



# External Reporting Briefing

**Spring/Summer Update 2021**

16 June 2021

***Your Partner For What's Next***

# Introduction

**Colm O'Sé**  
*Partner*

# Agenda

**Colm O'Sé:** Welcome address

**Conor Holland:** ESG reporting developments

**Úna Curtis:** Priorities of Regulators

**Nicola Nagle:** Climate change and IFRS Standards

**Eimear McGrath:** Legal update

**Colm O'Sé :** Panel discussion and wrap up



# ESG Reporting developments

**Conor Holland**  
*Director*

# Polling question

## Question

Do you expect your organisation's ESG disclosures to be enhanced in 2021 reporting?

## Potential answers:

- A: Yes
- B: No
- C: Not sure



# Developments in Sustainability and Non-financial reporting

Expectations from stakeholders and requirements from regulators on non-financial reporting will continue to increase over the coming years. More detail on each of the main developments that impact non-financial reporting by companies are listed below.



## European Green Deal

The Green Deal reflects the EU's commitment to net zero greenhouse gas emissions by 2050, decoupling economic growth from resource use.



## EU Sustainable Finance Disclosure Regulation (SFDR)

The SFDR aims to reorient capital flows towards a more sustainable economy by imposing new transparency obligations and reporting requirements focusing on **EU investment management firms**.



## WEF stakeholder capitalism metrics

World Economic Forum (WEF) together with the Bank of America and the Big4 accounting firms launched a **universal set of 'stakeholder capitalism metrics'** including environmental, social and governance (ESG).



## Corporate Sustainability Reporting Directive (CSRD)

The current EU-Directive (CSRD) requires all large companies and all public-listed companies to disclose sustainability information.



## Convergence of non-financial reporting standards

A group of five global sustainable reporting bodies (\*) have issued a statement of collaboration towards **comprehensive corporate reporting**.

Value Reporting Foundation.



## Task Force on Climate-related Financial Disclosures (TCFD)

Established by the Financial Stability Board, the TCFD provides recommendations on reporting of financially material climate-related information.



## EU Taxonomy for sustainable activities

The EU Taxonomy is a classification system of environmentally sustainable economic activities. Disclosure requirements for non-financial companies include the proportion of Turnover, OpEx and CapEx aligned with the taxonomy.



## IFRS Foundation's Consultation Paper on Sustainability Reporting

Sustainability Standards Board. They will decide whether and how the Foundation might contribute to the development of **sustainability reporting standards**.

### Key



EU regulation



Standards development

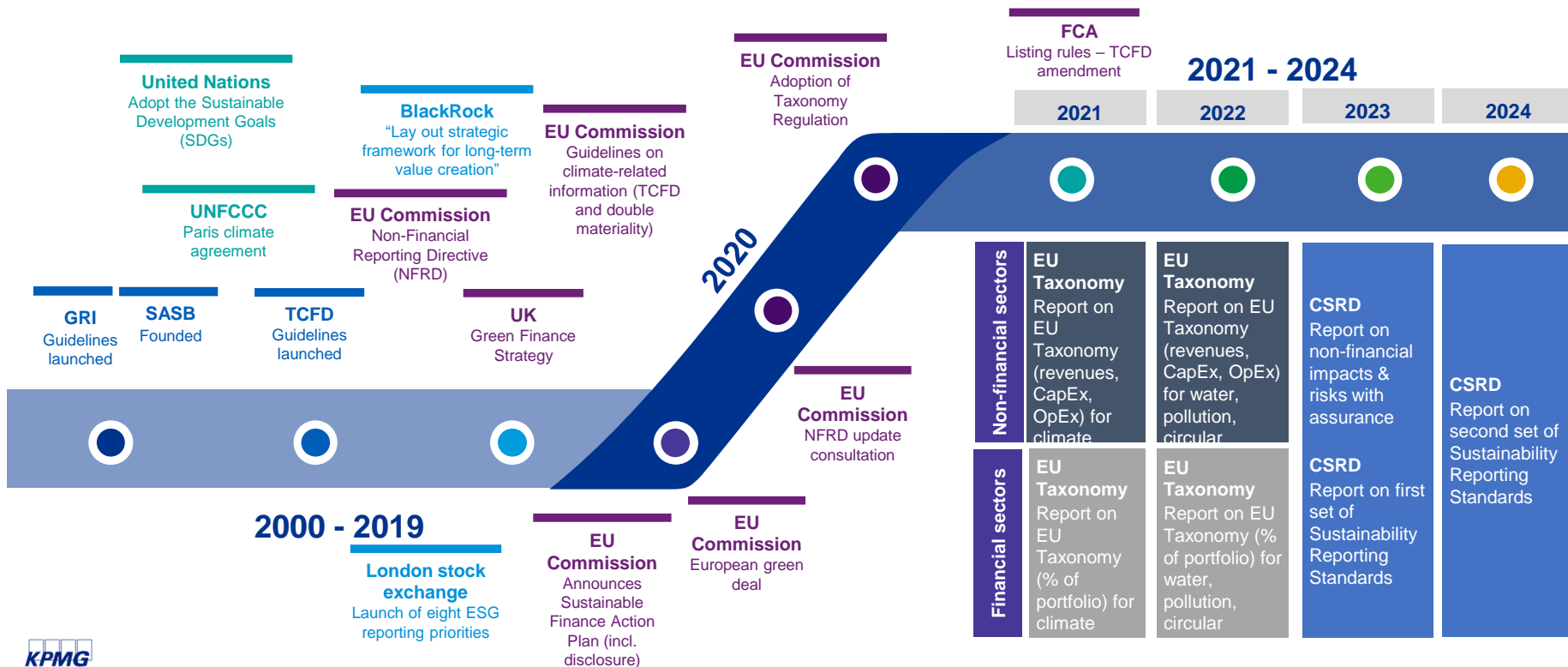


Private initiative



Guidance

# Timeline of evolving sustainability reporting landscape



# Emerging developments - Corporate Sustainability Reporting Directive

On 21 April 2021 the European Commission adopted a proposal for a Corporate Sustainability Reporting Directive (CSRD) which would amend the existing requirements. The main provisions of the proposal which differ from the existing sustainability requirements are as follows:

## Corporate Sustainability Reporting Directive



### When?



Proposal CSRD,  
implementation by  
FY 2023



First set of Sustainability  
Reporting Standards,  
implementation by FY23



Second set of Sustainability  
Reporting Standards,  
implementation by FY24



### Scope

- **Extends the scope** of the reporting requirements to all large companies and all companies with securities listed on EU regulated markets.

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### Information

- Specifies in greater detail the information that companies should disclose;
- Specifies that **qualitative and quantitative information** that is **forward looking and retrospective** and covers the **short, medium and long-term** should be reported.

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### Reporting

- Requires all companies within its scope to **report in accordance with sustainability reporting standards**;
- **Removes the possibility** for member States to allow companies **report required information in a separate report** that is not part of the management report; and
- Requires the reported information to be **digitally tagged** so it is machine readable.

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### Assurance

- **Requirement** for statutory auditor to perform a limited **assurance** engagement on a company's sustainability reporting.
- Progressive approach to assurance **moving from limited to reasonable assurance** over time.

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# Emerging developments - Corporate Sustainability Reporting Directive



## Scope

### Current NFRD requirements

- NFRD applies to large PIEs with average number of employees greater than 500.
- NFRD exempts subsidiaries from obligations if Parent Company reports for the whole group.
- Approximately 11,700 companies are subject to NFRD requirements across the EU.

### Proposed CSRD requirements

- Extend application to all large companies and all companies with securities listed on an EU regulated market (except Micro Companies).
- Provisions will not apply to listed SME's for three years following the implementation.
- An estimated 49,000 companies across the EU will be subject to the revised reporting requirements under the CSRD.

### Factors driving change

- Increasing needs and expectations of investors across public and private companies.
- Inconsistency of information available.



## Information

### Current NFRD requirements

- Companies required to report on:
  - Environmental protection
  - Anti-corruption and bribery
  - Diversity on company boards
  - Social responsibility and treatment of employees
  - Respect for Human Rights

### Proposed CSRD requirements

- The CSRD re-emphasises the double materiality concept – how sustainability risk affects the Company and how the Company impacts on society and the environment.
- Requires more forward looking information, including targets and progress.
- Requires the disclosure of information relating to intangibles (social, human and intellectual capital).
- Reporting will align to the requirements of the SFDR and the EU Taxonomy Regulation.

### Factors driving change

- Inconsistency in reported information across those in scope of NFRD.
- SFDR requirements driving what investors need.
- Need for greater transparency and comparability.
- COVID-19 pandemic accelerating information regarding vulnerability of workers and resilience of supply chains.
- Awareness of investors that sustainability matters can put the financial performance of companies at risk.

# Emerging developments – Corporate Sustainability Reporting Directive



## Reporting

### Current NFRD requirements

- Currently there is no one mandatory sustainability reporting standard that is required to be applied.
- Leads to inconsistencies across Reporters in relation to the standards applied and information disclosed and the manner in which that is prepared.
- Information can be outside of Annual Report and referred to.

### Proposed CSRD requirements

- Development of EU sustainability reporting standards to ensure uniform reporting standards across in-scope companies.
- The standards shall specify the information that undertakings are required to report and will specify the structure in which the information shall be reported.
- The main provisions of the standards will be available by 31 October 2022. Further provisions will be published by 31 October 2023 dealing with complementary information required to be published together with sector specific requirements.
- Standards shall specify the information required across each of the ESG factors.
- Information and assurance must be within the Annual Report.

### Factors driving change

- Inconsistencies in the type and quality of information being provided.
- Lack of convergence and harmonisation of sustainability reporting standards.
- Lack of comparability across companies within and across sectors.



## Assurance

### Current NFRD requirements

- Assurance of the NFRD disclosures was not mandatory (across most countries).
- Some reporters voluntarily obtained assurance at varying levels on ESG information.

### Proposed CSRD requirements

- Introduces mandatory assurance – Limited.
- Includes requirements for integration of the assurance within the Auditor's Report.
- Scope to include compliance with the EU Taxonomy and processes to identify the relevant information.
- Progressive approach to assurance proposed with a move from Limited to Reasonable over time.

### Factors driving change

- Divergence across reporters in relation to level of assurance obtained, if any.
- Increasing expectations for comparable, relevant and reliable sustainability information.
- Desire to put non-financial information on a similar platform as financial information.

# Emerging Developments – FCA Listing Rule Amendment

The FCA introduced a new Listing Rule (LR 9.8.6(8)) in December 2020 which aims to enhance climate-related disclosures.

The Listing Rule applies to premium listed companies.

New climate related disclosures in UK FCA listing rules (LR 9.8.6(8)) applies to 'premium' listed commercial companies and is effective for accounting periods beginning on or after 1 January 2021.

In-scope issuers required to state in their Annual Report whether they have made disclosures consistent with the recommendations of the Taskforce on Climate-related Financial Disclosure, and if not, why.

Must also provide where in the Annual Report (or other relevant document) the disclosures can be found, and where the disclosures are in a document other than the Annual Report, an explanation as to why.

The rule is accompanied by guidance to help in-scope companies determine whether their disclosures are consistent with the TCFD's recommendations and recommended disclosures.

# Regulator overview and Covid-19

**Úna Curtis**  
*Principal*

# Regulator publications

## IAASA

- Summary of enforcement decisions

## ESMA

- Summary of European enforcement activity
- ECB's Targeted Longer-Term Refinancing Operations (TLTRO III)

## FRC

- How to “comply or explain” in relation to the Code
- Incorporating climate change in financial statements

# IAASA & ESMA – Priorities in 2020

**01**

**Going Concern**

Detailed disclosures

**04**

**IAS 36 Impairment**

Approach & inputs

**07**

**Key judgements & estimates**

Full explanation

**02**

**Covid - 19**

Impact on & response to

**05**

**IFRS 9 ECL**

Measurement & adjustments

**08**

**APMs**

Define clearly & reconcile

**03**

**Liquidity risk**

Steps taken to manage cash

**06**

**IFRS 13 Fair value**

Assumptions & inputs

**09**

**Exceptional items**

Identification & explanation

# IAASA – Financial reporting decisions - 2021

## IFRS 7 Financial instruments: disclosures

- Material changes in the ECL assumptions not disclosed in line with IFRS 7.35G(c).
- IFRS 7.35B(b) requires qualitative and quantitative information regarding changes in the ECL and reason for the changes.

## IFRS 16 Leases

- No corrective action to be undertaken in relation to disclosures but IAASA requested clarification that IBR took into account asset specific risk, asset quality, lending market conditions, credit risk and lease duration.

## IAS 36 Impairment of assets

- When the net assets of the issuer is more than the issuer's market capitalisation – an expansion of the impairment testing disclosures in future should be provided to help users understand as to why no impairment provision is warranted.
- In order to address this, issuers could disclose:
  - description of method used to arrive at recoverable amount;
  - additional narrative information including quantification of significant assumptions in cashflows;
  - additional narrative information on key assumptions determination;
  - information on sensitivity analysis performed if applicable;
  - Explanation as to why the decline in market capitalisation did not result in a provision.

# ESMA – Key enforcement activities in Europe

## IAS 12 Income taxes

- Disclose methods used to reflect the effect of uncertainty;
- Disclose whether they consider uncertain tax treatments separately or collectively.

## IFRS 16 Leases

- Judgements re. lease terms;
- Significant leasehold improvements related to the lease;
- Adjustments made in determining IBR;
- Presentation of interest portion in SOCF;
- Info. on how leases are taken into account in impairment tests.

## IFRS 9 Financial instruments

- Modifications re. IFRS 9 support measures;
- Classification & measurement – POCI
- Uncertainties re. refinancing transactions.

## APMs

- Provide explanation on the use of APMs;
- Disclose definitions;
- Disclose explanations;
- Clearly label APMs.

## IFRS 15 Revenue from contracts with customers

### Areas of focus:

- Agent vs principal;
- Allocation of transaction amount to multiple performance obligations;
- Timing of recognition;
- Impact of taxes collected from customer on measurement of revenue;
- Presentation of (unbilled) revenue on the SOFP and SOCI.



# ESMA – Focus on non-financial information



**Covid-19:** In the NFI statement - disclose consequences of, and mitigating actions taken due to Covid-19.

**Social & employee matters:** Need for improved disclosures – inclusion, diversity, equality, fight against racism & Covid-19 impacts on staff. Disclose progress made in these areas.

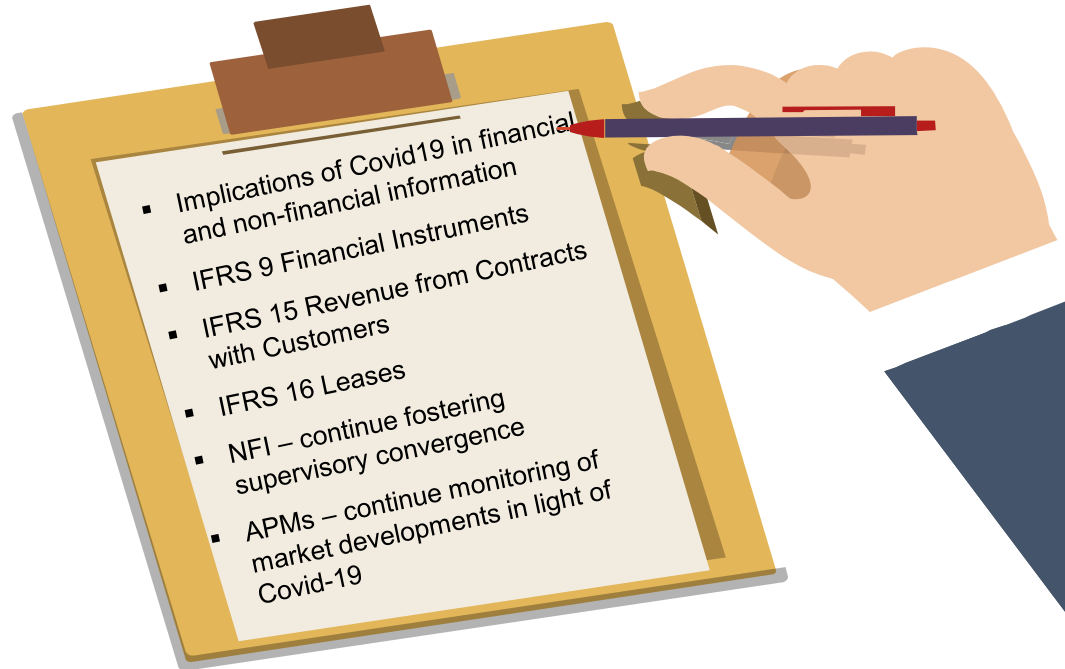
**Climate change risk:** Disclose physical and transition risks as well as mitigating actions in context of the business model, environmental policies, objectives and targets.

**Business model & value creation:** Disclose strategy & its implementation, how it is impacted by non-financial matters and definition of value (and the framework source).

**APMs: ESMA recommendation** - rather than adjusting APMs for impact of Covid-19, improve disclosures and narrative on impact.

**Brexit & ESEF:** ESMA recommends entities to closely monitor impacts/updates arising from Brexit and ESEF.

# ESMA – Work programme 2021





# Covid-19 key reminders

# Economic overview – Key GDP indicators positive

2021

2022

Ireland

ESRI

+4.4%

+5.2%

IBEC

+3.1%

+4.3%

IMF

+4.2%

+4.8%

European  
Commission

+3.4%

+3.5%

Global

IMF

+6.0%

+4.4%

# Opportunities and risks

## Opportunities



Ireland was the only EU economy to grow in 2020 boosted by medical and pharma exports



Greater certainty on trade from the EU-UK Free Trade Agreement – albeit with some instability



The pace of digitally driven transformation has accelerated and organisations are looking at the future of work



A wall of capital, partly from Government supports, available which will drive investment activity

## Risks



Unemployment levels expected to remain above pre-Covid levels beyond 2022



Withdrawal of government support may expose weaknesses in the economy that have been masked to date



Some industries particularly exposed to uncertainty regarding future buying patterns



Biden administration policy changes on tax may have an impact on Ireland's FDI sector

# Going concern considerations

**Period assessed** – do the facts and circumstances indicate a longer period than 12 months is required?

**Regulator expectations** – clear & robust disclosures

Disclosures for ‘**material uncertainty**’ and ‘**close call**’ scenarios may not be that dissimilar

**Consistency** of Going concern and liquidity risk disclosures

Assessment to consider **multiple scenarios** ... At least one **severe but plausible** downside?

IFRS 7 **Liquidity risk disclosures** may need to be expanded even where no ‘material uncertainty’

**Budgets & forecasts** may need continuing revision – impact on **expected covenant compliance**?

If **after the reporting date** management concludes that deterioration means no longer a going concern – **adjusting event**

Assess **mitigation plans**; e.g. Negotiations with lenders, other financing options, restructuring, cost cutting plans, deferral of capex

# Going concern and liquidity risk - interims

**Focus on changes; if changes in circumstances have made significant disclosures in last annual FS less relevant, consider additional supplementary interim disclosures**

**'Material uncertainty' or 'close call' – if relevant to interim FS, disclose irrespective of whether disclosed in the last annual FS**

**Even if not a 'close call' situation, there may be increased disclosures regarding liquidity risk that need to be given**

# Covid-19: Expected credit losses

## IAASA Observations 2020

“Management, Directors and Audit committees of corporate issuers should reassess their recognition and measurement of ECL on trade receivables and contract assets. The use of historic loss rates may no longer be valid in the current economic climate”

## Measurement

- Consider significant changes in the interim period – changes need in ECL estimates?
  - Further changes in current conditions & forecasts of future economic conditions?
  - Experience in the period of higher loss rates or increased delay in payments?
  - Is there a need to have different rates for different categories of customers?
- Look carefully at intercompany balances, especially in the parent company
- Consider intergroup guarantees – outflow probable?



# Covid-19: Expected credit losses

## Disclosures

- Any significant changes to credit risk management practices since year end in response to Covid-19?
- Any significant changes to methods, assumptions and information used to measure ECLs, e.g. how:
  - management overlays were calculated
  - the impact of the withdrawal of government supports was incorporated
- Quantitative & qualitative information – analysis should clearly convey impacts of changes during the period arising from Covid-19
- Have assumptions changed about the future; changes to major sources of estimation uncertainty since the year end

# IAS 36 Impairments of non-financial assets

## IAASA Observations 2020

- Cash flow projections - may require use of the “expected cash flow approach”. If so, disclose:
  - Number of scenarios used
  - Weightings
  - How main assumptions differ in downside scenarios

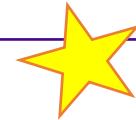
### *Impairment approach*

#### *Traditional approach*

Single (most likely) cash flow scenario  
Discount rate adjusted for uncertainty about future cash flows

#### *Expected cash flow approach*

Multiple probability weighted cash flow scenarios  
Discount rate NOT adjusted for the uncertainty about future cash flows



# IAS 36 – Impairment disclosures

## **IAS 36 Impairment of Assets – information requests from IAASA**

(IAASA  
Information  
Note, issued  
March 2021)

### General

Market cap < Net  
assets

- Describe method used to assess recoverable amount
- Disclose key assumptions and how determined
- Provide sensitivity analysis on inputs
- Discuss decline in market capitalisation and why no impairment considered necessary

### Country risk premium

- Explain how incorporated
- Expand disclosures to include break-even discount rate

### Growth rate and discount rate

- Disclose growth rate used to extrapolate cash flows – by CGU
- Discount rate applied to cash flows for each CGU

### Fair value less costs to sell

- Disclose each key assumption used
- Describe the approach used to determine value of each input

# Covid-19: Rent concessions amendment 2021

## **March 2021 – IASB issued '*Covid-19 Related Rent Concessions beyond 30 June 2021*' ('2021 amendments')**

- Extends the practical expedient to apply to payments originally due up to 30 June 2022
- Effective for periods beginning on or after 1 April 2021
- Early adoption permitted, subject to local endorsement requirements

### **Transition requirements:**

- Lessees apply the amendments retrospectively
- Lessees adjust equity at the beginning of the reporting period in which they apply the amendments
- Lessees that chose to early adopt the practical expedient in 2020 financial statements have to consistently apply the extension to similar rent concessions



# Governance update

# Improving the quality of “comply or explain” reporting

The FRC strongly encourages companies to **aim for high quality reporting of good governance practice**, rather than an attempt to declare full compliance with the Code when that may not in fact be the case.

## New transparency guidance - 3 main themes:

**Section 1)** Companies should offer clarity about the provisions of the Code that they have departed from by making it easy for a reader to find this in their annual reports.

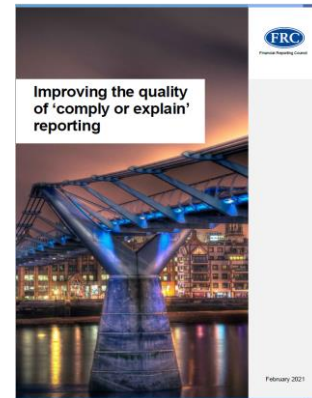
**Section 2)** Companies should report any departure from any Provision of the Code.

**Section 3)** Clear and meaningful explanations for departures from the Code.

FRC link available at: [Improving-the-Quality-of-Comply-or-Explain-Reporting.pdf \(frc.org.uk\)](https://www.frc.org.uk/publications/external-reporting/Improving-the-Quality-of-Comply-or-Explain-Reporting.pdf)

Review of Corporate Governance Reporting - FRC link available at: [UK Stewardship Code 2020 \(frc.org.uk\)](https://www.frc.org.uk/publications/external-reporting/UK-Stewardship-Code-2020)

Review of workforce engagement - FRC link available at: [Workforce Engagement Report – May 2021 \(frc.org.uk\)](https://www.frc.org.uk/publications/external-reporting/Workforce-Engagement-Report-May-2021)



# Section 1 – Clarity on departures from provisions

Companies should offer clarity about the provisions of the Code that they have departed from by making it easy for a reader to find this in their annual reports.

Companies should state in the compliance statement whether the company has:

- Fully complied with all elements of the provisions of the Code; or
- Has departed from any provisions of the Code – citing those not complied with and where in the report the explanation can be found.

The FRC expects companies to make departures clear by **naming the provisions in the compliance statement.**



## Section 2 – Reporting on departures

One of the most concerning findings noted by the FRC was that many companies were not transparent about their compliance with the code.

It's important that companies are transparent so that investors and wider stakeholders can assess a company's approach to governance.

Let's take a look at some departures from the provisions of the Code identified by the FRC as particular areas of concern regarding lack of transparency....





# Example re workforce engagement

**Provisions 5, 40 & 41 – Workforce engagement – disclosure of engagement and impact on board decision making.**

## Engagement is 2 sided!

Engagement is two-sided (provision 5) – surveys only address one side.

Detail the workforce engagement involved?

Better reports acknowledged where more could be done to follow up on surveys and introduced specific culture surveys, set up working groups to address any concerns and in one or two cases explained that additional training had been offered.



## Remuneration

Provision 40 & 41 – If the company has not engaged with shareholders and the workforce in relation to remuneration – it is not compliant with provisions 40 nor 41.

Issuers need to explain what impact, if any:

- (a) engagement with shareholders has had on remuneration policy; and
- (b) engagement with the workforce had in relation to executive remuneration policy.

## Alternative approach

An alternative approach to workforce engagement may be in compliance with the Code, however the effectiveness of the approach should be explained (addressing why they are considered effective).

# Example on chair tenure

## Provision 19 - Chair tenure



“We found instances where companies did not acknowledge departure from Provision 19 despite the chair being a member of the board for longer than nine years.”

“We support departures from the Code when it is to facilitate effective succession planning or the development of a diverse board, but such cases should still be acknowledged as a departure from the Code and accompanied by an effective explanation”. (FRC)

# Section 3 – Meaningful explanation for departures



## Set the context & background:

1. Name the provision they have not complied with.
2. Explain the circumstances.
3. State the reasons why they are not complying.



## Rationale for approach taken:

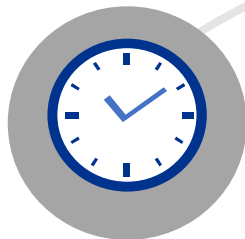
1. If an alternative approach has been chosen – state the reason why.
2. If departure is unavoidable – explain why.
3. If non-compliance is indefinite – provide a more comprehensive and detailed explanation.



## Risk identification & mitigation:

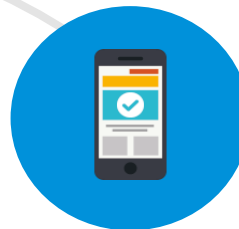
1. Disclose any risks identified by departing from the Code or adopting an alternative approach.
2. Explain any actions undertaken/will be taken to mitigate such risks.
3. If none or negligible risks identified – include any potential risks that might arise.

# Section 3 – Meaningful explanation for departures



## **When does the entity intend to comply?**

1. State if departure is limited in time or indefinite.
2. Where compliance is for part of the year – clearly specify time they were not in compliance.
3. Where the departure extends beyond an accounting year – provide estimate of when they plan to be in compliance.
4. If indefinite – state and explain each year.



## **Understandable and persuasive:**

1. To be written in plain language that is easy to understand and leaves no room for ambiguity.
2. It should provide enough detail so that investors & stakeholders fully understand and can evaluate why the company has not complied and what the alternatives entail.

# Polling question

## Background

Under Provision 5 of the Code, companies should engage with the workforce using one (or a combination) of the below engagement methods prescribed by the Provision:

- a director appointed from the workforce
- a formal workforce advisory panel
- a designated non-executive director

**Can a company report compliance with this provision if they have not chosen one of the above methods?**

## Potential answers:

A: Yes

B: No



# Polling question

## Background

Under Provision 5 of the Code, companies should engage with the workforce using one (or a combination) of the below engagement methods prescribed by the Provision:

- a director appointed from the workforce
- a formal workforce advisory panel
- a designated non-executive director

**Can a company report compliance with this provision if they have not chosen one of the above methods?**

## Potential answers:

A: Yes ✓

B: No



# UK - "Restoring trust in audit and corporate governance"

The UK government, in its consultation document **Restoring trust in audit and corporate governance**, is consulting on an ambitious package of proposals aimed at improving the UK's audit, corporate reporting and corporate governance systems.

Separate session on detail will be held



Consultation available at: [Restoring trust in audit and corporate governance \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

# Financial reporting matters

Resilience statement	The statement would incorporate and build on existing going concern and viability statements. Statement will address prospects & challenges to the business model over the short (1-2yrs), medium (5 years) and long term (to be determined)
Capital maintenance	<ol style="list-style-type: none"> <li>1. New requirements to disclose distributable reserves;</li> <li>2. Parent companies would be required to estimate and disclose amount of potential distributable profits of group;</li> <li>3. New directors' statement about the legality of proposed dividends and the effects on the future solvency of the company.</li> </ol>
Enforcement, malus & clawback	<ol style="list-style-type: none"> <li>1. Proposal to provide ARGA with the necessary powers to investigate and sanction breaches by PIE directors of their corporate reporting and audit-related responsibilities;</li> <li>2. Proposal to strengthen malus and clawback arrangements in directors' remuneration packages to provide better reassurance against rewards for failure.</li> </ol>





# Climate change and IFRS Standards

**Nicola Nagle**  
*Director*

# Polling question

## Question

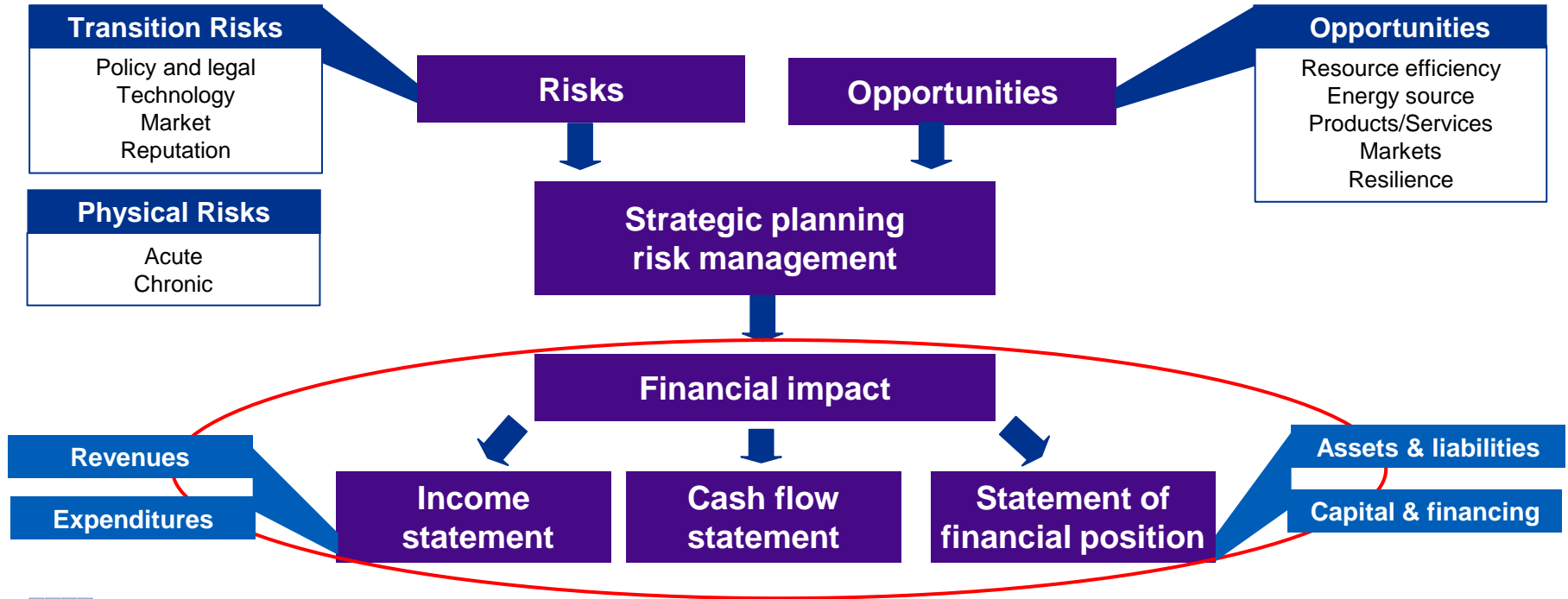
Where do you expect climate related matters to impact the disclosures in the “back section” of the annual report?

## Potential answers:

- A: Estimates & judgements
- B: Goodwill impairment
- C: Research & development
- D: No impact to disclosures in the back section



# Introduction



# SASB –Evidence of Financial Impact

Evidence of Financial Impact					
Groups and Industries		Revenues	Expenditures	Assets and Liabilities	Capital and Financing
Financial	Banks	<div></div>		<div></div>	
	Insurers	<div></div>	<div></div>	<div></div>	
	Asset Owners	<div></div>		<div></div>	
	Asset Managers	<div></div>		<div></div>	
Energy	Oil and Gas	<div></div>	<div></div>	<div></div>	<div></div>
	Coal		<div></div>	<div></div>	<div></div>
	Electric Utilities	<div></div>	<div></div>		<div></div>
Transportation	Air Freight		<div></div>		<div></div>
	Passenger Air Transportation		<div></div>		<div></div>
	Maritime Transportation		<div></div>		<div></div>
	Rail Transportation		<div></div>		<div></div>
	Trucking Services		<div></div>		<div></div>
	Automobiles and Components	<div></div>	<div></div>		<div></div>

# SASB - Evidence of Financial Impact

Evidence of Financial Impact					
Groups and Industries		Revenues	Expenditures	Assets and Liabilities	Capital and Financing
Materials and Buildings	Metals and Mining				
	Chemicals				
	Construction Materials				
	Capital Goods				
	Real Estate Management and Development				
Ag, Food, and Forest	Beverages				
	Agriculture				
	Packaged Foods and Meats				
	Paper and Forest Products				

# Balance sheet – potential financial implications

**Assets' impairment,  
including goodwill**

**Fair value  
of assets**

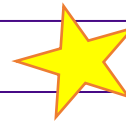
**Useful  
life of assets**

**Recovery of  
tax assets**

**Provisions**

**ECL for  
loans and other  
financial assets**

**Materiality**



# Sample disclosures



## 1.4 Climate change-related impacts

The Group makes estimates and assumptions concerning the future including climate-related matters. There is considerable uncertainty over assumptions on various climate change scenarios and how they will impact the Group's business operations and the cash flow projections. LafargeHolcim constantly assesses its assumptions to be consistent with the risk management and commitments made by the company to investors and other stakeholders.



Estimates & Judgements

Assets and goodwill impairments

CAPEX and R&D

Financial expenses

Useful lives of assets

Insurance costs

Defined benefit pension plans

Inventory valuation

Recovery of deferred tax assets

Provisions and contingent liabilities

# Sample disclosures



## 11. Property, plant and equipment, goodwill and intangible assets

### *Goodwill and impairment testing*

The cash flow projections are based on a three- year financial planning period using business plans approved by management. Cash flows beyond the three-year planning period are extrapolated based on increasing sustainable cash flows. Cash flow projections are aligned with the commitment to reach our 2030 sustainability targets and in accordance with the climate-related regulations currently in place notably in Europe.

Notes



# Banks – Climate disclosures



**New Zealand introduces climate change law for financial firms in world first**



European  
Commission



**Sustainability-related disclosure in the financial services sector**

## **America's Biggest Banks Promise to Fight Climate Change**

But critics say the commitments are hazy on details

Climate > News

## **Extinction Rebellion announces 'wave' of action against banks over fossil fuel investments**

Group accuses banks of playing 'deadly role' in climate crisis

## **British climate activists to target banks in London protest**

Climate change reporting will impact future mortgage assessments

OPINION

*Climate pressure on finance giants is only just getting started*

BUSINESS

Big banks under pressure to end fossil-fuel finance

# Banks – Climate disclosures (continued)

Average wordcount of 'climate buzzwords' in a bank's Annual Financial Report			
Buzzwords:	2020:	2019:	2018:
"Climate"	99	62	36
"Green"	27	20	17
"Net zero"	8	1	0

All 25 banks included climate-related information mainly in the front end of the 2020 Annual Financial Reports

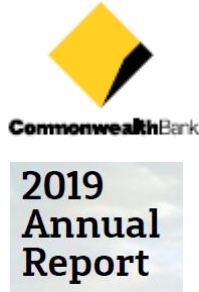
7 out of 25 banks  
(28% of banks) mentioned "climate" in the notes to the financial statements



Financial statement notes where climate disclosures were made included the notes for 'credit risk', 'deferred tax assets (DTA)' and 'joint ventures'.

Where 'climate' was mentioned in the notes, the commentary was **often limited** – e.g. including a single statement that cash flows used in assessing credit impairments have considered inherent uncertainties associated with climate change.

# Banks – Climate disclosures (continued)



## Climate related risk

Climate risk is a risk for the Group. The impacts of climate change have the potential to affect our customers' ability to service and repay their loans, and the value of collateral the Group holds to secure loans. These impacts include long-term changes in climatic conditions, extreme weather events, and the action taken by governments, regulators or society more generally to transition to a low carbon economy.

The Group is a major provider of non-retail loans. A key step in credit risk due diligence for non-retail lending is the assessment of potential transactions for environmental, social and governance (ESG) risks, including climate risk, through our ESG Risk Assessment Tool. All Institutional Banking and Markets loans, as well as large loans in other business units, are evaluated through the Group's compulsory ESG risk assessment process.

The risk of climate change is assessed at origination and during the annual review process. Exposures with medium or high risk profile are subject to additional due diligence and heightened consideration and assessment in the credit process. As at 30 June 2019, there is considered to be no material risk of loss due to climate-related risk in our client exposures.

# Key take-aways

**1.**

**Climate risk is here**

**2.**

**Materiality must consider  
qualitative factors**

**3.**

**Impacts and key  
assumptions**

**4.**

**Be consistent**

# Appendix 1 – Key Observations - Banks

**Key observations:**

- What is apparent from the climate disclosures in the 2020 Annual Financial Reports is that climate change will become an evermore important consideration of 'who' banks lend to.
- 48% of banks disclosed that they have already started to integrate climate-related risks in their credit assessments of borrowers. These include the following.
  - ✓ Introducing mandatory requirements as part of the credit policy to consider climate risk for new lending facilities.
  - ✓ Using capabilities to estimate financed emissions and emission intensities for high emitting sectors to manage climate-related lending exposures.
  - ✓ Detailed due diligence questionnaire completed for borrowers in high emitting sectors, which is used to evaluate their performance on a range of environmental issues.
  - ✓ Using a climate change risk rating tool as a mandatory part of credit due diligence.
- Additionally, 44% of banks disclosed that they plan to stop lending to thermal coal activities by 2050 (or earlier).
- Banks have further noted that they will work with their customers to provide expert advice and support them on their transition to lower carbon emissions, particularly to borrowers in sectors with high exposure to climate change.

# Appendix 1 – Key Observations – Banks (continued)

- 40% of banks disclosed quantitative details about their lending exposures in sectors which are at increased risk from climate impacts. Where quantitative details were provided, these were at times limited to commercial portfolios.
- Banks have made limited disclosures of quantitative exposure in the lending books of banks to customers in sectors at increased risk from the impacts of climate change within the 2020 Annual Financial Reports – and any disclosures made have been outside the financial statements and notes.
- Sectors with increased risk from impacts of climate change disclosed by banks include the following.

Commercial Banking			Retail Banking	
Commercial real estate	Automotive	Agriculture	Residential mortgages	Motor finance
Power utilities	Construction	Oil and gas		
Airlines	Chemicals	Mining and metals		

- Residential mortgages followed by commercial real estate were often the top two sectors with the highest total sector exposures from climate-related risks, as disclosed by banks.
- For residential mortgages, the banks identified two primary climate-related risks: (i) the physical risk related to potential property damage from weather events such as floods, and (ii) the transition risk related to the energy efficiency of properties.

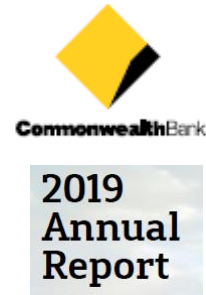
## Appendix 2 – Useful links

- KPMG - *Climate disclosures within the Annual Financial Reports of Banks* – [here](#)
- KPMG blog - *What do the latest annual reports reveal about banks' approaches to climate change?* - [here](#)
- FRC - *Climate Thematic* – [here](#)
- FRC - *Findings on governance* – [here](#)
- FRC - *Findings on corporate reporting* – [here](#)
- FRC - *Findings on investor reporting and better practice reporting under the Task Force on Climate-related Financial Disclosures* – [here](#)
- IFRS – Climate and other emerging risks – Nick Anderson– Nov 2019/2020 – [here](#)
- Educational material on the effect of climate-related matters on financial statements – [here](#)
- ESMA Common Enforcement Priorities 2019 - [here](#)

# Appendix 3 – Sample FS



LafargeHolcim FS



CBA AR 2019





# Legal Update

**Eimear McGrath**  
*Associate Director, DPP*

# Agenda

**Investment Limited Partnerships (Amendment) Act 2020**

**Code of Practice for the Governance of State bodies**

**Charities Governance Code**

**ESEF Regulations**

**Filing of financial statements for Unlimited Companies**

**Impact of Brexit on financial statements**




# Investment Limited Partnerships (Amendment) Act 2020

Amends the Investment Limited Partnerships Act 1994, the Irish Collective Asset-Management Vehicles Act 2015, and the Investment Funds, Companies and Miscellaneous Provisions Act 2005

Largely commenced on 1 February 2021, except for the new provisions on beneficial ownership for both ILPs and Common Contractual Funds which commenced on 1 March 2021

ILPs are transparent partnerships regulated by the Central Bank in accordance with the provisions of the Central Bank's Alternative Investment Fund (AIF) Rulebook

# Investment Limited Partnerships (Amendment) Act 2020

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- Liability of limited partners restricted to the amount they contribute unless they perform certain management activities
  - Extends existing whitelist of 'safe harbor' permitted management activities without running the risk of losing limited liability, including serving on any board or committee
  - Permits umbrella type ILPs to be formed with multiple sub-funds – prior to this ILPs could only be single funds
  - Alterations to the Limited Partnership Agreement can be approved by only a 'majority' of partners rather than 'all' partners
  - Migration of ILPs from other jurisdictions permitted via application to Central Bank and a report by an independent person
  - General Partner must establish and maintain a register of beneficial ownership and submit it to the Central Bank

# Investment Limited Partnerships (Amendment) Act 2020



An ILP will most likely meet the definition of a 'Qualifying Partnership' (as defined by the EU (Qualifying Partnerships: Accounting and Auditing) Regulations 2019).

Where this is the case, the ILP will have to prepare and file audited financial statements (in accordance with Part 6 of Companies Act 2014) & annual report with the CRO and submit them to the CBI.

In the event the ILP is not a 'Qualifying Partnership', the audited financial statements & annual report must be published and submitted to the CBI.

# Code of Practice for the Governance of State bodies

## New Annex on Gender Balance, Diversity and Inclusion – issued in September 2020

### New Annual Report disclosures

The Annual Report (in the Directors' report) should give an account of the approach being adopted with regard to the promotion of diversity and inclusion, including with regard to gender, in the specific context of the organisation; and on the progress and achievements in this regard.

### New requirements in the Comprehensive Report to the Minister

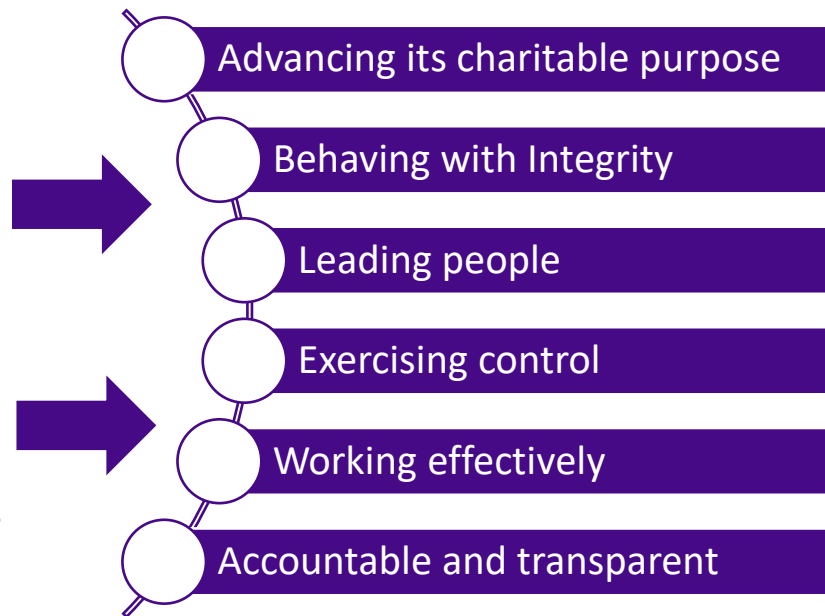
Gender balance of appointments made to the State Board in the previous year; where the board stands in relation to the requirement to have at least 40% representation from each gender; key elements of the Board's approach to the promotion of diversity and inclusion and the progress being made; in the case of a State Board with an either all-male or all-female membership, the measures being taken to urgently address this and to promote better gender balance.

# Charities Governance Code

2020 was the first year Charities were expected to comply with the new Charities Governance code which covers six principles of Charity Governance

Requirement in 2021 to submit a declaration of compliance with the Code at the date of filing the annual report with the Charities' Regulator

Compliance record form must be updated annually indicating actions taken to meet each Code principle and detailing supporting evidence, on a comply or explain basis.



# ESEF Regulations

In December 2020, political agreement was reached at EU-level to allow Member States to opt to postpone the implementation of the European Single Electronic Format Regulations (ESEF) 2019/815 by **one year**

All TD issuers (whether their registered office is in the EU or not) whose securities are admitted to trading on an EU regulated market will have to prepare their annual financial reports on XHTML – **for financial years commencing on or after 1<sup>st</sup> January 2021**

As an additional obligation, IFRS consolidated financial statements within the annual reports must be labelled with standard tags in accordance with the IFRS Taxonomy using iXBRL – **on a phased basis**



# Filing of financial statements for Unlimited Companies



**For accounting periods commencing on or after 1 January 2022**, the scope of Designated Unlimited Companies (ULCs) required to file financial statements will expand to include those ULCs that were, at any stage during the financial year, a holding company of a limited liability undertaking.



It will be necessary to look downwards through the corporate chain to determine if the ULC has (or had during the financial year) a limited liability subsidiary.

# Impact of Brexit on financial statements

**Effective for financial statements of accounting periods ending on or after 31 December 2020 and thereafter**

## s357 Guarantee

Exemption is only available where the higher parent is established under the laws of an EEA state.

## Branches of a UK company

Requirement to file financial statements will fall under section 1304 and 1305 (Non-EEA) rather than 1302 and 1303 (EEA).

## Non-financial Statement

Subsidiary exemption not available where it is included in the group non-financial statement of a higher UK parent.

# Impact of Brexit on financial statements

**Effective for financial statements of accounting periods ending on or after 31 December 2020 and thereafter**

## **Non-financial & diversity**

**Some companies will fall out of scope where they no longer meet the definition of an 'ineligible entity' or an 'EU PIE'.**

## **Shareholders' Rights Regulations**

**Some companies will no longer meet the definition of a 'Traded PLC' and will fall out of scope of the Irish 'Traded PLC' disclosure requirements.**

**Will need to comply with listing rules of jurisdiction in which they are listed**

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# Contact us:



**Colm O'Sé**  
**Partner**

Ph: +353 1 410 2252  
Mob: +353 87 7442252  
Email: colm.ose@kpmg.ie



**Conor Holland**  
**Director**

Ph: +353 1 700 4335  
Mob: +353 87 050 4335  
Email: conor.holland@kpmg.ie



**Una Curtis**  
**Principal**

Ph: +353 1 410 1451  
Mob: +353 87 744 1451  
Email: una.curtis@kpmg.ie



**Nicola Nagle**  
**Director**

Ph: +353 1 700 4724  
Mob: +353 87 050 4724  
Email: nicola.nagle@kpmg.ie



**Eimear McGrath**  
**Associate Director**

Ph: +353 1 700 4138  
Mob: +353 87 050 4138  
Email: eimear.mcgrath@kpmg.ie



Thank you