations;
- the need for traded LLPs and banking LLPs to publish a strategic report;
- clarifying the scope and definitions of the requirements with regard to public interest entities (PIEs); and
- the Government's SECR rules.

6.1 Review activities for the year

Number of reviews for the year

We performed 252 reviews in 2021/22, which represents a 2% increase on the number performed in the prior year. The breakdown by type of review is as follows:

	2021/22				2020/21				2019/20			
	FTSE 100	FTSE 250	Other	Total	FTSE 100	FTSE 250	Other	Total	FTSE 100	FTSE 250	Other	Total
Full scope reviews[46]	32	65	68	**165**	26	50	39	**115**	19	52	40	**111**
Thematic reviews	17	29	41	**87**	45	56	30	**131**	38	35	32	**105**
	49	**94**	**109**	**252**	**71**	**106**	**69**	**246**	**57**	**87**	**72**	**216**

While we continued to focus on the FTSE 350 companies, the proportion of our reviews of companies in this market segment reduced, compared with prior years. This reflects fewer thematic reviews performed in this review cycle and a larger proportion of thematic reviews including companies outside of FTSE 350:

	2021/22	2020/21	2019/20
FTSE 350, as percentage of total reviews	57%	72%	67%

The change in thematic sampling is largely attributable to our work on the SECR thematic. A considerable proportion of our sample for that review included AIM-quoted, large private companies and LLPs, for which, as well as for the FTSE 350 companies, the SECR rules applied for the first time.

Complaints

A substantial amount of time can be absorbed considering complaints. We welcome complaints that are well informed. All complaints about reports and accounts that are within our remit are reviewed by staff in the CRR team. If there is, or may be, a question of whether a report complies with relevant accounting or reporting requirements, we will write to the company seeking further information and explanations. Other matters outside our scope are shared with other FRC units and other regulators as appropriate.[47]

	2021/22	2020/21	2019/20
Total number of complaints received	32	21	29
Approach made to company	13	11	19

46 Complaints, in relation to which we wrote to companies, are included in this number.
47 Further information on how we address complaints and referrals is available on our website. Further information in relation to the complaints received during the year is available on page 52 of the FRC Annual Report and Accounts.

6.1 Review activities for the year (continued)

Queries raised with companies

We wrote to 103 companies with substantive queries for which a response was sought. This represents a 'write-rate' of 41%, which is consistent with the year before of 39% (2019/20: 44%):

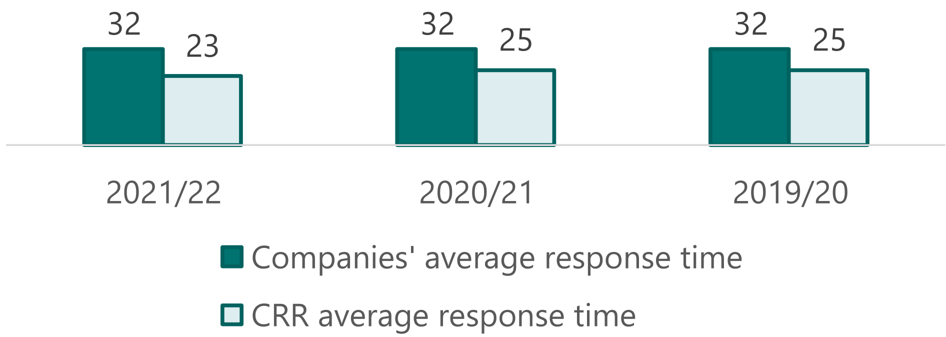
Letter type	2021/22	2020/21	2019/20
Substantive	103	97	96
Appendix[48]	98	56	44

Substantive and appendix letters together accounted for 79% of our cases. We consider each case on its own merits and do not have a target rate for writing to companies.

Response times

We ask companies to respond to our queries within 28 days of our letter, so that potential matters are addressed promptly. Reasonable requests for extensions are granted; we prefer companies to take more time where necessary to produce a high-quality, well-considered response that, preferably, has been discussed with the auditors. Considerable time can be wasted if an initial response is subsequently found to be inaccurate or incomplete. Appendix II summarises best practice for responding to our queries.

We aim to respond to companies' letters within 28 days, although the response time may be longer on more complex cases. Our response times were 25 days or less over the past three years:



Cases completed

We aim to close our correspondence with companies in time for agreed improvements to be reflected in their next annual report and accounts, ensuring that better quality information is in the public domain at the earliest opportunity.

93% of the cases in this cycle (2020/21: 94%; 2019/20: 94%) were completed before the next annual report and accounts was due for publication.

48 Appendix letters convey less significant matters where the company may not have complied with the relevant legal, accounting or reporting requirements or where there is opportunity for enhancing the general quality of reporting, but no substantive queries have been raised.

6.1 Review activities for the year (continued)

Working with other parts of the FRC

Audit Quality Review team (AQR)

Where scheduling allows, we work with colleagues from the FRC's AQR team to identify and consider matters relevant to our reviews. We can also access AQR review documents and make or consider referrals to, or from, them where there is a significant concern over the quality of financial reporting.

Corporate Governance and Stewardship (CG&S) team

We expanded our joint work with CG&S, drawing companies' attention to areas of potential improvement in their corporate governance arrangements and reporting against the 2018 UK Corporate Governance Code's (the Code) requirements. We wrote to ten companies last year pointing out non-compliance that had not been declared or where the explanation was insufficient. We also highlighted that some companies were not demonstrating the application of the Code's principles. We are pleased that all of the companies to which we wrote have provided better quality reporting in their latest annual reports, addressing the vast majority of the issues we raised. One of those companies, in particular, demonstrated substantial improvement in the quality of its reporting, following completion of a significant and substantive reappraisal of its governance arrangements during the year.

We are working with the CG&S team again this year, reviewing a larger sample of companies' corporate governance statements. In addition to compliance with the Code's provisions, we are scrutinising more closely how companies have reported on applying the Code's principles. We will write to companies either where we find a lack of specific details relevant to the company or when the company provides general statements without information on actual actions and outcomes during the year.

Working with other public bodies

FCA

Regular meetings are held between the FRC and the FCA to share the outcome of our work on regulated companies and discuss ongoing matters of joint interest. All the outcomes of substantive enquiries into Main Market and AIM companies are shared with the FCA on closure.

Under the Companies (Audit, Investigations and Community Enterprise) Act 2004, we also have monitoring duties with respect to interim reporting and the reports of non-UK companies, and we pass our findings to the FCA for further consideration. The FCA may refer corporate reporting matters to the FRC when it is best suited to investigate further.

Following the recent introduction of TCFD-aligned climate-related disclosure requirements for listed companies and in accordance with the related supervisory strategy,[49] we have carried out a review, supported by the FCA, of both the TCFD disclosures and climate-related reporting in the financial statements of 25 premium listed companies (please see section 4.1.2 for a summary of our findings). At the same time, the FCA published its own report setting out the results of their review of the TCFD disclosures of premium listed companies.

49 Set out in Primary Market Bulletin 36 and the FRC's supervisory areas of focus for 2022–23.

6.1 Review activities for the year (continued)

Working with other public bodies (continued)

We will continue to monitor the disclosures required by the Listing Rules and will refer matters to the FCA for further action where necessary. Further information on the regulatory strategy can be found in the Primary Market Bulletin 36.

Finally, the FRC, together with the Prudential Regulation Authority (PRA) and FCA, sponsors the DECL Taskforce to build on the existing credit risk disclosures in IFRS 7 and develop further guidance on high-quality disclosures by banks. The third report of the DECL Taskforce was published recently and is available on the FRC website.

Other public bodies

The CRR Technical Director is the FRC's observer on the UKEB, which provides a conduit for issues identified by CRR regarding the application of extant IFRS standards, and potential issues relating to any proposed changes to IAS, to be fed into the UKEB activities. For any major proposed changes to IFRS standards, CRR also engages directly with the outreach activities of the IASB staff.

We meet with the PRA quarterly and liaise on matters of mutual interest regarding financial institutions. We may share information, for example, on complaints that affect both corporate and prudential reporting.

We discuss developments in corporate reporting with HM Revenue and Customs (HMRC) and it may refer matters within our regulatory scope to us.

We cooperate with the US Securities and Exchanges Commission (the SEC) in relation to entities with dual UK and US listing when, amongst other things, the FRC view on an IFRS matter could result in a significant change to the issuer's financial statements. We hold ad-hoc meetings with the SEC on matters of mutual interest.

6.2 Publication of CRR interaction

Case summaries

Since March 2021, the FRC has published summaries of its findings of recently closed cases that resulted in substantive enquiries.

As we are currently subject to legal restrictions on disclosing confidential information received from companies, summaries can only be disclosed with their consent.

As explained in section 3, this year, we have included extracts from two published case summaries.

Required references

In some cases, we may ask a company to refer to its discussions with us in the report and accounts in which it makes a change to a significant aspect of its reporting following our enquiries.

Such references may relate to a material error affecting the primary statements, an omission of disclosure with a material impact, or multiple omissions of relevant information or the provision of poor quality information.

Details of the required references in the current review cycle are set out below.

	2022/21	2020/21	2019/20
Number of companies restating their accounts	27	15	14

Information in this section has been anonymised where it is not yet in the public domain.

6.2 Publication of CRR interaction (continued)

Cash flow statements

Cash flow statements remain an area of most frequent restatements, with 15 companies restating their cash flow statements this year (2020/21: 8; 2019/20: 5). The following companies reclassified cash flows in their consolidated accounts:

Company	Nature of cash flows	Original classification	Revised classification
Murray Income Trust plc	• Cash received in an asset purchase in exchange for shares and assumption of a loan liability. The transaction was not accounted for as a business combination.	Investing	Financing
First Group plc	• Cash flows relating to a transaction originally accounted for as a sale and leaseback which should have been treated as a secured lending transaction with no sale; and • Cash flows relating to certain lease buyouts.	Investing	Financing
Derwent London plc	• Cash flows from trading properties	Investing	Operating
NEXT plc	• Disposal proceeds attributed to the portion of assets not leased back as part of a sale and leaseback	Financing	Investing
Energean plc	• Cash received in prepayment for the disposal of property, plant and equipment	Financing	Investing
Savills plc and YouGov plc	• Payments linked to post-acquisition continuing employment	Investing	Operating
Domino's Pizza Group plc	• Sub-lease cash receipts	Financing	Investing
National Express Group plc	• Cash flows from an advance revenue factoring arrangement	Operating	Financing

6.2 Publication of CRR interaction (continued)

Companies also undertook to restate their consolidated statements for the following reasons:

- YouGov plc restated several lines in the statement to correct overstated cash outflows for the acquisition of intangibles.
- Hollywood Bowl Group plc incorrectly reduced financing cash flows for the forgiveness of rent, instead of adjusting the operating cash flows to remove the effect on profit under the indirect method. The company undertook to correct this, following our review.
- AB Dynamics plc reclassified deposits with a maturity greater than 3 months from the date of acquisition from cash and cash equivalents to short-term investments in the consolidated balance sheet.[50]

In addition, five companies undertook to restate their parent company cash flow statements as follows:

- 4imprint Group plc reclassified dividends received from financing to investing;
- 888 Holdings plc undertook to remove dividends received post year end from the cash flow statement;
- Oxford Biomedica plc and Carnival plc agreed to reclassify cash flows in relation to amounts due from subsidiaries from financing to investing cash flows; and
- Hollywood Bowl Group plc undertook to reclassify cash flows in relation to the amounts owed to group companies from operating to financing cash flows.

Presentation of financial statements

- HSS Hire Group plc restated its income statement to show an impairment loss on trade receivables separately on the face of the statement.[51]
- Helical plc restated its parent company balance sheet to reclassify certain amounts receivable from group undertakings as non-current as they were not expected to be repaid within 12 months after the reporting period end.
- On the Beach Group plc incorrectly presented a deferred tax asset as a current asset.[52]

50 IAS 7, paragraph 7
51 IAS 1, paragraph 82(ba)
52 IAS 1, paragraph 56

6.2 Publication of CRR interaction (continued)

Financial instruments: presentation

- Mode Global Holdings Plc treated the conversion option of loan notes denominated in foreign currency as an equity component and recognised a gain on their subsequent conversion. Contracts that will be settled by an entity delivering a fixed number of its own equity instruments in exchange for a fixed amount of foreign currency should be classified as liabilities.[53] No gain or loss should be recognised on conversion of a convertible instrument at maturity[54] Following our enquiries, the company agreed to restate the comparatives to remove the equity component and an incorrect gain on conversion.
- Epwin Group Plc revised the net presentation of positive bank balances and overdrafts held under group banking facilities. While the group had a legally enforceable right to offset these balances, it could not demonstrate an intention to settle them on a net basis, which is another criterion for offset under IAS 32 'Financial Instruments: Presentation'.[55] The company restated its financial statements to present the balances on a gross basis.

Accounting policies and correction of errors

- We queried several inconsistencies between certain amounts recognised by R.E.A. Holdings plc in total comprehensive income and those disclosed elsewhere in the primary statements or in the notes. As a result, the company corrected errors for a number of items reported in its primary statements.
- Our review of undertakings of Intermediate Capital Group plc, identified a number of significant prior-year restatements of the group and parent company cash flow statements which were not explained in the annual report and accounts. Following our review, the company included the missing disclosures in the interim financial statements.

Business combinations

Hyve Group plc adjusted a ROU asset arising from a business combination to reflect company-specific circumstances rather than any differences between the lease terms and market terms.[56] Following our enquiries, the company agreed that the ROU asset should instead have been measured at the same amount as the lease liability and agreed to restate the comparative amounts in the following year's annual report and accounts, with consequential amendments to goodwill, deferred tax, impairment and depreciation.

53 IAS 32, paragraph 22 and the IFRIC April 2005 Agenda Decision
54 IAS 32, paragraph AG32
55 IAS 32, paragraph 42
56 IFRS 3, paragraph 28B

6.2 Publication of CRR interaction (continued)

Property, plant and equipment

The Restaurant Group Plc enters into leases for restaurant sites which allow it to fit out the sites in advance of their use. The company's accounting policy is to capitalise depreciation on an associated ROU asset during the fit out period. Following our enquiries, the company reconsidered its accounting and acknowledged that the amounts capitalised during the interruption to the fit out, due to the pandemic, should have been expensed as abnormal wastage. The company agreed to the corresponding restatement.

Provisions

Keller Group plc revised its net presentation of provisions and insurance reimbursements. IAS 37[57] requires companies to account for reimbursements as a separate asset. The company restated its statement of financial position to present the balances on a gross basis.

Revenue recognition

ScS Group plc reconsidered the principal versus agent considerations in relation to product warranty sales. As a result, the company restated its sales and cost of sales to reflect only the net margin earned as agent on these transactions.

Interim dividends

FRP Advisory Group Plc revised its accounting policy, so that interim dividends are no longer accrued before payment. Previously, these had been incorrectly recognised when declared but not yet paid.[58]

Income taxes

YouGov plc restated to correct the allocation of the tax deduction on the exercise of share options between the income statement and equity.

57 IAS 37, paragraph 53
58 Please see ICAEW Tech Release 02/17BL, paragraph 2.10, and IFRIC 17 'Distributions of Non-cash Assets to Owners', paragraph 10(a).

6.3 Post-review survey

CRR aims for continuous improvement not only in corporate reporting but also in its own practices. In accordance with the Regulators' Code (2014), we seek to provide simple and straightforward ways to engage with those we regulate and to hear their views.

CRR collects anonymous feedback from company directors and key staff on their experience of an enquiry through an online survey. The requested feedback covers the majority of the full scope reviews completed in 2021/22. This is the first year that we have sent surveys to recipients of 'appendix only' letters (see section 6.1). From 2022/23, we will also send surveys to companies whose reports are subject to limited scope thematic reviews, where these led to substantive questions being raised.

The anonymised responses indicated that we have received views representing a wide range of companies and roles. We ask the Chair, CFO, Audit Committee Chair, and anyone else with primary responsibility for responding to our letters, three questions:[59]

- Did you consider the matters raised to be clear and understandable?

2019/20: Yes - 98%
2020/21: Yes - 100%
2021/22: Yes - 100%

- Were the matters raised in our review relevant to your company?

2019/20: Yes - 95%
2020/21: Yes - 100%
2021/22: Yes - 98%

- Were the outcomes of our review proportionate?

2019/20: Yes - 95%
2020/21: Yes - 98%
2021/22: Yes - 99%

We also ask for respondents' views about the usefulness of our annual publications.

The responses show that our main publications – the Annual Review, thematic reviews, and the FRC Key Matters document (previously known as 'FRC year-end advice letter') – are well received, with 93% (2020/21: 90%; 2019/20: 84%) rating them as 'very' or 'somewhat' useful.

We invite comments on the survey questions and consider them carefully alongside the standard responses. Where respondents choose to identify themselves, we may engage with them directly to better understand their views and identify potential improvements to our processes and approach.

Subject to resource constraints, we continue to focus on the timing of correspondence, aiming to write to companies well before the next balance sheet date, so as to allow sufficient time for incorporating changes in the next accounts. While some respondents commented on timing challenges, we were pleased that 100% of respondents in 2021/22 considered that our review had taken place early enough in the reporting cycle to factor any issues raised into their subsequent annual report (2020/21: 92%; 2019/20: 94%).

59 Results are from responses received to 31 March 2022.

6.4 Transforming the FRC

In May 2022, the Department for Business, Energy and Industrial Strategy (BEIS) issued its response to the consultation 'Restoring Trust in Audit and Corporate Governance', which included proposals to transform the FRC into a new regulator, the Audit, Reporting and Governance Authority (ARGA). Several of these proposals increase the scope and powers of the FRC's CRR function and are based primarily on the recommendations of Sir John Kingman's 'Independent Review of the Financing Reporting Council' in 2018.

Where primary legislation has not been necessary to implement the recommendations, the FRC has taken interim steps to make the necessary changes. In July 2022, we published the Position Paper, which sets out how and when the FRC will support the Government's reforms as we transition to ARGA. As part of this, the FRC will develop guidance in the following areas:

- The Resilience Statement;
- Fraud Reporting by Directors;
- The Audit and Assurance Policy and related disclosure requirements;
- Capital Maintenance and Dividends, including distributable profits – to succeed the existing ICAEW/ICAS guidance.

The following tables explain the interim steps CRR has taken to implement the recommendations in advance of legislative change and the other changes the Government has proposed in the response document.

Changes implemented so far
In March 2021, CRR started publishing case summaries each quarter, setting out the principal findings from its completed reviews and the outcome of its engagement with companies. Pending the required change in law, CRR must obtain a company's consent to publish the case summary. It has published over one hundred summaries to date, with all but two companies providing consent.
For a third year, CRR is raising matters on areas outside its current statutory enforcement powers as part of its routine reviews. Where appropriate, we are drawing companies' attention to potential opportunities for improvement in areas such as reporting against the Code. This year, we will extend our review work to include remuneration reporting. Our findings from this work will help inform our regulatory approach once we have statutory powers over the whole report and accounts.

6.4 Transforming the FRC (continued)

The Government plans to

- amend the definition of public interest entities (PIEs) by treating most entities with both 750+ employees and an annual turnover of £750m+ as PIEs. This will include companies traded on AIM if they meet the size test;
- give the regulator expanded statutory powers to obtain information and explanations in respect of all parts of an annual report and accounts, including those parts of the annual report currently out of CRR's scope;
- give the regulator the power to direct companies to make changes to their reports and accounts without having to apply for a court order – however, there will be a process to allow companies to challenge the regulator's decisions;
- amend the current statutory restrictions to allow CRR to publish case summaries without a company's consent, subject to restrictions, in respect of commercial confidentiality and the legal professional privilege; and
- give ARGA the power to require an expert review of aspects of a company's corporate reporting. This may be necessary where the regulator has not been able to obtain the information or explanations it requires directly from a company or its auditors.

"This year has been another period of continued progress of transformation for the FRC. We have continued our commitment to being an effective and transparent regulator, delivering the best possible outcomes for all our stakeholders while staying true to the principles of fairness and proportionality."

Sir Jon Thompson,
Chief Executive,
[FRC Annual Report 2022, page 16]

Appendix I: Scope of CRR's work

CRR is responsible for reviewing parts of the annual reports of public and large private UK companies, as well as some public overseas companies that prepare their accounts under IFRS or UK GAAP. We are also responsible for monitoring interim reports of entities with securities listed on a regulated market.

CRR Operating Procedures can be found on the FRC website.

CRR's statutory function is assessing compliance with legal requirements and relevant accounting standards in:

- the strategic report, including the Section 172 statement and non-financial information statement;
- the directors' report; and
- the annual accounts (financial statements).

CRR focuses on the quality of reporting, often suggesting ways in which a company could improve communication with investors. This is consistent with its philosophy of continuous improvement.

We recognise that others with more detailed understanding of a company's business – auditors and audit committees – may also have recommendations for future improvement. We encourage companies to consider these.

Please see section 6.4 for possible future changes in our scope.

Appendix II: How to deal with a CRR query

Company responses to our letters

We are often asked how companies should deal with a letter from us that requests additional information and explanations. In our experience, the good practices that tend to result in earlier closure of the matters under review include:

A response letter that ...

- ❑ clearly identifies the question that is being answered;
- ❑ addresses all questions included in the main body of our letter (substantive questions);
- ❑ clearly states if the issue at hand is not material and why;
- ❑ raises our understanding of the issue to the level of management;
- ❑ explains fully the Board's judgements and how they comply with the financial reporting requirements;
- ❑ candidly and clearly addresses the issue – vague responses only prompt further questions;
- ❑ admits a deficiency in reporting and suggests a way of putting it right;
- ❑ doesn't argue a lost cause;
- ❑ volunteers other helpful explanations to aid our understanding; and
- ❑ is clear to what extent the board, audit committee and auditors have been involved.

It is also helpful to:

- acknowledge receipt;
- use email, rather than post;
- call us if you don't understand the question;
- be realistic about the timing – a 28-day turnaround is expected, but we would always prefer companies to take more time where necessary to produce a high-quality, well-considered response;
- engage with the auditors and the audit committee at an early stage; and
- review relevant discussions, decisions and documentation to help inform the response.

Appendix III: How we perform our reviews

Stage	What we do
Review[60,61]	• We select companies based on a risk assessment from across the Main Market and AIM, with an additional selection on a rotational basis for the FTSE 350. A small number of other entities within our scope (such as large private companies and LLPs) are also selected for review. • We perform desktop reviews of published information. • In routine cases, CRR reviews all areas of the annual report that are within scope for the selected companies. • Full or targeted reviews are performed in response to complaints indicating a potential breach (please see **section 6.1** for details). • Thematic reviews focus on areas of particular stakeholder interest, looking at just a single aspect of reporting in a selected sample of annual or interim reports where there may be room for improvement. **Section 4.1** contains summaries of the 2022/23 thematic reviews.
Correspondence	• If there is a question as to whether there is, or may be, a breach of the relevant reporting requirements, CRR writes to the company to obtain sufficient information to determine whether there is in fact a breach or an opportunity for improvement. • Otherwise, we may highlight areas for improvement without asking for a substantive response.
Engagement	• Most companies with whom we engage want to do the 'right thing' and engage with CRR on a voluntary basis, with a view to improving their corporate reporting (please see **Appendix II** for a summary of best practice for responding to our queries). • We rarely have to invoke the FRC's statutory power, under the Companies Act 2006, to require companies, their officers or their auditors to provide any information and explanations required to carry out our function. • The Financial Reporting Review Panel was stood down in January 2021 when the revised FRC Corporate Reporting Operating Procedures were published. The Supervision Committee is now responsible for considering whether to invoke the FRC's statutory powers. See **section 6.4**.
Outcome	• Our enquiries may lead to the company volunteering or agreeing to correct numerical errors, restate comparative figures in subsequent accounts, or improve narrative disclosures. • For information on published case summaries and more significant outcomes in the period, see **section 6.2**. • We always follow up to ensure companies fulfil their undertakings to make specific improvements in subsequent reports.

60 Please see Appendix I for the scope of our work.
61 For developments in our scale, transparency and scope of reviews, please see 'Transforming the FRC' (section 6.4).

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Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London, EC2Y 5AS

Financial Reporting Council

Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS
+44 (0)20 7492 230

www.frc.org.uk

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