Report on proactive monitoring of financial statements in 2024

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1. Key considerations

We present our 14th report on the proactive monitoring in our market. We continue to make findings against issuers for matters addressed in our previous proactive monitoring reports. We therefore urge audit committees and non-executive directors to test the robustness of the processes applied by the management team in considering the content of our reports to mitigate against the reoccurrence of errors.

Negative findings can be avoided through careful consideration of the following questions.

1. Do the financial reports:
   - tell your story - are disclosures clear, concise and specific to your company; and
   - tell the entire and a consistent story – is the content or message aligned with other communications made to stakeholders.
2. Has the management team identified and considered the impact of:
   - technical changes and developments in IFRS;
   - previous findings detailed in the JSE proactive monitoring reports;
   - changes in economic/ business circumstances since the last reporting period; and
   - any new significant transactions and/or events.
3. Does the company apply a detailed and robust materiality framework:
   - Developed by the company, independent of the auditor's materiality threshold;
   - Aligned with the IASB materiality framework;
   - Addressing both qualitative and qualitative considerations of individual items and the financial statements as a whole; and
   - That was applied as a lens to guide the preparation of the financial reports.

2. Introduction

The body of this report (the "2024 report") discusses the findings of the proactive monitoring activities (the "review process") undertaken by the JSE during the period October 2023 to September 2024 ("the period"). The objective of the JSE's process of reviewing Annual Financial Statements ("AFS") and Interim results ("interims") is both to ensure the integrity of financial information and to contribute towards the production of quality financial reporting by entities who list securities on our market. This aligns with one of the general principles of the JSE Listings Requirements (the "Listings Requirements") namely, to enhance investor confidence in our market. The healthy debate that often surrounds a review process is in of itself important for the credibility of our markets.

The aim of this report is to highlight matters and provide details around our expectations for financial reporting to help prevent the misapplication of IFRS. The 2024 report sets out important findings identified during the year to date, which we request issuers to consider.

This report also provides the statistics of our findings that highlight the regulatory value of the review process. For the benefit of new directors and issuers we provide details of the review process (see annexure 1). Annexure 2 includes feedback on the activities of the FRIP. Appendix 3 sets out a decision of the IFRS Interpretations Committee of the IASB that we wish

to draw attention to. Annexure 4 includes an easy-to-use list of documents for audit committee's consideration.

3. Audit committees' responsibility

The JSE acknowledges the important role that audit committees play in ensuring the integrity of financial reporting. As our reports on the review process are intended to highlight areas of potential concern in the preparation of financial statements, the JSE specifically requests every issuer's audit committee to consider this 2024 report together with certain other information previously published by the JSE. Annexure 4 contains a checklist of the information that the audit committee must consider, together with appropriate links to website references where that information may be found.

We ask that audit committees ensure that issuers take appropriate action to respond to the information detailed in annexure 4 when preparing both their AFS and interims. To the extent necessary, the JSE may write to an issuer and ask that they explain how their audit committee has complied with the request set out above.

4. Findings from detailed reviews

4.1 Material cases

Annually we provide feedback on key aspects of cases where the IFRS impact of the misstatement was material to the results of the issuer. Those cases are summarised below. It is important to highlight that our findings are based on our consideration of the specific facts and circumstances of each case. Whilst we have provided as much detail as possible, we remind issuers that they must still consider their own specific situation.

Valuation leasehold assets

An issuer held properties occupied through a 40-year leasehold arrangement. These were classified as investment properties and the accounting policy was to carry these (right of use) assets at fair value in terms of paragraph 33 of IAS 40 *Investment Property*.

We queried why neither the annual nor interim results reflected any changes to the carrying amount of these assets since the previous financial year end (Y0).

The issuer explained that an independent valuation was performed by a property valuer for the purposes of the previous years' AFS (Y0). They asserted that this valuation was valid for 3 years as allowed by their (mis)understanding of paragraph 13.39 of the Listings Requirements. They believed that they were therefore exempt from making changes to the fair value of the leasehold investment properties for 3 years. In any event they believed that were a new valuation to be performed, it would not have a material impact on their financial statements.

We disagreed with the issuer's assessment of a blanket 3-year exemption. The Listings Requirements state that "Any valuation report prepared for the purposes of IFRS or paragraph

13.38 must be prepared: "*annually, if* the information used and *assumptions* applied by the registered valuer has *changed materially*."

A key input into a fair value calculation (under the discounted cash flow income approach) are the future cash flows. In the case of a leasehold, the period of future cash flows is finite – and reduces each year. A reduction of the remaining lease period is a material change in assumptions because the fair value of the leasehold asset at Y1 excludes the rentals received during the year. This concept will likely result in material changes in fair values of leasehold assets annually. Even if the issuer had not regarded the change in the lease term to be a material change to an assumption (from a Listings Requirement perspective), the impact on the AFS needed to be assessed against IFRS. IAS 40.35 states that "A gain or loss arising from a change in the fair value of investment property shall be recognised in profit or loss *for the period in which it arises*."

At our request a valuation of the assets at Y1 was performed, taking into account the expired cash flows as well as other changes in inputs. The resulting change in valuation had a material impact to the issuer's profit after tax. The error was therefore corrected as a material prior period error (per paragraph 42 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*).

This case also serves as a reminder that the materiality assessment must be considered holistically, considering the impact in the context of the statement of financial position and the statement of profit and loss (as detailed the IFRS Practice Statement 2 *Making Materiality Judgements*).

<u>Financial instruments-initial measurement</u>

Another case involved an issuer, a securitisation SPV, who routinely purchased home loan advances ("advances") from an originator entity. The SPV used the advances to raise finance in the interest rate market.

We queried the nature of an amount within other comprehensive income ("OCI") which significantly inflated the total comprehensive income of the issuer. OCI are items of income and expense that are not recognised in profit or loss as required or permitted by other IFRSs (paragraph 7 of IAS 1 *Presentation of Financial Statements*). IAS 1.7 lists the components of OCI. We were unable to 'fit' the OCI item into any of the OCI components listed.

Further enquiries revealed that, on initial recognition, the SPV issuer had recognised acquired advances at their original amortised cost (say R120) - being the historic amortised balance per the originators loan management system. The SPV had however purchased advances at a different amount, being a discount to the historic amortised cost balance (say R100). The SPV then passed a journal entry to increase the amount they paid (R100) to the historic amortised cost (R120) and 'deferred' the difference in OCI. The issuer's intention was to release this 'difference' in profit and loss over the period of the loan. Their approach was therefore to make adjustments to mirror the balances per the originators loan management system. The issuer argued that this was required in order to align with contractual loan repayments agreed with customers.

Financial instruments are measured, at initial recognition, at their fair value (per paragraph 5.1.1 of IFRS 9 *Financial Instruments*). IFRS 9 B5.1.1 goes on to explains that the fair value at initial recognition is normally the transaction price (in this case R100). The issuer was unable to demonstrate that the transaction price was not representative of a fair value at the date of purchase.

The issuer should have 'reset' a new amortised cost curve (including determining a new effective interest rate) for a fair value of R100. This should have plotted contractual payments over the remaining period of the advance, discounted over a new effective interest rate to equal the fair value at initial recognition.

Consequently, the issuer was required to restate their AFS by:

- Rectifying the carrying amounts of advances;
- Recalculating interest income at a new/ revised effective interest rate (different to that applied by the originator in their loan management system); and
- Restating the statement of cash flows – which had incorrectly reflected the OCI amount as a cash flow.

4.2 Measurement of financial instruments

In addition to the material case involving the application of IFRS 9 discussed above, there were four reviews involving the misapplication of the recognition and measurement principles of IFRS 9. These cases do not reflect as reviews with material outcomes (in our findings tables on page 16). This is because the cases had either not been concluded by the cutoff date for this report or the harm cause by the past misapplication of IFRS was fortuitously not severe. Given the intended objective of this report the details of these cases are included below.

<u>Measurement of dividend received</u>

IFRS 9.B5.1.1 explains that if part of the consideration given is for something other than the financial instrument, the transaction price would not be the fair value. It cites as an example an interest free loan, where the fair value of the loan is measured at the present value of all future cashflows. Any additional amount lent is an expense or a reduction of income, unless it qualifies for recognition as some other type of asset.

A subsidiary had declared a dividend to its listed holding company. It was agreed that payment of the dividend would be deferred over an extended period on an interest free basis. We queried the significant day-one loss recognised in profit and loss in the company AFS.

IFRS 9.B5.1.2A imposes a restriction to recognising 'day-one gains and losses' immediately in profit and loss. Only amounts evidenced by quoted prices in active markets for identical assets/ liabilities may be recognised immediately in profit and loss. Engagement with the issuer revealed that they had incorrectly applied paragraph B1.5.2A of IFRS 9.

Calculation of expected credit loss allowances (“ECL”)

In light of information disclosed elsewhere in the AFS, we questioned an issuer who recognised Rnil ECLs against two individual loan accounts.

IFRS 9.5.5.18 explains that: “When measuring expected credit losses, an entity need not necessarily identify every possible scenario. However, it shall consider the risk or probability that a credit loss occurs by reflecting the *possibility that a credit loss occurs* and the *possibility that no credit loss occurs*, even if the possibility of a credit loss occurring is very low.”

The issuer (incorrectly) did not raise an ECL on the assumption that a specific favourable event would occur. They intended to reassess the ECL at a future date *only if* the opposite (negative scenario) occurred. The issuer’s approach was therefore contrary to the expected loss model required by IFRS 9.

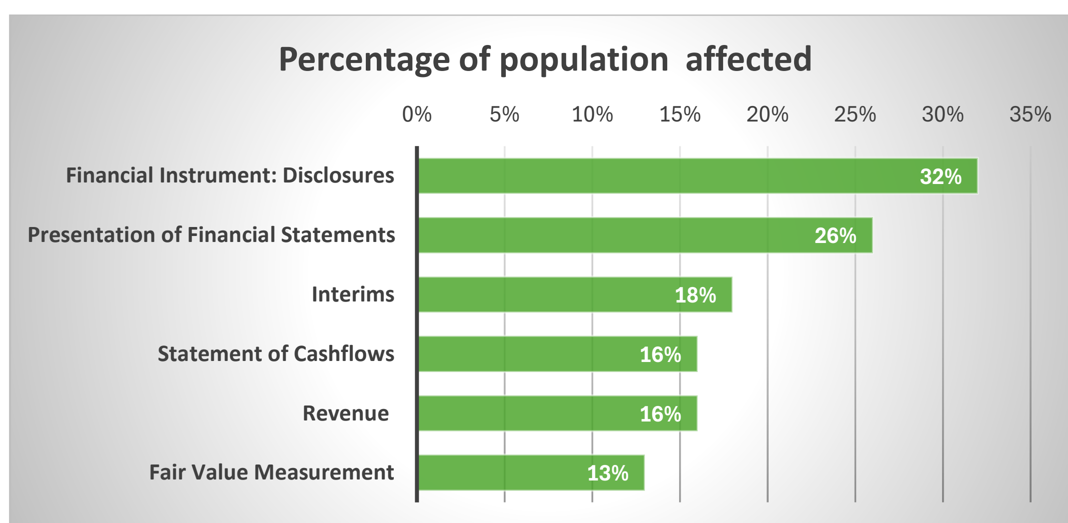
A separate matter involved a different issuer regarding the misapplication of IFRS 9. The case was referred to the FRIP and dealt with 6 topics related to the calculation of ECL allowances. One of the topics addressed a similar circumstance in which the issuer applied a binary (i.e. all-or-nothing) view to probability when calculating ECL. The details of the FRIP referral are set out as Case 1 in appendix 2

Derivative instruments

Appendix 2 contains details of a second referral to the FRIP. This matter involved the incorrect application of IFRS 9 to the recognition and measurement of a suite of put and call options.

4.3 Common findings from detailed reviews

This section discusses common deficiencies identified in our detailed reviews We group the matters by IFRS standard and rank the topics by prevalence in terms of the number of entities where the deficiencies occurred. The results, which exclude the matters discussed in sections 4.1 and 4.2 above, are as follows:



Financial instruments: Disclosures (IFRS 7)

The 2023 report provides detailed feedback on our 2023 thematic review of the disclosures for liquidity risk and credit risk under IFRS 7 *Financial Instruments: Disclosures*. During this past year we reached agreement with 12 issuers where their disclosures under IFRS 7 were insufficient across a variety of topics. These issuers had all published their AFS before we issued the 2023 report.

As the topics are already discussed in the 2023 report we do not repeat the detail and rather group the matters in terms of the headings used in the 2023 report. The page numbers below refer to the appropriate section in the 2023 report.

Expected Credit loss allowances ("ECL") (pages 14 -16)

- no disclosure of the inputs, assumptions and estimation techniques used in the ECL calculation, often in the context of a specific category of receivable (IFRS 7:35G);
- no explanation for uncorrelated changes in the gross carrying amounts and ECL allowance (IFRS 7:35I);
- omission of forward-looking information and /or macro-economic factors used to determine the ECL (IFRS 7:35G(b);

Default events and write offs (pages 13-14)

- no entity specific definition of default (IFRS 7:35F(b));
- no entity specific write-off policy, which policy demonstrates that/how there is no reasonable expectation of recovery (IFRS 7:35F(e));
- no disclosure of amounts written off that are still subject to enforcement activities (IFRS 7:35L);

Credit risk rating grades (pages 16-17)

- omission of the gross carrying amount by credit risk rating grade either for trade receivables (as a whole), or for collateralised receivables (IFRS 7:35M);

ECL Reconciliations (page 17)

- reconciliation of the changes in the ECL was omitted (IFRS 7:35H);

Liquidity risk disclosures (pages 11-13)

- insufficient disaggregation of the bands within the liquidity risk maturity analysis (IFRS 7:B11); and
- maturity analysis table incorrectly presented the amounts on a discounted basis (IFRS 7:B11D).

Our 2022 report (pages 7-8) and our 2021 report titled "Cash flow information and disclosure of liquidly and going concern" (pages 23-24) also contain further details of the liquidity risk disclosure items listed above.

In response to credit risk disclosures that were lacking, an issuer explained that trade receivables were immaterial to the AFS and unlikely to be a focal point to users of the AFS. We disagreed with the issuer's viewpoint. **Materiality must be assessed holistically** and in the context of the AFS as a whole. The issuer recognised their most significant assets at fair value. Limiting the materiality consideration to the statement of financial position effectively renders all other aspects of the AFS to be immaterial. Furthermore, a quantitative assessment of materiality alone is inappropriate. The issuers' revenue was generated exclusively on credit

terms. Trade receivables were therefore *qualitatively material* to users of the AFS, providing insight into the effectiveness of the Group's revenue generating capabilities together with the ability to collect contractual cash flows.

Presentation of Financial Statements (IAS 1)

Our reviews uncovered a broad range of findings across various aspects of IAS 1.

A reoccurring theme from previous findings was the application of paragraph 122 - disclosure of judgements that have the most significant effect on the amounts recognised in the financial statements.

A useful tool to guide appropriate disclosure of significant judgements is as follows:

Step 1: Identify the items in the AFS where applying a different approach could have a significant impact; and

Step 2: Ensure that an *entity specific explanation* is provided in support of the issuer's approach.

By way of example, areas we found lacking were the disclosure of judgements supporting the:

- identification of a specific functional currency - the issuer was an investment holding company who had raised equity and debt instruments in two different currencies whilst its investee entities transacted in a third currency;
- going concern assumption - the AFS reflected a net current liability position (which also worsened in the subsequent interims); and
- point at which the issuer determined it exercised de facto control - not only were the facts subjective, but the acquisition occurred without an additional purchase price linked to an acquisition of shares.

A new topic, not discussed in our previous reports, was:

- paragraph 112(c): any information presented outside of the AFS that is relevant to an understanding of the item must be included through a specific cross reference if there is to be compliance with IFRS.

Interim Financial Reporting (IAS 34)

We reached agreement with 7 issuers that their disclosures under IAS 34 *Interim Financial Reporting* were insufficient in the follow areas:

- Specified segmental information, in line with that presented in the AFS, was not disclosed (IAS 34.16A(g));
- The issuer did not use the same headings and subtotals presented in the AFS (IAS 34.10);
- Explanations of events and transactions that are significant to understand changes since the last AFS were omitted. In this instance there was a significant increase in operating expenses but no explanation regarding what contributed to the increase (IAS 34.15);

- Significant related party transactions were omitted. These disclosures are required even if the transactions are the same types present in the AFS (IAS 34.15B(j)); and
- For financial instruments the fair value disclosures required by certain paragraphs of IFRS 13 and IFRS 7 were not disclosed (IAS 34.16A(j)).

Statement of Cashflows (IAS 7)

Financing Activities
Financing activities were understated in two separate instances as the issuers omitted the:
- capital payment to the non-controlling shareholders (IAS 7.17(b)); and
- repurchase of shares in a subsidiary controlled by the issuer (IAS 7.42A).

Bank Overdrafts
A bank overdraft should not have been included within 'cash and cash equivalents', as the issuer was unable to demonstrate that it was an integral part of their cash management practices (IAS 7.8). More specifically the bank balance did not fluctuate from being positive to overdrawn.

Non-cash items
An issuer acquired the shares in a company (Company A) but did not make a separate payment when acquiring/ assuming existing shareholders loans. The issuer incorrectly reflected the 'assumption' of the shareholder loans as part of the consideration paid within investing activities (IAS 7.43). This was incorrect as it was neither a cash payment (at the time of the acquisition) nor were the repayments of the loans investing activities. The loans remained a liability of Company A and would therefore be reflected as a liability of the group in the consolidated accounts. The (eventual) repayment of these liabilities should have formed part of financing activities.

Inconsistencies in cash flow movements
We found instances where the descriptor of an item in the statement of cashflows and the 'direction' of cashflow seemed inconsistent. Inconsistencies were caused through incorrect labelling or a lack of transparency of non-cashflow changes and were contrary to paragraph 44A of IAS 7. An example of incorrect labelling was where the repayment of a 'loan to purchase assets' increased the loan in the statement of financial position.

Revenue from Contracts with Customers (IFRS 15)

Accounting policy
We questioned an issuer on their generically worded and incomplete accounting policy for revenue recognition. Our attention was drawn to this matter given the unusual business model of the entity and the lack of clarity to how they generated revenue. The policy merely mentioned that performance obligations were sometimes satisfied at a point in time and in other instances over time. It turned out that point in time recognition was not used and therefor this wording should not have been included. The policy was lacking in that it did not:
- explain the nature of the goods or services that were the subject of the contract; and

- provided details of the method used to recognise revenue over time, nor any accompanying explanation to why that method provided a faithful depiction of the transfer of goods/services (IFRS 15.124).

Disaggregation
A common deficiency we identified under IFRS 15 *Revenue from Contracts with Customers* was a lack of disaggregated revenue disclosure (IFRS 15.114, read with IFRS 15.B88 and B89). In our cases disaggregation of revenue should have occurred given that the issuers had different:

- types of products;
- markets or type of customers;
- sales channels - online versus consuming the product/ service in person;
- geographical regions; and/or
- payment terms - cash versus credit sales.

Our queries were triggered when we saw:

- aggregated revenue in the AFS of seemingly different geographical regions; or
- disaggregated information being presented in the issuers' investor presentations (for example in table format) or their integrated report (for example as management commentary).

Different economic risks (for example in a specific country) could impact the uncertainty of revenue and cash flows arising from contracts with customers within the regions, or the amount of revenue that a region may generate. IAS 15.114 requires disaggregation in these instances.

One issuer explained that they did not believe that disaggregation was necessary for two reasons.

- The business did not monitor the revenue in this manner.
- Whilst they had presented certain figures in their investor presentation, their accounting systems did not capture the information.

Our 2022 and 2021 reports have explained that the IFRS 15 disclosures are not constrained by what information is collated and/or presented to management.

<u>Fair value measurement disclosures (IFRS 13)</u>

The disclosures of five issuers were found to be deficient with respect to disclosure of significant unobservable inputs used in the fair value measurement. The disclosure of inputs were either:

- partially omitted for a specific asset, where one of the inputs was incorrectly not identified to be significant;
- omitted entirely for an asset class; or
- presented on an overly aggregated basis - with very wide ranges being presented for the inputs

These approaches are contrary to the requirements of IFRS 13.93(d) and IFRS 13.92(c) respectively.

Our November 2020 report called: "Investment property: Common findings" is a useful reference point on IFRS 13 disclosures, and discusses both good and bad examples. It is a relevant read for all issuers- not just those with investment properties.

5. Findings from limited scope reviews

Three different limited scope (or thematic) reviews were undertaken in the past year being:

- concluding our 2023 review of credit and liquidity risk matters for financial instruments;
- an IFRS 8 *Operating segments* review, targeting issuers where we identified potential inconsistencies with the IFRIC agenda decision; and
- a review on the application of IFRS 17 *Insurance Contracts* by long term insurers.

Our IFRS 17 review is ongoing, and we will provide feedback thereon once we have completed our entire sample.

5.1 Financial Instruments: Disclosures

Our 2023 report included details from our thematic review where various areas of disclosure within IFRS 7 were found to be lacking. The details for one additional matter which was concluded in the first quarter of 2024 is detailed below.

Post write-off recoveries

Our 2023 report (on page 5) highlighted a case in which our enquiry to seemingly high levels of post-write-off recoveries ("PWOR") led to a finding that the issuer's application of the partial derecognition requirements of IFRS 9 were inappropriate.

A critical performance indicator for investors in the financial services sector is evaluating the health of the loan book by comparing the ratio of performing versus non-performing loans. Inappropriate (or early) derecognition of loan receivable balances (along with the reversal of their expected credit loss allowances) prejudices this assessment by artificially improving the ratio. Entities that write off loan balances 'too early' often record higher PWORs in subsequent periods - being the gain recognised when the written-off receivable is collected or partially collected.

As part of our IFRS 7 thematic review in 2023, we analysed the relationship of PWOR to other metrics in the AFS for selected issuers in the financial services sector and wrote letters of enquiry to two issuers. These cases are discussed below.

Credit risk and credit losses are a significant financial indicator for a financial services entity, and disclosures required by IFRS 7 reflect this. Writing off a loan receivable does not necessarily mean that an entity's right to the future cash flows from that receivable has expired. IAS 1.9 sets out the purpose of financial statements, explaining that these assist users in predicting an entity's future cash flows - particularly, their timing and certainty. Information about credit risk, credit losses and the cash flows that may (or may not)

materialise in the form of PWORs allows users to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows (IFRS 9.35B).

IFRS does not set a definitive point for when an entity should write-off a financial asset. Paragraph 5.4.4 of IFRS 9 identifies a write-off as a derecognition event and explains that derecognition only occurs when the entity has *no reasonable expectation of recovering* either a portion of, or the financial asset in its entirety. 'No reasonable expectation' is a high hurdle and implies little or no scenarios in which the entity expects that some recovery will occur. Identifying the appropriate write-off point is ultimately a matter of judgement.

We questioned the judgement applied by the two issuers in question. Whilst both demonstrated seemingly robust and IFRS-grounded policies, we found the extent of disclosure about the judgement exercised to be generic and not product specific. In the context of the material impact that PWORs caused to these issuers' results (IAS 1.122), users required insight to how write-offs are determined and the impact that PWOR had to current and future financial statements.

Both issuers applied different write-off points for different asset portfolios and regularly reviewed the reasonableness of specific write-off points. The issuers committed to providing more detailed, product-specific information about how asset portfolios are identified for write-off (IFRS 7.35F(e)). Where write-offs, impairments and PWORs were material, we instructed the issuers to provided quantitative disaggregated disclosures per product portfolio to enable users to assess the impact that individual products had to the total credit expense or PWOR recorded by the entity. We also asked for disclosure of disaggregated information linking the current period PWOR to the period in which the related loans were written off.

The above disclosures are beneficial to users when understanding the judgement applied by management and provide useful information in the prediction of future cash flows. The ultimate purpose of the disclosures is to lessen the 'surprise factor' that the subsequent receipt of PWORs cause to financial performance in any particular period.

5.2 Segmental report disclosure of material income and expenses

Both our 2022 and 2023 reports contained a section discussing IFRS 8. We indicated that we had referred the matter to the IFRS Interpretations Committee of the IASB ("IFRIC"). The IFRIC's decision on this matter was published (in July 2024) as an addendum to the June 2024 IFRIC Update. The IFRIC's agenda decision is set out in Appendix 3.

We had four open cases from 2022 involving IFRS 8 and targeted a further nine issuers for a thematic review in 2024. We have concluded ten of these thirteen cases.

Subsequent to the publication of the IFRIC's agenda decision we applied the following process. We:

- identified the profit measure included within the segment report;

- identified items (presented either on the face of the income statement or in the notes) which were included in the profit measure, and which appeared to us to be material in the context of the financial statements as a whole; and
- made enquiries with the issuers when these items were not included within the segment report.

We have been intentionally pragmatic in terms of the level of materiality we have targeted for this limited scope review process. The types of line items we have flagged have included: total cost of sales, inventory, raw material costs, employee costs, and selling and marketing costs. No issuers have disagreed with our assessment that these items are material to the financial statements as a whole.

6. The findings in numbers

The purpose of this section is to enable issuers to understand the process that is followed by the JSE. It also highlights the fact that a clean auditor's report is no guarantee that the AFS will negate regulatory challenge and (where necessary) correction.

In the bulk of cases where we have requested action, we have done so to ensure that there is no future investor prejudice for matters which, fortuitously, may not have been material in the results that we reviewed.

6.1 Review process

Annexure 1 contains a high-level overview of the review process for the benefit of those readers who are not familiar with it. The potential risk areas are updated on an annual basis. These are driven by both the entity's specific business circumstances and our reconsideration of general risk areas both locally and internationally. The review of the same issuer from one year to the next (if this were to be done) may therefore identify different matters.

Our completed reviews largely covered AFS for years ending between 31 December 2022 and 31 December 2023.

6.2 Statistics

What we did -overall

We look to obtain a desired coverage ratio of our population through performing a combination of detailed and limited scope or thematic reviews. The table below provides details of the types of reviews completed and examination rate over the past three years.

	Equity	Debt [1]	Total 2024	Total 2023	Total 2022
Detailed reviews completed	35	3	38	35	50
Limited scope reviews completed	8	5	13	16	18
Reviews completed	**43**	**8**	**51**	**51**	**68**
Examination rate (Percentage coverage of population)			17.3%	17.1%	21.2%

The total number of reviews completed in 2024 is in line with 2023.

What we did - Detailed reviews

The table below shows that between October 2023 and September 2024 we completed 38 detailed reviews.

In terms of that process we performed 42 new detailed reviews, 39 on equity issuers and 3 on debt issuers. We wrote letters of enquiry to 32 of the issuers, with 10 cases being closed immediately without any questions asked.

	Equity	Debt [2]	Total
Letters of query	29	3	32
Cases closed immediately	10	-	10
Number of new AFS reviews	**39**	**3**	**42**
Cases b/f from previous year	8	-	8
Total cases reviewed during period	47	3	50
Cases still pending	(12)	-	(12)
Cases completed during period	35	3	38

At 30 September 2023 twelve of the (equity) cases were still pending.

[1] To avoid double counting , issuers that are both an equity and debt issuers are included in the numbers for equity issuers only

[2] Other hybrid instruments and asset back securities are also reviewed and are included in this category

What we did -Limited scope reviews

All limited scope reviews in 2024 followed an interactive process. In other words, we wrote to issuers where we had questions to their AFS.

The figures below reflect the totals for three separate limited scope reviews running during the past year. We concluded the (five) 2023 thematic reviews, and embarked on two separate focussed reviews in 2024, both of which are still ongoing.

	Equity	Debt	Total
Letters of query	7	4	11
Cases closed immediately	1	-	1
Number of new AFS reviews	**8**	**4**	**12**
Cases b/f from previous year	3	2	5
Total cases reviewed during period	11	6	17
Cases still pending	(3)	(1)	(4)
Cases completed during period	8	5	13

What we found - Detailed reviews

We identified two cases non-compliance that was material from an IFRS perspective- for two cases, and we requested issuers to effect restatements to their AFS. Those cases are discussed in section 4.1 above. For a further 12 cases, whilst fortuitously there was no material misstatement for the period reviewed, we requested amendments to be made in the next published results to avoid potential investor prejudice. Eleven cases involved smaller disclosure matters where issuers agreed to correct the matters in the future.

	2024 Equity	2024 Debt	2024 Total	2023 Equity	2023 Debt
Non-compliance material	1	1	2	-	2
Non-compliance not material this year, but must be corrected in the future to avoid potential investor prejudice	12	-	12	2	1
Smaller disclosure issues that will be corrected in the future	10	1	11	12	4
AFS in respect of which it was concluded that there were no issues	12	1	13	11	3
Total cases closed	**35**	**3**	**38**	**25**	**10**

The percentage of cases requiring corrections was 37% (13 cases) (2023-8%) for equity issuers and 33% (1 cases) for debt issuers (2023-30%).

What we found -Limited scope reviews

In 10 cases we identified non-compliance that was material from an IFRS perspective, and we requested issuers to effect restatements to their AFS. Two cases involved smaller disclosure matters where issuers agreed to corrections in the future.

	2024 Equity	2024 Debt	2024 Total	2023 Equity	2023 Debt
Non-compliance material	5	5	10	2	-
Smaller disclosure issues that will be corrected in the future	2	-	2	4	4
AFS in respect of which it was concluded that there were no issues	1	-	1	4	2
Total cases closed	**8**	**5**	**13**	**10**	**6**

The reason for there being only 1 review with no concerns (2023-6) is that our target sample for the new 2024 reviews was issuers where we expected to find potential non-compliance. This was a unique approach to our limited scope reviews compared to any other year, driven by the nature of each of the themes under consideration.

What we found -Overall

Looking at the combined result of detailed and limited scope reviews, we closed 51 cases in the 2024 cycle. We made findings in 37 instances (2023-31). Of those the number of cases impacting measurement was at 26.6% (2023-15%) for equity issuers and 14.3% (2023-15.4%) for debt issuers. The data continues to reveal that disclosure matters remain the main area of non-compliance.

Annexure 1 – Understanding the review process

Why the review process

Our 2020 report includes a reminder that the JSE undertakes the review process because it was requested to do so by The Financial Services Conduct Authority in 2010. The integrity of financial information is a critical element of a well-functioning market. The objective of the review process is therefore to contribute towards the production of quality financial reporting of entities listed on the JSE.

Details of the review process

An overview of the review process applied in our detailed reviews is included in our 2018 report (and previous reports). We do not repeat that content here. It is recommended that individuals who are unfamiliar with the detailed review process refer to page 21 of the 2018 report (which is available on our website) for a full understanding thereof.

We aim to be pragmatic in our approach and look to unravel matters that could be price sensitive. As a result, it is necessary to ask questions of issuers to understand certain accounting matters and to ascertain the materiality thereof either on past, current or future accounting periods. Matters are often easily resolved by the issuer submitting a satisfactory IFRS substantiated response.

Accounting topics examined and risk areas considered are likely to change from year to year. We identify these changes annually, aiming to ensure that the review process remains both attuned to local market developments and aligned to similar international processes.

We have based our model largely on the guidelines that the European Securities and Market Authority sets out for the member states of the European Union. Given changes made to those guidelines in 2020, we amended our process in 2021 and 2022 as explained below.

Selection process

In 2021, the JSE made a fundamental change to the selection process. Historically the random selection process meant that we treated all issuers equally, aiming to review every issuer's AFS at least once every 5 years. The JSE's revised approach considers the risk to investors in terms of market concentration. Therefore, as part of the random selection process, we will select issuers (equity and debt) that have a larger market capitalisation and/or who are active in both the equity and interest rate markets more frequently. Furthermore, to remove the element of predictability, our review cycles have been amended from a 'once every 5 years' approach to the principle of 'once within a set window'. The selection period will be either a 3, 5, 8 or 10-year window, depending upon the size of the issuer. By way of example, an issuer within the top 40 index will now be selected at least once in the period 2021 to 2023 and then again once somewhere in the period 2024 to 2026.

Types of reviews

The 2022 report called 'Limited scope thematic report: Cash flow information and disclosures of liquidity and going concern' ("the 2022 thematic report") explains the introduction of a new limited scope review process to be performed (annually) in parallel to the established detailed reviews.

Detailed reviews consider the AFS and interims ("financial reports") holistically. They are essentially a vertical review of an entire financial report for a specific issuer. Detailed reviews focus on identified risk areas and potentially material IFRS non-compliance matters, with no limit being placed on the scope of the review.

In contrast *Limited scope or thematic reviews* apply a horizontal lens to the financial reports to focus on a specific area (or theme) across several issuers. These reviews execute an in-depth review of specific focus areas and therefore limit the subject matters considered in those reviews.

The 2022 thematic report (which is available on our website) provides more detail and a comparison between the two types of reviews. A review of page 2 of that report will provide a fuller understanding thereof.

Process applied to ALT^{X} issuers

Our 2020 report includes an explanation of the revised approach that was introduced for issuers listed on the ALT^{X} market. Not only will they be reviewed on a less frequent basis, but the process itself has been amended. Those involved in the ALT^{X} market are referred to page 23 of our 2020 report (which is available on our website) for an understanding of that process and our objectives.

Year to year findings

It is possible that a subsequent review of the same issuer may lead to different questions being asked. This could be the case even where matters are treated on an identical basis by the issuer from one year to the next. The reason for this is twofold.

Firstly, for *detailed reviews*, the:

- JSE reconsiders the overall process on an annual basis;
- risk areas change from year to year; and
- materiality of matters within the context of specific set of AFS or business environment may differ.

Secondly, a different lens is applied for *thematic reviews*. This process generally involves a 'deeper dive' into a specific topic than is the case with a detailed review. Furthermore, we apply a lower materiality threshold to limited scope reviews. A key objective of the limited scope review is, where possible, to publish detailed findings in order to guide issuers in identifying common pitfalls and so doing increase the quality of future reporting by issuers.

Annexure 2 – Activities of the FRIP

The Financial Reporting Investigation Panel ("FRIP") is an advisory body, providing the JSE with advice on cases (referred to the FRIP by the JSE) of possible non-compliance with financial reporting requirements. Page 18 of the 2022 report provides a more detailed narrative on the operations of the FRIP.

Two matters were referred to the FRIP during the period.

Case 1

A review committee of the FRIP ("the FRIP committee") considered the application of IFRS with respect to the recognition of Expected Credit Losses ("ECL") on loans. The FRIP committee did not consider the actual amounts relating to the measurement of the ECL for the issuer and was restricted to a discussion on the applicability of the IFRS arguments raised by the issuer in support of the basis on which it had (or had not) recognised ECLs. The FRIP report noted that if the amount determined as the ECL was not material, it would not be a contravention of IFRS if an ECL allowance was not recognised.

The concerns raised by the JSE were in relation to specific loans for which additional information relating to the counterparty was available as it was either a related party or a party in which the issuer held equity investments measured at fair value through profit or loss.

The IFRS considerations applied by the FRIP committee were: the definitions of credit loss and expected credit loss in Appendix A to IFRS 9, IFRS 9. 5.5.3, IFRS 9. 5.5.5, IFRS 9. 5.5.10, IFRS 9. 5.5.17, IFRS 9. 5.5.18, IFRS 9 B5.5.1, IFRS 9 B5.5.4, IFRS 9.B 5.5.41, and IFRS 9.B 5.5.42.

The FRIP report highlighted the distinction between a probability of default and an increase in credit risk given the basis on which IFRS 9's ECL model is applied.

- The consideration of whether the credit risk has increased is relevant in identifying the period for which defaults need to be considered in applying IFRS 9's three stage ECL model. A significant increase in credit risk will trigger a transition between the stages of the ECL model, specifically whether the losses to be recognised are based on possible events of default over the next 12 months only or over the lifetime of the instrument.
- The probability of default is taken into consideration in measuring the ECL provision required.

The relationship between collateral for the loan and the application of the ECL model were discussed in the report. It was noted that the existence of collateral is generally not relevant to determining whether there has been a significant increase in the credit risk as that is based on the likelihood of an event of default occurring. The calculation of any expected credit loss would take into consideration the anticipated cash flows relating to any collateral held, which may well result in no ECL even where there has been a significant increase in credit risk.

Unbiased, probability weighted amounts and assessment of default

The FRIP report highlighted that the calculation of an ECL should be a weighted one, where the weighting is based on the probability of the outcome (IFRS 9 5.5.17(a)). This requires that the determination of ECL must include at least two potential outcomes, one of which must be that a credit loss will occur, even where that likelihood is very low (IFRS 9 5.5.18). While the probability of default may be low, it is never zero, meaning that (materiality arguments aside) every receivable should be at risk of default – even where the counterparty has no history of default.

When applying IFRS 9's expected credit loss model, an ECL allowance may be required even where a payment is not yet due and there is not a current default. If an issuer were to recognise ECL allowances only where a default had occurred, that would be in contravention of IFRS 9's forward looking expected credit loss model and result in biased results.

Relationship between losses on equity investments and credit risk on same counterparty

The FRIP committee was asked to consider the extent to which the issuer's recognition of impairment losses on an equity investment would be relevant to the application of IFRS in determining ECL in relation to loan receivables from the same counterparty.

Significant impairment losses on an equity investment will generally be triggered by similar factors to those which would give rise to an increase in the credit risk of a loan since its initial recognition. If the increase is significant, this would require the loan moving from the 12-month stage to lifetime stage of ECL. The FRIP report noted that while it was theoretically possible for an equity investment to be fully impaired without an ECL allowance being required in respect of a loan receivable from the same company, it is an area in which significant judgment would be required. Specific disclosure is likely to be required in order to adequately understand the credit risk of the loan.

Relationship between cash and other current assets and assessment of ECL

The report also considered whether cash balances and other current assets held by the borrower at the reporting date suggested that an ECL need not be recognised. In this regard, it was noted that the ECL calculation is based on anticipated *future* cash flows. The existence of current cash balances does not necessarily imply that there will be cash available when the loan is repayable, unless it is in some form of collateral for the loan. Similar assessments are needed with respect to other current assets held by the borrower.

Potential necessity for an ECL despite no current default

In response to arguments raised by the issuer, the FRIP report emphasized that the calculation of an ECL allowance is based on expected future losses as opposed to an incurred loss model. This implies that it may be appropriate to recognise an ECL allowance even where the loan is not currently in default as there is always some risk of default where the loan is repayable in the future.

Use of a general provision for ECL allowances

The FRIP committee was asked whether it was appropriate to have a general provision that is not attached to any specific loan when determining the ECL allowance. The FRIP report highlighted the distinction between:

- Applying a general provision that is not attached to any specific loan; and
- An ECL allowance that has been determined on a collective basis.

IFRS 9 requires that credit losses should be calculated separately for each asset, but that calculation may be done on a collective basis where an entity does not have reasonable and supportable information that is available without undue cost of effort to do so on an individual basis. As the loans to which this report relates were to equity accounted companies, the criteria for the application of the collective basis are not satisfied as the relevant information is available 'without undue cost or effort'.

Disclosure requirements
The FRIP report noted that the disclosure provided should be sufficient to enable users to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows (IFRS 7.35B). In the particular circumstances of the case, disclosures should have been provided of the judgements and estimates made by management that resulted in the conclusion that the amount of the ECL allowance was immaterial. In addition, where the impact of collateral is used to justify not recognising an ECL allowance, the disclosure required IFRS 7.35K should be provided.

<u>Case 2</u>

Another FRIP committee considered the basis on which an issuer had recognised, and disclosed, the impact of a suite of derivative contracts with their (former) holding company in its financial statements. The suite consisted of 8 put and call options over the equity interests in 2 investee companies. In other words, the issuer and its former holding company each had both put and call options over one other's equity stakes in two investee companies. The options were exercisable at a price defined by a formula in share sale agreements.

The FRIP committee considered whether the derivative instruments had commercial substance. Despite the issuer recognising substantial assets for the contracts, they were allowed to lapse unexercised shortly after the reporting period. In addition, there were inconsistencies in the contractual agreements and their application, a lack of clarity on how the price was to be determined, and some errors in the way in which the terms of the contracts had been applied in preparing the financial statements. The FRIP report concluded that it was a legal issue to determine if the contracts were enforceable or not. If the contracts were legally enforceable as they had been written, the FRIP committee accepted that the options were valid financial instruments because the contracts gave rise to rights and obligations.

Provided that the contracts were legally enforceable and the options were valid financial instruments, the FRIP committee considered how the options should have been recognised. Option contracts are financial instruments and fall within the scope of IFRS 9. Once they are effective, all financial instruments should be recognised and measured at fair value.

The issuer's approach to recognition was to calculate a fair value for all the options relating to each entity and to recognise the highest of all the values. No attempt was made to determine the fair value of the linked instruments.

The FRIP committee considered the impact of having a suite of options relating to the same entity and noted that, given that the written and purchased symmetrical options related to the same shareholdings of the same entity, synthetic forwards had been created. As all other options lapsed if one of the options was exercised, the substance was effectively a forward contract conditional on one party initiating one of the options which knocked all other options out. The existence of the knock-out feature led the FRIP committee to conclude that it is appropriate to link all four of the derivatives relating to the same company and recognise the fair value of the net effect.

In concluding that linkage was appropriate, the FRIP report noted that the contracts were entered into at the same time, in contemplation of each other and with the same entity and achieved the same purpose as if only one contract had been entered into. (See the explanation to IFRS 9 IG B.6 relating to the definition of a derivative: offsetting loans).

The FRIP report noted that calculating the fair value of the linked position would be challenging, particularly given that the fair value would be based on what a market participant would pay for the asset or liability in an orderly transaction. The complexity of valuing the net position is exacerbated by the fact that the contracts were between related parties. IFRS 13 does not permit complexity as grounds for not measuring a financial instrument at fair value. Extensive disclosure of the judgements and assumptions made by management would have been required.

Annexure 3 – The IFRIC Agenda decision on IFRS 8

Section 5.2 above explains our recent attention to a segment reporting matter which culminated in a referral to the IFRIC in 2023. The published IFRIC agenda decision is set out below. Further background can be found in the staff paper presented at the IASB's July 2024 meeting

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)

The Committee received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 to disclose for each reportable segment specified amounts related to segment profit or loss.

The request asked:

a. whether an entity is required to disclose the specified amounts in paragraph 23(a)–(i) of IFRS 8 for each reportable segment if those amounts are not reviewed separately by the chief operating decision maker (CODM);
b. whether an entity is required to disclose the specified amounts in paragraph 23(f) of IFRS 8 for each reportable segment if the entity presents or discloses those specified amounts applying a requirement in IFRS Accounting Standards other than paragraph 97 of IAS 1 *Presentation of Financial Statements*; and
c. how an entity determines 'material items' in paragraph 23(f) of IFRS 8. In particular:
    i. whether 'material items' are only those items that are material on a qualitative basis;
    ii. whether 'material items' include amounts that are an aggregation of individual items that are quantitatively immaterial; and
    iii. whether the materiality assessment is performed at an income statement level (from an overall reporting entity perspective) or at a segment level.

The Committee observed that there are two main aspects to the questions:

a. the requirements of paragraph 23 of IFRS 8 to disclose, for each reportable segment, specified amounts included in segment profit or loss reviewed by the CODM; and
b. the meaning of 'material items of income and expense' in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8.

Disclosure of specified amounts

Paragraph 23 of IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment and to disclose specified amounts for each reportable segment. Paragraph 23 sets out specified amounts that an entity is required to disclose for each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM, or are otherwise regularly provided to the CODM, even if not included in that measure of segment profit or loss.

The Committee observed that paragraph 23 of IFRS 8 requires an entity to disclose the specified amounts for each reportable segment when those amounts are:

- included in the measure of segment profit or loss reviewed by the CODM, even if they are not separately provided to or reviewed by the CODM, or

- regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.

Material items of income and expense
Paragraph 23(f) of IFRS 8 sets out one of the required 'specified amounts', namely, 'material items of income and expense disclosed in accordance with paragraph 97 of IAS 1'. Paragraph 97 of IAS 1 states that 'when items of income or expense are material, an entity shall disclose their nature and amount separately'.

Definition of 'material'
Paragraph 7 of IAS 1 defines 'material' and states 'information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial reports make on the basis of those financial statements, which provide financial information about a specific reporting entity'.

Paragraph 7 of IAS 1 also states that 'materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole'.

Aggregation of information
Paragraphs 30–31 of IAS 1 provide requirements about how an entity aggregates information in the financial statements, which include the notes. Paragraph 30A of IAS 1 states that 'an entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions'.

Applying paragraph 23(f) of IFRS 8—material items of income and expense
The Committee observed that when IAS 1 refers to materiality, it is in the context of 'information' being material. An entity applies judgement in considering whether disclosing, or not disclosing, information in the financial statements could reasonably be expected to influence decisions users of financial statements make on the basis of those financial statements.

The Committee observed that, in applying paragraph 23(f) of IFRS 8 by disclosing, for each reportable segment, material items of income and expense disclosed in accordance with paragraph 97 of IAS 1, an entity:

a. applies paragraph 7 of IAS 1 and assesses whether information about an item of income and expense is material in the context of its financial statements taken as a whole;
b. applies the requirements in paragraphs 30–31 of IAS 1 in considering how to aggregate information in its financial statements;
c. considers the nature or magnitude of information—in other words, qualitative or quantitative factors—or both, in assessing whether information about an item of income and expense is material; and
d. considers circumstances including, but not limited to, those in paragraph 98 of IAS 1.

The Committee further observed that paragraph 23(f) of IFRS 8 does not require an entity to disclose by reportable segment each item of income and expense presented in its statement of profit or loss or disclosed in the notes. In determining information to disclose for each reportable segment, an entity applies judgement and considers the core principle of IFRS 8—which requires an entity to disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to apply the disclosure requirements in paragraph 23 of IFRS 8.

Consequently, the Committee decided not to add a standard-setting project to the work plan.

[In accordance with paragraph 8.7 of the *Due Process Handbook*, at its July 2024 meeting, the IASB discussed, and did not object to, this agenda decision.]

Annexure 4 – List of documents for the audit committee's consideration

Annually we consolidate our previous annual reports on the review process into one report entitled 'Combined findings of the JSE Proactive Monitoring of financial statements' ("the Combined Findings Report"). The latest report was issued on 31 October 2024.

For ease of reference, this annexure contains information that all audit committees must consider in fulfilling their responsibilities referred to on page 4 of this the 2024 report.

1. This, the 2024 report;
2. Financial instruments: Disclosures
    a. The IFRS 7 items on pages 11 to 18 for the 2023 report;
    b. Section 8: Liquidity Risk (pages 21 to 24) from the October 2022 Proactive Monitoring Limited Scope Thematic review : Cash flow information and disclosures of liquidity and going concern;
3. Given our other common findings, the following sections from the Combined Findings Report issued in October 2024;
    a. Disclosure of judgements and estimates (page 20);
    b. Interim Financial Reporting (page 53);
    c. Statement of cashflows (page 28);
    d. Revenue from Contracts with Customers (page 42); and
    e. Fair Value measurement disclosures (page 87).
4. Fair value disclosures, the November 2020 report called: "Investment property: Common findings"

Audit committees should also consider the entire content of the Combined Findings Report if the issuer:

- is newly listed; or
- had events or transactions that were not present when they considered our previous reports.

The above documents can be accessed via the hyper-link reflected in green or downloaded from the JSE website, https://www.jse.co.za/current-companies/issuer-regulation/accounting-matters.