Thematic Review:

Interim Reporting

Financial Reporting Council

May 2021

Contents

1. Executive summary

The requirement for companies listed on the London Stock Exchange to prepare and publish interim reports is long-standing. Timely and reliable interim financial reporting improves the ability of investors, creditors and other stakeholders to understand an entity's capacity to generate earnings and cash flows and its financial position and liquidity.

We know through our outreach activities that investors value interim reporting.

A notable feature of interim reporting is that, compared with annual reporting, there are considerably fewer prescriptive requirements about the content of the interim report. The purpose of this thematic review is to highlight areas of good practice we have observed in recently published interim reports and to make suggestions for improved reporting to meet the needs of stakeholders.

Our review of interim reporting has been conducted against the backdrop of the Coronavirus pandemic. All of the companies in our sample were impacted in some way by the pandemic and the content of their interim reports reflect this. The pandemic is an extreme event, but we hope that the examples in this thematic will help to illustrate the underlying principles of good interim reporting.

Summary of key observations

- Overall we were pleased with the quality of interim reports.
- Companies had heeded our recommendations from previous thematics and the guidance given in our joint statement with the FCA and the PRA on Covid-19, and enhanced their disclosures particularly in relation to going concern and the statement of cash flows and related notes.
- Management commentaries provided an overview of the key events in the first half of the year and how these had affected operations and results. The best examples differentiated the impact that the various stages of the pandemic had on the financial statements.
- Where necessary, companies gave an update of the risks and uncertainties for the remaining six months of the financial year.
- We were pleased to see that the majority of the companies in our sample provided detailed explanations of their use of Alternative Performance Measures ('APMs') and reconciliations to GAAP measures.
- An impairment assessment is required at the half year if there is an indicator of impairment. Impairments of goodwill recognised during an interim period cannot be reversed in the future. Better disclosures of impairments included reasons for the impairments and quantified the key assumptions used in the impairment assessments.
- The best examples of changes in estimates disclosures included an update of the IAS 1 'Presentation of Financial Statements' estimation uncertainty disclosures where relevant, in addition to disclosing the nature and amount of the changes in estimate.
- Better disclosures of significant changes in current and deferred tax balances included a breakdown of the components of the tax charge and the deferred tax balance by category of temporary difference.
- When an event or transaction is significant to an understanding of the changes in financial position and performance of the company since the last annual reporting period, better disclosures followed the disclosure guidance of individual IFRSs to provide updated relevant information.
- There remain, however, opportunities for further improvement, and we encourage preparers to consider carefully the findings of this thematic when preparing their forthcoming interim reports. We expect companies to communicate material information clearly and concisely.

Represents good quality application that we would want other companies to provide in their interim reports.

Represents opportunities for improvement by companies to move them towards good practice.

Represents an omission of required disclosure or other issue. We want companies to avoid such issues in their interim reports.

2. Interim reporting: the CRR's responsibilities and powers

Historical background

The FRC, through a former subsidiary body the Accounting Standards Board, first issued a statement relating to interim reports in September 1997. This statement was developed in response to a recommendation in the Cadbury Report (1992) that interim reports should be expanded to increase their value to users. At the same time, the IASB's predecessor, the IASC, developed IAS 34 'Interim Financial Reporting', which was issued in February 1998.

The ASB's statement and IAS 34 approached interim accounting in a similar way, setting out the minimum content of an interim financial report and the principles for recognition and measurement.

A major change occurred in 2007 when the Transparency Directive (TD) was implemented in the UK. The TD requires IFRS preparers listed on the main market of the London Stock Exchange to prepare their half-yearly financial reports under IAS 34.

Whilst there have been some minor amendments to IAS 34 over the years, the standard in use today is for the most part unchanged from the standard issued in 1998.

CRR's responsibilities and powers

Following the introduction of the Companies (Audit, Investigations and Community Enterprise) Act 2004 ('the 2004 Act'), the Conduct Committee of the FRC was made responsible, amongst other matters, for monitoring interim reports prepared by companies listed on the main market of the London Stock Exchange.

In exercising this appointment, the Conduct Committee was given powers under the 2004 Act to require documents, information and explanations of companies and others. In practice, the Corporate Reporting Review ('CRR') team supported the Conduct Committee in its exercise of these powers. CRR's experience has been that companies are keen to engage constructively with all of its requests and that the Conduct Committee has rarely needed to use its powers.

Where it thinks fit, the Conduct Committee, through the CRR team, informs the FCA of any possible non-compliance with the accounting requirements of the FCA's rules, so that the FCA can take action if they consider it appropriate.

The FRC has no responsibility for monitoring interim reports prepared by companies quoted on AIM.

On 15 April 2021, a statutory instrument was laid before Parliament, appointing the FRC Board to exercise the powers under the 2004 Act in place of the Conduct Committee. The Board has delegated this authority to its newly formed Supervision Committee with effect from 6 May.

3. Scope and sample

Our review consisted of a limited scope desktop review of the interim reports of 20 entities listed on the main market of the London Stock Exchange, whose interim period ended between June 2020 and September 2020.

Our sample was influenced by companies in the FRC's priority sectors (as communicated in December 2020)[1]. The key areas we focussed on were:

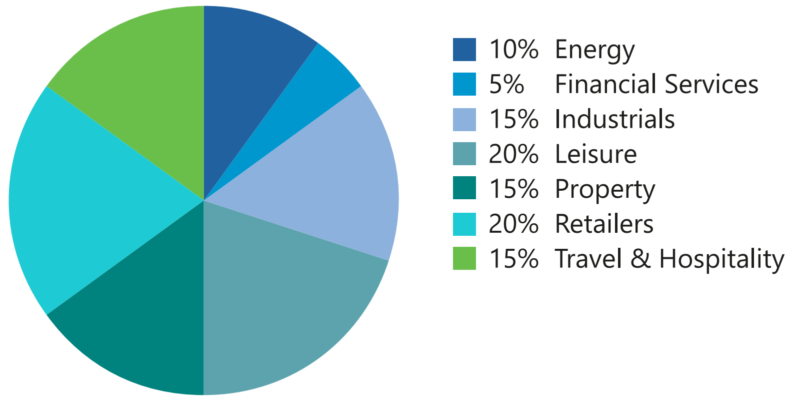
- Management commentary and the use of APMs
- Going concern disclosures
- Impairments
- Cash flow information
- Significant judgements and estimates
- Financial instruments
- Fair value measurements
- Related parties
- Defined benefit obligations

Our report includes extracts from the limited number of reports and accounts included in our sample. The examples will not be relevant for all companies or all circumstances, but each demonstrates a characteristic of useful disclosure. Inclusion of a company's disclosure should not be seen as an evaluation of that company's reporting as a whole; nor does it provide any assurance or confirmation of the viability or going concern of that company, and should not be relied upon as such.

The report also summarises the requirements of accounting standards, the Disclosure Guidance and Transparency Rules ('DTR') and other authoritative literature. Readers should not rely on the summaries provided and are advised to consult the original text of the respective guidance.

We highlight some of the better practice disclosures in these areas, in the context of interim reports, in this thematic and suggest areas where disclosures could be improved.

Industries sampled



1 Travel, Hospitality and Leisure (including airlines, travel companies, hotels & restaurants), Retail (particularly involving discretionary expenditure), Property (particularly retail and office) and Financial Services

4. Interim management report

The interim management report must include at least:

- an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements; and
- a description of the principal risks and uncertainties for the remaining six months of the financial year[2].

Paragraph 15 of IAS 34 requires companies to include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. It states that information disclosed in relation to those events and transactions shall update the relevant information presented in the most recent annual financial report.

Management commentaries

Judgement is required in determining what constitutes an important event. Paragraph 15B of IAS 34 indicates some of the events and transactions for which disclosures would be required if they are significant; these provide a useful guide in helping to determine whether they should be explained in the management report. We typically expect the following to constitute important events:

- Major acquisitions and disposals
- The winning or losing of major contracts
- The achievement of key milestones where these are material to the company's business such as the approval of a drug, receiving technical sign off on a construction contract or proven ore reserves
- Significant changes in business strategy
- Launching of new product lines or businesses
- Major restructuring programmes
- Material impairments
- The issue of significant new debt or equity instruments
- Changes in director remuneration structures, such as new share-based incentive plans

The UK Corporate Governance Code (July 2018) confirms that the board's responsibility to present a fair, balanced and understandable assessment of the company's affairs extends to interim reports.

This means that the commentary should address the positive and negative aspects of the entity's development, performance, position and future prospects without bias.

Materiality judgements

Paragraph 23 of IAS 34 states that in deciding how to recognise, measure, classify, or disclose an item in interim reports, materiality is required to be assessed in relation to the interim period financial data.

IFRS Practice Statement 2 'Making Materiality Judgements' includes non-mandatory guidance on making materiality judgements for interim reporting.

2 DTR 4.2.7

4. Interim management report (continued)

All companies explained how the various stages of the pandemic had affected operations and results. We were impressed by how some companies differentiated how their trading was impacted in the various stages of lockdown.

Throughout the COVID-19 pandemic, our priorities have been to ensure the safety of our colleagues and customers, to preserve financial resources and limit the impact on profitability. Continuing outbreaks of the virus and periodic strengthening of public safety measures in a number of our global territories, including forced temporary store closures and the ongoing requirement to maintain strict social distancing in our warehouses, makes us cognisant that further challenges lie ahead.

We suffered our first full country closure in Italy on 11 March 2020 with fundamentally all of the Group's stores closed by 23 March 2020. The first stores began to re-open in late April with most stores re-opened by the end of June. Consequently, there were three distinct trading periods in the first half with each geography delivering a very mixed performance reflecting the unique combination of factors in that individual country.

- ***Pre-closure Period:*** *The early weeks of the period were encouraging with the continuation of the positive trends from the previous year in many territories.*
- ***Closure Period:*** *The majority of our physical store estate was closed for periods of up to three months. However, demand remained resilient with consumers readily switching to online channels reflecting the benefits of an agile omni-channel approach which has been developed over a number of years.*
- ***Re-opening Period:*** *The initial trading in stores on re-opening was boosted by a combination of pent-up demand, particularly in those territories where online trading is less mature, and promotional activity as the stores re-opened with ranges, particularly apparel, which lacked seasonal relevance. However, that boost was generally short lived with footfall into physical retail continuing to be significantly weaker than historic levels in all of our geographies but particularly across Europe.*

JD Sports Plc, 1 August 2020, p6

Clearly differentiates between the different stages of trading during the pandemic

As a result of the pandemic, the companies we reviewed in the hospitality, leisure and retail sectors had, at some point, to close sites, reducing revenues. All sought to control costs and preserve cash.

These companies explained the effect this had on the financial results, as well as detailing the steps they took to manage the impact of the pandemic on the business.

In the first six months we have seen stronger growth than expected in parcels at Royal Mail, which has more than offset the decline in letters from a revenue perspective, and for the first time revenue from parcels now exceeds that from letters. However, we have also incurred significant costs due to increased parcel volumes and manual sortation of much of this additional volume through our network, costs related to COVID-19 such as protective equipment, overtime and agency staff, as well as social distancing measures, along with management restructuring costs, which have led to an adjusted operating loss of £129 million in the UK.

We have prepared for our peak period around Christmas, deploying eight temporary parcel sort centres and recruiting around 33,000 flexible workers to help manage peak volumes. Overall we are planning to increase our investment in peak this year by around £100 million, to ensure we maintain quality as we deliver Christmas for our customers and continue to support the Government's COVID-19 testing programme. However, the impact of the pandemic is ever changing and whilst we have contingency plans in place, accurately predicting the volumes and absence rates given the risk of rising COVID-19 infection rates is challenging.

Royal Mail Group plc, 27 September 2020, p4

Increased investment to ensure that services could continue to be delivered through peak periods, in the light of Covid-19

Explains the impact on revenue and costs of a change in the services demanded as a result of the pandemic

4. Interim management report (continued)

Some companies explained how the pandemic had resulted in a change in focus as they sought to minimise the risk the pandemic could have on their business.

The impact of Covid-19 on the retail occupational market has been significant, compounding the structural challenge of the growth of online shopping. As a result, more operators have entered CVA or administration and stronger retailers have been more cautious on committing to new space given the uncertainty of outlook. Retailers are increasingly focused on how best to align their models to the growth of online, with many, including Next and M&S identifying out of town retail park stores as playing a key role.

Addressing the challenges in retail *– we have a clear plan to reduce our exposure to retail and have made good progress since April with £456m of asset sales. At the same time, we are focused on managing these assets, keeping them full with the right occupiers to drive footfall and sales and deliver sustainable cash flows, underpinning their liquidity.*

Retail & mixed use development: *enhancing and repositioning our portfolio for the future Reflecting our longer term view on retail, we are unlikely to undertake standalone retail development in the near term.*

The British Land Company Plc, 30 September 2020, pp8, 11 and 19

Explains what impacts the pandemic has had on short term strategy

When it came to commenting on movements in balance sheet items, explanations were not provided in all cases. Some companies experienced significant movements in balance sheet items, for example, net pension obligations, lease liabilities, but no explanations for these movements were provided.

In contrast, a few companies in our sample saw their financial performance improve during the early stages of the pandemic, but that in turn brought other considerations such as protecting the wellbeing of customers and staff. For example, Gamesys Group plc detailed the investment it had made in promoting responsible gambling owing to an increase in its business during the lockdown period, and efforts it had made in developing recreational experiences, such as chat rooms, that do not involve wagering[3].

The pandemic caused abnormal movements for some companies. This put greater pressure on the need to ensure that there was sufficient narrative to explain how and why balances had changed. One example was companies deferring payments (such as lease rentals) resulting in cash and creditor balances increasing.

The net cash balance at the end of the period was £764.9 million (2019: £118.1 million) with very strong cash generation in the United States in particular reflecting the exceptional trading in that country since the temporary Government stimulus was made available. We are conscious that the net cash position at the period end includes a number of temporary factors which, in aggregate, total in excess of £200 million and will likely reverse in the second half. This total includes short term extensions to the payment terms on branded suppliers where these were agreed with the relevant suppliers at the start of the COVID-19 outbreak and the payment of deferred rents as we continue to reach agreements with the relevant landlords.

Stocks at the end of the period of £764.7 million are significantly lower than the prior year (2019: £913.2 million) with the flow of product into our businesses taking time to gain traction as the international brands recommenced their global supply chain operations. This situation is particularly evident in the United States after the period of strong trading, with period end stocks of $191.3 million approximately 40% lower than the previous year (2019: $327.8 million). We continue to work with our international brand partners on detailed exercises to re-range the rest of the year and, where possible, are pushing for forward orders to be made available early.

JD Sports Plc, 1 August 2020, p13

Explains that the balance at the period end has been impacted by temporary factors, and provides an expectation of when the balance will reverse

Explains why stock balances are lower than the prior period

3 Gamesys Group plc, 30 June 2020, p2

4. Interim management report (continued)

Principal risk and uncertainties

The FCA's Technical Note[4] on the DTR states that where the principal risks and uncertainties discussed in the annual report remain valid for the purpose of the interim report, it is acceptable for the company in its half year report to:

- state that the principal risks and uncertainties have not changed;
- provide a summary of those principal risks and uncertainties; and
- include a cross-reference to where a detailed explanation of the principal risks and uncertainties can be found in the annual report.

If the risks and uncertainties have changed since the annual report, the company should describe the new principal risks and uncertainties in the interim report.

Half of the companies sampled revised their principal risks and uncertainties that were identified at the time of the publication of the annual report, explaining how Covid-19 had continued to affect them.

Capital & Counties[5] explained the impact Covid-19 had on the risks they had previously identified, and detailed the measures they had taken to mitigate its affect.

Some companies identified new risks as a result of the pandemic.

Since the date of approval of the Annual Report and Financial Statements on17 March 2020, the extensive and enduring impact of the COVID-19 pandemic has created uncertainty and had a significant impact on the business. We continue to focus our efforts on protecting colleagues and customers, and working with suppliers to ensure food is available to all across Britain, especially the vulnerable and most in need.

The Board has assessed the Group risks following the impact of COVID-19 and chosen to include COVID-19 as a separate principal risk as detailed below, alongside the existing principal risks, some of which already referenced COVID-19.

Wm Morrison Supermarkets PLC, 2 August 2020, p26

Identifies Covid-19 as an additional risk and details how it had impacted existing risks

4 FCA's Technical Note Ref: UKLA/TN/501.1
5 Capital & Counties Properties plc, 30 June 2020, p15

4. Interim management report (continued)

Conversely, we saw an example of the severity of an existing risk reducing in the short term.

> *The directors have reconsidered the principal risks and uncertainties of the Group and have determined that those reported in the Annual Report and Accounts 2019/20 remain relevant for the remaining half of the financial year...*
>
> *The previously highlighted risk regarding the tightening labour market due to the uncertainty surrounding Brexit has reduced in the short-term, as the available labour pool increases as a result of COVID-19. However, the risk remains in the medium to long-term that the sector will face challenges to attract and retain talent in specific roles such as housekeeping and chefs.*
>
> *Whitbread Plc, 27 August 2020, p21*

Explains that the severity of the risk has been reduced in the period due to an expected increase in the size of the labour pool

The others in our sample commented that risks and uncertainties were unchanged.

We observed that a number of companies had delayed the publication of their annual reports resulting in the period between their publication and the interim reports being shorter.

We remind companies that the DTR requires disclosure of a description of the principal risks and uncertainties for the remaining six months of the financial year. To the extent that these have changed since the publication of the annual report, we expect companies to provide an update.

Alternative Performance Measures

ESMA Guidelines on APMs codify the best practice and are relevant to APMs presented in Interim Management Reports of half yearly financial reports.

We expect UK companies to continue to consult the Guidelines after the UK's exit from the European Union.

As noted in our Annual Review of Corporate Reporting, disclosure of APMs continues to be an area where we have frequent findings, in particular, with respect to undue prominence and transparency. We have often observed a lack of reconciliations and a lack of explanations of APM adjustments.

In this regard, we were pleased to see that the majority of companies in our sample provided explanations as to the use of APMs and reconciliations to IFRS measures in their interim financial statements.

As part of our outreach activities, we heard from the investor community that they welcome explanations as to why management have decided to classify items as exceptional, and the rationale for determining these.

Whilst some companies gave such explanations, a number of others had not updated their definitions from the annual report and did not explain why some items were treated as exceptional whilst other similar items were not, for example, impairment of assets.

We expect companies to provide specific, rather than general, explanations for all material classes of adjusting or exceptional items.

4. Interim management report (continued)

The performance of the Group is assessed using a number of Alternative Performance Measures ('APMs'). The Group's results are presented both before and after non-underlying items. Underlying profitability measures are presented excluding non-underlying items as we believe this provides both management and investors with useful additional information about the Group's performance and aids a more effective comparison of the Group's trading performance from one period to the next and with similar businesses. Underlying profitability measures are reconciled to unadjusted IFRS results on the face of the income statement with details of non-underlying items provided in note 5.

In addition, the Group's results are described using certain other measures that are not defined under IFRS and are therefore considered to be APMs. These measures are used by management to monitor on-going business performance against both shorter term budgets and forecast but also against the Group's longer term strategic plans. The definition of each APM presented in this report and, also, where a reconciliation to the nearest measure prepared in accordance with IFRS can be found is shown below:

Domino's Pizza Group Plc, 28 June 2020, p40

Highlights where reconciliations between IFRS and adjusted measures, and where explanations of the adjusted items, can be found

Domino's Pizza Group Plc went on to define the APM, and where applicable provided a signpost to where the measure was reconciled to the IFRS equivalent.

Some companies modified their APM calculations to provide for more meaningful period-on-period comparisons due to the affects of the pandemic.

The Gym Group Plc temporarily introduced an additional APM and disclosed the reasons for doing so.

… the deferment of some of our cash rent benefited Group Adjusted EBITDA by £9.4 million in the Period and will consequently reduce Group Adjusted EBITDA in subsequent periods. To enable investors and analysts to understand this effect as clearly as possible we will for the time being also report ***Group Adjusted EBITDA with Normalised Cash Rent****, which is calculated using the cash rent that would have been paid in normal circumstances without the agreed deferments, rather than the cash rent that was actually paid.*

The Gym Group Plc, 30 June 2020, p8

The definition of the original APM included rent paid on cash basis. With the temporary deferment of rent as a result of the pandemic, this meant that the original APM was no longer comparable

We also identified companies that gave additional information in their interims supplementary to the requirements of the DTR; for example, British Land plc[6] provided supplementary information on industry related metrics. In such instances, the information was useful in helping users understand the performance and developments of the company.

We encourage such information being given provided it is pertinent and does not detract from other information in the interim report.

6 The British Land Company PLC, 30 September 2020, pp57-71

4. Interim management report (continued)

Seasonality

Given that the interim financial statements only cover the first six months of the annual reporting period, paragraph 16A(b) of IAS 34 requires companies to explain any significant seasonality or cyclicality.

For those companies where seasonality had had an impact in the past, additional caveats were disclosed saying that the pandemic was likely to impact trends further.

The Group is subject to seasonal fluctuations in both its Insurance and Travel segments resulting in varying profits over each quarter.

The Insurance segment experiences increased motor insurance sales in the month of March, and to a lesser degree September, due to the issue of new vehicle registration plates; and increased home insurance sales in March, June and September coinciding with the historic quarter days. In the motor underwriting business, a greater proportion of claims are notified in the second half of the financial year.

Highlights that results are affected by external factors such as when car registration plates change

Typically, increased holiday departures in the shoulder months of May, June and September and low departure volumes during July and August create seasonal fluctuations in the profit of the Travel segment. For the six months ended 31 July 2020, the decrease in Travel's revenue during this period of time, and into subsequent months, has been significant due to the adverse effects of COVID-19.

Explains that results are also affected by the timing of when holidays are taken. However, with the restrictions resulting from the pandemic, past trends have been affected

Saga Plc, 31 July 2020, p37

5. Going concern

Paragraph 30 of the Corporate Governance Code requires the board to state whether it considers it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements, and to identify any material uncertainties to the company's ability to continue to do so over a period of **at least twelve months from the date of approval of the financial statements.**

Paragraphs 25 and 26 of IAS 1 require the directors to make an assessment of the company's ability to continue as a going concern. Where there are material uncertainties about that ability, these should be disclosed. Paragraph 4 of IAS 1 confirms that this requirement applies to interim financial statements prepared in accordance with IAS 34.

Where material uncertainties exist, they must be disclosed.

We were pleased to see that companies appeared to have heeded our recommendations in our Covid-19 Thematic and disclosed the actions the board had taken when considering whether the company was a going concern.

Many provided details about their liquidity, including steps taken to preserve cash such as the deferral or cancellation of dividends and obtaining access to government support schemes. Some provided details of the maturities of existing facilities as well as the amounts that could be drawn in the future, and distinguished between committed and uncommitted funds.

Companies with the most informative disclosures:

- Explained the different going concern scenarios that had been considered when making the assessment and what stresses had been applied to those scenarios.
- Clearly stated the assumptions within the forecasts and how those assumptions affected the going concern conclusion.
- Highlighted whether there were any material uncertainties that may cast doubt on the company's going concern status.
- Clearly stated the period the going concern assessment covered.
- Identified and explained any mitigating actions the board could take to improve liquidity.
- Described the level of drawn and undrawn finance facilities in place, as well as their expected maturities.
- Stated what covenants were in place and whether they expected to breach them.
- Explained any post balance sheet changes to liquidity, such as the renewal or extension of existing facilities and expected capital raises.

5. Going concern (continued)

Many companies considered a "base case scenario" when making their going concern assessment, and then applied a number of more cautious assumptions to give a plausible downside scenario and explained the outcome of that testing on the assessment.

The Directors have considered the adoption of the going concern basis of preparation for these condensed accounts in the context of the continued uncertainty regarding the future impact of Covid-19 on the trading performance of the Group. The Directors have reviewed cash flow forecasts prepared for a period of 18 months from the date of approval of these condensed accounts, and more pessimistic scenarios designed to test the ability of the business to withstand subdued trading conditions and the possibility of a further lockdown period as a result of the Covid-19 crisis.

States the period the directors have considered in making their assessment

At the end of the reporting period the Group had £123 million of available liquidity including £53 million cash and cash equivalents and £70 million term deposits which are redeemable within two to four months. In early April 2020 the Directors announced that the Company had secured access to the Bank of England CCFF and that £150 million of funding had been drawn down from this facility with further funding available to be drawn down.

Details the amount of cash the company has on hand, and how quickly deposits could be accessed as well as alternative sources of liquidity

The pessimistic scenarios assumed that current subdued trading conditions continued throughout the 2020 and 2021 financial years, or that a modest recovery was followed by a further lockdown period of three months, with Government support for employment, in the first half of 2021. These scenarios indicated a funding requirement of between £60 million and £125 million, which falls within the facilities currently available to us.

Explains the assumptions used in the pessimistic scenario, and how this changes the expected cash flow requirements and whether this is manageable within the existing facility

The current issue of commercial paper under the CCFF is due to be repaid in March 2021 and at that time it is expected that the scheme will be available for a further issue. In addition, the Company is in the process of putting in place commercial lending facilities, which it expects to be available before the end of the year and which could replace the CCFF funding.

Highlights current uncertainties about the availability of cash and steps taken to mitigate against this

Taking into account this cash level and the planned facilities, the Directors are confident that the Group will have sufficient funds to allow it to operate in even the most pessimistic scenarios. After reviewing the projections and sensitivity analysis in the light of the recent shop re-openings, and considering the continued uncertainties and mitigating actions that can be taken, the Directors believe that it is appropriate to prepare the condensed accounts on a going concern basis.

Greggs plc, 27 June 2020, p15

States the directors' conclusion as whether it is a going concern

5. Going concern (continued)

A handful of companies explicitly stated that the assumptions used in making the going concern assessment were the same as the assumptions and forecasts they had made for the purposes of testing assets for impairment, demonstrating a consistent approach on these matters (see section 6 for an illustrative example).

We also noted several instances where matters outside the company's control had not been agreed at the publication date, such as covenant waivers or extensions of facilities and capital raises. In these instances, companies disclosed that significant judgements had been exercised when making the going concern assessment. In some cases, the directors concluded that there was a material uncertainty about the ability to continue as a going concern.

The additional equity capital is contingent on the outcome of a shareholder vote, and, in addition, whilst it is fully committed, the underwriting agreement is subject to certain specific conditions that, although customary in nature, are outside the control of the Group. As a result, the Directors have concluded that there exists a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern, and to continue realising its assets and discharging its liabilities in the normal course of business.

Saga Plc, 31 July 2020, p27

The fund raising is subject to a shareholder vote which is outside the company's control, and has been disclosed as a material uncertainty

There were also companies that used a longer period than 12 months in their assessments as highlighted in the Gregg's disclosure on slide 14.

Whilst the going concern assessment only requires consideration of a minimum of at least twelve months following the date of signing the accounts, the Group has taken a more thorough approach given the current climate and has updated its financial outlook to January 2025, and with a particular focus on the eighteen-month period to January 2022 and the impact of different scenarios on the Group's leverage and interest cover covenants associated with its banking facilities.

Saga Plc, 31 July 2020, p35

Discloses that the outlook was extended to 2025 with a particular focus on the next 18 months

5. Going concern (continued)

Some companies in our sample quantified the amount of headroom they had on undrawn credit facilities and detailed when such facilities matured.

Amounts drawn down on the Group's borrowing facilities are as follows:

	Current		Non-current	
	27 August 2020 £m	27 February 2020 £m	27 August 2020 £m	27 February 2020 £m
Revolving credit facility (£950.0m)	-	-	-	-
Private placement loan notes	-	84.0	293.5	295.6
Senior unsecured bonds	-	-	446.3	445.9
UK Government CCFF (£600.0m)	-	-	-	-
	-	84.0	739.8	741.5

During the period, the Group received covenant test waivers for 18 months for its revolving credit facility, private placement loan notes and defined benefit pension scheme covering the period to March 2022. Under the terms of the waivers, the Group is required to maintain £400.0m cash and/or headroom under undrawn committed bank facilities and total net debt must not exceed £2.0bn.

Revolving credit facility
The committed revolving credit facility (RCF) terms give a total available committed credit of £950.0m, which runs until September 2022. Loans have variable interest rates linked to LIBOR. The facility is multi-currency.

Private placement loan notes
The Group holds loan notes with coupons and maturities as shown in the following table.

Title	Year issued	Principal value	Maturity	Coupon
Series C loan notes	2011	US$93.5m	26 January 2022	4.86%
Series D loan notes	2011	£25.0m	6 September 2021	4.89%
Series A loan notes	2017	£100.0m	16 August 2027	2.54%
Series B loan notes	2017	£100.0m	16 August 2027	2.63%

During the period, the Group repaid loan notes on maturity with a value of US$75.0m and £25.0m. As a result of fair value hedges in place, the total cash outflow recorded by the Group was £75.1m.

Senior unsecured bonds
The Group issued £450.0m 2025 bonds with a coupon of 3.375% on 28 May 2015.

UK Government CCFF
The Group is an eligible issuer under the UK Government Covid Corporate Financing Facility with an issuer limit of £600.0m. The facility has remained undrawn throughout the period and up to the date of approval of these financial statements.

Whitbread Plc, 27 August 2020, p38

Detail the amounts available and when the facilities expire

Some companies identified the mitigating actions they could take to raise funds should the need arise. In Whitbread's case, it included the option to sell freehold property.

The scenarios modelled do not make any allowance for further mitigations that are within the control of the directors, including additional reductions in the cost and capex base and the sale of parts of the Group's valuable freehold property estate, which would be subject to the prevailing market conditions.

Whitbread Plc, 27 August 2020, p28

Potential mitigating actions are identified

5. Going concern (continued)

Covenants

Many companies in our sample disclosed that they had covenants attached to loans and borrowings. A significant number disclosed that they had negotiated temporary waivers of the contractual covenant tests and had deferred them or replaced them with adjusted measures that reflected the uncertainties of the pandemic.

Based on the trading performance since re-opening up until the end of August, the Directors are confident of meeting the Q3 2020 EBITDA covenant test. In order to meet the targets between Q4 2020 and Q3 2021, the Group will be required to deliver a steady growth in revenue each quarter; with an overall increase of approximately 10% between September 2020 and September 2021. The Directors expect the Group to deliver on this target, barring any further extended national lockdown periods.

Details what the covenant test is, when it will be tested, and what needs to happen for the covenant to be met

With operating costs largely within the Group's control, the risks of the EBITDA targets being missed relate primarily to revenue, with the most likely causes being as follows:

- *A period of further nationwide lockdown of a month or more would cause a period of loss that would very likely reduce the cumulative EBITDA achieved from October 2020 to such an extent as to cause the covenants to be breached;*
- *The number of paying members may fall below the level needed to deliver the required EBITDA covenant targets in a given quarter, caused by a general lack of confidence in members returning to the gym and/or a series of regional lockdowns;*

Although these outcomes are not considered probable, the Directors deem these downside scenarios to be plausible and therefore the risk of a breach in debt covenants is possible. In the event that the Group fails to meet one or more of its debt covenant EBITDA targets, the Directors believe it likely that an agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan, on the basis that if such a breach were to occur, the Group would not at the time of breach have drawn down on the incremental £30 million of the New Bank Facility agreed in June 2020. However, no such commitment for further covenant waivers is currently in place with the lending banks.

Discusses the actions the group could take if the test was breached

The Directors have concluded that the potential impact of COVID-19 described above and uncertainty over possible mitigating actions, including covenant waivers represents a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, having assessed the financial forecasts, sensitivities and possible mitigating actions, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the next twelve months and therefore the Directors continue to adopt the going concern basis in preparing these interim accounts. Accordingly, these interim accounts do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

The Gym Group plc, 30 June 2020, p20

5. Going concern (continued)

We also saw some companies providing post period updates on cash generation, available facilities and other significant developments.

In July 2020 the Group successfully raised £165m of equity through a firm placing and placing and open offer in order to reduce net debt and strengthen the Group's balance sheet. Alongside this, as announced on 19 June 2020, the Group also agreed amended debt facility agreements in respect of its Revolving Credit Facility (RCF) and private placement debt.

SIG plc, 30 June 2020, p22

Details capital raised and debt facility amendments after the balance sheet date

Given the current environment, we were encouraged to see that even when Covid-19 appeared to have a limited impact or there was adequate headroom on facilities and covenant tests, companies still provided a detailed overview of why they concluded that they were a going concern.

5. Going concern (continued)

The interim financial information has been prepared on the going concern basis. This is considered appropriate, given the financial resources of the Group including the current position of banking facilities, together with long-term contracts with its master franchisor, its franchisees and its key suppliers.

Explains the reasons for continuing to prepare accounts on a going concern basis

The Directors of the Group have performed an assessment of the overall position and future forecasts for the purposes of going concern in light of the current environment. The overall Group has continued trading in the UK & Ireland, and international markets, throughout the Covid-19 period. In the UK & Ireland, sales growth has been strong during the first half of the year, especially over the initial lockdown period. This increase in sales growth has been offset with additional costs incurred in ensuring the Group continued to trade safely. Performance of the international operations has been mixed, however given the relative size does not cause a significant risk to the ongoing position of the Group from a going concern and cash flow perspective.

Despite an increase in costs as a result of Covid-19, the company saw an increase in sales in the period

The Directors of the Group have considered the future position based on current trading and a number of potential downside scenarios which may occur, either through further Covid-19 related impacts, general economic uncertainty or other risks. This assessment has considered the overall level of Group borrowings and covenant requirements, the flexibility of the Group to react to changing market conditions and ability to appropriately manage any business risks. The Group has a £350.0m multicurrency syndicated revolving credit facility which matures in October 2023, of which £63.7m was undrawn at 28 June 2020. The Group had cash funds of £82.7m as at 28 June 2020.

Discloses the amount of the facility which is undrawn, and its maturity date

The scenarios modelled are based on our current forecast projections out to the end of 2021. The first scenario considers the downside impact of economic uncertainty over the forecast period, reflected in sales performance, with a c.5% reduction in LFL sales compared to forecast for a sustained period through the remainder of 2020 and into 2021, and base 2021 system sales being flat to our 2020 budget without Covid-19 related sales increases. This scenario also includes the impacts of Brexit related tariffs without any pass through in pricing. The second scenario, considered severe but plausible, includes these economic impacts and also includes further Covid-19 related risks, including two potential local outbreaks within our SCC centres impacting our ability to supply stores for a period of three weeks each, further restrictions in the UK and Ireland leading to similar levels of costs experienced in the first half of 2020 and disruption to one of our key suppliers impacting our supply chain over a period of five weeks whilst alternate sourcing is secured. Mitigating actions are included in the form of delayed capital expenditure and future dividends, together with cost reductions. Under all scenarios there remains significant cash headroom on the revolving credit facility, with more restricted headroom under the covenant requirements of the facility.

Explains the scenarios considered

Details mitigating actions that could be taken

Based on this assessment, the Directors have formed a judgement that there is a reasonable expectation the Group will have adequate resources to continue in operational existence for the foreseeable future.

Even after modelling a severe downside scenario, the directors believe there is significant cash headroom

Domino's Pizza Group Plc, 28 June 2020, p19

6. Impairment of non-financial assets

Interim reports are required to be prepared using the principles of IAS 36 'Impairment of Assets' for recognising and measuring impairments[7]. Further details on the application of these principles can be found in our Thematic Review: Impairment of Non-Financial Assets.

Indicators of impairment

Paragraph 9 of IAS 36 requires a company to conduct an impairment assessment of assets within its scope at each reporting period if there is an indicator of impairment. The requirement also applies to assets in the scope of the standard at the half year[8].

Examples of impairment indicators include[9].

- a significant drop in the market value of the asset;
- adverse changes in technology, markets, economy, or the legal environment
- increases in market interest rates;
- net asset value exceeding market capitalisation;
- evidence of obsolescence or physical damage;
- the asset becoming idle or held for disposal; and
- the asset's economic performance falling below the company's expectations.

Given the fall in share prices during 2020, nine sample companies saw their net asset values exceed their market capitalisation at the half year, which is an indicator of impairment. Eight of these companies disclosed an impairment loss in their interim reports.

In total, 16 companies conducted impairment assessments during the period. We expect companies to conduct an impairment assessment at the half year if one or more impairment indicators exist.

In line with the expectation set out in our Covid-19 Thematic, several companies considered Covid-19 to be an indicator of impairment at the half year because of the adverse effect it has had on their businesses, market capitalisation and the markets in which they operate.

Despite a significant drop in forecast cash flows in one company's going concern assessment, it was unclear in the interim report whether an impairment assessment had been conducted.

In cases where significant judgement has been applied to determine that there is no indicator of impairment, we expect this to be explained.

In line with the FRC's updated Company Guidance published in December 2020, information about the judgements made for the identification of additional indicators of asset impairment may be relevant to investors.

7 Paragraph 30 of IAS 34
8 Paragraph B36 of IAS 34
9 Paragraph 12 of IAS 36

6. Impairment of non-financial assets (continued)

Impairment of non-financial assets
The Group's policy is to test non-financial assets for impairment annually, or if events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The Group has considered whether there have been any indicators of impairment during the 26 weeks ended 2 August 2020, which would require an impairment review to be performed. The Group has considered indicators of impairment with regard to a number of factors, including those outlined in IAS 36 'Impairment of assets'. Based upon this review, the Group has concluded that there are no such indicators of impairment as at 2 August 2020.

The considerable economic and social impacts of the COVID-19 pandemic during the period could represent a potential indicator of impairment. However, the Group has continued to trade strongly throughout the pandemic, and whilst there have been some additional associated direct costs incurred during the 26 weeks ended 2 August 2020, these are expected to be temporary.

In addition, the Group has assessed the impacts on specific groups of Cash Generating Units (CGUs) during the first half of the year, including those with trade most positively or adversely impacted by the temporary effects of the pandemic. It was concluded that whilst some CGUs had been temporarily impacted by the change in customer behaviour during the pandemic, there is insufficient evidence of a significant change in the long term outlook for these CGUs to indicate that a full impairment review is required.

Wm Morrison Supermarkets PLC, 2 August 2020, p26

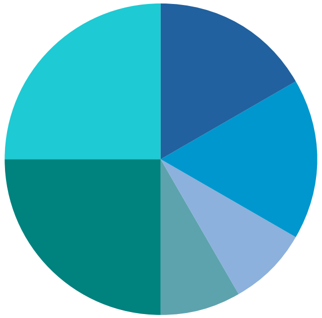
Explains why Covid-19 is not considered an impairment indicator

6. Impairment of non-financial assets (continued)

Impairment disclosures

Over half the companies in our sample recognised an impairment loss. These companies were mostly in the Travel and Hospitality and Retail industries.

Impairment by industry



■	2	Energy
■	2	Industrials
■	1	Leisure
■	1	Property
■	3	Retailers
■	3	Travel & Hospitality

When events or transactions have occurred during the interim period that are significant to an understanding of the changes in financial position and performance of the company since the last annual reporting period, paragraph 15 of IAS 34 requires disclosure of:

- an explanation of the events and transactions; and
- an update of the relevant information disclosed in the last annual report and accounts.

We expect companies to provide an explanation of material impairments or reversals of impairments recognised in the interim period. Good explanations include sufficient information about the events and circumstances that lead to the impairment and its impact on the company's financial position and performance.

Most companies explained that the recognition of an impairment loss was as a result of Covid-19. The majority of these companies went on to explain how their impairment assessments had been adjusted; for example, using lower forecast cash flows or higher discount rates than those used at the last annual reporting date.

During the period, impairment losses of £348.1m were recognised within operating costs. These impairments are primarily driven by a reduction in anticipated cashflows, particularly over the next 12-24 months, and an increase in the discount rate reflecting increased market risk and volatility.

Whitbread Plc, 27 August 2020, p36

Identifies the main drivers of impairment losses recognised in the period

Paragraph 15C of IAS 34 states that individual IFRSs provide guidance on what to disclose for certain significant events and transactions that take place during the interim period such as the impairment of non-financial assets.

When an impairment within the scope of IAS 36 is recognised in the interim report, we encourage companies to consider the additional disclosure requirements of paragraph 130 of IAS 36. These disclosures include the reason for the impairment, the recoverable amount and whether it has been determined based on the asset's value in use or fair value less costs of disposal, and certain underlying assumptions and the discount rate used.

In addition to disclosing the amount of the impairment recognised against each asset, companies generally provided helpful information about the assets that have been impaired during the period and the CGUs and reportable segments to which they relate.

Six companies disclosed the impaired asset's recoverable amount and the basis for determining the recoverable amount, while five companies quantified the discount rate used to calculate the recoverable amount.

6. Impairment of non-financial assets (continued)

	Unaudited 6m to Jul 2020	Unaudited 6m to Jul 2019	12m to Jan 2020
Insurance, excluding Bennetts	9.9%	11.3%	12.6%
Insurance, Bennetts	n/a	11.6%	n/a
Travel, excluding Destinology	n/a	12.0%	n/a
Cruise	12.7%	n/a	11.3%
Tour Operations, excluding Destinology	13.0%	n/a	12.2%
Travel, Destinology	n/a	11.9%	12.2%

Saga plc, 31 July 2020, p47

Provides discount rates used for impairment testing of positive goodwill balances at the reporting date with comparatives

In some cases, companies did not disclose the reason for the impairment or the basis for determining the recoverable amount. One company impaired goodwill but provided no updated assumptions.

Investors have explained to us that they expect consistency in the assumptions used in the management commentary and impairment testing. We were surprised to see very few companies explicitly linking their impairment assumptions to those used in their going concern assessments.

There remains unusually limited visibility on the pace and scale of market recovery and therefore there are a wide range of possible planning scenarios over the going concern period. In adopting the going concern basis for preparing these condensed interim financial statements the Directors have considered a scenario which is based on a slow and steady recovery during 2020, with a further gradual improvement during 2021 consistent with the 5-year RevPAR recovery period used as the underlying assumption for our impairment assessment. Under this scenario, the Group is forecast to generate positive cash flows over the period to 30 September 2021. The principal risks and uncertainties which could be applicable under this scenario have been considered and are all able to be absorbed within the $400m liquidity covenant.

InterContinental Hotels Group PLC, 30 June 2020, p33

Going concern note confirms the consistency of assumptions with those used for impairment assessments

IFRIC 10

IFRIC 10 'Interim Financial Reporting and Impairment' prohibits the future reversal of impairments of goodwill recognised at the interim reporting stage.

Five companies in our sample impaired goodwill during the period. IFRIC 10 prohibits the future reversal of these impairments. This prohibition applies even if the prospects improved so significantly that, had these companies conducted the goodwill impairment assessment at the year-end, the impairment charge would have been reduced or avoided.

We encourage companies to make reference to IFRIC 10 when goodwill is impaired at the half year.

Several companies cited a higher discount rate as a key driver of impairment. Discount rates should reflect a market participant's view at the half year. If there is a spike in the risk premium at the half year, this is likely to result in higher discount rates and necessarily larger impairments at this stage, notwithstanding that the risk premium might have reduced by the full year.

Although IFRIC 10 prohibits the future reversal of goodwill impairment initially recognised at the half year, reversals of impairments of other assets that take place during the second half of the year are accounted for prospectively in the annual report and accounts as a change in accounting estimate[10].

One company brought together all its impairment disclosures across a number of asset types into one note while maintaining sufficient granularity of impairment information across each category of assets, allowing a user to find all impairment information in one place.

10 Paragraph 26 of IAS 34

6. Impairment of non-financial assets (continued)

Goodwill and indefinite useful life intangible assets

IAS 36 requires certain impairment related disclosures when companies have recognised goodwill or indefinite useful life intangible assets, even when these assets have not been impaired[11]. Of the 13 companies that held goodwill or indefinite useful life intangible assets at the half year, just under half provided updated information related to these disclosures.

Investors have told us that it is particularly helpful when companies quantify key assumptions and explain how these have been determined.

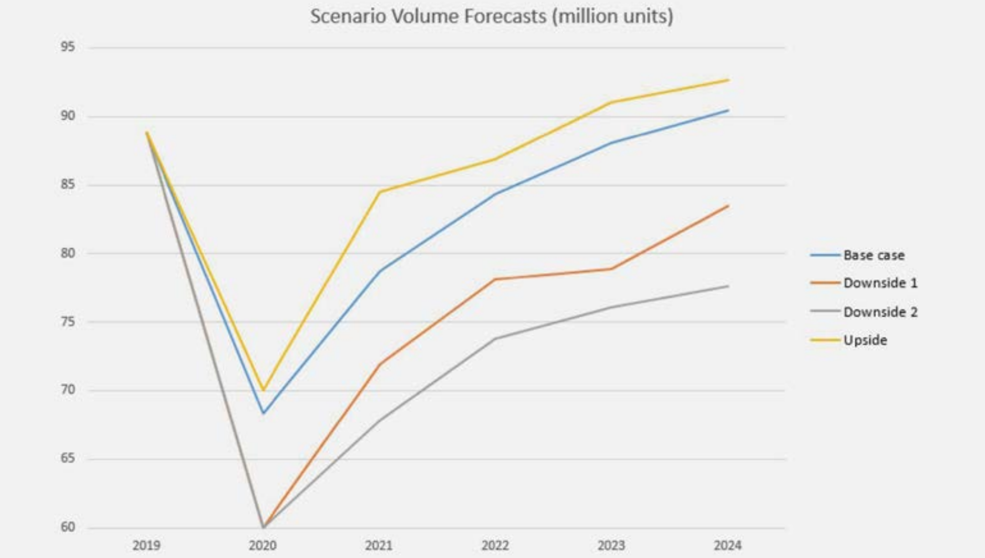
When changes have been made to the assumptions used in the impairment assessments of goodwill and indefinite useful life assets, we expect companies to disclose the updated assumptions and assumption values at the half year, including the reasons for those changes.

Examples of key impairment assumptions updated by companies at the half year include cash flow projections, discount rates, forecast oil prices and long-term growth rates.

Value in use
IAS 36 provides two approaches to determine the value in use of an asset or CGU[12].

- Traditional approach: a single set of estimated cash flows discounted using a discount rate which has been adjusted for the risk of variability in the cash flows.
- Expected cash flow approach: capturing the risk of cash flow variability using probability weighted scenarios; the discount rate used excludes that risk.

Where companies make use of the expected cash flow approach to determine the recoverable amount of CGUs containing goodwill or indefinite useful life intangible assets, we expect to see disclosure of updated information regarding the number of scenarios, their weightings, how the main assumptions differ between scenarios and the reasoning applied in line with our Covid-19 Thematic.



TI Fluid Systems plc, 30 June 2020, p37

Graphical depiction of expected volumes for each scenario aids comparison and understandability

	As recorded	100% Base Case	100% Downside 1	100% Downside 2	100% Upside
FCS-NA	71.7	38.2	147.3	221.3	14.2
FCS-EU	77.7	33.1	208.0	237.7	0.0
FCS-LA	6.3	6.3	6.3	6.3	6.3
FTDS-NA	88.8	81.6	111.5	132.3	33.7
FTDS-EU	57.0	45.8	105.1	127.2	0.0
FTDS-LA	3.1	3.1	3.1	3.1	3.1
	304.6	**208.1**	**581.3**	**727.9**	**57.3**

TI Fluid Systems plc, 30 June 2020, p39

Illustrates the impairment impact of 100% weighting of each scenario

11 Paragraph 134 and 135 of IAS 36
12 Paragraphs A4 to A14 of IAS 36

6. Impairment of non-financial assets (continued)

Sensitivities

If a reasonably possible change in assumptions could result in impairment of goodwill or indefinite useful life intangible assets, paragraphs 134(f) and 135(e) of IAS 36 require the following disclosures:

- the headroom (amount by which the recoverable amount exceeds the carrying amount)
- the value of key assumptions
- the amount by which each assumption must change for the recoverable amount to equal the carrying amount

Where relevant, we expect companies to disclose updated sensitivity analysis at the half year, including disclosure of the headroom in line with the disclosure requirements of paragraphs 134 and 135 of IAS 36.

One company disclosed the headroom and amount by which each assumption must change for the recoverable amount to equal the carrying amount.

The IAS 36 sensitivity disclosures help users understand how much an assumption would have to change to eliminate headroom. This is different to the sensitivity disclosures in IAS 1 which are directed at understanding estimation uncertainty in broader terms.

IAS 36 sensitivity disclosures could also be helpful even when no reasonably possible change in an assumption would lead to impairment, especially in times of heightened uncertainty. But in this case we would expect the company to clarify that the directors do not consider the changes to be reasonably possible.

Most companies cited impairment as a key source of estimation uncertainty. In addition to the specific disclosure requirements of IAS 36, IAS 1 requires estimation uncertainty disclosures where there is significant risk of a material adjustment within the next financial year (see judgements and estimates section for further details).

7. Cash flow information

Investors place a high level of importance on the information contained in the statement of cash flows and related notes in annual reports and accounts and have informed us that they value a similar level of granularity in the interim report.

IAS 34 permits companies to present condensed statements that include, at a minimum, each of the headings and subtotals that were included in the most recent annual report and accounts[13]. However, the IFRS IC concluded in July 2014 concerning the statement of cash flows that it did not expect that a three-line presentation alone would meet the other requirements of IAS 34.

Considering the comments of investors and the findings of the IFRS IC, we were pleased to see all companies in our sample present a complete statement of cash flows.

Consistent with our findings in the Cash Flow Thematic, most companies also presented a statement of cash flows in line with the requirements of IAS 7 'Statement of Cash Flows'.

Cash flows from operating activities

All the companies in our sample applied the indirect method of presenting cash flows from operating activities. This is consistent with our previous findings from our Cash Flow Thematic.

When cash flows from changes in working capital are not apparent from changes in the statement of financial position, investors have informed us that they would like to see reconciliations of these amounts at the half year. These reconciliations were also highlighted as an example of best practice in our recent Cash Flow Thematic.

Although one company disclosed these reconciliations in its previous annual report and accounts, it did not provide this information at the half year.

13 Paragraph 10 of IAS 34

We encourage companies to consider providing this information at the half year when it provides additional relevant information.

Some companies reported the cash flow effect of changes in working capital balances differently at the half year by disclosing it on a net basis rather than by working capital category. We expect companies to consider the extent to which movements in working capital are aggregated and to ensure that relevant cash flow information about significant changes in these individual balances is maintained at the half year.

Cash flows from investing activities

We were pleased to see that almost all companies presented cash flows from investing activities in line with the requirements of IAS 7. Cash flows from investing activities were presented on a gross basis and generally appeared to represent expenditure that resulted in, or had previously resulted in, a recognised asset.

Just under a third of companies reported acquisitions or disposals of subsidiaries during the period.

When control of subsidiaries or other businesses is obtained (or lost) during the period, paragraph 40 of IAS 7 requires companies to disclose:

- the total consideration paid or received;
- the portion of the consideration consisting of cash and cash equivalents; and
- the amounts of cash and cash equivalents and other categories of assets and liabilities in the subsidiaries.

In addition to presenting the net cash flow effects of obtaining (or losing) control of subsidiaries on the face of the statement of cash flows, almost all the companies provided the additional information required by paragraph 40 of IAS 7.

We expect companies to provide this information at the half year where relevant as it helps to distinguish between cash flows from material acquisition and disposals during the period and cash flows arising from the other activities.

7. Cash flow information (continued)

Cash flows from financing activities

Some investors have informed us of the importance of separate presentation and disclosure of lease liability cash flows at the half year.

Almost all the companies presented capital lease repayments separately on the face of the statement of cash flows, with most companies also disclosing the amount of interest paid in relation to lease liabilities.

We expect lease interest payments to be presented consistently with other interest payments on the face of the statement of cash flows.

We identified two instances where it was unclear why lease liability repayments were being presented net of cash receipts from net investments in subleases.

We expect the capital cash receipts from a net investment in sublease to be recognised within investing activities when it is consistent with the definition of investing activities in paragraph 16 of IAS 7.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity[14].

Only expenditures that result in a recognised asset in the statement of financial position are eligible for classification as investing activities[15].

Half the companies presented information about changes in liabilities arising from financing activities. Most companies presented this in the form of an opening to closing balance reconciliation.

Good disclosures of changes in liabilities from financing activities at the half year:

- explained the changes to liabilities from financing activities during the period using numerical reconciliations;
- disaggregated liabilities appropriately into separate categories, for example, bank loans, lease liabilities and related hedging instruments; and
- provided a granular analysis of the cash and non-cash changes during the period.

IAS 7 permits financial assets to be included in the disclosure of changes in liabilities from financing activities if the cash flows from those financial assets were, or will be, included in cash flows from financing activities[16].

Some companies disclosed changes in liabilities from financing activities net of cash equivalents and other non-qualifying financial assets within a 'net debt' reconciliation.

We expect companies to disclose the changes in liabilities from financing activities in a way that meets the requirements of IAS 7 even if it is disclosed as part of a 'net debt' reconciliation; for example, by providing a subtotal of liabilities arising from financing activities as stated in our Cash Flow Thematic.

14 Paragraph 6 of IAS 7
15 Paragraph 16 of IAS 7
16 Paragraph 44C of IAS 7

7. Cash flow information (continued)

Provides a subtotal of total changes in liabilities from financing activities within a net debt analysis

	Bank loans $m	Loan note $m	Lease liabilities $m	Derivatives $m	Bank overdraft $m	**Total financing activity liabilities $m**	Cash at bank and in hand $m	**Net debt $m**
1 January 2019	(3,946.2)	(3.0)	(3,496.8)	0.2	–	**(7,445.8)**	316.3	**(7,129.5)**
Cash flows	330.7	3.0	613.3	–	(2.5)	**944.5**	(167.1)	**777.4**
Non-cash movement	(27.2)	–	(1,285.3)	(4.0)	–	**(1,316.5)**	–	**(1,316.5)**
Effect of movement on foreign exchange rates	25.9	–	(28.7)	–	–	**(2.8)**	(8.6)	**(11.4)**
At 31 December 2019	**(3,616.8)**	**–**	**(4,197.5)**	**(3.8)**	**(2.5)**	**(7,820.6)**	**140.6**	**(7,680.0)**
Cash flows	(575.6)	-	166.3	-	(9.2)	(418.5)	137.3	(281.2)
Non-cash movement	(19.8)	-	(285.7)	0.6	-	(304.9)	-	(304.9)
Effect of movement on foreign exchange rates	(0.2)	-	66.4	-	-	66.2	7.5	73.7
At 30 June 2020	**(4,212.4)**	**-**	**(4,250.5)**	**(3.2)**	**(11.7)**	**(8,477.8)**	**285.4**	**(8,192.4)**

The non-cash movements of $19.8m (31 December 2019: $27.2m) within bank loans represents the amortisation of debt issuance costs $5.8m (31 December 2019: $27.2m), accrued interest $30.8m (31 December 2019: $nil) and accrued debt issuance costs of ($16.8m) (31 December 2019: $nil).

The non-cash movement of $285.7m (31 December 2019: $1,285.3m) within lease liabilities relates to the following: the unwind of lease liabilities of $164.2m (31 December 2019: $304.2m), the impact of entering into new leases, disposal and modifications of existing leases of $121.5m. (31 December 2019: $981.1m).

Cineworld Group plc, 30 June 2020, p31

More granular information about significant non-cash movements

Restricted cash

Paragraph 48 of IAS 7 requires disclosure of the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group together with a commentary by management.

We have heard from investors that they value information on barriers to accessing cash.

Eight companies disclosed an amount of restricted cash not available for use by the group.

When there has been a significant change in restricted cash balances since the last annual reporting period, we expect companies to disclose the updated amount and to explain the cash restrictions at the half year.

Cash and cash equivalents includes $4m (2019: $6m) restricted for use on capital expenditure in the UK portfolio and therefore not available for wider use by the Group. An additional $17m (2019: $16m) is held within countries from which funds are not currently able to be repatriated to the Group's central treasury company.

InterContinental Hotels Group PLC, 30 June 2020, p53

The amounts of restricted cash and the nature of the restrictions are disclosed for the UK and non-UK regions

8. Judgements and estimates

Changes in estimates

Companies may need to revise their estimates at the half year because of changes in circumstances, new information or more experience gained during the interim period.

16 companies reported a change in estimate at the half year, which included:

- impairments of goodwill, intangible assets, property, plant and equipment and right of use assets
- investment property valuations
- measurement of credit losses
- measurement of revenue
- measurement of tax and deferred tax
- pension valuations

Paragraph 16A(d) of IAS 34 requires disclosure of the nature and amount of changes in estimates during the period.

Companies generally provided good disclosure of the nature and amount of changes in estimates during the interim period.

As part of these disclosures, we expect companies to disclose reasons for the changes in estimates.

IAS 34 recognises that the preparation of interim reports generally requires a greater use of estimation methods than annual reports and accounts[17]. Companies may use estimation methods at the half year rather than engaging outside experts or carrying out more thorough investigations and procedures to save time and costs. For example, a company might decide to extrapolate its latest actuarial valuation at the half year[18].

When companies make greater use of estimation methods at the half year than in the last annual report and accounts, particularly in times of increased volatility we expect companies to disclose the nature and amount of assets and liabilities that are subject to greater use of estimation methods at the half year and to describe the estimation methods used by the company in relation to these items.

17 Paragraph 41 of IAS 34
18 Example C4 of IAS 34

Impact of Covid-19 on estimates

We noted an increase in the disclosure of changes in estimates compared with the immediately preceding period's interim reports. Over 60 percent of companies cited the impact of Covid-19 as the reason for the change in estimate.

Most companies explained why the pandemic had resulted in a change in estimate. Examples included the impact of government imposed trading restrictions, expected changes in customer demand and future profitability, and changes in a market participant's view of the discount rate.

Impairment testing of non-current assets

On 11 March 2020, the World Health Organisation raised the public health emergency situation caused by the outbreak of Covid-19 to an international pandemic. As social distancing measures and travel restrictions came into effect around the world, occupancy levels dropped to historic lows and fell short of the Group's expectations of reasonably possible outcomes for the 2020 financial year which had been used to assess impairment as at 31 December 2019. Disruption to travel continues, with limited visibility on the pace and scale of market recovery.

The recoverable amounts of non-current assets have been determined from cash flow projections which reflect the impact of Covid-19. The key assumption is RevPAR growth, which is based on a slow and steady recovery during the second half of 2020, reflecting that global occupancy levels as at the end of July remain in the region of approximately 45%. The five-year recovery period from 2021 assumes that corporate travel recovers slowly as businesses control costs in the wake of the pandemic and that international travel and groups business takes longer to recover due to ongoing social distancing measures.

InterContinental Hotels Group PLC, 30 June 2020, p40

Explains the impact of Covid-19 on a key impairment assumption

8. Judgements and estimates (continued)

Significant sources of estimation uncertainty

Around 60% of the companies that disclosed changes in estimates identified the estimate as a significant source of estimation uncertainty.

Paragraph 125 of IAS 1 requires the following disclosure for key sources of estimation uncertainty that have a significant risk of causing a material adjustment to assets and liabilities within the next 12 months:
- information about the underlying assumptions
- the nature and carrying amount of the related assets and liabilities

We expect companies to consider updating their key sources of estimation uncertainty disclosures at the half year and include reasons for the changes when:
- a new source of estimation uncertainty is identified; or
- a change occurs in relation to the nature of the estimation uncertainty or its underlying assumptions.

Companies were generally good at disclosing that assumptions for key sources of estimation uncertainty had been updated at the half year and the reasons for the changes.

Fewer companies quantified the updated assumptions.

As part of explaining the estimation uncertainties, we expect companies to include information about assumptions that is company-specific, avoids boilerplate phrasing and to quantify assumptions where possible.

Companies should also consider the recommended disclosures in paragraph 129 of IAS 1, for example, by giving estimate sensitivities or a range of reasonably possible outcomes, which help users understand the sources of estimation uncertainty, and which are considered particularly valuable by investors.

As stated in our Corporate Reporting Thematic Review Judgements and Estimates, we expect some of the additional disclosures in paragraph 129 of IAS 1 to be necessary in order for users to fully understand the estimates made during a reporting period.

We were pleased to see that most companies disclosed a sensitivity analysis or a range of reasonably possible outcomes as part of their updated significant source of estimation uncertainty disclosures.

		Existing assumption		Impact of 100 BPS change	
	Recoverable amount €m	Discount rate	Long-term expected growth rate	Discount rate €m	Long-term expected growth rate €m
FCS-NA	437.2	15.3 %	2.0 %	32.7	20.1
FCS-EU	421.5	16.0 %	2.8 %	36.4	22.9
FTDS-NA	68.1	16.3 %	3.0 %	7.2	4.5
FTDS-EU	273.2	17.0 %	2.5 %	20.4	12.1

TI Fluid Systems plc, 30 June 2020, p39

Shows the sensitivity of the impairment charge to changes in the discount and long-term growth rates

In line with the FRC's updated Company Guidance issued in December 2020, we encourage companies to provide more detailed disclosures in response to the higher levels of uncertainty as a result of the pandemic. The increased uncertainty may also require wider ranges of sensitivities and reasonably possible outcomes disclosures.

Three companies adjusted the range of sensitivities used in their disclosures due to changes in the levels of uncertainty at the half year.

8. Judgements and estimates (continued)

Significant Judgements

Paragraph 122 of IAS 1 requires companies to disclose the judgements it has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements.

Around 25% of companies reported new or updated judgements at the half year. Examples of the key judgements disclosed include:

- modifications to lease contracts
- indicators of impairment
- classification as held for sale
- revenue recognition

- *Liquidated damages ("LDs"): no liquidated damages, resulting from progress delays associated with the COVID-19 pandemic, for Group's fixed-price EPC contracts, were recognised, since management judged these to be excusable delays in accordance with the terms and conditions of the contracts with customers. Any unfavourable outcome compared to management's current expectation may affect the revenue to be recognised in the future periods and consequently would impact the financial performance and cash flows for future periods.*

- *Significant judgements associated with classifying assets held for sale and presenting discontinued operations: management assessed that there was no likely impact as a result of the COVID-19 pandemic, the Group continues to classify assets and liabilities associated with its Mexican operations as held for sale. Completion of the disposal transaction is subject to the approval of relevant Mexican authorities and is expected to complete in the second half of 2020, see note 17.*

Petrofac Limited, 30 June 2020, p21

Describes the judgements made in relation to Covid-19 and the recognition of liquidated damages revenues and continued classification of an operation as held for sale

One company acquired over 20% of the interest in another company but did not disclose why it did not have significant influence despite this judgement being a required disclosure in accordance with paragraph 9(d) of IFRS 12 'Disclosure of Interests in Other Entities'.

9. Income taxes

Determination of income tax for interim periods

Paragraph 30(c) of IAS 34 explains that the income tax expense for the half year is accrued using an estimated average annual effective tax rate.

The general measurement principle in IAS 34 is that a year-to-date basis should be used[19]. The principle for taxation is no exception. The use of an estimated average annual effective tax rate reflects that income taxes are assessed on an annual basis and that the interim period is a part of a larger financial year.

A consequence of using a weighted average income tax rate is that the balance sheet amounts in relation to tax may have to be adjusted in the second half of the year if the estimate of annual income tax rate changes.

16 companies disclosed that the tax expense had been determined using an estimated average annual effective income tax rate.

We expect companies to disclose the basis for determining the income tax rate for the half year.

Tax charged within the 26 weeks ended 2 August 2020 has been calculated by applying the effective rate of tax which is expected to apply to the Group for the period ending 31 January 2021 using rates substantively enacted by 2 August 2020 as required by IAS 34 'Interim Financial Reporting'.

Wm Morrison Supermarkets PLC, 2 August 2020, p32

Describes how the effective tax rate is calculated and gives the date by which the tax rates were substantively enacted

Some investors have told us that they value disclosure of the tax events that have occurred during the period and how they were treated in the interim report.

Explanations disclosed by companies of the treatment of tax events were unclear at times. In particular, the treatment of the following tax events were not always well explained or distinguished:
- annual expected tax credits;
- once-off tax events taking place during the interim period, for example, once-off non-deductible expenses; and
- the utilisation of unrecognised tax losses carried forward.

19 Paragraph 28 of IAS 34

9. Income taxes (continued)

Paragraphs B19 to B22 of the illustrative examples of IAS 34 provide further guidance on the tax treatment of various tax events in the interim report.

The normalised rate of tax of 23.5% (4 August 2019: 23.5%, 2 February 2020: 23.1%) has been calculated using the full year projections and has been applied to profit before exceptionals for the 26 weeks ended 2 August 2020. The standard rate of corporation tax of 19% (4 August 2019: 19%, 2 February 2020: 19%) for the full year has been applied to the exceptional profits and losses in the 26 weeks ended 2 August 2020, on an item by item basis.

Legislation to reduce the standard rate of corporation tax to 17% from 1 April 2020 was enacted in the Finance Act 2016, so at 2 February 2020 and 4 August 2019, deferred tax balances were calculated at 19% or 17% depending upon when the balance was expected to unwind. The Budget on 11 March 2020 announced that the standard rate of corporation tax would remain at 19% from 1 April 2020 and the legislation was substantively enacted during the period. As a result, at 2 August 2020, all deferred tax balances have been calculated at 19%. The deferred tax liability recognised in the consolidated statement of financial position increased by £55m as a result of the rate change, comprising a £41m deferred tax charge recognised within exceptional items in the consolidated income statement for the period and a £14m deferred tax charge (principally in relation to defined benefit retirement schemes) recognised in other comprehensive income.

Factors affecting current and future tax charges
The normalised tax rate was 4.5% above the UK statutory tax rate of 19%. The main item increasing the normalised tax rate is disallowed depreciation on UK properties which reflects the Group's strategy to maintain a majority freehold estate. The Group considers its normalised tax rate to be sustainable.

Wm Morrison Supermarkets PLC, 2 August 2020, p32

Describes the different effective tax rates applied to profit before exceptional items and to exceptional items

Gives the main reason why the estimated annual tax rate is higher than the UK corporation tax rate

Companies operating in multiple tax jurisdictions or which derive income from multiple categories of income (such as capital gains vs trading income) may be subject to different income tax rates during the interim period.

IAS 34 states that companies may apply a weighted average of rates across jurisdictions or across categories of income if it is a reasonable approximation of the effect of using more specific rates. The alternative is to estimate and apply a separate average annual effective income tax rate for each tax jurisdiction and category of income individually[20].

Around half the companies operating in multiple tax jurisdictions or which derived income from categories of income with different tax rates provided an explanation of how the tax rates were determined.

We expect companies to explain whether tax rates have been determined using a weighted average of tax rates across jurisdictions and income categories or whether they have been estimated and applied individually. When companies apply a weighted average of tax rates we expect companies to disclose how the rate was determined.

20 Paragraph B14 of IAS 34

9. Income taxes (continued)

Tax disclosures

When changes in the interim period balances, such as current and deferred tax assets and liabilities, are considered significant to understanding the changes in a company's financial position or performance since the last annual reporting period, companies are required to provide an explanation and update the information disclosed in the last annual report and accounts[21].

We expect companies to consider the disclosure requirements of IAS 12 'Income Taxes' when explaining and updating information related to significant changes in current and deferred taxes during the interim period, including disclosure of:

- a breakdown of the components of the tax charge, for example, current tax expense, deferred tax expense or income for originating and reversing temporary differences, changes in tax rates and prior period adjustments; and
- the amount of the deferred tax assets and liabilities recognised at the half year in relation to each type of temporary difference and unused tax loss or credit.

	Period ended 30 June 2020 (unaudited) $m	Period ended 30 June 2019 (unaudited) $m	Year ended 31 December 2019 $m
Current year tax expense			
Current period	(156.7)	99.7	102.1
Adjustments in respect of prior periods	6.8	-	2.5
Total current year tax expense	(149.9)	99.7	104.6
Deferred tax (credit)/charge			
Current period	93.2	(77.4)	(66.7)
Adjustments in respect of prior periods	(5.0)	-	(6.8)
Adjustments from change in tax rates	(0.5)	-	1.0
Total deferred tax (credit)/expense	**87.7**	(77.4)	(72.5)
Total tax (credit) / charge in the income statement	**(62.2)**	**22.3**	32.1
Effective tax rate	(3.8%)	15.9%	15.1%
Current year effective tax rate	(3.9%)	15.9%	17.1%

Cineworld Group plc, 30 June 2020, p20

Tax charge split into current and deferred tax components

Discloses the estimated annual expected tax rate and the tax rate for the period including comparatives

The majority of companies experienced a change in UK corporate tax rates during the interim period from 17% to 19%.

Although the change in tax rates was not material for most, four companies disclosed the impact.

21 Paragraph 15 of IAS 34

9. Income taxes (continued)

Some companies provided an explanation about changes in their current and deferred tax balances during the period and updated certain information disclosed in their last annual reporting period.

	Accelerated capital allowances £m	Fair value of derivative financial instruments £m	Other temporary differences £m	Group losses £m	Total £m
Provided deferred tax liabilities/(assets):					
At 1 January 2019	3.5	–	(2.1)	(6.9)	(5.5)
Adjustment to opening balance	–	–	–	(0.3)	(0.3)
Recognised in income	–	(0.8)	–	(0.1)	(0.9)
Adjustment in respect of rate change	–	–	0.2	–	0.2
Released on conversion to UK REIT	(3.4)	–	–	3.3	(0.1)
At 31 December 2019	**0.1**	**(0.8)**	**(1.9)**	**(4.0)**	**(6.6)**
Recognised in income	**–**	**(1.4)**	**0.3**	**0.3**	**(0.8)**
At 30 June 2020	**0.1**	**(2.2)**	**(1.6)**	**(3.7)**	**(7.4)**
Unprovided deferred tax (assets):					
At 1 January 2020	**–**	**–**	**–**	**(10.3)**	
Movement during the period	**–**	**–**	**–**	**0.1**	
At 30 June 2020	**–**	**–**	**–**	**(10.2)**	

Capital & Counties Properties PLC, 30 June 2020, p53

Reconciles the opening and closing deferred tax balances for each temporary difference and unused tax loss

Shows the change during the period of the amount of tax losses for which no deferred tax asset has been recognised

Deferred tax assets in relation to tax losses

We expect companies with material deferred tax assets, including those related to tax losses, to review their carrying amounts at the half year. In doing so, we expect companies to use assumptions consistent with their going concern and impairment assessments as indicated in our recent Covid-19 Thematic.

A few companies recognised deferred tax assets in relation to tax losses and disclosed the evidence that supported its recognition.

Where companies recognise significant additional deferred tax assets on tax losses above the level of their deferred tax liabilities at the half year, we expect disclosure of evidence that supports its recognition if the company has suffered a loss in either the current or preceding period in line with the requirements of paragraph 82 of IAS 12.

To the extent that there is a significant change in the amount of tax losses not recognised as deferred tax, we expect companies to disclose the amount of the change in tax losses not recognised at the half year in line with the requirements of paragraph 81(e) of IAS 12.

Three companies disclosed updated information about the amount of tax losses for which no deferred tax was recognised at the half year.

10. Financial Instruments

i. Credit risk

Credit risk exposure

As stated in the Covid-19 Thematic, we expect companies to explain the exposure to credit risk at the half year if it has changed significantly from the prior year. In the light of the uncertainty caused by the pandemic, we were surprised to see under a quarter of companies provide this information at the half year.

One company helpfully explained that it had not experienced a significant increase in credit risk, which we consider to be a helpful clarification in periods of economic stress.

A good explanation of significant changes in the credit risk exposure helps users understand how the company has changed its assessment of the credit risk associated with its financial assets since the last annual reporting period.

When updated credit risk exposure disclosures were provided, helpful disclosures included:

- updated debtors' days past due information;
- quantifying the exposure to industries highly impacted by Covid-19 as well as to individually material customers;
- explaining the measures taken in response to the increased credit risk.

One company provided a provision matrix at the half year (see below), while another disclosed its credit risk exposure by external credit risk rating grade.

Provisions against bad and debts	Group					Proportionally consolidated
	Service charge £m	< 90 days past due £m	90 – 190 days past due £m	> 190 days past due £m	Total £m	Total £m
Tenant debtors	14	39	33	6	92	118
Provisions made against tenant debtors	(5)	(9)	(17)	(6)	(37)	(44)
Net tenant debtors	9	30	16	–	55	74
Accrued income[1]	–	–	20	–	20	25
Provisions made against accrued income	–	–	(11)	–	(11)	(13)
Net accrued income	–	–	9	–	9	12

The British Land Company PLC, 30 September 2020, p42

Provides aging profile of debtors and the related credit loss allowance

Measurement of credit losses

We expect companies to explain any changes in their approach to measuring expected credit losses ('ECL') and credit risk management. As part of these disclosures, companies should provide adequate information on any significant changes to the company's ECL models and assumptions.

In the FRC's updated Company Guidance released in December 2020, information about the assumptions used for estimating credit losses on receivables and contract assets was listed as being relevant to investors.

As a result of the uncertainties caused by the pandemic, two companies disclosed updated assumptions in relation to the measurement of credit losses.

10. Financial Instruments (continued)

Examples of changes to assumptions related to the measurement of credit losses disclosed at the half year included:

- giving more weighting to expert risk ratings
- adjusting risk ratings for the current and potential impact of Covid-19 on a customer's business and industry
- adjusting the assumed risk of a default occurring for higher risk categories

The reasons for the changes to credit risk assumptions were not always well explained.

Disclosure of expected credit losses

In line with the requirements of paragraph 82(ba) IAS 1, companies generally presented in the statement of profit and loss the amount of impairment losses determined in accordance with IFRS 9 'Financial Instruments'.

Paragraph 15B(b) of IAS 34 includes a requirement to disclose information about impairment losses or reversals of impairment of financial assets recognised during the period.

Most companies that recognised a credit loss impairment chose to provide an explanation or analysis of the change in the expected credit loss allowance during the period.

In addition to an opening to closing balance reconciliation of the loss allowance, companies may consider disclosing the related changes in the gross amount of the affected financial assets in accordance with paragraph 35I of IFRS 7 'Financial Instruments: Disclosures' to provide additional relevant information about the changes in the loss allowance.

The majority of impairments related to trade receivable balances which were recognised using the simplified ECL approach as set out in IFRS 9. It should be noted, however, that impairments of other financial assets such as loans to associates or joint ventures, are recognised using the three stage model, which may require additional disclosures.

One company identified further trade debtor failures as a plausible scenario in its going concern assessment, but it was unclear whether the scenario was incorporated in their measurement of credit losses and their assessment of credit risk exposures.

ii. Modification of financial liabilities

A few companies managed to secure support from their lenders during the period, which included modifications to existing financial liabilities such as capital repayment holidays, extended repayment terms and changes to interest rate structures.

IFRS 9 provides guidance[22] to determine whether a modification of an existing financial liability has resulted in substantially different terms. The profit or loss impact of a modification will differ depending on whether the modification is substantial[23] or non-substantial[24].

Four companies disclosed the impact of a modification of their existing liabilities during the period.

22 Paragraphs 3.3.2 and B3.3.6 of IFRS 9
23 Paragraph 3.3.3 of IFRS 9
24 Paragraph BC4.253 read with paragraph 5.4.3 of IFRS 9

10. Financial Instruments (continued)

iii. Hedge accounting

Around 70% of the companies that applied hedge accounting reported a significant impact of hedging activities during the period.

Most companies disclosed the impact of hedge accounting on the statement of comprehensive income and described the hedging instruments used.

Good disclosures also included updates on the level of exposure being hedged and the value of hedging instruments at the reporting date as well as key information about the hedging instruments themselves such as strike price and maturities and any hedge ineffectiveness recognised during the period.

When companies are engaged in hedging activities for a range of risk categories, we expect sufficient information to be provided to help users understand the impact of hedging activities on each significant hedged risk category.

One company presented the impact on the statement of comprehensive income by risk type (for example, hedged currency type) and by hedging reserve (for example, cost of hedging reserve and cross currency cash flow hedge reserve).

A company with an active hedging programme helpfully presented updated information about its hedging activities in one note.

Hedge options outstanding at the period end	At 30 June 2020	At 30 June 2019	At 31 December 2019
Volume of oil production hedged	**1.6 mmbls**	3.4 mmbls	2.8 mmbls
Weighted average floor price of options	**US$60.00**	US$64.53	US$62.09
Weighted average ceiling price of options	**US$70.00**	US$78.83	US$74.89
Weighted average strike price of swaps	**US$54.50**	none	US$61.85
Maturity dates	**Jul 2020 – Dec 2021**	Jul 2019 – Dec 2020	Jan 2020 - Dec 2020
Effects of hedge accounting on financial position and (loss)/profit for the period	**US$m**	US$m	US$m
Financial assets	**26.4**	16.4	4.1
Financial liabilities	**-**	-	(1.6)
Accruals and other payables – accrued option costs	**(1.0)**	(3.7)	(2.1)
Hedging gain/(loss) recorded in Other Comprehensive Income	**58.7**	(25.3)	(29.7)
Hedging gain recycled to Income Statement	**(33.7)**	(2.9)	(10.9)
Hedging gain recorded in Income Statement against revenue (see note 2.1)	**33.7**	2.9	10.9

Cairn Energy PLC, 30 June 2020, p34

Discloses the impact of hedging activities on the financial position and performance

Provides key information about the hedged exposures and hedging instruments

Companies need to consider the impact of Covid-19 on their hedge accounting, particularly, whether the forecast transaction remains highly probable to occur ('highly probable' criterion) and discontinue hedge accounting if it is not, as stated in our Covid-19 Thematic.

Where hedge relationships were discontinued, companies generally disclosed the reasons for discontinuing the hedging relationship and the impact of discontinuation on profit and loss and the hedging reserves.

11. Fair Value

Fair value disclosures provide important information about the valuation techniques and inputs used to determine fair values, and how level 3 fair value measurements affected profit or loss or other comprehensive income during the period.

The July 2009 IFRS IC agenda decision confirmed that an interim report should provide an explanation of, and update to, fair value information when it is significant to understanding the changes in a company's financial position and performance since the previous reporting date.

Fair value of financial instruments

Paragraph 16A(j) of IAS 34 requires a number of the fair value measurement disclosures listed in IFRS 13 'Fair Value Measurement' and IFRS 7 for financial instruments including:

- changes to valuation techniques during the period and the reason for those changes;
- quantitative information about any significant unobservable inputs;
- opening to closing balance reconciliations for level three fair value measurements; and
- the effect of reasonably possible changes to unobservable input assumptions if it would change the fair value significantly for level 3 fair value measurements.

Rather than treating the IFRS 13 and IFRS 7 fair value disclosures listed in paragraph 16(j) of IAS 34 as a checklist, almost all companies chose to provide a selection of these disclosures.

When determining which fair value information to disclose, we expect companies to consider the relevance of the information and not to disclose information if it is considered immaterial[25].

In the FRC's updated Company Guidance, we emphasised that information about the assumptions used for estimating the fair value of financial assets may be relevant to investors due to higher expected levels of estimation uncertainty as a result of the Covid-19 pandemic.

25 Paragraph 31 of IAS 1

We were pleased to see that most companies that recognised significant changes in fair value of financial instruments during the period provided updated fair value information.

Good disclosures included:

- quantifying the updated unobservable inputs;
- opening to closing balance reconciliations of level 3 fair value measurements; and
- sensitivities to changes in key unobservable inputs.

	Other financial assets $m	Derivative financial instruments $m	Contingent purchase consideration $m
At 1 January 2020	128	-	(91)
Additions	2	-	-
Transfers into Level 3	8	-	-
Repayments	(1)	-	-
Valuation losses recognised in other comprehensive income	(43)	-	-
Change in fair value*	-	13	16
Exchange and other adjustments	(4)	-	(1)
At 30 June 2020	**90**	**13**	**(76)**

*$21m fair value gain on contingent purchase consideration and $13m gain on derivative financial instruments are recognised as exceptional items in the Group income statement (note 7). The remaining $5m fair value loss on contingent purchase consideration relates to Regent.

InterContinental Hotels Group PLC, 30 June 2020, p57

Provides details of significant changes in level 3 fair value measurements during the period

11. Fair Value (continued)

Paragraph 15B(h) of IAS 34 requires disclosure of information about changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognised at fair value or amortised cost.

Considering the uncertainties caused by the pandemic, a few companies disclosed updated discount rates used to determine level 3 fair value measurements.

One company also disclosed a change to its valuation technique which it attributed to an increased uncertainty in implied valuations when using share price inputs. The company also transferred a portion of fair value measurements to level 3 which it explained was due to inactive markets.

Fair value of investment properties

Our sample included two property investment companies. Although both companies recognised significant decreases in the fair values of their investment property portfolios at the half year, the pandemic did not affect their portfolios in the same way.

One company, a June half year, reported a "material valuation uncertainty" clause in the valuation reports of its external valuers and the auditor drew attention to this by including an emphasis of matter paragraph in their review report. The other company, a September half year, reported that its half year valuation reports did not include a "material valuation uncertainty" clause in contrast to the preceding year end valuation reports as a result of adequate market evidence upon which to base their valuation opinions.

Both property investment companies provided the full suite of IFRS 13 disclosures in their interim reports and explained the changes in their fair value assumptions.

We were pleased to see that sensitivity ranges were adjusted to the level of valuation uncertainty, with wider ranges used by the June reporter and narrower ranges by the September reporter.

In light of market conditions, and in response to FRC guidance, we include sensitivity tables, below, to illustrate the impact of changes in unobservable inputs on the fair value of the Group's property portfolio. At 31st March 2020 all of our external valuation reports included a "material valuation uncertainty" declaration, which emphasised that less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. In light of this, we reviewed the ranges used for our sensitivity analysis, and adopted expanded ranges to reflect this increased uncertainty. No such declaration was included in our valuation reports at 30 September 2020, with our external valuers concluding that there was an adequate quantum of market evidence upon which to base opinions of value. Consequently, we have determined it appropriate to revert to the ranges adopted in previous reporting periods, +/-5% for ERV, +/-25bps for NEY and +/-5% for development costs.

The British Land Company PLC, 30 September 2020, p49

Explains why reduced sensitivity ranges were used at the half year

12. Related parties

Section 4.2.8 of the DTR has specific requirements for the disclosure of related party transactions.

Paragraph 15B(j) of IAS 34 requires disclosure of related party transactions in certain circumstances.

In summary, disclosure of related party transactions is required if they have had a material affect on the financial position or performance of the entity in the period.

We found that the majority of companies in our sample included narrative disclosure saying that the nature and amounts of related party transactions were unchanged from the annual report, although the companies explicitly naming related parties or quantifying the transactions in the period was limited.

There were a number of companies where directors and other members of senior management had waived fees, or agreed to a pay reduction in light of the Covid-19 pandemic. However, the impact of these were typically not disclosed in the related party section of the financial statements, despite directors and possibly senior management being classed as a related party by virtue of being key management personnel as defined in IAS 24 'Related Party Disclosures'.

One company which disclosed the impact modifications had to directors emoluments was Cineworld Group plc.

Total compensation for the Directors during the period to 30 June 2020 was $3.5m (period ended 30 June 2019: $3.2m; year ended 31 December 2019: $7.8m). At 30 June 2020 the balance owed to directors was $2.5m (year ended 31 December 2019: nil). During the period ended 30 June 2020 the directors did not receive a salary for the period 1 April 2020 to 30 June 2020, which resulted in a deferred amount of $2.5m being owed as at 30 June 2020. The directors began receiving a full salary from 1 August 2020 in line with the reopening of the business, no payment has been made in respect of amounts deferred earlier in the year.

Cineworld Group Plc, 30 June 2020, p34

Explains that the deferment has resulted in an increase in the balances owed to directors

In general, we had few concerns about the extent of related party disclosures, but to the extent transactions or changes to related parties are significant, we expect these to be disclosed. When making related party disclosures in interim reports, we expect companies to consider the disclosure requirements of paragraphs 13 to 27 of IAS 24.

13. Pensions

Given the volatility seen in the financial markets, such as large movements in equities, stimulus measures in the form of reduced interest rates and government assistance, we chose to look at what companies had disclosed in their interim reports in relation to defined benefit obligations.

Even in periods of relative calm, as the assets and liabilities of such schemes are usually significant, even small changes to assumptions can give rise to material movements.

Of our sample, there were ten companies who had defined benefit pension schemes, all of which saw movements in the first six months. The quality and extent of disclosure was mixed, despite some large movements in balances.

In most cases, companies provided some commentary on changes in assumptions in the interim period which had affected the measurement of the obligation although the level of detail was varied.

All companies reported a decrease in the interest rates used to discount the liabilities and most referenced a lower return on assets.

We operate funded and unfunded defined benefit schemes across multiple jurisdictions with the largest being the US pension and retiree healthcare schemes. We also have major schemes in the UK, Canada and Germany. While all of our major plans are closed to new entrants, a few allow for future accrual. Our schemes are subject to periodic actuarial valuations. Our net unfunded position increased by €24.0 million to €177.7 million at 30 June 2020 due to declining discount rates across many territories, coupled with the weak overall pension asset performance resulting from the unprecedented global Covid-19 pandemic which disrupted markets.

TI Fluid Systems plc, 30 June 2020, p16

Explains that the deficit on the plan increased due to declining interest rates and lower returns on scheme assets

One company provided an opening to closing reconciliation of scheme asset and liabilities that IAS 19 'Employee Benefits' would require for the annual report and accounts. Whilst we do not necessarily expect full IAS 19 disclosures to be given at the half year, we expect companies to disclose sufficient information for users to be able to understand material movements in the period.

14. Revenue

Disclosures

Paragraph 16A(l) of IAS 34 requires companies to provide revenue disaggregation disclosures as described in paragraph 114 of IFRS 15 'Revenue from Contracts with Customers' and to disclose sufficient information to enable users to understand the relationship between these disclosures and the revenue information disclosed for each reportable segment.

14 companies provided revenue disaggregation disclosures in accordance with IFRS 15. The disaggregation disclosures were largely consistent with the way revenue was analysed in the management commentary and were provided on the same basis as reported in the last annual reporting period.

Companies provided reconciliations, where required, between the revenue disaggregation disclosures and revenue disclosed for each reportable segment.

We expect revenue disaggregation disclosures to be provided where this provides relevant and updated information about revenue earned in the interim period.

	Six months ended 30 June 2020 (unaudited)			
	Engineering & Construction US$m	Engineering & Production Services US$m	Integrated Energy Services US$m	Six months ended 30 June 2020 US$m
Geographical markets				
Oman	447	6	–	453
Kuwait	177	6	–	183
Saudi Arabia	(50)	–	–	(50)
United Kingdom	56	226	–	282
United Arab Emirates	144	26	–	170
India	43	–	–	43
Iraq	66	86	–	152
Turkey	21	1	–	22
Russia	98	2	–	100
Malaysia	8	6	16	30
Thailand	272	8	–	280
Germany	12	–	–	12
Mexico	–	–	39	39
Algeria	288	–	–	288
Bahrain	–	1	–	1
Singapore	–	–	6	6
United States of America	–	18	–	18
Netherlands	36	–	–	36
Others	15	23	–	38
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**
Type of goods or service				
Fixed-price	1,552	91	–	1,643
Reimbursable	81	318	21	420
Sale of crude oil and gas	–	–	40	40
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**
Customer type				
Government	1,066	80	39	1,185
Non-government	567	329	22	918
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**
Timing of revenue recognition				
Services transferred over time	1,633	409	21	2,063
Goods transferred at a point in time	–	–	40	40
Total revenue from contracts with customers	**1,633**	**409**	**61**	**2,103**

Petrofac Limited, 30 June 2020, p23

Provides revenue disclosures using the same level of disaggregation as the last annual report and accounts

14. Revenue (continued)

Contract balances

IAS 34 does not specifically require disclosures related to revenue contract balances. However, significant changes in contract balances in the period within the scope of paragraph 15 of IAS 34 should be explained along with updated relevant disclosures of what was disclosed in the last annual report.

One company's contract balances changed significantly during the period. Although operational changes were mentioned in the management commentary, the company did not explain how these or other events or transactions had led to the changes in balances nor did the company provide updated information about the balances.

As part of the explanation of significant changes in revenue contract balances during the period, we expect companies to consider using qualitative and quantitative information in line with the disclosure requirements of paragraph 118 of IFRS 15.

Unfulfilled performance obligations

As a result of Covid-19, several companies had temporarily ceased all trading for a substantial portion of their operations by the half year and offered a refund to customers opting to cancel their existing memberships or orders.

Where there has been a significant change to the amount of unfulfilled performance obligations since the last annual reporting period, we expect companies to disclose updated information about the aggregate amount of unfulfilled performance obligations and the expected timing of its fulfilment in line with the requirements in paragraph 120 of IFRS 15.

15. Leasing

14 companies disclosed updated information about the changes in right of use and lease liability balances during the period. Information such as depreciation of right of use assets and cash repayments on lease liabilities was often provided through the statement of cash flows and related notes.

In line with the requirements of paragraph 15 of IAS 34 we expect companies to provide additional explanations and updated information about significant movements in right of use assets and lease liabilities where this is not evident from other information included in the interim report.

Information about changes to right of use assets and lease liabilities as a result of modifications to leases, transfers to or from disposal groups, foreign exchange movements and business combinations may not be otherwise disclosed.

Good disclosures explained the significant movements during the period of right of use assets and lease liabilities by asset type using detailed opening to closing balance reconciliations and supporting explanations.

Lease modifications

Several companies secured rent concessions during the period, while two companies provided rent concessions to their tenants.

Where rent concessions are reported for the first time, we expect companies to consider the following additional disclosures at the half year:

- the accounting policy for rent concessions;
- how the policy has been applied and its impact on the interim reports;
- information about related judgements; and
- changes to lease liability maturities.

One company disclosed an accounting policy for the rent concessions it gave to its tenants.

Lease modifications

Rent-free periods are generally considered to constitute a lease modification under IFRS 16 with the cost deferred over the remaining lease term. On entering into a lease modification any initial direct costs associated with the lease, including surrender premia previously paid, are derecognised.

Capital & Counties Properties PLC, 30 June 2020, p31

Provides an accounting policy for lease amendments for rent-free periods as the impact was material for the first time due to Covid-19

Three of the four companies that recognised material lease modifications during the period did not disclose an updated maturity analysis for their lease liabilities at the half year.

We expect companies to provide updated maturity analysis for lease liabilities at the half year when lease contractual cash flows have changed significantly during the period.

None of the companies in our sample made use of the practical expedient for rent concessions as permitted by the amendment to IFRS 16 'Leases' published in May 2020 and endorsed by the European Commission on 12 October 2020.

Optional lease terms

Consistent with our Covid-19 Thematic, management should consider whether the company's response to Covid-19 triggers the requirements of paragraph 20 of IFRS 16 to reassess the probability of exercising lease extension or termination options in determining the lease term.

After deciding not to reopen certain shops following Covid-19 government imposed business closures, one retailer concluded that it was less likely to exercise related lease extension options. The company reported that it had reassessed its judgements related to the lease term of the affected leases and had adjusted its lease liabilities where required (see the judgements and estimates section for further details on significant judgement disclosures).

16. New accounting standards

Section 4.2.6 of the DTR, as well as paragraph 28 of IAS 34, require the accounting policies and presentation of interim financial statements to be consistent with those in the most recent annual report.

If the accounting policies are to be changed in the subsequent annual financial statements, those new accounting policies should be followed in the interim financial statements. The changes and the reasons for such changes should be explained.

The most significant change was the disclosure by some companies of an accounting policy for government grants.

For many, 2020 was the first period in which material government grants had been received, for example, due to the use of government furlough or liquidity schemes.

Some companies included an accounting policy as to how such schemes had been accounted for.

We were pleased to see some companies quantify the amounts received and identify the affected line items in the financial statements, as well as providing an update to the amounts expected in the future.

Government grants

Government support of $11m has been received in 2020 in relation to employee costs at certain of the Group's leased hotels. Additionally, ongoing support has been received in the form of tax credits which have also been applicable in prior years and which relate to the Group's corporate office presence in certain countries. In the Group income statement, total income of $16m has been matched against the payroll costs that the grants and credits are intended to compensate. There are no unfulfilled conditions or other contingencies attaching to these grants.

InterContinental Hotels Group PLC, 30 June 2020, p42

Quantifies the amounts received

Details where amounts are recorded in the financial statements

Dominos Pizza Group Plc adopted IFRS 16 during the interim period, and provided the required transitional disclosures.

For further information on IFRS 16 adoption, please see our recently published thematic on disclosures in the first year of application.

17. Other observations

Responsibility statements

As noted previously, the DTR requires interim management reports to contain a responsibility statement. Section 4.2.10 of the DTR requires the responsibility statement to confirm:

- that the condensed set of financial statements has been prepared in accordance with the applicable set of accounting standards (which for the majority of companies will be IFRS).
- that the financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the company.
- that the report contains a fair review of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements, and of the principal risks and uncertainties for the remaining six months of the financial year.
- that the report contains a fair review of related party transactions.

It also requires that the name and function of any person who makes a responsibility statement be clearly indicated.

All of the companies provided a responsibility statement, with the wording being largely consistent, if pro-forma in nature.

In one instance, the name of the person making the statement was not given and we remind companies that providing such information is a requirement of the DTR.

The FCA's Technical note[26] states that issuers should identify those individuals responsible for making the statement, which could be either the whole board of directors or one or more directors on behalf of the whole board. It adds that this information should not be cross referenced to other documents.

26 FCA's Technical Note Ref: UKLA/TN/501.1

Contents of financial statements

Paragraph 8 of IAS 34 permits companies to present condensed financial statements and explanatory notes.

Whilst none of the companies in our sample prepared a full set of financial statements, all companies prepared their statement of financial position, statement of profit or loss, statement of cash flows and statement of changes in equity with the same level of detail as they did in their last annual report and accounts.

Audited versus non-audited information

There is no requirement for interim reports to be accompanied by a report from the auditor. From our sample, no financial statements were audited, although 17 of 20 did have a review report from the auditor.

Regardless of whether the interim management report is audited, reviewed or otherwise, section 4.2.9 of the DTR requires the level of assurance of the auditor to be clearly disclosed.

One company did not give this disclosure.

Business combinations

There was very limited merger and acquisition activity in the companies in our sample during the first six months of their financial periods which was not surprising given the pandemic.

Of the companies that did complete a business combination, they provided the necessary IFRS 3 'Business Combinations' disclosures as required by paragraph 16A(i) of IAS 34.

Given that IFRS 3 gives companies up to 12 months to finalise the fair values of the acquired assets and liabilities, we typically expect the fair values for business combinations concluded in the period to be provisional.

If the initial accounting for a business combination is incomplete, paragraph B67(a) of IFRS 3 requires disclosure of that fact and the reasons.

17. Other observations (continued)

Segment reporting

Paragraph 16A(g) of IAS 34 requires disclosure of the following segment information at the half year when it is regularly provided to the chief operating decision maker as part of the measure of segment financial position or performance:

- Revenue from external customers and intersegment revenue;
- A measure of reportable segment profit or loss and a reconciliation of the amount to the company's profit or loss; and
- Total assets and liabilities.

Almost all companies in the scope of IFRS 8 'Operating Segments' provided the relevant segment information.

We were pleased to see that 13 companies provided additional IFRS 8 disclosures normally only disclosed in company annual reports and accounts, such as the amounts per segment of depreciation, impairment and capital expenditure.

In one instance, a company that disclosed total assets and liabilities per reportable segment in their last annual reporting period did not provide this information in their interim report.

In three cases, minor changes were made to the basis of segmentation because of changes by the companies to their businesses during the period.

We were pleased to see that the companies provided reasons for the changes and restated their comparative disclosures in line with the requirement of paragraph 29 of IFRS 8.

Earnings per share

Due to the pandemic, we saw some historically profit making companies reporting a loss. When loss-making, potential ordinary shares are only dilutive if they increase loss per share[27].

This requirement had been overlooked by some in our sample.

We also saw a company complete a share consolidation exercise after the end of the period but before the interim management report was published. We were pleased to see that the company had followed the guidance of paragraph 64 of IAS 33 'Earnings per Share' and rebased its EPS measure on the new number of shares.

Discontinued operations

There were also a couple of companies in our sample who classified some operations as discontinued in the period.

Whilst IAS 34 does not explicitly require companies to provide all of the disclosure of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', we were pleased to see that the companies had taken a proportionate approach to the information they had disclosed. The information was sufficient to understand the impact that classifying the operations as discontinued had had on the financial statements.

27 Paragraph 41 of IAS 33 'Earnings per Share'

18. Key disclosure expectations for 2021

Whilst we saw many examples of good disclosure, there is scope for improvement.
We encourage companies to consider the findings within this report when drafting their upcoming interim reports.

Our expectations for a good interim report

A good interim report should:

- Ensure that management commentaries detail important events that have occurred during the first six months of the financial year, and their impact on the financial statements.
- Provide a comprehensive update of the principal risks and uncertainties for the remaining six months of the financial year.
- Make sure APMs are explained, reconciled to IFRS measures and not given undue prominence.
- Give going concern disclosures that explain the basis of any significant judgements, including whether there are any associated material uncertainties, and the matters considered when confirming the preparation of the financial statements on a going concern basis.
- Detail changes to key judgements and estimates with reasons that enable users to understand management's views about the future, and their impact on the interim financial statements.
- Explain in sufficient detail, events and transactions that have a material impact on the financial position and performance of the company, such as impairments. Better disclosures update relevant information disclosed in the last annual report by following the applicable disclosure guidance of individual IFRSs, such as IAS 36 for impairment disclosures.
- Focus on providing material disclosures that are clear and concise.

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