October 2024

Observations on selected corporate reporting issues – years ending on or after 31 December 2024

IAASA
Irish Auditing & Accounting Supervisory Authority

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Vision

Public trust and confidence in quality auditing and accounting

Mission

Upholding quality corporate reporting and an accountable profession

Our Values

Excellence	Independence	Integrity
Striving to be the best we can be	Regulating impartially and objectively	Being trustworthy and respectful

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1. Reporting environment

1.1 Introduction

In its role as Ireland's accounting enforcer, IAASA is tasked with examining:

- the annual financial statements and half-yearly financial reports of certain entities to ensure that those reports comply with the relevant reporting framework (i.e., International Financial Reporting Standards (IFRS) or Financial Reporting Standards (FRS) issued by the Financial Reporting Council), and

- the sustainability statements of those entities (where applicable) to ensure that those reports comply with the relevant reporting framework (i.e., European Sustainability Reporting Standards (ESRS) and the Taxonomy Regulation (i.e., Regulation (EU) 2020/852)).

In publishing this *Observations* Paper, IAASA hopes to assist issuers in preparing high quality corporate reports by offering observations on selected corporate reporting topics.

1.2 Uncertainty and mixed messages in the economic outlook

Financial stability vulnerabilities have eased but the outlook remains fragile, ECB finds

- Euro area financial stability conditions have improved as recession risks decline, but markets remain exposed to possible adverse macro-financial and geopolitical surprises

- Tight financial conditions are testing the resilience of vulnerable euro area households, firms and governments, while downturn in property market presses real estate firms

- Euro area banks have been a source of resilience, but low market valuations suggest challenges remain, notably related to asset quality, funding and revenues

Financial stability in the euro area has benefited from an improving economic outlook, with inflation steadily declining and investor confidence recovering ... The outlook remains fragile, however, as the scope for economic and financial shocks is high in an environment of elevated geopolitical and global policy uncertainty.

European Central Bank, Press Release, 16 May 2024

Persistent pace of growth in the domestic economy

The Irish Economy – Forecast Overview

- Headline and underlying indicators of the Irish economy both suggest the economy will grow in a robust fashion in 2024 and 2025. This is driven by a better-than-expected international outlook and robust domestic growth.
- We now believe MDD will grow by 2.2 per cent in 2024 and by 2.9 per cent in 2025. This is largely influenced by an expected increase in real income this year and next of approximately 3 per cent per annum.
- Underpinning this increase in real income is a strong expected increase in nominal income and a continued deceleration in the rate of inflation in both 2024 and 2025 of 2.3 and 1.9 per cent respectively.
- The unemployment rate, another key indicator of underlying growth in the economy, is now set to fall to 4.1 per cent in 2024 and to 4.0 per cent in 2025.
- The Commentary highlights the important role played by net inward migration in increasing the labour force in the domestic economy and, by association, the potential output of the economy.
- Risks to the outlook emanate from the continued tensions in the geopolitical situation which, if escalated, could have significant implications for a small open economy such as Ireland's.
- Given the low rate of unemployment and the robustly growing domestic economy, the issue of capacity constraints is critical. Recent data from the Housing Commission suggest an upward revision in housing supply targets will be needed to cater for demographic demand for housing.
- Overall, it is evident that while housing supply is on an upward trajectory, it needs to increase at a faster pace if it is to meet the underlying demand for housing in the Irish economy. In addition to housing supply, critical infrastructure around the carbon transition will also draw on resources, putting pressure on labour in the construction sector in particular.

The Economic and Social Research Institute, Quarterly Economic Commentary – Summer 2024, 27 June 2024

Uncertainty – mixed messages

- Diageo misses its full year profit forecasts
- BP posts forecast beating $2.8 billion quarterly profit
- France's economy grew 0.3% in Q2, early data shows
- Germany economy shrank by 0.1% in second quarter
- Consumer sentiment hits 2½ year high in July
- Consumers remaining wary of high prices
- Bank of Canada cuts rates again, frets about low growth
- China central bank cuts two key rates to support economy
- Grocery price inflation edges up after 15 months of falls

Selection of business news headlines, RTÉ business news website, 30 July 2024

2. Sustainability reporting

2.1 Background

In what is arguably the most significant change to corporate reporting since the introduction of IFRS in the early 2000s, new rules on corporate sustainability reporting apply to certain entities from 1 January 2024.

The Corporate Sustainability Reporting Directive (CSRD) was adopted by the European Parliament and the Council of the European Union in January 2023.

The CSRD requirements aim to help investors, civil society organisations, consumers and other stakeholders evaluate the sustainability performance of companies in scope, as part of the European Green Deal.

In August 2024, IAASA issued a letter to Audit Committee Chairs highlighting responsibility for the process of preparing the sustainability statements as well as for monitoring the assurance process. That letter also highlights IAASA's expectation that compliance with these requirements may significantly impact the annual reporting timelines. The letter is available to view here.

2.2 Consistency of sustainability reporting with financial reporting

Issuers are reminded of the need to ensure consistency between sustainability reporting and financial reporting. In that regard, issuers' attention is drawn to authoritative pronouncements including:

- IASB Educational Material *Effects of climate-related matters on financial statements* (July 2023)
- IFRS Interpretations Committee Decision *Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (April 2024)
- EFRAG Study on early implementation of ESRS *Implementation of ESRS: Initial Observed Practices from Selected Companies* (July 2024)
- IASB Exposure Draft on *Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples* (July 2024)

These publications provide insights on how issuers might take climate matters into account in preparing their financial statements.

2.3 Approach to enforcement

IAASA has responsibility for examining issuers' sustainability statements in much the same manner as it already has responsibility for examining issuer's periodic financial reports.

The European Securities and Markets Authority (ESMA) has developed Guidelines on Enforcement of Sustainability Information similar to its existing Guidelines on Enforcement of Financial Information. These Sustainability Guidelines apply to enforcement of sustainability information published from 1 January 2025.

IAASA's approach to examining sustainability statements may include:

- performing a high-level overview of the sustainability statement to include an initial assessment of:

- the issuer's assessment of double materiality,
    - mandatory disclosures around methodologies and processes, and
    - the quality of disclosures in the sustainability statement.
- holding a meeting with the issuer (and, at the issuer's discretion, the assurance provider and/or other sustainability reporting experts) with a view to obtaining an understanding of the issuer's approach to sustainability reporting and its methodologies and processes for measuring, aggregating and disclosing sustainability matters, and
- obtaining documentation from the issuer setting out how it has considered each of the datapoint disclosures in ESRSs (e.g., checklist of disclosures).

Depending on the circumstances, IAASA may also seek the documentation presented to the directors, Audit Committee and Sustainability Committee in their consideration and approval of the sustainability statement, and IAASA may engage with sustainability assurance providers during an examination.

IAASA may also perform focused examinations of sustainability statements focussing on:

- the mandatory disclosures around methodologies and processes, and
- the double materiality assessment.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should, recognising the significance of sustainability reporting and the resources required to meet these new requirements, monitor the sustainability reporting process of the entity and the processes used to identify the information reported in accordance with ESRSs.

3. Financial reporting

3.1 Accounting policies, judgements and estimates

Disclosures of the material accounting policies, judgements and sources of estimation uncertainty should be issuer specific and consistent with information provided elsewhere within the financial statements and in the management report.

When disclosing material accounting policies [paragraph 117 of IAS 1 *Presentation of Financial Statements*], issuers should not simply repeat the IFRS requirements; rather, the accounting policies should be tailored to the specific circumstances of the issuer. In that regard, paragraph 117C of IAS 1 is considered particularly relevant:

> '*Accounting policy information that focuses on how an entity has applied the requirements of the IFRSs to its own circumstances provides entity-specific information that is more useful to users of financial statements than standardised information, or information that only duplicates or summarises the requirements of the IFRSs.*'

Accounting policies, where applicable, should be included for the classification, recognition (and de-recognition) and measurement principles applied and should be reviewed and updated as changes in those principles occur. In that respect, issuers should also consider:

(i) that where the information resulting from that disclosure is not material, even when required by some IFRSs, an entity need not provide that specific disclosure [IAS 1.31 refers], and

(ii) the notes shall provide information that is not presented elsewhere in the financial statements but is relevant to their understanding [IAS 1.112(c) refers].

Disclosures in the financial statements should clearly distinguish between:

- the judgements, apart from those involving estimations, made in the process of applying the issuer's accounting policies and that have the most significant effect on the amounts recognised in the financial statements [IAS 1.122], and

- the assumptions made about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year [IAS 1.125].

Moreover, it is expected that issuers will assess and, if relevant, explain whether and how estimation uncertainty is affected by significant current macro-economic, technological, social, climatic and geopolitical developments.

In its examinations, IAASA has identified instances where issuers (i) did not clearly disclose the measurement basis for certain financial instruments, and (ii) did not clearly identify the accounting matters which they considered as significant judgements (critical accounting judgements) or sources of estimation uncertainty or both. IAASA has received undertakings from issuers to improve disclosures in future financial statements on these particular IAS 1 requirements.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should ensure that the disclosures of material accounting policies, judgements and sources of estimation uncertainty are both issuer specific and consistent with information provided elsewhere within the financial statements and in the management report.

3.2 Operating segments

Our 2023 *Observations* paper highlighted the importance of the identification of operating segments and the identification of the Chief Operating Decision Maker (CODM).

Paragraph 5 of IFRS 8 *Operating Segments* states that:

'A*n operating segment is a component of an entity:*

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

(c) for which discrete financial information is available.'

The identification of operating segments has implications on the recognition and measurement of impairments as operating segments are used to determine the level at which impairment testing is performed. For example, goodwill acquired in a business combination must be allocated to each of the acquirer's cash-generating units (CGUs) or group of CGUs. Each CGU to which the goodwill is allocated shall:

(a) represent the lowest level within the entity at which the goodwill is monitored for internal management purposes, and

(b) not be larger than an operating segment as defined by IFRS 8.5 before aggregation.

This requirement – which is set out in paragraph 80 of IAS 36 *Impairment of Assets* – results in goodwill being tested for impairment at a level that reflects the way an issuer manages its operations and with which the goodwill would naturally be associated [IAS 36.82].

Correctly identifying the person or group of people who carry out the function of the CODM is one of the steps that assists issuers in correctly identifying their operating segments.

As noted above, the identification of operating segments has implications on the level at which the performance of impairment tests are performed. In this regard, IAASA published a Paper *IFRS 8 Operating Segments – Identification of Chief Operating Decision Maker* in 2020 which included a non-exhaustive list of information requests to issuers.

IAASA continues to examine and challenge issuers' disclosures of their operating segments and, in particular, has reviewed the CODM reporting packages to ensure that they are reporting the segments that correspond to their internal management reports.

IAASA has requested certain issuers to amend/update their disclosures to reflect the appropriate person(s) who perform the function of CODM.

All entities applying IFRS 8 are required to disclose general information about reportable segments - factors used to identify the entity's reportable segments, the judgements made by management in applying the aggregation criteria, and the types of products and services from which each reportable segment derives its revenues [IFRS 8.22].

IAASA has identified instances where issuers have failed to disclose such information in their financial statements. Issuers are reminded that, for certain disclosures where the necessary information is not available and the cost to develop it would be excessive, that fact should be disclosed.

Where issuers are reconfiguring business operations, IAASA reminds them to consider what results are regularly reviewed by the CODM. If there are changes to existing operating segments issuers must consider the requirements of IFRS 8, in particular IFRS 8.29 – 30.

IAASA intends to continue to examine issuers' disclosures on operating segments.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should:

(a) comply in full with the requirements of IFRS 8.22 to paint a clear picture for users of the financial statements, and

(b) consider changes in management reporting and the structure of the internal organisation in terms of IFRS 8 to identify the appropriate person or persons who perform the CODM function.

3.3 Fair values

Paragraph 9 of IFRS 13 *Fair Value Measurement* defines 'fair value' as:

> *'… the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.'*

IFRS 13.61 states that:

> *'An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.'*

IAASA challenges issuers on their fair value measurement and classification.

IAASA has detected an instance where an issuer applied an incorrect fair value to a financial asset held at the reporting date necessitating a prior year adjustment in the subsequent half-yearly and annual financial statements.

IAASA encourages issuers to ensure that the fair value hierarchy tables are prepared correctly. Guidance is included in IFRS 13 as to what constitutes a Level 1, 2 or 3 input.

IAASA reiterates the importance of the requirements in IFRS 13.61 to maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

IAASA reminds issuers to consider IFRS 13.75 in relation to unobservable inputs. Paragraph 75 states that:

> *'If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within Level 3 of the fair value hierarchy …'*

In March 2023, IAASA published a Paper *IFRS 13* Fair Value Measurement – *information requests* to provide preparers, auditors, and users of financial statements with a selection of the IFRS 13 information requests that it has made to issuers in the course of financial statement examinations.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should continue to carefully evaluate the valuation techniques and the levelling of assets and liabilities which are measured at fair value in accordance with IFRS 13.

3.4 Impairments

IAS 36 *Impairment of Assets* requires specific disclosures about the measurement of impaired assets (or a group of assets). These requirements are consistent with some of the disclosure requirements in IFRS 13 *Fair Value Measurement* and are aimed at ensuring that balanced disclosures are made for fair value less costs of disposal and value-in-use.

Where the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to a CGU (or group of CGUs) is **significant** (in comparison to the total carrying amount of goodwill or intangible assets with indefinite useful lives), issuers are reminded that IAS 36.134(a) – 36.134(f) set out disclosure requirements to be provided for **each** CGU (or group of CGUs).

IAASA has detected an instance where an issuer failed to provide all the required disclosures for a significant CGU.

IAASA encourages issuers to carefully consider if any CGUs (or group of CGUs) are significant and, if so, to ensure each of the disclosure requirements are met.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should consider the disclosures requirements of IAS 36.134(a) – 134(f).

3.5 Contingent liabilities

Paragraph 10 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines a contingent liability as:

> ‘*(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or*
>
> *(b) a present obligation that arises from past events but is not recognised because:*
>
> *(i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or*
>
> *(ii) the amount of the obligation cannot be measured with sufficient reliability.*’

IAS 37.86 states that:

> *‘Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and where applicable:*
>
> *(a) an estimate of its financial effect, measured under paragraphs 36-52;*
>
> *(b) an indication of the uncertainties relating to the amount or timing of any outflow; and*
>
> *(c) the possibility of any reimbursement …’*

IAS 37.28 states that:

> *‘A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote …’*

As part of its background research, IAASA undertakes medias searches on certain selected issuers. The objective of this research is to identify whether there are any risks and/or other information that may impact the issuer.

IAASA has engaged with certain issuers during its 2024 examinations to determine whether matters such as regulatory investigations into the activities of the issuer met the criteria for disclosure as a contingent liability.

IAASA’s view is that the obligating event is either when the issuer allegedly breached the requirements or when the regulator investigation commences (i.e., a past event). At that point, the issuer assesses whether the possibility of an outflow of resources embodying economic benefits is remote or otherwise. A contingent liability may require to be disclosed should the possibility of an outflow of resources embodying economic benefits be other than remote.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should ensure that contingent liabilities relating to investigations by regulators are disclosed if:

(a) there is a possible obligation that arises from a past event and the existence of this obligation will only be confirmed by the completion of a regulatory investigation

(b) the possibility of an outflow of resources embodying economic benefits is not remote.

3.6 Management report – fair review of the business

Regulation 5(4)(c)(ii) of the Transparency (Directive 2004/109/EC) Regulations 2007 (as amended) (the Regulations) specifies that '*the management report includes a fair review of the **development*** [bold emphasis added] *and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.'*

IAASA continues to engage with issuers on disclosures in the management report. As outlined in Section 3.5 above, IAASA undertakes background research on issuers to ensure that:

(a) the management report addresses the risks and any mitigating factors undertaken by issuers resulting from investigations by regulators including with any public criticism levelled against the issuer, and

(b) users of the report have the relevant information to make informed economic decisions.

IAASA has identified certain issuers not disclosing or addressing reputational risks even in cases where these risks appear or could be interpreted as impacting the performance of the business in locations where the issuer operates. To arrive at an informed view, IAASA will also review issuers' monthly internal financial reporting reports and CODM reporting packages.

IAASA notes that issuers may publicly indicate that they disagree with regulatory outcomes. It is not always apparent to IAASA as to why such information is not included in the management report as part of the fair review of the development of the issuer's business.

It is IAASA's expectation that information which is sufficiently significant to warrant inclusion in, for example, a press release, is likely also relevant for disclosure in the management report as part of the fair review of the development of the issuer's business.

IAASA has continued to receive undertakings from issuers to enhance their financial reporting treatments and disclosures in this area.

As outlined in our 2023 *Observations* paper, the level of compliance with the Transparency Directive Regulations has been and continues to be a recurring topic. IAASA published a paper *Transparency Regulations – information requests* in May 2023. With the objective of encouraging issuers to adequately consider the requirements of the Regulations, IAASA included a non-exhaustive list of questions/information requests which IAASA has asked of issuers during previous examination cycles.

In 2023, IAASA outlined the topics on which it engaged with issuers regarding disclosures in the management report. These topics continued to be an area of focus for IAASA's 2024 examinations:

(a) climate-related matters,

(b) review of the issuer's financial performance and financial position, and

(c) the economic environment in the locations in which the issuer's activities are located and how the issuer's operations and investments were impacted.

IAASA has continued to receive undertakings from issuers to enhance their financial reporting treatments and disclosures under the Regulations.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should ensure that the management report contains a fair review of the development and performance of the business by expanding the management report to include information regarding public regulatory investigations which may have an impact on the performance of the business

IAASA reminds issuers that information included in, for example, investor presentations, press releases and other public announcements should be considered to determine if it warrants inclusion in the management report.

3.7 Measuring value-in-use (VIU)

Paragraph 33 of IAS 36 *Impairment of Assets* states that:

> *'In measuring value-in-use an entity shall:*
>
> *(a) base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight shall be given to external evidence.*
>
> *(b) base cash flow projections on the most recent financial budgets/forecasts approved by management, but shall exclude any estimated future cash inflows or outflows expected to arise from future restructurings or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts shall cover a maximum period of five years, unless a longer period can be justified.*
>
> *(c) estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.'*

IAS 36.35 states that:

> '*Detailed, explicit and reliable financial budgets/forecasts of future cash flows for periods longer than five years are generally not available. For this reason, management's estimates of future cash flows are based on the most recent budgets/forecasts for a maximum of five years. Management may use cash flow projections based on financial budgets/forecasts over a period longer than five years if it is confident that these projections are reliable and it* ***can demonstrate its ability, based on past experience, to forecast cash flows accurately over that longer period*** [bold emphasis added].'

IAS 36.44 states that:

> *'Future cash flows shall be estimated for the asset in its current condition. Estimates of future cash flows shall not include estimated future cash inflows or outflows that are expected to arise from: (a) a future restructuring to which an entity is not yet committed; or (b) improving or enhancing the asset's performance*.'

IAASA has examined a number of issuers VIU calculations to establish:

(a) whether the cash flow projections were based on assumptions that were reasonable and supportable,

(b) in instances where issuers used cash flow projections over a period longer than five years that the issuer was able to demonstrate its ability, based on past experience, to forecast cash flows over that longer period, and

(c) whether future cash flows were estimated for the assets in its current condition and cash flows relating to future restructuring and improving or enhancing the assets performance were not included in the VIU calculations.

IAASA has established that certain issuers:

(a) in climate sensitive industries did not include in their cash flows projections, costs related to their net zero targets, and

(b) included the potential sale of assets into their cash flow projections – although the sale of assets cannot be included in the cash flow projections unless the disposals have been approved, legal contracts have been signed and there is certainty around the economic environment when the asset is projected to be disposed in the future.

IAASA has required issuers to expand their disclosures:

(a) around their VIU calculations, in particular with regarding to expanding their sensitivity analysis for expenditure relating to their achievement of their net zero targets, and

(b) how net zero target expenditure affects future growth rates.

In certain instances, IAASA has also required issuers to re-calculate VIU calculations following a change in assets' useful lives to ensure that there were no impairments.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should ensure that:

(a) the VIU calculations are based on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset, and

(b) future cash flows are estimated for the asset in its current condition and exclude cash flows from future restructurings and cash flows from improving or enhancing the asset's performance.

3.8 Alternative performance measures (APMs)

ESMA Guidelines on Alternative Performance Measures (APM Guidelines) are aimed at promoting the usefulness and transparency of APMs included in regulated information. These APM Guidelines are supplemented by a series of Questions and Answers providing responses to questions posed by stakeholders in relation to the practical application of the APM Guidelines.

IAASA's examinations over the years have resulted in undertakings from issuers to improve compliance. However, IAASA calls for continued improvement having noted instances of non-compliance arising from recent examinations of financial reports. Instances of such non-compliance were noted in the following areas:

(a) Paragraphs 20 and 21 – definitions,

(b) Paragraphs 22 – meaningful labels,

(c) Paragraphs 26 and 27 – reconciliations,

(d) Paragraphs 33 and 34 – explanations on the use of the APM, and

(e) Paragraph 35 – prominence.

Issuers are remined that when financial measures use ESG labels (such as 'green turnover') and these labels are included in regulated information, then these measures are captured by the APM Guidelines. However, if these ESG measures are determined in accordance with legislation (e.g., the Taxonomy Regulation) the APM Guidelines do not apply..

Where related business changes are taking place, issuers may change the calculation of APMs or stop using certain APMs. Measures disclosed outside the financial statements must be compliant with the APM Guidelines unless they are defined or specified in the applicable financial reporting framework or used to explain the compliance with the terms of an agreement or legislative requirement such as lending covenants or the basis of calculating executive remuneration.

Issuers that are preparing for any changes in presentation, specifically in light of IFRS 18 *Presentation and Disclosure in Financial Statements* should note that some APMs may also fit the definition of management-defined performance measures (MPMs) and consideration should be given to the presentation of all such measures.

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should carefully consider the ESMA APM Guidelines for continued improvement in compliance, particularly where new performance measures are implemented.

3.9 Identification of cash generating units (CGUs)

Paragraph 6 of IAS 36 *Impairment of Assets* defines a CGU as:

> *'the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets …'*

IAASA has examined (i) value-in-use calculations, (ii) management reports and CODM reports, and (iii) media reports and public announcements regarding issuers to determine whether the appropriate number of CGUs have been identified by issuers.

IAASA has engaged with issuers to establish whether:

(a) the issuer monitors or tracks cash inflows for its brands/business units,

(b) the brand/business unit is being monitored or managed on an individual basis e.g., whether the issuer can supply/change/curtail the supply of higher margin products over lower margin products to maximise cash inflows,

(c) the brands/products can be sold independently of each other, and

(d) there is an active market for the output.

In relation to re-organisations where an issuer, for example, combines a number of previously existing CGUs in to one CGU, IAASA refers issuers to the IFRIC Agenda Decision 2007 where it was noted that the sharing of infrastructure and marketing costs does not change the identification of the CGU because it does not change the basis of independent cash inflows. Advertising costs do not influence cash inflows; rather, they impact the cash outflows and the net cash flows.

IFRIC Agenda Decision 2007 states that *'... the IFRIC noted that IAS 36 paragraph 6 (and supporting guidance in paragraph 68) requires the identification of CGUs on the basis of independent cash inflows rather than the independent net cash flows and so outflows such as shared infrastructure and marketing costs are not considered ...'*

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should ensure that the appropriate number of CGUs are identified by identifying the cash inflows that are largely independent of the cash inflows from other assets or other group or assets.

IAASA also reminds issuers to review the IFRIC Agenda Decision March 2007 regarding the outflows of shared infrastructure and marketing costs, pricing policies and human resources are not considered in the identification of CGUs.

3.10 IFRS developments

A summary of new IFRSs and amendments to IFRSs with effective dates from 2024 are set out below.

	EU endorsed?	Effective date
IFRS 18 – Presentation and Disclosure in Financial Statements	✗	1 January 2027
IFRS 19 – Subsidiaries without Public Accountability: Disclosures	✗	1 January 2027
Annual Improvements Volume 11	✗	1 January 2026
Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)	✗	1 January 2026
Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability	✗	1 January 2025
Amendments to IFRS 7 Financial Instruments: Disclosures and IAS 7 Statement of Cash Flows: Disclosures: Supplier Finance Arrangements	✓	1 January 2024
Amendments to IAS 1 Presentation of Financial Statements: - Classification of Liabilities as Current or Non-current - Classification of Liabilities as Current or Non-current – Deferral of Effective Date - Non-current Liabilities with Covenants	✓	1 January 2024
Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback	✓	1 January 2024

Matters for consideration by management, Directors, and Audit Committees

Management, Directors, and Audit Committees should assess the impact of these reporting changes and plan for their implementation.

APPENDIX

IAASA'S CORPORATE REPORTING RELATED PUBLICATIONS

Readers may find it helpful to refer to other IAASA corporate reporting related publications, available on the IAASA website, including:

Observations paper	Observations on selected financial reporting issues – years ending on or after 31 December 2023
Financial reporting decisions	Financial Reporting Decision (May 2024) Financial Reporting Decision (October 2023) Financial Reporting Decisions (January 2023)
Information notes	IFRS 18 – Presentation and Disclosure in Financial Statements (September 2024) EU Taxonomy for Sustainable Activities (May 2024) Transparency Regulations – information requests (May 2023) IFRS 13 *Fair Value Measurement* – information requests (March 2023)
Other publications	Outcome of financial statement examinations completed in 2023 (February 2024) Outcome of financial statement examinations completed in 2022 (March 2023)
Annual reports	2023 Annual Report (June 2024) 2022 Annual Report (June 2023)

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