



Financial Reporting Council

Annual Review of Corporate Reporting

2023/24

September 2024

How to use this report

This report provides information that is relevant to preparers and auditors of financial statements, investors and other users of corporate reports and accounts, and wider FRC stakeholders. It has been structured to help readers focus on the content best suited to their needs.

The **Highlights** section provides an overview of our activities and findings in 2023/24, our expectations for 2024/25 reports, and reporting developments, that we consider to be relevant to **all stakeholders**. This section outlines current key corporate reporting issues with links to more detailed material elsewhere in the report.

Our findings in greater depth contains further detail illustrating and explaining the reporting issues. We consider this content to be most relevant to **those directly involved in the preparation, audit or analysis of annual reports and accounts**.

The **Appendices** include detailed data providing transparency on our monitoring activities and outcomes, detailed findings from our priority sector focused work, a summary of the upcoming changes to reporting requirements, and an overview of the scope of our reviews.

The FRC does not accept any liability to any party for any loss, damage or costs, howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2024

The Financial Reporting Council Limited is a company limited by guarantee.

Registered in England number 2486368. Registered Office:

8th Floor, 125 London Wall, London, EC2Y 5AS

Contents

Highlights

1. Executive summary	5
2. Our monitoring activities and outcomes: At a glance	8
3. Our findings: At a glance	9
4. Our key expectations for 2024/25 annual reports and accounts	11

Our findings in greater depth

5. Top ten issues	13
6. Thematic and other reviews	28

Appendices

Appendix 1: CRR monitoring activities	35
Appendix 2: Retail sector focus findings	45
Appendix 3: Developments in corporate reporting	50
Appendix 4: Scope of CRR's work and interacting with our team	55

Highlights

1. Executive summary



Quality of FTSE 350 reporting maintained; some evidence of gap between FTSE 350 and other companies widening



Continued need for improvement in relation to impairment and cash flow statements



Clear and consistent disclosure of uncertainties, risks and assumptions remains an area of focus



Climate-related reporting becoming more well-established, but scope widening



Good quality reporting does not necessarily require a greater volume of disclosure

The Corporate Reporting Review (CRR) team of the Financial Reporting Council (FRC) applies a proportionate, targeted approach when considering whether company annual reports and accounts comply with the relevant reporting requirements, as described on page 7. High-quality financial reporting facilitates companies' access to capital and supports UK economic growth and competitiveness. This report sets out the findings from our review work in our 2023/24 monitoring cycle¹ and our expectations for the coming reporting season.

We are pleased to report that the quality of corporate reporting across the population of FTSE 350 companies reviewed in 2023/24 has been maintained. This year, however, we observed some evidence of a widening gap in reporting quality between companies within the FTSE 350 and other companies. Companies outside the FTSE 350 are often the engines of growth in the economy, and we cannot therefore be complacent about lower quality reporting in these companies.

Overall, we saw improvements in several reporting areas, with provisions and contingencies falling out of our 'top ten' issues for the first time in over five years. This year we also questioned significantly fewer companies in relation to their disclosure of judgements and estimates, another area that has featured in our top ten for many years.

We were disappointed that queries in relation to impairment of assets and cash flow statements each arose in over 10% of all cases opened this year. This was accompanied by an increased number of restatements in these areas, predominantly outside the FTSE 350. Several of these involved additional impairment charges in the parent company's financial statements, potentially affecting the company's ability to distribute profits. We expect these to remain areas of close CRR focus in the coming reporting season.

Although some of the inflation-driven economic uncertainties faced by companies in recent years have started to diminish, geopolitical tensions continue, and low growth remains a concern in many economies. Disclosure of such uncertainties and risks remains relevant to a number of our top ten areas of challenge, including impairment and financial instruments. Companies should not lose sight of the need to consider carefully, and disclose clearly, their effect on the company's results and financial position, as well as the assumptions underpinning the values of assets and liabilities, and forward-looking forecasts.

¹ Case reviews opened between 1 April 2023 and 31 March 2024, generally companies with December 2022 or later year-ends. Our findings are summarised in [sections 2 and 3](#).

1. Executive summary (continued)

We have also seen a disappointing increase in the number of restatements related to the presentation of primary statements in addition to the cash flow statement. As we have commented previously, many cash flow and other presentation issues can be avoided by conducting a sufficiently robust pre-issuance review of the annual report and accounts, and we continue to encourage companies to perform this important procedure.

Sustainability reporting

Given the complexities for reporters, we are pleased that we are identifying comparatively few compliance issues in premium-listed companies' reporting against the Taskforce for Climate-related Financial Disclosures (TCFD) framework. However, some companies continue to find this challenging, and the matter has just moved into our top ten issues this year, with lack of clarity around statements of consistency² with the framework being the most common issue identified. There also appears to be scope for more concise disclosure, and we remind companies that material information should not be obscured³.

Similar climate-related disclosures are now mandated under the Companies Act 2006 for a much wider population of companies⁴ and we will publish the results of a thematic review of these disclosures in winter 2024/25. UK companies with a material EU presence will also need to consider the requirements of the Corporate Sustainability Reporting Directive (CSRD)⁵, an area that we acknowledge is causing pressure for some reporters. Looking further ahead, the process for endorsing International Sustainability Standards Board (ISSB) standards for use in the UK has begun and, where relevant, companies are encouraged to familiarise themselves with these.

² The Listing Rules require listed companies to include a statement of the extent of consistency of their disclosures with the TCFD framework, as discussed in [section 5.10](#)

³ As set out in the TCFD implementation guidance referenced in [section 5.10](#)

⁴ Climate-related Financial Disclosures (CFD), as explained further in [section 6.4](#) of this report

⁵ Further information on developments in corporate reporting is set out in [Appendix 3](#)

⁶ As explained in our 2022 publication '[What Makes a Good Annual Report and Accounts](#)', and our 2024 Thematic Review: [Reporting by the UK's largest private companies](#)

Developments in corporate reporting

Changes to IFRS accounting standards for the coming reporting season are relatively minor, comprising a small number of amendments to standards. However, companies may wish to start considering the effects of more extensive changes expected in future periods.⁵

New standards and guidance issued by the FRC this year, which are largely effective from 2025, include:

- targeted revisions to the UK Corporate Governance Code. Provision 29 (effective 2026) now asks boards to make a declaration in relation to the effectiveness of their material internal controls
- 'Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review 2024', which align the accounting for revenue and leases under FRS 102 with IFRS principles

2024/25 reporting focus

We often raise queries when we identify potentially material inconsistencies between disclosures of facts and assumptions in the annual report and accounts. We therefore continue to recommend that preparers take a step back and consider whether the annual report and accounts, taken as a whole, tells a consistent and coherent story. We also encourage companies to focus on providing material disclosures that are clear, concise, and company-specific. Importantly, good quality reporting does not necessarily require a greater volume of disclosure.⁶

1. Executive summary (continued)

The relevant requirements – how much is enough?

The financial reporting framework in the UK is principles-based and requires the application of judgement. Preparers must consider the following overarching requirements in determining which information requires disclosure in their annual report and accounts:

- the financial statements must present a true and fair view [s393 Companies Act 2006; IAS 1⁷.15]
- the annual report and accounts, taken as a whole, should be fair, balanced and understandable [UK Corporate Governance Code Principle N, where applicable]
- the strategic report must be fair, balanced and comprehensive [s414C Companies Act 2006]
- specific disclosures required by accounting standards need not be provided if the information resulting from that disclosure is not material [IAS 1.31]
- companies are required to consider whether to provide additional disclosures if the specific requirements of IFRS accounting standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position, financial performance and cash flows [IAS 1.17(c), 31 and 112(c)]

We do not expect companies to go beyond these requirements, or to provide information that is not material or relevant to users.

Our proportionate approach to corporate reporting review

Our formal powers relating to corporate reporting review are derived from the Companies Act 2006 and other relevant law.

This report sets out the areas where we most frequently challenge companies on their reporting by asking the directors for further information or explanations about their annual reports and accounts. We only ask companies a substantive question when it appears that there is, or may be, a material breach of the relevant reporting requirements.

We principally engage with companies on a voluntary basis. We rarely resort to use of our formal powers and have not done so in the year under review. Further information about our approach, powers and remit is set out in our [Operating Procedures for Corporate Reporting Review](#)⁸.

We carefully consider proportionality, and the materiality of the reporting matters concerned, at every stage of our review work. We are mindful of the need to balance high standards in corporate reporting, and our responsibility to protect stakeholders in the public interest, with supporting UK economic growth.

7 IAS 1, 'Presentation of Financial Statements'

8 [Appendix 4](#) includes further details on the scope of our work

2. Our monitoring activities and outcomes: At a glance

Reviews performed

2023/24: **243**
2022/23: 263
2021/22: 252

FTSE 350 (% of reviews)

2023/24: **40%**
2022/23: 59%
2021/22: 57%

This year, reviews of FTSE 350 companies, which are selected over a five-year cycle, made up less than 50% of our reviews. Our thematic review selections and targeted work on the FRC's priority sectors included a higher proportion of AIM and large private companies.

Substantive letter write rate - % of reviews

2023/24: **47%**
2022/23: 43%
2021/22: 41%

Of which: FTSE 350

2023/24: **28%**
2022/23: 36%
2021/22: 34%

Other companies

2023/24: **61%**
2022/23: 52%
2021/22: 50%

We write 'substantive letters' to companies when we need additional information or further explanations to help us understand their reporting more fully.

The substantive letter 'write rate', as a percentage of cases opened, has increased for non-FTSE 350 companies this year, to more than double the write rate for FTSE 350 companies, suggesting a widening gap in reporting quality.

Required references to the FRC's review

2023/24: **26**
2022/23: 25
2021/22: 27

We ask companies to refer to our review in their next annual report and accounts when more significant changes are made as a result of our enquiries, typically when the company restates comparative information in primary financial statements.

Priority sectors

Priority sectors are those considered by the FRC to be higher risk for corporate reporting and audit, by virtue of economic or other pressures.

2023/24

The focus of our work during this cycle has been on companies in the following sectors:

-  travel, hospitality and leisure
-  retail and personal goods
-  construction and materials
-  industrial transportation

2024/25

We announced in December 2023 that we would focus on the following sectors in the current review cycle:

-  construction and materials
-  food producers
-  gas, water and multi-utilities
-  industrial metals and mining
-  retail

 This year we have conducted focused research into issues of particular relevance in the retail priority sector. Our findings are summarised in [section 6.5](#), and further detail is set out in [Appendix 2](#).

 To provide transparency over our findings, we continue to publish case summaries for reviews that resulted in substantive enquiries. This process is explained further in [Appendix 1](#), together with more detailed information about our activities and outcomes, required references, and how we collaborate with other public bodies and across the FRC.

3. Our findings: At a glance

The top ten issues raised⁹ with companies in 2023/24 are summarised below.

Ranking		Topic	Percentage of cases opened	
23/24	22/23		23/24	22/23
1 =	1	Impairment of assets 	12%	10%
2 ▲	3	Cash flow statements  	11%	8%
3 ▲	5	Financial instruments 	10%	8%
4 ▲	6=	Revenue	9%	6%
5 ▲	9	Presentation of financial statements  	6%	4%
6 ▼	4	Strategic report and Companies Act 2006	5%	8%
7= ▼	2	Judgements and estimates 	5%	9%
7= ▼	6=	Income taxes 	5%	6%
9= ▲	10	Fair value measurement	4%	3%
9= ▲	-	TCFD and climate-related narrative reporting	4%	2%



Our headline expectations for the coming reporting season, and how to avoid these most common areas of challenge, are summarised in [section 4](#).



A full description of the nature of the top ten issues we identified, including our detailed expectations for future reporting periods, is included in the section [Our findings in greater depth](#).



Indicates issues considered in our retail sector focus in [section 6.5](#).



Includes matters discussed in our 2024 thematic review of [offsetting in the financial statements](#).



Restatements of a company's financial statements and a reference to our review were required in these topic areas. [Appendix 1](#) includes a complete list of such references.

⁹ Substantive questions raised

3. Our findings: At a glance (continued)

Thematic and sector-focused reviews

Performing focused thematic work allows us to assess the quality of reporting on emerging or complex reporting areas, set out clear expectations, and provide companies with guidance and good practice examples. Reports reviewed as part of a thematic review represented a lower proportion (20%) of our casework this year. The findings of substantive enquiries arising from these thematic and sector-focused reviews are incorporated in our 'top ten' issues on the previous page.

UK's largest private companies

Our January 2024 thematic review of reporting by the UK's largest private companies sought to further develop our understanding of the quality of corporate reporting by these economically significant entities.

 [Section 6.1](#)
[Full report](#)

Retail sector focus

This year we conducted research into issues of particular relevance in the retail sector. Our findings are summarised in section 6.5 and discussed in more detail in Appendix 2.

 [Section 6.5](#)
[Appendix 2](#)

Good practice disclosures, as referred to in our thematic review reports, are those that represent good quality application of reporting requirements that companies should consider when preparing their annual reports and accounts.

Digital reporting

The FRC published its insights on digital reporting in December 2023. Further information is provided in [section 6](#).

Offsetting in the financial statements

IFRS accounting standards require or permit offsetting only in specific situations. Inappropriate application of these requirements can mask the full extent of the risks relating to a company's income and expense, assets and liabilities, or cash flows. This thematic review report, published in September 2024, highlights examples of good practice reporting and disclosures on offsetting in areas where we find more frequent application issues, as well as aspects where we believe reporting could better meet the disclosure requirements of the standards.

 [Section 6.2](#)
[Full report](#)

IFRS 17 'Insurance Contracts' Disclosures in the First Year of Application

Our thematic reviews of disclosures under this new standard, to observe initial application and to identify good practice examples, were published in November 2023 ([interim](#) disclosures) and September 2024 (full year application). We were pleased with the overall quality of disclosure of insurance contracts under IFRS 17.

 [Section 6.3](#)
[Full report](#)

Climate-related Financial Disclosures (CFD)

We are conducting a thematic review of the CFD reporting by a selection of companies within the scope of these new Companies Act 2006 requirements applicable for periods beginning on or after 6 April 2022. We expect to publish our findings in winter 2024/25.

 [Section 6.4](#)

4. Our key expectations for 2024/25 annual reports and accounts

The FRC seeks to support companies in complying with the relevant reporting requirements, and providing high-quality information, in their annual reports and accounts. Our headline expectations for the coming reporting season, and how to avoid the most common areas of challenge, are set out below. In all cases, we expect directors to apply careful judgement in the preparation of the annual reports and accounts. We only ask companies a substantive question when it appears that there is, or may be, a material breach of the relevant reporting requirements.

Pre-issuance checks

Ensure the company has a sufficiently robust review process in place to identify common technical compliance issues.

Many questions, corrections and restatements could be avoided by reviewing against the **top ten issues we challenge**, including ensuring that clear, company-specific accounting policies are included for key matters such as revenue recognition.

5. Presentation of financial statements¹⁰

2. Cash flow statements

4. Revenue

Risks and uncertainties

Ensure clear and consistent disclosures about uncertainty and risk are given that are sufficient for users to understand the positions taken in the financial statements.

We frequently ask companies to enhance their disclosures when they fail to comply with requirements in these areas.

1. Impairment

7= Income taxes

3. Financial instruments

9= Fair value measurement

7= Judgements and estimates

Narrative reporting

Ensure the strategic report includes a fair, balanced and comprehensive review of the company's development, position, performance and future prospects.

Take care to comply with the applicable climate-related reporting requirements,¹¹ ensuring disclosures are concise and that material information is not obscured.

6. Strategic report and Companies Act 2006

9= TCFD and climate-related reporting

Take a step back and consider whether the annual report and accounts as a whole

- tells a **consistent and coherent story** throughout the narrative reporting and financial statements
- is **clear, concise and understandable**
- **includes all material and relevant information**, including information not specifically required by standards, where it is necessary for users' understanding¹²
- **includes only material and relevant information**¹² – good quality reporting does not necessarily require a greater volume of disclosure

¹⁰ Indicates an apparent relationship between the relevant top ten issue and our expectation

¹¹ Comply-or-explain TCFD listing rules and mandatory Companies Act 2006 CFD requirements, where relevant. See [sections 5.10](#) and [6.4](#) of this report.

¹² IAS 1.17(c), 31 and 112(c)

Our findings in greater depth

5. Top ten issues

This section explores the most common topics on which we raised substantive questions with companies in our 2023/24 monitoring cycle,¹³ ranked in order of the number of companies involved. For each topic, we outline the more significant or common issues that arose as a result of our reviews.

These summaries are not a substitute for a knowledge of the relevant reporting requirements, but they do provide insights into common areas for improvement. We encourage preparers to read the summaries and related thematic review reports and consider whether the matters raised are relevant to their own reports and accounts.

Our substantive enquiries often result in companies agreeing to enhance future disclosures, taking account of the proportionality of the issues raised. In other cases, restatements of financial information are required.

 Includes matters discussed in our 2024 thematic review of offsetting in the financial statements as summarised in [section 6.2](#).

 Indicates issues relevant to the retail priority sector discussed in more detail in our retail sector focus findings in [section 6.5](#) and [Appendix 2](#).

 Represents key points to consider when preparing annual reports and accounts. The word 'should' is used in this report to describe accounting applications or disclosures that are required if material and relevant.

Rank	% of cases	Topic	
1	12%	Impairment of assets	 
2	11%	Cash flow statements	 
3	10%	Financial instruments	
4	9%	Revenue	
5	6%	Presentation of financial statements	 
6	5%	Strategic report and Companies Act 2006	
7=	5%	Judgements and estimates	
7=	5%	Income taxes	
9=	4%	Fair value measurement	
9=	4%	TCFD and climate-related narrative reporting	

 Restatements of a company's financial statements and a reference to our review were required in these topic areas. A complete list of such references can be found in [Appendix 1](#).

¹³ Case reviews opened between 1 April 2023 and 31 March 2024

5.1 Impairment of assets

Once again, impairment of assets is the issue that resulted in the most substantive enquiries (12% of companies reviewed, 2022/23: 10%). Many of the issues involved are similar to last year. However, this year four companies (2022/23: nil) restated their parent company financial statements to recognise an impairment of their investments in subsidiaries as a result of our enquiries.¹⁴ Many of our other queries could have been avoided by clearer, more complete disclosures about impairment, or better linkage between these disclosures and other areas of the financial statements.

Key inputs and assumptions

We questioned companies when:

- assumptions appeared to be inconsistent with those used elsewhere in annual reports, such as viability statements
- it was unclear how uncertainties related to climate change had been reflected in the assumptions used
- it appeared that cash flows used to estimate value in use (VIU) included those arising from the enhancement of assets
- budgeted or forecast cash flows used to estimate VIU appeared to extend beyond five years without explanation, or included cash flows which had occurred before the date of testing
- sensitivity disclosures that appeared to be required by IAS 36¹⁵ or IAS 1 had not been given
- it was not clear whether the disclosed post-tax discount rate had been applied to pre- or post-tax cash flows when estimating VIU



Impairment method

We asked for clarification when:



- it was unclear how goodwill had been allocated to cash-generating units (CGUs), or the methodology appeared to have changed from prior years
- it was not clear how cashflows relating to a significant e-commerce business had been allocated to CGUs
- the allocation of assets to CGUs appeared inconsistent with segmental information
- liabilities had been deducted from the carrying amount of CGUs

Recoverability of investments in subsidiaries

We sought more information when:



- the net assets of the parent company significantly exceeded the market capitalisation of the group but there was no evidence that this had been considered as an indicator of impairment
- it was unclear whether the parent company's impairment testing had considered the value of loans receivable from group companies

¹⁴ Details of these restatements are included in [Appendix 1](#)

¹⁵ IAS 36, 'Impairment of Assets'

5.1 Impairment of assets (continued)

Companies should ensure that ...



- they provide adequate disclosures about the key inputs and assumptions used in their impairment testing, including justifying the use of financial budgets/forecasts for periods longer than five years [IAS 36.134; IAS 1.125]
- the effect of tax is consistently reflected in the discount rates and projected cash flows used in VIU calculations [IAS 36.51], and the forecasts used for VIU calculations reflect the asset in its current condition [IAS 36.44]
- impairment reviews and related disclosures appropriately reflect information elsewhere in the report and accounts about events or circumstances that are indicators of potential impairment, as well as information about the company's business operations and principal risks¹⁶
- they explain the sensitivity of recoverable amounts to reasonably possible changes in assumptions where required [IAS 36.134(f); IAS 1.129]

Further guidance is available in our previous thematic reviews on [impairment of non-financial assets](#) and [discount rates](#).

16 We challenge companies when we identify potentially material inconsistencies about the fact pattern or management's assumptions

5.1 Cash flow statements

The frequency of questions raised in relation to cash flow statements (11% of companies reviewed, 2022/23: 8%) remains disappointingly high in our top ten. It also remains one of the most common reasons for companies restating their prior year financial statements as a result of our enquiries, with the number restating their cash flow statement more than doubling to 16¹⁷ compared with seven last year. The most common issues related to the classification of cash flows within the cash flow statement, which again in many cases could have been avoided by a robust pre-issuance review of the draft statement. In other cases, our questions could have been avoided if transactions, and the rationale for the treatment of the related cash flows, had been more clearly explained.

Classification of cash flows

We asked companies to explain the classification of a number of material cash flows, including: 

- the purchase of non-controlling interests classified as investing, rather than financing activities
- contingent remuneration paid to employees of an acquired business classified as investing, rather than operating, activities
- cash flows from derivatives classified inconsistently with the transactions they related to, such as payments on swaps used to hedge debt classified as investing activities, with the cashflows related to the hedged debt classified as financing activities
- the settlement of debt related to the acquisition of a subsidiary classified as an investing cash flow
- the repayment of a loan from a group undertaking classified as an operating, rather than financing, cash flow

Reported cash flows

We requested more information when: 

- there appeared to be material inconsistencies between amounts or descriptions in the cash flow statement and other information in the report and accounts, for example when cash flows in relation to an acquisition of a subsidiary did not agree to the acquisitions note
- gross or net presentation of cash flows appeared inconsistent with other disclosures, such as a refinancing exercise when gross cash inflows and outflows had been disclosed, or when payments to group undertakings in cash pooling arrangements had been offset against receipts from group undertakings 
- it appeared that non-cash transactions were included in the cash flow statement, for example when a subsidiary had been acquired via a share for share exchange or when right of use assets had been acquired under leases
- descriptions of items in the cash flow statement did not appear to accurately reflect the nature of the amounts

17 Details of these restatements are included in [Appendix 1](#)

5.2 Cash flow statements (continued)

Cash and cash equivalents

We questioned companies when:



- it was unclear why amounts invested in certificates of deposit had been included in cash and cash equivalents
- the reason for excluding restricted cash balances from cash and cash equivalents was not clear from the disclosures given
- a bank overdraft was included within cash and cash equivalents in the parent company cash flow statement, but not in the consolidated cash flow statement



Companies should ensure that ...



- the classification of cash flows, as well as cash and cash equivalents, comply with relevant definitions and criteria in the standard and cash flows are not inappropriately netted in both the group and (where applicable) parent company cash flow statement [IAS 7¹⁸.6; IAS 7.21]
- amounts and descriptions of cash flows are consistent with those reported elsewhere in the report and accounts
- non-cash investing and financing transactions are excluded from the statement and disclosed elsewhere if material [IAS 7.43]

Further guidance is available in our previous thematic review of [cash flow and liquidity disclosures](#), which includes a list of the consistency checks our reviewers perform, and our 2024 thematic review of [offsetting in the financial statements](#).

5.3 Financial instruments

The number of substantive questions raised this year in relation to financial instruments was similar to last year (10% of companies reviewed, 2022/23: 8%), and the subject remains high in our top ten issues. We have again raised questions about companies' expected credit loss (ECL) provisions, although this year most of these related to non-financial companies and to parent company financial statements in particular. Our questions principally related to companies outside the FTSE 350 and could often have been avoided by more complete and specific disclosure of relevant accounting policies and financial risks.

Scope, recognition, derecognition and measurement

We asked companies:

- why a financial asset had not been derecognised in the financial statements when external evidence indicated that the company had disposed of the investment before the end of the year
- for more information when it was not clear whether the company had a contractual right to amounts recognised as financial assets
- to clarify how certain significant items had been accounted for, when this was not clear from their accounting policies, including:
 - warrants issued by the company
 - debt factoring activities discussed elsewhere in the financial statements
 - financial liabilities arising from the sale of income units, and
 - debt breakage costs
- to provide further details of a loan from a third party, when external information implied the third party had been dissolved

Offsetting

We requested more information when a company had offset cash and overdraft balances but it was unclear whether the qualifying criteria for offset had been met.



ECL provisions and credit risk

We questioned:

- a non-financial institution when the percentages used in its ECL model for different categories of receivables varied significantly and the reasons for such variations were unclear
- how the ECL requirements of IFRS 9¹⁹ had been applied to material amounts owed by group companies in parent company financial statements
- the omission of credit risk disclosures when other disclosures implied a material risk existed or when ECLs were disclosed as a key source of estimation uncertainty
- why a receivable due from a US bank subject to financial difficulties had not been impaired

Other disclosures

We asked a company that had reported a material uncertainty in relation to going concern related to its compliance with covenants to enhance its disclosures to include the actual outcomes of covenant calculations.

We asked for further information when a company had not provided disclosures about foreign exchange risk but had recorded significant foreign currency gains and losses.

19 IFRS 9, 'Financial Instruments'

5.3 Financial instruments (continued)

Companies should ensure that ...



- sufficient information is given to explain all material financial instruments, including company-specific accounting policies [IAS 1.117]
- the nature and extent of material risks arising from financial instruments and related risk management are adequately disclosed, particularly in relation to material exposure to credit risk [IFRS 7²⁰.31-42]
- the approach and significant assumptions applied in the measurement of ECLs are appropriate, and concentrations of risks, when material, have been considered, including in the parent company financial statements where relevant [IFRS 9.5.5.17]
- the financial risk assumptions and disclosures reflect the risks and circumstances disclosed elsewhere in the financial statements
- cash and overdraft balances have been offset only when the qualifying criteria have been met. Balances that are part of a cash-pooling arrangement that includes a legal right of offset may only be offset in the balance sheet when there is also an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously [IAS 32²¹.42]. Our 2024 thematic review of [offsetting in the financial statements](#) sets out more information in this area.

20 IFRS 7, 'Financial Instruments: Disclosures'

21 IAS 32, 'Financial Instruments: Presentation'

5.4 Revenue

The frequency of substantive queries on revenue recognition and related disclosures increased from last year (10% of companies reviewed, 2022/23: 6%). Our queries predominantly related to the adequacy of related accounting policy and significant judgement disclosures. Companies were generally able to address our enquiries by providing more explanation and agreeing to clarify or enhance their disclosures in future reports.

IFRS 15 accounting policies

We questioned accounting policies that:

- implied that revenue was recognised prior to the performance obligation being satisfied
- were unclear whether fees incorporated an element of variable consideration and whether this involved significant judgement
- stated that revenue from franchisees was recognised at a point in time, rather than over time
- indicated that a professional services company used a work-in-progress valuation method to measure accrued income
- implied royalty costs had been offset against revenue, rather than classified as an expense
- did not explain the basis for determining whether the company was acting as principal or agent, and whether this involved significant judgement
- did not explain the nature of, and accounting policies applied to, a significant revenue stream
- were unclear about the existence of a financing component in a contract, when the company had significant non-current contract liabilities

Other IFRS 15 issues

We also asked companies to explain:

- the reasons for non-disclosure of revenue by class of business and geographical market
- an inconsistency between deferred revenue and other amounts disclosed within the financial statements

Companies should ensure that ...



- sufficient information, is provided for all significant revenue streams, including [IAS 1.117-117E; IFRS 15²².110]:
 - specific accounting policies
 - the timing of revenue recognition
 - the basis for recognising any revenue over time
 - the methodology applied
- significant judgements made in relation to revenue recognition are disclosed [IFRS 15.123]

More guidance on this topic is available in our 2019 thematic review of [IFRS 15 'Revenue from Contracts with Customers' Disclosures](#) and our [2020 follow up report](#).

5.5 Presentation of financial statements and related disclosures

More substantive questions were raised in this area this year (6% of companies reviewed, 2022/23: 5%), and ten (2022/23: seven) companies restated²³ their primary statements, either as a direct result of these enquiries or as a result of enquiries in other areas that resulted in presentational restatements.

Presentation of primary statements

We challenged companies when:



- the classification of amounts due from subsidiaries as current or non-current appeared to be inconsistent with other information
- expenses and their reimbursement were recorded in different lines in the income statement, and when income and expenses on derivative financial instruments were presented on a gross basis when they had been settled on a net basis
- material impairment losses in relation to financial assets (including trade receivables) were not presented separately on the face of the income statement
- impairment of tangible fixed assets was presented outside operating profit under UK GAAP

Disclosures and other matters

We wrote to companies when:

- the accounting policy for a material transaction or amount was not explained in sufficient detail for readers to understand its substance
- material balances were not separately disclosed in the notes to the financial statements
- disclosures explaining the use of the going concern assumption were inconsistent with other information in the annual report or did not appear to include sufficient detail

Company responses to some of our substantive queries in other areas also resulted in changes to the disclosure of material accounting policies.

Companies should ensure that ...



- company-specific material accounting policy information is clearly disclosed [IAS 1.117]
- disclosures on going concern and related matters are consistent with information elsewhere in the annual report
- the financial statements are reviewed carefully to avoid common areas of non-compliance with IAS 1, including the classification of receivables as current or non-current [IAS 1.66] and the presentation of material impairment losses in relation to financial assets on the face of the income statement [IAS 1.82(ba)]

²³ Details of these restatements are included in [Appendix 1](#)

5.6 Strategic report and other Companies Act 2006 matters

We raised fewer substantive questions in this area than in the prior year (5% of companies reviewed, 2022/23: 8%). The most common Companies Act 2006 matters we raised with companies continue to be the requirement for the strategic report to be fair, balanced and comprehensive, and compliance with distributable profits requirements when paying dividends and repurchasing shares.

Fair, balanced and comprehensive

We questioned companies whose strategic reports did not discuss:

- material balance sheet and cash flow items, and significant changes in those balances
- a significant fair value loss on disposal of an asset
- litigation claims disclosed in other publications by the company

We also challenged:

- the prominence given to a company's alternative performance measures (APMs), when we were unable to locate any IFRS measures in its strategic report
- strategic report disclosure that contained discussions of only some parts of the business, gave prominence to green initiatives with little discussion of the rest of the business, or no information about key performance indicators

Distributable profits and other Companies Act 2006 issues

We queried the lawfulness of dividends:

- that were not supported by the company's last audited accounts, and the required interim accounts had not been filed at Companies House²⁴
- when a public company's net assets were lower than the total of its share capital and undistributable reserves²⁵

We also asked questions in relation to:

- companies that were part of a large group having taken advantage of the small company audit exemption
- significant differences between the share premium balance disclosed in the consolidated and parent company financial statements

Companies should ensure that ...

- the strategic report provides a fair, balanced and comprehensive review of the company's development, position, performance and future prospects. This should include unbiased discussion of positive and negative aspects of performance, a clear articulation of the effects of economic uncertainty on the business, and should address significant movements in the financial statements, including those in the cash flow and balance sheet [s414C(2)(a) and (3) Companies Act 2006]. Further guidance is available in the FRC's ['Guidance on the Strategic Report' \(June 2022\)](#)
- all statutory requirements for the payment of dividends have been met [Part 23 Companies Act 2006]



5.7 Judgements and estimates

This year, we raised fewer queries in relation to significant judgements and estimates, asking questions in 5% (2022/23: 9%) of reviews. Providing quality disclosures in this area nevertheless remains important in the light of ongoing economic and geopolitical uncertainty to help users understand the positions taken on these matters in the financial statements.

Key sources of estimation uncertainty

We challenged companies when:

- disclosures of estimation uncertainty did not include sufficient information about key assumptions, or the sensitivities to changes in those assumptions or ranges of potential outcomes
- disclosures of significant estimates were not clearly distinguished from other estimates
- they did not disclose an estimation uncertainty in relation to matters disclosed as a principal risk that appeared to involve estimation uncertainty, for example supplier rebates

Significant accounting judgements

We raised queries when:

- other disclosures suggested that a significant judgement had been made but no disclosures required by IAS 1 had been given
- disclosure of a significant judgement used specialist terminology that may not be understood by users

In some cases, responses to other queries on particular accounting treatments indicated that significant judgements had been made that had not been disclosed.

Companies should ensure that ...

- all significant judgements have been described in appropriate detail, including explanations of the uncertainties involved [IAS 1.122]
- disclosures of significant estimates are clearly distinguished from other estimates, and contain sufficient company-specific information. A list of uncertainties is not sufficient [IAS 1.125]
- sufficient information is provided in order for users to understand the significant judgements and estimates, for example disclosure of sensitivities and the range of possible outcomes [IAS 1.129]

Our 2022 thematic review of [judgements and estimates](#) provides further guidance on this topic.



5.8 Income taxes

This year, we raised fewer queries in relation to income taxes, but the topic remains firmly in our top ten. Substantive queries were raised in 5% (2022/23: 6%) of reviews, with clarification of reconciling items in effective tax rate reconciliations and support for the recoverability of deferred tax assets the most common aspects we questioned. In 2023/24, two companies restated their primary statements as a result of our questions on income taxes (2022/23: three). Details of these restatements are included in [Appendix 1](#).

Recoverability of deferred tax assets (DTAs)

We challenged the recoverability of DTAs when:

- companies with a recent history of losses had not disclosed details of the convincing evidence supporting their recognition, as required by IAS 12²⁶ 
- a company disclosed the EU state aid investigation as a key judgement but had not referred to recent developments in the case

Recognition of deferred tax assets and liabilities

We also questioned:

- non-disclosure of the tax effects of prior year restatements of profit before tax
- the non-recognition of a deferred tax liability in relation to intangible assets in a business combination 

Other issues

We asked for more information when:

- information in the tax reconciliation was inconsistent with information elsewhere in the financial statements
- a reconciliation of material deferred tax balances by type of temporary difference had not been provided
- it was unclear why movements in deferred tax balances had been recognised in other comprehensive income or directly in equity
- Research and Development Expenditure Credits had been accounted for under IAS 12. IAS 20, 'Accounting for Government Grants and Disclosure of Government Assistance', is often the more appropriate standard.

Companies should ensure that ...

- the evidence supporting recognition of deferred tax assets and related uncertainties is disclosed in sufficient detail to provide useful information to users [IAS 12.82; IAS 1.122, 125]
- transparent and informative tax disclosures are provided [IAS 12.79-85]
- the new disclosures relating to Pillar Two income taxes are given when applicable [IAS 12.4A; IAS 12.88A-D]
- disclosures and assumptions are consistent with those disclosed elsewhere in the annual report and accounts

Further guidance can be found in our previous thematic review reports on [deferred tax assets](#) and [more general tax matters](#).

5.9 Fair value measurement

Fair value measurement is another topic that has remained in our top ten, with substantive queries raised in 4% (2022/23: 3%) of reviews. Below are the main issues on which we have questioned companies this year. While we have seen examples of missing disclosures, most of our queries arose because companies had not explained clearly enough how they had applied the requirements of the standard to their fair value measurements and the valuation techniques they had used.

Sensitivity analysis

We challenged non-disclosure of the effect on the fair value of financial assets and liabilities of reasonably possible alternative assumptions.

Quantification of unobservable inputs

We asked for more information when companies:

- did not provide quantitative details of the significant unobservable inputs for measurements categorised within Level 3 of the fair value hierarchy
- provided a wide range of values when quantifying inputs, which did not provide meaningful information to readers

Other fair value issues

We questioned companies when:

- it was not clear that market participant assumptions had been used in determining fair values
- explanations of valuation techniques and key inputs were unclear, including when it was not clear whether inputs were unobservable
- the valuation technique used did not appear to meet the fair value measurement requirements of IFRS 13²⁷
- information in the annual report or available elsewhere appeared to contradict the categorisation within the fair value hierarchy. For example, when the valuation technique used for a Level 2 measurement appeared to include significant unobservable inputs, indicating that it should have been classified as Level 3

Companies should ensure that ...

- explanations of valuation techniques and the assumptions used are clear and specific to the company's circumstances [IFRS 13.93(d)]
- sufficient quantitative detail of unobservable inputs and of the sensitivity of fair values to reasonably possible alternative assumptions is disclosed to provide meaningful information to readers [IFRS 13.93(g),(h)]

Further guidance is available in our 2023 [IFRS 13 thematic review](#) report.



5.10 TCFD and climate-related narrative reporting

In 2023/24, the second year of reporting against the TCFD framework by premium-listed companies, we entered into substantive correspondence with more companies (4% of reviews, 2022/23: 2%), principally in relation to companies' statements of consistency with the framework. We also observed some opportunities for more concise, company-specific disclosure, and we remind companies of the need to focus on providing material information.

We continue to work closely with the Financial Conduct Authority (FCA) in relation to TCFD reporting in line with the supervisory strategy explained in [Primary Market Bulletin 36](#). Over the coming year we will also review the extent of compliance with the new Companies Act 2006 CFD requirements (see [section 6.4](#)), as well as continuing to monitor the extent to which material information about the effects of climate change are incorporated into the financial statements, and the consistency with the degree of emphasis placed on climate-related risks and uncertainties identified in companies' narrative reporting.

Statement of consistency

The Listing Rules (LR) require that listed companies include a statement of the extent of consistency of their disclosures with the TCFD framework. We wrote to companies that:

- did not report against TCFD despite being in scope of the relevant Listing Rules
- provided disclosures that were unclear as to the extent of compliance or did not clearly identify the areas of non-compliance
- gave inadequate references to information disclosed outside the annual report
- did not explain the steps being taken to address areas of non-compliance, and the expected timeframe

Other TCFD related disclosures

We also asked companies to explain apparent inconsistencies between their disclosures and the TCFD framework, or a lack of clarity, in relation to the following pillars:

- strategy, including climate-related risks and opportunities
- metrics and targets

Climate in the strategic report and financial statements

We challenged companies:

- over the level of prominence given to green initiatives in the strategic report with relatively little discussion of core activities that generated the majority of the company's carbon emissions
- when it was unclear how the impact of climate change had been reflected in their impairment assumptions

5.10 TCFD and climate-related narrative reporting

Companies in scope of the relevant requirements should ensure that ...



- they explain the extent of compliance with the comply-or-explain TCFD framework, the reasons for any areas of non-compliance and the steps being taken to address these areas together with the expected timeframe in which compliance will be achieved [LR 9.8.6R.8; LR 14.3.27R]
- disclosures are concise and company-specific, sufficient detail is provided²⁸, and material information is not obscured²⁹
- it is clear how any material impact of climate change has been reflected in the financial statements
- the mandatory Companies Act 2006 Climate-related Financial Disclosure requirements are also met (see [section 6.4](#)). In particular, companies that are also required to provide TCFD related disclosures under the FCA's Listing Rules should ensure that they have considered the differences between the requirements such as the location of disclosures, and that CFD disclosures are mandatory and are not given on a comply-or-explain basis.

Further information about our findings on TCFD reporting is available in our [2022](#) and [2023](#) thematic review reports.

28 LR 9.8.6DG states that a company's assessment of the appropriate level of detail to be included in its climate-related financial disclosures takes into account factors such as (1) the level of its exposure to climate-related risks and opportunities; and (2) the scope and objectives of its climate-related strategy, noting that these factors may relate to the nature, size and complexity of the company's business

29 Principle 1 of the Fundamental Principles for Effective Disclosure set out in the [TCFD implementation guidance](#) states that disclosures should be eliminated if they are immaterial or redundant to avoid obscuring relevant information

6. Thematic and other reviews

This section summarises the key findings of our thematic and other reviews undertaken since the publication of our Annual Review of Corporate Reporting 2022/23 in October 2023.

Thematic reviews

[Reporting by the UK's largest private companies](#)

[Offsetting in the financial statements](#)

[IFRS 17 'Insurance Contracts' Disclosures in the First Year of Application](#)

[Climate-related Financial Disclosures \(due in winter 2024/25\)](#)

Retail sector focus

This year we conducted research into issues particularly relevant to the retail sector. This included limited-scope reviews of a selection of annual reports and accounts, and discussions with audit firms and companies in the sector to identify areas of particular interest to preparers and users of these companies' financial reporting. A summary of our findings is included in this section, with further detail in [Appendix 2](#).

Digital reporting

Companies admitted to trading on UK regulated markets have been required to produce their annual financial report in a structured digital format (iXBRL) since 2022. The availability of corporate reporting in a machine-readable and comparable format has the potential to enhance transparency and support the effective functioning of capital markets. We therefore consider digital reporting to be an important aspect of the wider corporate reporting framework.

Working with the FCA, in December 2023 the FRC [published insights](#) from a review of 50 annual reports in iXBRL format filed to the FCA's National Storage Mechanism in the second year of mandatory reporting. The report sets out some areas of focus for companies and suggestions to optimise reporting to meet the needs of investors and other users. It also includes the [findings of a survey](#) of 160 investment professionals about their use of XBRL data. The FCA's [Primary Market Bulletin 49](#) (May 2024) reminds issuers of their digital reporting obligations and outlines the FCA's observations on compliance rates and its supervisory approach.

Other reviews

We have embedded our monitoring of Directors' Remuneration Report (DRR) and 2018 UK Corporate Governance Code (the Code) reporting, explained in previous Annual Review reports, into our routine reviews.

In 2023/24 we reviewed the DRR disclosures of 10 (2022/23: 10) companies against the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. We raised one substantive query in the year (2022/23: none).

We also reviewed the corporate governance disclosures of 25 (2022/23: 19) companies and wrote to nine (2022/23: 13) where we identified opportunities to improve their reporting against the Code, with no substantive queries arising (2022/23: one). We have seen improvements to the corporate governance disclosures in the subsequent annual reports and accounts of the majority of companies we wrote to.

6.1 Thematic review: Reporting by the UK's largest private companies

The UK's largest private companies are economically significant entities, often providing jobs for large numbers of people, sustaining extensive supply chains and utilising substantial debt financing. They are often important drivers for growth in the economy, and high-quality reporting of key matters is important for users of their annual reports and accounts. Our January 2024 [thematic review](#) sought to further develop our understanding of the quality of corporate reporting by the UK's largest private companies. Our review looked at the annual report and accounts of 20 UK companies with revenues ranging from £1.5 billion up to £24 billion, employing between 1,000 and 145,000 people.

Overall, we found the quality of reporting was mixed, particularly in terms of how clearly companies explained material matters that were complex or judgemental. Many of the issues we identified could have been avoided if a sufficiently critical review of the annual report and accounts had been conducted prior to finalisation. As well as considering internal consistency and more detailed presentation and disclosure matters, this includes taking a step back to consider whether the report as a whole is clear, concise and understandable, omits immaterial information and whether additional information is necessary to understand particular transactions, events or circumstances.

Our key observations included:

- Good practice strategic report disclosures focused on the elements of development, performance and position that are key for an understanding of the company, explaining this in a clear, concise and understandable way that was consistent with the disclosures in the financial statements. **Good quality reporting does not necessarily require greater volume.**
- To enable a fuller understanding of a business, disclosures should **explain the nature of its operations** and how it fits into a wider group structure.
- Accounting policies for complex transactions and balances were often untailored, providing boilerplate wording. **Entity-specific policies** are particularly critical for revenue, where the good practice examples explained the nature of each significant revenue stream, the timing of recognition and how the value of revenue was determined.
- Good practice examples of **judgement and estimates** disclosures included detail of the specific judgement involved and clearly explained the rationale for the conclusion. The significance of estimation uncertainty was much more apparent when sensitivities were quantified.
- For some material provisions the level of detail provided on the **nature of the obligation and the associated uncertainty** was below the level we expected. Users benefit from clear disclosure of this information to allow them to fully understand the risks affecting the company.
- The disclosure of financial instrument risks such as liquidity risk was generally boilerplate and generic, describing the nature of risks without fully explaining why they are relevant. Good practice examples explained the **specific nature of the risk** and quantified the exposure and sensitivity to potential future changes.

6.2 Thematic review: Offsetting in the financial statements

IFRS accounting standards³⁰ require or permit offsetting only in specific situations. Inappropriate application of these requirements can mask the full extent of the risks relating to a company's income and expense, assets and liabilities, or cash flows.

Our thematic review of [offsetting in the financial statements](#) reflects our experience in relation to offsetting over recent years. It focuses on the requirements for offsetting in areas where we find more frequent application issues, including the cash flow statement, financial instruments and provisions. It also highlights examples of good practice reporting and disclosures on offsetting in these areas, and aspects where we believe reporting could better meet the disclosure requirements of the standards.

Our key observations included:

Policies and disclosures

- Companies should disclose material accounting policy information relating to offsetting, including all relevant aspects of any offsetting conditions. Any significant judgements made in applying these policies should also be disclosed. High-quality disclosures are particularly important when financial instruments have been offset or are subject to a master netting arrangement or a similar agreement.

In the cash flow statement

- IAS 7 requires investing or financing cash flows to be presented on a gross basis, except in limited cases when netting is either required or permitted.
- Bank overdrafts are included as a component of cash and cash equivalents in the cash flow statement when they are repayable on demand, form an integral part of a company's cash management and often fluctuate from being positive to being overdrawn.
- Companies should consider excluding from cash and cash equivalents overdrafts that remain overdrawn over several reporting periods.

In the statement of financial position

- Under IAS 32, bank overdrafts and positive bank balances are offset in the statement of financial position only when there is an intention to exercise a legally enforceable right to set off period-end bank balances. A company must demonstrate an intention to physically transfer period-end balances to one account to satisfy criterion (b) of the offsetting criteria in paragraph 42(b) of IAS 32.
- Notional cash pooling arrangements (CPAs) do not generally satisfy the criteria to offset positive bank balances and overdrafts as they do not usually involve the physical transfers of individual bank balances to one bank account.
- Zero-balancing CPAs usually require or permit individual bank balances to be physically transferred to a central clearing account. The regularity of these cash sweeps and their timing in relation to period-end balances differs between arrangements. This can increase the complexity of determining whether to offset positive bank balances and overdrafts.
- IAS 37³¹ requires a reimbursement asset to be presented separately from the associated provision. Any reimbursement rights that satisfy the contingent asset requirements of IAS 37 should be appropriately disclosed.

30 IAS 1.32

31 IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets'

6.3 Thematic review: IFRS 17 'Insurance Contracts' Disclosures in the First Year of Application

IFRS 17, 'Insurance Contracts', became mandatory for accounting periods beginning on or after 1 January 2023. Its objective is to provide more transparent and useful information about insurance contracts. IFRS 17 introduced consistent principles, improving international comparability compared with current accounting practices. As well as significant changes to the way insurance contracts are measured, IFRS 17 also introduced new presentation and disclosure requirements.

We conducted thematic reviews of disclosures in the first [interim](#) and [annual](#) reports and accounts under the new standard. The purpose of the reviews was to observe initial application of the standard and to identify examples of good practice. Due to the limited number of insurers within our scope that report under IFRS accounting standards, our selection sizes were smaller than previous thematic reviews and comprised ten companies covering both life and general insurance.

Our key observations included:

Disclosure quality was generally good

- We were pleased with the overall quality of disclosure of insurance contracts under IFRS 17 in our sample, including transition-specific disclosures.
- We were also pleased that the majority of companies within our selection provided high-quality disclosures for the areas considered in our interim report.

Disaggregation and proportionality

- Annual reports should be clear, concise and understandable, which is aided by a logical layout of information and focus on the most significant and material areas. We were, however, pleased that most companies avoided disclosing insignificant information.
- We expect companies to consider the appropriate level of disaggregation for disclosures of insurance contracts and may challenge companies if it is not clear whether the basis chosen is appropriate.

Importance of carefully considering the requirements of IFRS 17

- We identified a number of areas, such as disclosures relating to insurance finance income and expense, and risks relating to insurance contracts, where disclosures were not always provided in a way that met the requirements of the standard.
- We also reiterate the message set out in our interim thematic review report that disclosures of significant judgements and estimates, and accounting policies, are more useful when they are entity specific. Boilerplate language should also be avoided.

Alternative performance measures (APMs)

- While we were pleased that most of the insurance companies in our sample clearly explained the impact of IFRS 17 on their APMs, we identified a number of areas for improvement consistent with the findings from our previous [thematic reviews of APMs](#).

6.4 Climate-related Financial Disclosures (CFD)

For accounting periods starting on or after 6 April 2022, mandatory climate-related financial disclosures are required under the Companies Act 2006 by entities with more than 500 employees that are:

- traded³², banking, insurance and AIM companies
- private companies, and LLPs, with turnover of more than £500 million

The requirements state that companies must present, within their annual report and accounts, a Non-Financial and Sustainability Information Statement (or Energy and Carbon Report for certain LLPs). This must include specific information in respect of the risks and opportunities the entity is exposed to as a result of climate change and the way in which such risks and opportunities are governed, measured and managed. Cross-referencing to documents outside the annual report is not permitted for mandatory and material disclosures.

As the requirements are aligned with, but not identical to, the four overarching pillars of the TCFD framework (governance, strategy, risk management, metrics and targets), it is expected that companies already reporting against the TCFD framework are likely to meet the CFD requirements.

Other than in certain specific circumstances, the requirements apply to all parent companies meeting the above criteria, irrespective of whether they prepare group accounts. Consequently, scoping can be complex for groups. The Government has issued [non-binding guidance](#) to assist entities in meeting the requirements.

Thematic review

We expect to publish a thematic review report on CFD reporting in winter 2024/25. As part of the review, we will look at the CFD reporting in the annual reports of a selection of large private and AIM companies that are in scope of the CFD regulations and have a year-end between August and December 2023. The review will consider how well these companies have applied CFD regulations, identify good practice examples of how companies have met the disclosure requirements, and set out our expectations for future reporting.

Our routine reviews of CFD reporting



We review CFD reporting as part of our routine reviews, and remind companies to ensure that they have complied with the CFD requirements when preparing their disclosures.

In particular, companies that are also required to provide TCFD related disclosures under the FCA's Listing Rules should ensure that they have considered the differences between the requirements, such as:

- the location of disclosures
- that CFD disclosures are mandatory and, unlike TCFD reporting under the Listing Rules, are not given on a comply-or-explain basis

32 As defined in s474(1) Companies Act 2006

6.5 Retail sector focus

Retail has been a priority sector in the last six review cycles, reflecting the risks and challenges it has faced. This year, CRR has conducted research into issues where accounting and reporting may be unusually complex, contentious or subject to divergence in practice, and that are of particular relevance to retailers. This work included limited-scope reviews of a selection of annual reports and accounts, and discussions with audit firms and companies in the sector. These reviews focused on areas identified from these discussions as being of particular interest to preparers and users of retail companies' financial reporting.

Key points arising from this work are noted below. [Appendix 2](#) provides further detail on our findings. We expect preparers of financial reporting in the retail sector to consider these points to ensure that material accounting policies, and any significant judgements, are appropriately explained with company-specific information, as required by IAS 1.

Impairment testing of property, plant and equipment, intangibles and goodwill

- Online sales have become increasingly significant and are now an essential revenue channel for many retailers. There is normally some interdependence between online and in-store activities.
- Individual stores are normally identified as cash generating units. Multi-channel retailers can help users understand the effect on impairment testing by disclosing how (and how much) revenue originating online is allocated to stores by reference to touchpoints, such as 'click & collect'.
- A complete picture of this effect includes consideration of the data supporting the allocation, and how relevant central costs, such as website and other IT costs, have been allocated.

Alternative performance measures (APMs)

- Certain types of APMs, such as 'like-for-like' and adjusted profit, are commonly used by retailers.
- Definitions of 'like-for-like' measures should be clear and consistent throughout the annual report. Good practice disclosures clearly explained the method adopted and key components of the adjustment from reported revenue or profit.
- Some companies treat costs of opening and closing branches as 'restructuring' and property impairments as 'exceptional', but others see them as 'business as usual'. We encourage companies to highlight that their APMs may not be comparable with similarly labelled APMs of other companies and explain the rationale for each adjusting item.

Leased property

- We found some diversity in the treatment of expired leases, where the premises remain occupied indefinitely, a situation not explicitly addressed by IFRS 16, 'Leases'. Companies should clearly explain the policy adopted and any significant judgements involved.
- Accounting policy disclosures on determining the term of leases tended to be generic. Users benefit from company-specific information about key factors driving the assessment of lease terms.
- When, for impairment testing purposes, cash flows are projected to extend beyond lease lives, this may represent a key assumption requiring disclosure under IAS 36.

Appendices

Appendix 1: CRR monitoring activities: Review activities for the year

Number of reviews

We performed 243 reviews in 2023/24, which represents an 8% decrease against the number performed in the prior year. This year, a higher proportion of our reviews were full scope reviews, which are more resource-intensive than thematic reviews.

	2023/24				2022/23				2021/22			
	FTSE 100	FTSE 250	Other	Total	FTSE 100	FTSE 250	Other	Total	FTSE 100	FTSE 250	Other	Total
Routine reviews ³³	21	59	114	194	22	66	75	163	32	65	68	165
Thematic reviews	12	6	31	49	31	36	33	100	17	29	41	87
	33	65	145	243	53	102	108	263	49	94	109	252

Reviews by market

We aim to undertake at least one full-scope review of a FTSE 350 company's annual report and accounts, and at least one limited-scope review, every five years.

	2023/24	2022/23	2021/22
FTSE 350, as percentage of total reviews	40%	59%	57%

This year, FTSE 350 companies accounted for a smaller proportion of our reviews. Our 2023/24 thematic reviews principally involved companies outside the FTSE 350, and our routine reviews this year also included more companies outside the FTSE 350, including large AIM companies, as part of our priority sector work.

Complaints

When the FRC receives a complaint about a company's report and accounts that falls within CRR's remit, the matter is reviewed by members of our team. We always welcome well-informed complaints, which are carefully considered. When we identify that there is, or may be, a question of whether the report complies with relevant accounting or reporting requirements, we write to the company seeking further information and explanations. Matters not within our remit are shared with other FRC units or other regulators as appropriate.³⁴

	2023/24	2022/23	2021/22
Total number of complaints received	32	17	32
Approach made to company or being analysed as at 31 March	17	9	13

³³ This number includes full scope reviews and companies to which we wrote in relation to complaints

³⁴ More information on how we address complaints and referrals is available on our [website](#). Section 12 of the [FRC Annual Report and Financial Statements](#) discusses the actions taken during in the year in relation to complaints.

Appendix 1: CRR monitoring activities: Review activities for the year (continued)

Queries raised with companies

We wrote to 115 companies requesting a response to substantive queries. The overall 'write-rate' (substantive letters as a percentage of cases opened in the year) of 47% has increased compared with prior years, with the write-rate for companies outside the FTSE 350 of 61% now more than double that for FTSE 350 companies (28%). We will continue to monitor this emerging trend in the coming year. We consider each case on its own merits, having careful regard to proportionality, and do not have a target rate for writing to companies.

	2023/24						2022/23						2021/22					
	FTSE 350		Other		Total		FTSE 350		Other		Total		FTSE 350		Other		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Substantive	27	28%	88	61%	115	47%	56	36%	56	52%	112	43%	49	34%	54	50%	103	41%
Appendix ³⁵	51	52%	46	31%	97	40%	75	48%	39	36%	114	43%	68	48%	30	27%	98	39%
No issues	20	20%	11	8%	31	13%	24	16%	13	12%	37	14%	26	18%	25	23%	51	20%
Total	98		145		243		155		108		263		143		109		252	

Response times and case closures

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 their auditors. Considerable time can be wasted if an initial response is subsequently found to be inaccurate or incomplete. [Appendix 4](#) provides a link to our guidance on responding to our queries.

We aim to respond to companies' letters within 28 days³⁶, although the response time may be longer on more complex cases. Our response times have been 24 days or fewer over the past three years.



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 appropriate, more accurate information is in the public domain at the earliest opportunity. 92% of cases in this cycle (2022/23: 94%; 2021/22: 93%) were completed before the next annual reports and accounts were due for publication.

³⁵ Appendix letters convey less significant matters where the company may not have complied with the relevant legal, accounting or reporting requirements. We bring these points to the company's attention so that changes can be made to the reporting if the matters are material and relevant.

³⁶ As set out in our guidance on [communicating and interacting with CRR](#) on our website

Appendix 1: CRR monitoring activities: Publication of CRR interaction

Case summaries

We publish summaries of our findings in relation to 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. When consent to publication is not given we disclose that fact. We are pleased to note that, as at the date of this report, consent has been given in 96% of cases since we started publishing summaries in March 2021.

Our case summaries can be accessed on our [website](#).

Required references

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. We typically seek such 'required references' in relation to the correction of a material error affecting the primary statements, an omission of disclosure with a material impact, multiple omissions of relevant information, or the provision of poor-quality information.

	2023/24	2022/23	2021/22
Number of companies restating their financial statements	26 ³⁷	25	27
% of total cases:			
FTSE 350 companies	5%	8%	9%
Other companies	14%	12%	13%
Total	11%	10%	11%

While the proportion of cases resulting in required references has remained fairly consistent over the last three years overall, and among non-FTSE 350 companies, we are pleased that the level of restatements by FTSE 350 companies has fallen notably this year.

The reasons for the required references published in 2023/24 are set out on the following pages. Links to the relevant case summaries, which include further detail, are given (where published). Information that is not yet in the public domain has been anonymised.

A list of all case summaries published to date that include a required reference is available on our [website](#).

37 Includes two cases in relation to 2022/23 finalised in 2023/24

Appendix 1: CRR monitoring activities: Publication of CRR interaction (continued)

Cash flow statements

Top ten ranking: 2

Cash flow statements continue to be an area of frequent restatement, with 16 companies making restatements this year (2022/23: seven; 2021/22: 15). The following companies agreed to reclassify cash flows:

Company	Nature of cash flows	Original classification	Revised classification
Arnold Clark Automobiles Limited	Additions and disposals of non-rental vehicles	Operating	Investing
E D & F Man Holdings Limited	Proceeds from the sale of investments	Operating	Investing
James Latham Plc (parent company)	Cash received from the exercise of share options	Operating	Financing
Company B ³⁸	Repayment of loans from other group entities	Operating	Financing
Company M ³⁹	Contingent remuneration paid to employees of an acquired business	Investing	Operating
St James's Place plc	Cash flows on the sale of business loans to partners	Investing	Operating
Lords Group Trading plc	Purchase of a non-controlling interest	Investing	Financing
Rolls Royce Holdings Plc	Settlement of excess derivatives	Financing	Operating
M&C Saatchi Plc	Settlement of put options included in staff costs in the income statement	Financing	Operating
The Rank Group Plc	VAT and property service charges associated with lease rental	Financing	Operating

38 Restated financial statements issued

39 Restatement agreed, case summary not yet published

Appendix 1: CRR monitoring activities: Publication of CRR interaction (continued)

Cash flow statements (continued)

Companies also agreed to restate their cash flow statements for the following reasons:

Company	Reason for restatement
Smyths Toys UK Limited DP Poland plc	Non-cash transactions were included in the cash flow statement
Sosandar plc (parent company)	An increase in the gross amount of a fully impaired loan to a subsidiary was omitted from investing cash outflows, with a corresponding adjustment omitted from operating cashflows
GlobalData Plc	A single net financing cash inflow from a refinancing exercise was presented on a gross basis
E D & F Man Holdings Limited	Restricted cash was incorrectly deducted from the reconciliation of cash and cash equivalents
Westcoast Group Holdings Limited	Borrowings linked to a with-recourse invoice discounting facility were incorrectly classified as cash and cash equivalents

Appendix 1: CRR monitoring activities: Publication of CRR interaction (continued)

Presentation of financial statements

Top ten ranking: 5

Ten companies (2022/23: seven; 2021/22: three) revised the presentation of a primary statement other than the cash flow statement in the year.

Company	Reason for restatement
Income statement/Statement of comprehensive income/Statement of changes in equity	
Diamond DCO Two Limited (formerly Lloyds Pharmacy Limited)	A material impairment of tangible fixed assets was presented outside operating loss for the year
Cake Box Holdings Plc Keystone Law Group plc	To present financial asset impairment charges separately on the face of the income statement
Marks Electrical Group plc ⁴⁰	To reclassify a gain from finance income to cost of sales, following a change in the accounting treatment of an amount due from an investee company in relation to rebates receivable
John Wood Group PLC	The net exchange movement on disposal of foreign operations was not included in the statement of comprehensive income
Cake Box Holdings Plc	A deferred tax charge in respect of the revaluation of property, plant and equipment was not included in the statement of comprehensive income, and was included in the incorrect component of equity in the statement of changes in equity
Balance sheet/Statement of financial position	
Aston Martin Lagonda Global Holdings plc CMO Group plc (parent companies)	Amounts owed from group undertakings not expected to be realised within 12 months of the balance sheet date were classified as current assets
James Latham Plc (parent company)	An overdraft was offset against cash and cash equivalents rather than presented as a liability
Company P ⁴¹	Non-compliance with Companies Act 2006 UK GAAP balance sheet formats

40 Restated financial statements issued, case summary not yet published

41 Restatement agreed, case summary not yet published

Appendix 1: CRR monitoring activities: Publication of CRR interaction (continued)

Parent company: impairment of investments in subsidiaries

Top ten ranking: 1

Four parent companies (2022/23: nil; 2021/22: nil) recognised an impairment of their investments in subsidiaries as a result of our enquiries.

Company	Reason for restatement
Aston Martin Lagonda Global Holdings plc	To record an impairment of the parent company's investment in subsidiaries
Hostmore plc GB Group plc	The recoverable amount of investments in subsidiary undertakings did not take full account of liabilities of the subsidiaries
Marks Electrical Group plc ⁴²	A post-tax discount rate was applied to pre-tax cash flows in the value in use calculation

Other matters

Company	Reason for restatement
Income taxes (2022/23: three companies; 2021/22: one)	
Diamond DCO Two Limited (formerly Lloyds Pharmacy Limited)	To derecognise an irrecoverable net deferred tax asset
DP Poland plc	To recognise a deferred tax liability on the fair value adjustment on the recognition of an intangible asset in a business combination
Interim dividend accrual (2022/23: one company; 2021/22: nil)	
Hipgnosis Songs Fund Limited	To remove an accrual for interim dividends for which no legally binding obligation was present

42 Restated financial statements issued, case summary not yet published

Appendix 1: CRR monitoring activities: Post-review survey

CRR aims for continuous improvement 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.

We collect anonymous feedback from company directors and key staff on their experience of an enquiry through an online survey. The feedback received in the year⁴³ covers a significant proportion of the full scope reviews completed in 2023/24.

We ask the Chair, CFO, Audit Committee Chair, and anyone else with primary responsibility for responding to our letters, five key questions.

We continuously challenge ourselves as to whether our enquiries are relevant to the company's circumstances, and proportionate, having regard to the needs of the users of financial statements as well as the views of those we regulate.

Subject to resource constraints, we aim to write to companies well before the next balance sheet date, to allow sufficient time for changes to be reflected in the next annual report and accounts.

We also ask for respondents' views about the usefulness of our main publications. The responses indicate that our Annual Review and thematic reviews are well received, with 85% rating them as 'very' or 'somewhat' useful (2022/23: 86%; 2021/22: 93%).

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

⁴³ Results are from responses received between 1 April 2023 and 31 March 2024

⁴⁴ We have included this question in our survey since November 2022. 'Yes' includes respondents who indicated either 'significant' or 'some' improvement in the quality of their corporate reporting.

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

Yes: 2022/23: 99%
2021/22: 100%

99%

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

Yes: 2022/23: 98%
2021/22: 98%

94%

Were the outcomes of our review proportionate?

Yes: 2022/23: 97%
2021/22: 99%

95%

Has the quality of your corporate reporting improved as a result of our review?

Yes: 2022/23: 93%⁴⁴

93%

Did our review take place early enough in your reporting cycle to factor any issues raised into your subsequent annual report?

Yes: 2022/23: 94%
2021/22: 100%

98%

Appendix 1: CRR monitoring activities: Engagement

Working with other parts of the FRC

Audit Quality Review (AQR)

When 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 when there is a significant concern over the quality of financial reporting.

Audit Firm Supervision (AFS)

When we identify a material error in a company's financial statements that may also raise a question as to whether there has been a failure in the audit process, or about the competence or conduct of directors of the business, we refer the matter to the Case Examiner in AFS's Case Assessment function for consideration.

Other FRC teams

We provide technical advice, case support and training to other parts of the FRC, including Enforcement, where our knowledge of the corporate reporting requirements, and our practical experience of their application by companies, can support their work.

Corporate Governance and Stewardship (CG&S)

The CG&S team performs annual reviews of companies' reporting on their governance in line with the Principles and Provisions of the UK Corporate Governance Code (the Code). The most recent [Review of Corporate Governance Reporting](#) was published in November 2023. The 2024 report will be published later this year.

CRR works with the CG&S team, coordinating a number of our reviews with their annual review of governance disclosures, and writing to companies where we identify opportunities to improve reporting. Our focus is on the adequacy of explanations for departures from the Code and the quality of disclosures around the application of the principles, including the reporting on outcomes of governance activities during the year. As discussed in [section 6](#) of this report, we have now embedded our monitoring of these disclosures into our routine review work.

Appendix 1: CRR monitoring activities: Engagement (continued)

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 and a decision on whether the use of its enforcement powers is appropriate. The FCA may refer corporate reporting matters to the FRC when it is best suited to investigate further.

We continue to work closely with the FCA, in accordance with a joint supervisory strategy,⁴⁵ on the TCFD-aligned climate-related disclosure requirements for listed companies. We will continue to monitor the disclosures required by the Listing Rules and will refer matters to the FCA for further action when necessary.

UK Sustainability Disclosure Technical Advisory Committee (TAC)

The TAC consists of 15 members, including the Chair, each of whom are an expert in sustainability reporting. Two places on the TAC are reserved for an FRC member and a UKEB member to reflect the connectivity between UK-adopted IFRS accounting standards, UK GAAP and UK Sustainability Reporting Standards. The FRC's Accounting & Reporting Policy Director is the member appointed by the FRC. The FRC provides the Secretariat for the TAC.

UK Endorsement Board (UKEB)

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 accounting standards, and potential issues relating to any proposed changes to these, to be fed into the UKEB activities. CRR also has a representative with observer status on the UKEB's Sustainability Working Group. For any major proposed changes to IFRS accounting standards, CRR also engages directly with the outreach activities of the IASB staff.

Other public bodies

We meet with the Prudential Regulatory Authority (PRA) quarterly and liaise on matters of mutual interest regarding financial institutions. We share all our case outcomes from banking and insurance reviews, and may share further information, for example, on complaints that affect both corporate and prudential reporting.

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

We cooperate with the US Securities and Exchange Commission (SEC) in relation to entities with dual UK and US listing when, among 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.

We meet with the European Securities and Markets Authority, along with the FCA, on a biannual basis, to discuss reporting developments and matters of mutual interest.

⁴⁵ Set out in [Primary Market Bulletin 36](#)

Appendix 2: Retail sector focus findings

Retail has been a priority sector in the last six review cycles. Priority sectors are considered by the FRC to be higher risk, for corporate reporting and audit, by virtue of economic or other pressures. Industry sector is one risk factor amongst many which the FRC takes into account when selecting reports and accounts for review.

This year, CRR has conducted research into issues where accounting and reporting may be unusually complex, contentious or subject to divergence in practice, and that are of particular relevance to retailers. This work included limited-scope reviews of a selection of annual reports and accounts, and discussions with audit firms and companies in the sector. The reviews focused on areas identified from these discussions as being of particular interest to preparers and users of retail companies' financial reporting. Findings from these reviews are set out below.

We expect preparers of financial reporting in the retail sector to consider whether these points are relevant to the company's reporting and, if so, ensure that material accounting policies, and any significant judgements, are appropriately explained with company-specific information, and as required by the relevant standards. We have provided some examples of good practice disclosures that we identified during our work; companies will need to consider the materiality of these matters based on their own facts and circumstances in determining what information, and in how much detail, to disclose. The points raised in this section should be considered in this context.

Impairment testing of property, plant and equipment, intangibles and goodwill

Impairment of assets has consistently been in our top ten topics on which we write to companies, as highlighted in [section 5.1](#). In particular, we often ask about key inputs and assumptions used to determine recoverable amounts and related sensitivity analysis.

Impairment: identification of CGUs and allocation of online revenues

Individual physical stores are normally identified as cash generating units (CGUs). However, where there are material online sales, consideration is needed as to how these sales are incorporated into the impairment assessment of store CGUs and the effect of this on their recoverable amounts.

Certain retailers are now allocating a proportion of online sales to individual stores, while others judge that they lack sufficient data to do so systematically. The factors that are typically considered in determining the methodology applied and relevant supporting data include those noted on the next page.

Appendix 2: Retail sector focus findings (continued)

Impairment: identification of CGUs and allocation of online revenues (continued)

Touchpoints between online sales and stores

'Click and collect' is the most common example; stores may also deliver online orders locally.

Customers making an initial in-store purchase and later purchases online.

In-store ordering from the online range.

Customers browsing in-store products or consulting store staff before ordering online.

Where there is a lack of clear evidence of a touchpoint between an online sale and a store, it is harder to justify an allocation of the related revenue.

Sources and reliability of supporting data

A store is directly involved in the transaction.

Transaction histories of online customers who previously shopped in-store.

Data from in-store devices/kiosks used to order online.

Customer surveys indicating the importance and frequency of store visits before purchasing.

It may be difficult for management (and auditors) to get comfortable with the reliability of such data, especially where results have been extrapolated from limited data.

Related assets and expenses

Online operations will typically be reliant upon infrastructure involving the company's own assets (software and hardware) or third-party costs of cloud computing. Online activities will also have their own costs related to, for example, employees, sales and marketing, and distribution.

It would be inappropriate to allocate an element of online revenues without also apportioning related costs (including cost of goods sold) and assets.

Good practice descriptions of accounting policies and impairment assessment may include:

- clear identification/explanation of the CGUs and any allocated assets
- explanation of when and how online revenues are allocated to individual stores as part of impairment assessments
- the basis for allocating online revenues (for example, based upon what touchpoints between the online transactions and individual stores)
- an indication of the amount of online revenues that are allocated
- any considerations about the nature and reliability of underlying data
- explanation of how relevant costs, such as website or other IT costs, have been included in the impairment assessment, and the method of allocation
- any significant judgements involved

Appendix 2: Retail sector focus findings (continued)

Alternative performance measures (APMs)

From routine reviews, we have observed greater use of 'like-for-like' and 'pre-IFRS 16' APMs in retail businesses than in others. This reflects the importance of leased premises and of changes in the property estate from year to year. In addition, a 52/53-week financial year is common in the retail sector. We identified some inconsistency around the extent and nature of adjustments to profit in presenting 'underlying' or 'core' performance.

Like-for-like (LFL) measures

These include adjustments for one or more year-on-year variables, with no standard method of calculation. The differences in approach makes it difficult for users to compare apparently equivalent measures without additional information about the method of calculation and key drivers for change.

We found instances of apparently inconsistent definitions of a LFL measure in different parts of individual annual reports and accounts. While companies provided definitions, it was unusual to find a calculation of the measure or reconciliation of LFL sales to reported IFRS 15 revenue.

The following are examples of disclosures that may help clarify how the relevant LFL measures have been calculated and reconcile to amounts within the financial statements:

- LFL across estate: number of branch premises opened / closed in the current and prior years
- LFL across brands or fascias: acquisitions and disposals excluded from the calculation in each year
- LFL across variable reporting periods: basis of the calculation, for example pro rata or by excluding a discrete part of the longer period
- LFL constant currency rates: which exchange rates have most significant effect; how the adjusted performance is calculated

Adjusted profit measures

Some stakeholders have expressed concern that APMs of adjusted profit are not comparable and may exclude costs that most consider to be normal business expenses.

For example, some companies treat costs of opening and closing branches as 'restructuring' and property impairments as exceptional, but others see them as inherent expenses of managing their store estate.

Good practices we identified in applying the European Securities and Markets Authority's Guidelines on Alternative Performance Measures included an explanation of the rationale for specific adjustments, reconciliation to IFRS figures and the flagging of potential differences from peers' APMs. Further guidance is available in our [2021](#) and [2017](#) thematic reviews on APMs.

Pre-IFRS 16 measures

Profit measures excluding right of use asset depreciation and finance charges may continue as established internal metrics, or be required for loan covenants or other purposes.

Where the measure is expected by a specific stakeholder group but not used for internal purposes, it is helpful to explain this.

Appendix 2: Retail sector focus findings (continued)

Leased property

Many retail businesses have a large portfolio of leased properties from which they operate. Rental expenses are a significant cash outflow and were, for operating leases before IFRS 16, a major profit and loss charge. Features such as indefinite tenancies, variable rents based on turnover, periodic rent reviews and incentive arrangements, as well as the sheer volume of contracts to assess, made adoption of IFRS 16 challenging.

Lease term

IFRS 16 requires companies to determine the lease term, taking account of the minimum enforceable period and options to terminate or extend it. Judgement is often involved in assessing the likelihood of renewing leases or remaining in premises with indefinite lease terms. This affects not only lease accounting – whether the short-term lease exemption is applicable, or how to quantify the lease liability – but also fixed asset accounting.

We found different approaches to accounting for leases beyond the end of their contractual term, where occupation continues, including when the Landlord and Tenant Act 1954 applies. Preparers should be clear about the policy they have selected and consider whether this decision involves a significant judgement that should be disclosed.

- Some companies treated such leases as short term, expensing the rental cost where they have taken the relevant exemption.
- Others treated the tenancy as a term lease, on the same basis as the expired lease, where eventual renewal is considered reasonably certain. The approach was not explained by all companies, although not all had ongoing tenancies.

Accounting policies for determining the lease term in other circumstances tended to be boilerplate, without company-specific disclosure of factors affecting whether the company was reasonably certain to continue in occupation beyond the effective dates of renewal or termination options.

- In some cases, it was unclear whether exercise of options was a default assumption or the disclosure simply repeated wording from IFRS 16.
- Some companies also referred to remeasuring lease liabilities when relevant circumstances changed in the year, without indicating the extent of this (for example, a change affecting a significant number of properties) in the current or prior period.

Explicit and specific disclosure of these factors, of how continuing tenancies are treated, and of any related significant judgements, would assist users' understanding of the company's position and aid comparability of accounting policies despite the differing circumstances.

Fixed asset accounting for right of use assets and owned assets installed in the premises

Lease term, asset life for depreciation and value-in-use forecast assumptions should generally be consistent. Where differences are required by IFRS or specific circumstances, these should be clearly explained.

Impairment testing in some instances was based on projected cash flows beyond the end of the term of store leases, but some companies taking this approach did not explain the basis for doing so or the period over which cash flows were extrapolated.

Appendix 2: Retail sector focus findings (continued)

Supplier income arrangements

Supplier income arrangements are commonly included in contracts between a retailer and its supplier, although they are not exclusive to the retail industry. Examples of supplier income include discounts, volume rebates, reimbursement of promotional or advertising costs, margin or price protection, fees in return for giving a product advantageous placement in a physical or online store (slotting fees), and fees to enter into a contract. Historically, some of these arrangements have been complex, and the FRC has emphasised the need for relevant information to be disclosed when amounts involved are material ([press release December 2014](#)).

Judgements, estimates and other disclosures

Retailers have indicated that supplier income arrangements have generally become less complex in recent years. Contracts tend to be clear, reducing the need for judgement and giving a sound basis for estimating amounts receivable at the reporting date. However, despite the contractual terms in place, in practice there may be a degree of negotiation in determining the amounts actually paid.

When supplier income is material, we expect to see an accounting policy, explaining the types of income recognised, how amounts are determined and where they are reported.

When significant judgements and/or major sources of estimation uncertainty are involved, companies should make the disclosures required by IAS 1. This could, for example, explain the judgement over the period to which the income related, based on consideration of all the conditions attaching to the payment.

Grocery retailers disclosed supplier income receivables in the balance sheet, but income statement disclosures were less common. Material amounts that may require disclosure include the amount of supplier income recognised in the income statement (with the line items in which it is included), and any receivable amounts offset against accounts payable.

Recognition and presentation

All the companies in our selection disclosing supplier income recognised it as a reduction in either cost of sales, the cost of inventory, or other expenses.

In some cases, contractual terms will clearly indicate that payments relate to goods purchased or the reimbursement of operating expenses (such as for marketing or advertising contributions).

In other cases, further consideration may be required to determine when and how some amounts are recognised and presented, for example:

- whether a reduction in the purchase cost of goods requires allocation between items sold and those in inventory
- how a fee that is not explicitly a discount or reimbursement should be presented. Such a fee should generally be deducted from the cost of purchases if it is integral to the purchase contract with the supplier and, in substance, a discount.

Any allocation of amounts between inventory, cost of sales and any other line item (if relevant) should reflect a reasonable estimate of the transactions and products to which they relate.

We would not normally expect supplier income to qualify as revenue under IFRS 15.

Appendix 3: Developments in corporate reporting

We summarise below the forthcoming changes⁴⁶ to financial reporting requirements and the status of UK endorsement at the date of this report.

Periods beginning on or after		
1 January 2024	1 January 2025	1 January 2026 and later
IFRS financial statements		
<ul style="list-style-type: none"> Classification of Liabilities as Current or Non-current (Amendments to IAS 1) E Non-current Liabilities with Covenants (Amendments to IAS 1) E Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) E Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7) E 	<ul style="list-style-type: none"> Lack of Exchangeability (Amendments to IAS 21) E 	<ul style="list-style-type: none"> Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7) U Annual Improvements to IFRS – volume 11 (Amendments to IFRSs 1, 7, 9, 10 and IAS 7) U IFRS 18, 'Presentation and Disclosure in Financial Statements' U IFRS 19, 'Subsidiaries without Public Accountability: Disclosures' U
UK GAAP financial statements		
<ul style="list-style-type: none"> Amendments to FRS 101, 'Reduced Disclosure Framework – 2023/24 cycle' Amendments to FRS 103, 'Insurance Contracts' 	<ul style="list-style-type: none"> Supplier Finance Arrangements (Amendments to FRS 102) 	<ul style="list-style-type: none"> Amendments to FRS 102 and other FRSs – Periodic Review 2024
Narrative reporting disclosures		
	<ul style="list-style-type: none"> UK Corporate Governance Code 2024 (except Provision 29) 	<ul style="list-style-type: none"> UK Corporate Governance Code 2024 (Provision 29) IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information U IFRS S2 Climate-related Disclosures U

E Endorsed by the UKEB. The latest [status of the UK adoption](#) and the [UKEB workplan](#) are available on the UKEB website.

U Not endorsed in the UK as at September 2024; final effective date subject to endorsement.

⁴⁶ Changes effective for periods beginning before 1 January 2024 are set out on page 70 of the [2022/23 Annual Review of Corporate Reporting](#)

Appendix 3: Developments in corporate reporting (continued)

Amendments to IFRS accounting standards

Amendment	Summary of amendment
Classification of Liabilities as Current or Non-current (Amendments to IAS 1) E	Clarifies 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 date.
Non-current Liabilities with Covenants (Amendments to IAS 1) E	Clarifies the effect of covenants when classifying a liability as current or non-current: only covenants with which a company is required to comply on or before the reporting date affect the classification. Requires the disclosure of information that enables users of financial statements to understand the risk that non-current liabilities with covenants could become repayable within 12 months.
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) E	Clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.
Supplier Finance Arrangements (Amendments to IAS 7/ IFRS 7) E	Requires the disclosure of additional information about supplier finance arrangements to help users understand the impact of such arrangements on a company's liabilities, cash flows and liquidity risks.
Lack of Exchangeability (Amendments to IAS 21) E	Provides guidance on when a currency is exchangeable and how to determine the exchange rate when it is not.
Amendments to the Classification and Measurement of Financial Instruments ⁴⁷ (Amendments to IFRS 9 and IFRS 7) U	Clarifies the classification of financial assets with environmental, social and corporate governance and similar features. Also clarifies the date on which a financial asset or financial liability is derecognised when settlement is made via electronic cash transfers.
Annual Improvements to IFRSs – volume 11 ⁴⁷ (Amendments to IFRSs 1, 7, 9, 10 and IAS 7) U	Clarifications, simplifications, corrections and changes aimed at improving the consistency of several IFRS accounting standards.

⁴⁷ Subject to UK endorsement, these amendments will be effective for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted

Appendix 3: Developments in corporate reporting (continued)

New IFRS accounting standards

IFRS 18, 'Presentation and Disclosure in Financial Statements' U

The IASB issued IFRS 18 on 9 April 2024. The standard replaces IAS 1 but carries many of its requirements forward unchanged. It introduces three categories for income and expenses and defined subtotals to improve the structure of the income statement; requirements to disclose explanations of 'management defined performance measures'; and enhanced guidance about how to organise information and whether to provide it in the primary financial statements or in the notes.

Subject to UK endorsement, IFRS 18 will be effective for annual reporting periods beginning on or after 1 January 2027, with early application permitted.

IFRS 19, 'Subsidiaries without Public Accountability: Disclosures' U

The IASB issued IFRS 19 on 9 May 2024. The standard enables eligible subsidiaries to use IFRS accounting standards with reduced disclosures. Eligible subsidiaries are those that do not have public accountability and whose parent company applies IFRS accounting standards in their consolidated financial statements. A subsidiary does not have public accountability if it does not have equities or debt listed on a stock exchange and does not hold assets in a fiduciary capacity for a broad group of outsiders.

The objective of IFRS 19 is similar to that of FRS 101, but with a number of differences both in scope and in the disclosure reductions provided.

Subject to UK endorsement, IFRS 19 will be available for adoption in annual reporting periods beginning on or after 1 January 2027, with early application permitted.

Appendix 3: Developments in corporate reporting (continued)

UK GAAP financial statements

Amendments to FRS 102 and other FRSs

On 27 March 2024, the FRC issued [Amendments to FRS 102, 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and other FRSs – Periodic Review 2024](#), concluding its second periodic review of these financial reporting standards. The principal amendments are:

Section 20 Leases

- The removal of the distinction between operating and finance leases for lessees; more leases will now be recognised with an asset and liability on-balance sheet.
- Recognition exemptions permit short-term leases and leases of low-value assets to remain off-balance sheet. Compared with IFRS 16, a higher threshold for low-value assets means that FRS 102 preparers are not required to recognise as many leases on-balance sheet.
- No equivalent change to FRS 105, 'The Financial Reporting Standard applicable to the Micro-entities Regime'.

Section 23 Revenue from Contracts with Customers

- Introduces a single comprehensive five-step model for revenue recognition for all contracts with customers, based on identifying the distinct goods or services promised to the customer and the amount of consideration to which the entity will be entitled in exchange.
- Similar amendments have been made to FRS 105, with additional simplifications.

Other amendments and effective date

A range of other incremental improvements and clarifications have been made to FRS 102 and other FRSs.

The principal effective date for these amendments is periods beginning on or after 1 January 2026. Earlier effective dates apply to:

- new disclosures about supplier finance arrangements in FRS 102 (periods beginning on or after 1 January 2025)
- a new requirement in FRS 103, 'Insurance Contracts', to prevent an entity transitioning to FRS 103 from applying accounting policies aligned with IFRS 17 (periods beginning on or after 1 January 2024)

Early adoption is permitted, and transitional provisions are included.

Further guidance and copies of the most recent versions of these standards can be found on our [website](#).

Amendments to FRS 101, 'Reduced Disclosure Framework'

The FRC has carried out its annual review of [FRS 101, 'Reduced Disclosure Framework' \(2023/24 cycle\)](#). The amendments:

- provide an exemption from presenting certain comparative information about right-of-use assets
- accommodate a conditional exemption for qualifying entities in respect of certain supplier finance arrangement disclosures required under IAS 7
- revise Appendix II Note on Legal Requirements for consistency with IAS 1

Appendix 3: Developments in corporate reporting (continued)

Narrative reporting disclosures

IFRS S1 and S2

As discussed in our 2022/23 Annual Review, the ISSB issued its inaugural standards, [IFRS S1 'General Requirements for Disclosure of Sustainability-related Financial Information'](#) and [IFRS S2 'Climate-related Disclosures'](#) on 26 June 2023.

[The UK Sustainability Disclosure Technical Advisory Committee](#) (TAC) and Policy Implementation Committee (PIC) will provide recommendations to the Secretary of State for the Department for Business and Trade for endorsing these standards in the UK, with the UK-endorsed standards to be known as UK Sustainability Reporting Standards. The [Implementation Update](#) in May 2024 notes that the Government aims to make these available in the first quarter of 2025 and encourages companies to familiarise themselves with the standards. Subject to positive endorsement, the FCA and the Government will then consult on the relevant disclosure requirements, which are not expected to be effective in the UK until periods beginning on or after 1 January 2026 at the earliest.

European sustainability reporting

UK companies with a material EU presence will also need to consider the requirements of the Corporate Sustainability Reporting Directive (CSRD) which requires companies within its scope to adopt the European Sustainability Reporting Standards (ESRS). ESRS comprise 12 standards covering four categories.

The CSRD is being phased in, depending on company size, from 1 January 2024. [Guidance](#) on CSRD scope and timing has been published by the ICAEW.

UK Corporate Governance Code 2024

On 22 January 2024 the FRC issued revisions to the [UK Corporate Governance Code](#) (the Code).

This edition of the Code includes a small number of changes from the 2018 Code. Provision 29 now asks boards to make a declaration in relation to the effectiveness of their material internal controls. A new Principle has been included to encourage companies to report on outcomes and activities, and a number of provisions have been removed related to audit committees as these provisions are now within the Audit Committees and the External Audit: Minimum Standard. The FRC has published [non-mandatory guidance](#) to support companies in applying the Code.

The revisions are generally applicable for periods beginning on or after 1 January 2025, although Provision 29 applies to periods beginning on or after 1 January 2026.

Other potential changes in non-financial reporting

The Companies (Strategic Report and Directors' Report)(Amendment) Regulations 2023, discussed in our 2022/23 Annual Review, were withdrawn in October 2023 following consultation with companies where concerns were raised about the imposition of additional reporting requirements. Instead, the Government announced its intention to pursue options to simplify and streamline existing reporting requirements. Changes proposed prior to the dissolution of Parliament in May 2024 included increases in company reporting size thresholds and the removal of certain disclosure requirements from the directors' report and directors' remuneration report.

Appendix 4: Scope of CRR's work and interacting with our team

CRR undertakes the day-to-day work relating to the FRC's statutory responsibility to monitor and improve the quality of corporate reporting in the UK. Its remit covers the annual report and accounts and interim reports of companies included on the FCA's Official List, and the annual reports and accounts of UK-incorporated public companies, large private companies, and Limited Liability Partnerships.

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
- the annual accounts (financial statements)

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 have not used this power during the past year.

We recognise that others with more detailed understanding of a company's business, including its audit committee and auditors, may also have recommendations for future improvement. We encourage consideration of any matters they draw to a company's attention in addition to those that may be highlighted in our correspondence.

Further information about our reviews is available on our website:

[How CRR selects and reviews annual reports and accounts and interim reports](#)

[The FRC's operating procedures for reviewing corporate reporting](#)

[How to deal with a query from CRR](#)



Financial Reporting Council

**Financial
Reporting Council**

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

www.frc.org.uk

Follow us on
LinkedIn
or  **@FRCnews**