



Financial Reporting Council

Thematic Review:

Financial Instruments Reporting by Corporates

October 2026

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1. Executive summary

This report sets out the findings of our limited-scope desktop reviews of the annual reports and accounts of 20 listed companies other than banks and insurers (corporates) reporting under UK-adopted IFRS Accounting Standards. It focuses on three areas in which we continue to identify scope for improvement in the quality and transparency of reporting: hedge accounting, expected credit losses (ECLs) and debt factoring.

These areas can have a material effect on companies' reported performance, financial position and future cash flows. In the [2025/26 Annual Review of Corporate Reporting](#), financial instruments was the second most frequently raised topic, with the majority of queries relating to corporates. Our previous thematic work on IFRS 9, 'Financial Instruments', largely focused on banks; this review addresses the issues most relevant to corporates.

We were pleased that we did not need to write to any company in our sample about issues under IFRS 9 that had a material effect on amounts recognised in the financial statements. However, we believe there are significant opportunities to improve the clarity and usefulness of the financial instrument disclosures provided under IFRS 7, 'Financial Instruments: Disclosures', and we wrote to most companies in our sample with observations in that regard.

This report is intended to help preparers produce high-quality financial reporting that users can understand. Many of its messages are principles-based, consistent with the messages in our 2022 publication '[What Makes a Good Annual Report and Accounts](#)'.

The report is not a detailed guide to the technicalities of financial instruments accounting or to the reporting requirements applicable to

the three areas we examined. Instead, it highlights examples that we considered particularly helpful to users, and signposts areas where reporting could be improved.

For many companies, the greatest opportunity for improvement lies in taking a principles-based approach that focuses on the disclosure objective in paragraph 1 of IFRS 7 (which requires entities to provide disclosures that enable users to evaluate the significance of their financial instruments, as well as the risks arising from the instruments and how they are managed). Companies that do so can be more confident in reducing the overall volume of disclosures provided and cutting clutter.

Materiality is a key consideration in financial instruments reporting. This is particularly relevant to hedge accounting, where market risk exposures can be significant despite a limited net accounting impact when hedges are effective; hedge accounting disclosures should enable users to understand the extent of those exposures and how they are managed through the entity's risk management strategy.

Further guidance on the assessment and application of materiality can be found in our publication '[Applying materiality in corporate reporting](#)', which provides practical insights for boards, preparers and investors.

Hedge accounting ([section 3](#))

- The most effective hedge accounting disclosures focused on meeting the disclosure objective of IFRS 7, enabling users to understand how risks arise, how they are managed and how hedge accounting reflects the company's risk management strategy.

1. Executive summary (continued)

- The better annual reports enabled users to understand and trace the effect of hedge accounting on financial position, performance and future cash flows. However, some companies omitted key quantitative information, making it difficult to assess hedge ineffectiveness, the scale of the exposures managed and the financial effect of hedging.
- Most companies provided clear accounting policies tailored to their hedging activities. However, in some cases, policies were boilerplate or inconsistent with other disclosures, and additional explanation was needed to help users understand the eligibility and classification of hedged items in more complex arrangements.
- Fragmented disclosures across multiple locations and unnecessary detail sometimes obscured key messages, and in other cases relevant information was omitted. Lack of connectivity between related disclosures, and differences between amounts reported in different sections, also made hedging disclosures harder to understand.

ECLs (section 4)

- Most companies provided clear accounting policies, explaining that lifetime ECLs had been recognised on trade receivables and contract assets using the simplified approach, and a provision matrix. However, where ECLs were identified as a significant source of estimation uncertainty, quantitative sensitivity analyses or ranges of reasonably possible outcomes were sometimes omitted.
- The most helpful disclosures explained how ECLs were estimated, including how forward-looking information was incorporated. We

were pleased to see disclosures that explained the basis for changes in the loss rates applied in estimating lifetime ECLs.

- We also observed useful disclosures explaining indicators of default and non-recoverability, how companies pursue recovery of amounts written-off and the use of credit enhancements such as bank guarantees and credit insurance.
- We continue to remind companies that the ECL requirements of IFRS 9 also apply to other financial assets measured at amortised cost such as intra-group loans and loans to joint ventures, as well as to financial guarantee contracts not accounted for as insurance contracts in a parent company's separate financial statements.

Debt factoring (section 5)

- The nine companies in our sample with debt factoring arrangements all appeared to apply the IFRS 9 derecognition requirements appropriately. Most factoring arrangements resulted in transfers of receivables that qualified for derecognition.
- Some companies referred to trade receivables being subject to master or revolving factoring arrangements but did not explain how the related receivables were classified.
- Given the limited IFRS guidance on cash flow presentation and diversity in practice, companies should provide clear, entity-specific disclosures explaining the presentation adopted and any judgements applied.

2. Scope and how to use this publication

Scope and selection

We performed a limited-scope desktop review of the annual reports and accounts of 20 listed corporates reporting under UK-adopted IFRS Accounting Standards,¹ focusing on the clarity, transparency and decision-usefulness of their financial instruments reporting. We selected companies with significant hedge accounting relationships under IFRS 9² (14), potentially material ECL disclosures (14) or debt factoring arrangements (9); some companies were selected for more than one topic. The sample covered a range of industries, with year-ends between December 2025 and March 2026.

Our proportionate approach to principles-based corporate reporting

The UK’s financial reporting framework is principles-based, requiring preparers to exercise judgement to ensure that the financial statements provide a true and fair view. The Financial Reporting Council (FRC) adopts a proportionate approach to its corporate reporting review work, raising substantive questions where there is, or appears to be, a material breach of the relevant requirements. This approach reflects the FRC’s commitment to maintaining high standards in corporate reporting while supporting UK economic growth and competitiveness, which is explained further in the FRC’s [2025/26 Annual Review of Corporate Reporting](#).

The word ‘should’ is used in this report to describe legal and accounting applications and disclosures that are required if material and relevant.

1 This review does not consider the presentational changes which will be required under IFRS 18, 'Presentation and Disclosure in Financial Statements'.

2 While this review does not consider hedge accounting under IAS 39, 'Financial Instruments: Recognition and Measurement', the observations on IFRS 7 disclosure requirements also apply to entities applying the IAS 39 hedge accounting model.

Using this publication

Instances of good practice and opportunities for improvement are identified in the report as follows:

-  A characteristic of good quality application of reporting requirements.
-  An opportunity for improvement by companies to move them towards good quality application of reporting requirements.
-  An omission of required disclosure or other issue companies should avoid in their annual reports and accounts.

Example disclosures, in grey boxes, represent good quality application of reporting requirements that companies should consider when preparing their annual reports and accounts. The examples will not be relevant for all companies or circumstances. Where appropriate, we have used examples from outside the thematic review sample, as well as hypothetical illustrations based on good disclosure encountered in our routine casework. These have been summarised to highlight key disclosure considerations and should not be regarded as complete examples.

Highlighting aspects of reporting by a particular company should not be considered an evaluation of that company's reporting as a whole. The accuracy and consistency of the underlying information in these examples has not been verified by our review.

3. Hedge accounting

Good hedge accounting disclosures tell a coherent story, linking the risk being managed, the risk management strategy and the related disclosures through a clear focus on disclosure objectives and communication principles. The diagram below provides a holistic view of the key considerations for achieving clear, connected and decision-useful disclosures, and shows the broader risk management context within which hedge accounting requirements and related disclosures apply. Sections 3.1 to 3.4 then examine the reporting practices we identified during our thematic review in this context.

Risk management strategy

What are the principal risks and how are they managed?



A connected hedge accounting narrative

1. Disclosure objective



- **Start by considering the disclosure objective**
- **Explain risks being managed and strategy**
- **Explain how hedge accounting reflects the strategy**

2. Quantify the impact



- **Help users understand the effect of hedge accounting on performance, position and future cash flows**
- **Quantify overall effects and provide reconciliations of reserves**

3. Organisation and connectivity



- **Ensure related disclosures are linked and easy to follow**
- **Use effective cross-references**
- **Ensure figures are reported consistently throughout the annual report**

4. Presentation and layout



- **Decide how disclosures will be structured between the strategic report, the financial statements and notes**
- **Avoid fragmentation and duplication**
- **Focus on entity-specific information**
- **Use clear tables and layouts**

Apply materiality throughout



Consider what matters to users at each stage



Focus on information that influences users' decisions



Be willing to remove immaterial or repeated information



Provide clear, relevant and decision-useful disclosures

3.1 Disclosure objective

Paragraph 1 of IFRS 7 sets out the disclosure objective of the standard. It requires entities to provide disclosures that enable users to evaluate the significance of financial instruments for the entity's financial position and performance, as well as the risks arising from those instruments and how those risks are managed.

Paragraph 31 of IFRS 7 develops the disclosure objective in paragraph 1 by focusing on risks arising from financial instruments and how those risks are managed. It requires entities to disclose information that enables users of the financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.

Paragraph 21A further develops the disclosure objective in paragraph 1 by focusing on hedge accounting and requires entities to disclose information about their risk management strategy, the effect of hedging activities on future cash flows, along with the effect of hedge accounting on the financial statements (paragraphs 22A to 24F). These requirements apply to risk exposures designated in hedge accounting relationships.

Providing the individual hedge accounting disclosures in IFRS 7 does not necessarily mean the disclosure objective has been met. Companies should consider whether their disclosures, taken as a whole, clearly explain how hedge accounting reflects their risk management strategy.

This section focuses on the requirement of paragraph 22A of IFRS 7, which requires an entity to explain its risk management strategy for each category of risk exposure that it decides to hedge and for which

hedge accounting is applied. The disclosure should enable users of financial statements to evaluate how each risk arises, how it is managed, and the extent of risk exposures managed.

The disclosure requirements in paragraphs 23A to 23F and 24A to 24F support this objective. [Section 3.2](#) considers these requirements in more detail. Paragraphs 23A to 23F require disclosure of information about how hedging activities may affect the amount, timing and uncertainty of future cash flows. Paragraphs 24A to 24F require disclosure of the effect of hedge accounting on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity.

Sources of risk

The 14 companies in our sample selected for this topic applied hedge accounting in respect of exposures to foreign exchange risk, interest rate risk and commodity price risk. Where risk exposures subject to hedge accounting were identified as principal risks, these were discussed consistently in both the hedge accounting disclosures and the strategic report.



We were pleased that several companies in our sample provided clear disclosure of:

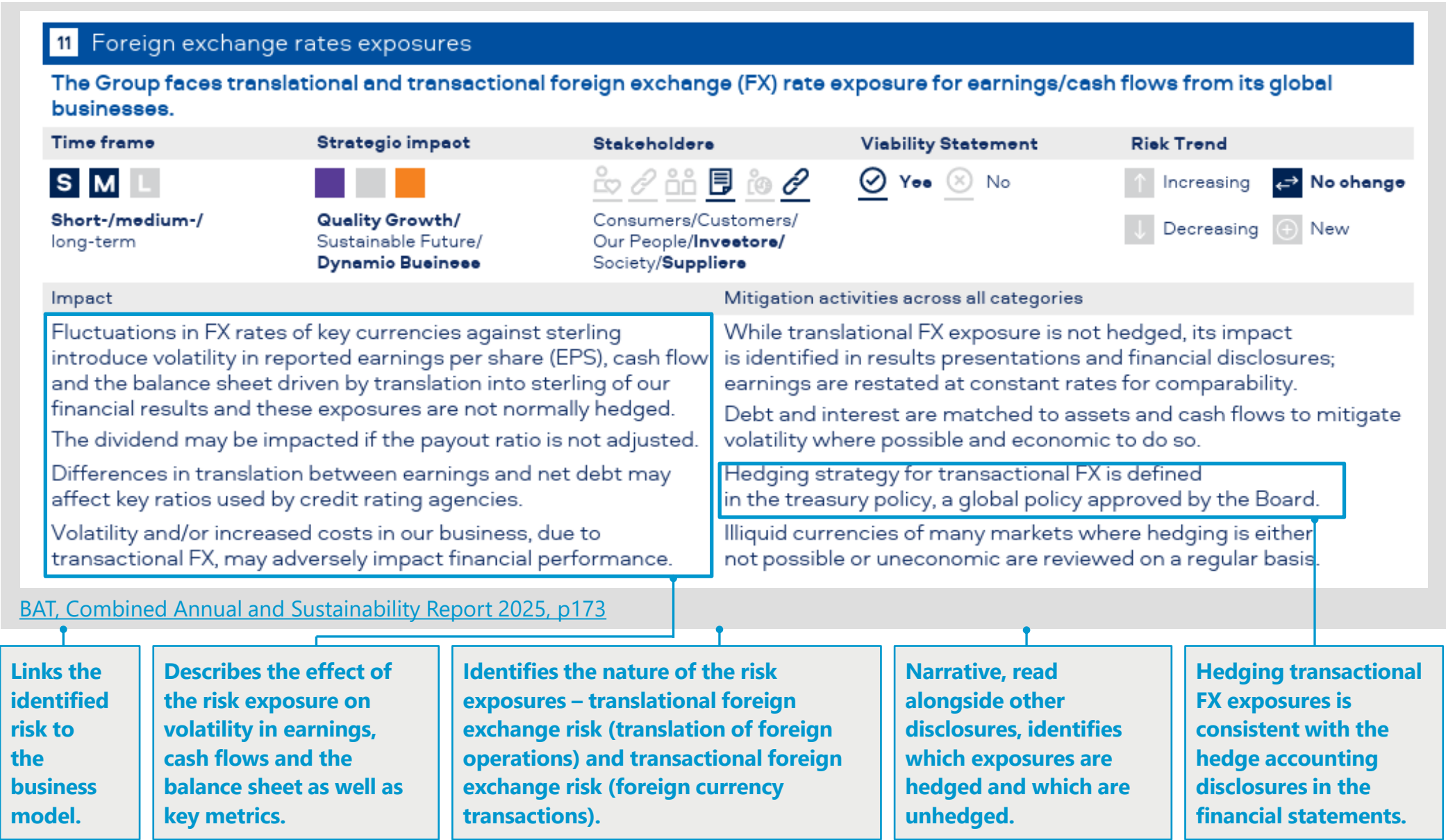
- the risks arising from their business models;
- the exposures resulting from those risks; and
- the hedging strategies used to manage them.



The example on page 8 identifies how one company explained the effect of hedging on performance in its strategic report.

3.1 Disclosure objective (continued)

Sources of risk (continued)



3.1 Disclosure objective (continued)

Sources of risk (continued)

Where appropriate, the Group uses financial instruments to hedge significant currency transactions, principally forward exchange contracts and swaps. These financial instruments are used to reduce volatility which might affect the Group's cash or income statement. In assessing the level of cash flows to hedge with forward exchange contracts, the maximum cover taken is 75% of net forecast flows. The Board receives treasury reports which summarise the Group's foreign currency hedging position, distribution of cash balances and any significant changes to banking relationships.

[Rotork plc, Annual Report 2025, p27](#)

The company provides a clear and concise explanation of the purpose of entering into hedges and how they impact its reported results.

Risk management strategy

The disclosure of how an entity manages each risk is supported by requirements to explain: (a) the hedging instruments used (and how they are used) to hedge risk exposures; (b) how the entity determines the economic relationship between the hedged item and the hedging instrument when assessing hedge effectiveness; and (c) how it establishes the hedge ratio.



The majority of companies in our sample provided clear descriptions of the hedging instrument used to hedge risk exposures.

Better practice examples of descriptions of hedging instruments used to hedge risk exposures included tailored narrative explaining the key terms and features of complex instruments designated as hedging instruments, providing sufficient context for users to understand the arrangement.



One company designated foreign exchange forward contracts as hedging instruments in cash flow hedges of highly probable forecast sales for multiple currency pairs. However, it was unclear how these currency pairs related to the functional currencies of group entities and the currency mix of sales.



Several companies in our sample did not disclose how they determined the economic relationship between the hedged item and the hedging instrument for the purpose of assessing hedge effectiveness.



Where companies engage in more complex hedging strategies, clear disclosures are particularly important. This includes disclosures explaining how hedge accounting relationships have been designated and how the economic relationship between the hedged item and the hedging instrument has been determined for the purpose of assessing hedge effectiveness.

3.1 Disclosure objective (continued)

Extent of risk exposures that the entity manages

The majority of companies provided sufficient information to enable users of financial statements to evaluate the extent of risk exposures that they had decided to hedge and for which hedge accounting was applied.

Often, this information was provided through disclosure of the nominal amounts of hedging instruments – for example, the nominal amounts of foreign currency contracts designated as hedging instruments in cash flow hedges of highly probable forecast sales or purchases.



One company in our sample provided insight into how management monitors and manages foreign currency risk, including the impact of hedging activities on its exposures.

The summary quantitative data about the Group's exposure to currency risk as reported to the Management of the Group is as follows:

	31 December 2025 (m)		31 December 2024 (m)	
	\$	€	\$	€
Trade and other receivables	920.6	933.9	743.9	898.5
Trade and other payables	(1,355.0)	(1,117.1)	(822.2)	(1,048.5)
Forecast future cash flow (net)	80.5	373.1	199.2	(12.0)
	(353.9)	189.9	120.9	(162.0)
Forward exchange contracts	353.9	(189.9)	(120.9)	162.0
Net exposure	–	–	–	–

[Computacenter plc, Annual Report and Accounts 2025, p197](#)

The table shows foreign currency risk exposures as monitored by management.



We identified cases where it was difficult to determine the extent of exposure to foreign exchange risk the entities managed by applying net investment hedge accounting as the carrying amounts of foreign-currency denominated borrowings designated as hedging instruments were not disclosed (paragraph 24A of IFRS 7).



For net investment hedges, this information can often be provided through cross-references to relevant disclosures presented elsewhere in the annual report and accounts and therefore does not need to be repeated in the hedging note for the disclosure to be complete.

3.1 Disclosure objective (continued)

Risk management strategy and how it is applied to manage risk



The following examples illustrate how two companies effectively articulate their risk management strategies and how they are applied.

The narrative clearly explains the company’s hedging activities and their purpose.

The disclosure links the instruments used to hedge specific exposures with useful context which enhances understanding and avoids boilerplate disclosures.

The company explains its basis for concluding that foreign exchange and commodity price collars can be designated as hedging instruments.

1 Derivatives designated as hedging instruments: cashflow hedges

Commodity price risk

All gas sales contracts in Italy are linked to the PSV price index and therefore the associated revenue proceeds are subject to PSV price fluctuations. The increased volatility in PSV price over the past 12 months has led to the decision to enter into commodity forward contracts with the bank in the UK. In April and May 2025, the Group entered in a series of put and call options to hedge about 30% of anticipated gas production in Italy for the following 12 months (until May 2026). Hedging the price volatility of forecast gas sales is in accordance with the risk management strategy outlined by the Board of Directors.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the foreign exchange and commodity forward contracts match the terms of the expected highly probable forecast transactions (i.e., notional amount and expected payment date, based on the nature of the underlying host instruments). The Group has established a hedge ratio of 1:1 for the hedging relationships as the underlying risk of the foreign exchange and commodity forward contracts are identical to the hedged risk components.

Foreign exchange risk

Foreign currency forward contracts are designated as hedging instruments in cash flow hedges of forecast transactions in currencies other than \$. Thus, in January 2025 the Group entered into the forward contracts with the bank in Israel to manage the foreign currency risk related to EUR, NOK and GBP payments to suppliers under the Katlan EPCI contract. The forward contracts are subject to different maturity dates and are designed to match the payments for completion of Katlan Subsea development milestones under the host contract. Multi-currency instruments are effective from April 2025 to August 2027.

Looking to protect its exposure to EUR/USD fluctuations associated with the deferred consideration payment (refer to note 27.1) the Group also entered into the EUR put and call options with the bank in the UK. The contracts were to expire by 30 June 2025 and the hedged exposure matched the payable amount.

The Group considered foreign exchange and commodity price collars not meeting the definition of net written options and therefore those were designated as joint hedging instruments.

Energean plc, Annual report 2025, p232

3.1 Disclosure objective (continued)

Risk management strategy and how it is applied to manage risk (continued)

Oil prices¹

Brent crude rose to \$81/bbl in January 2025 amid harsh winter conditions and intensified US sanctions on Iran and Russia but declined sharply in April to below \$60/bbl, due to aggressive tariff announcements and OPEC+ accelerating the unwinding of voluntary production cuts.

After temporary trade deals were reached, prices rebounded modestly in May and were briefly pushed to \$74/bbl in June following Israeli strikes on Iran. Oversupply and rising inventories, particularly in China and the US, kept prices subdued through the summer and as global supply surged, prices drifted further ending the year around \$61/bbl.

Early 2026 has seen a severely disrupted oil market, driven primarily by conflict in the Middle East, which halted tanker traffic through the Strait of Hormuz, sending Brent futures close to \$120/bbl in March. Prices later eased, with Brent futures dropping as low as \$92/bbl by mid-April amid reports of peace talks, but have remained significantly elevated relative to pre-conflict levels.

How we are responding

Our response to oil price volatility is to take a balanced approach, which combines a robust hedging programme with disciplined cost management. Our hedging policy is to protect 60% of our expected production for the year ahead and 30% of the following year. Additionally, we strategically select hedging instruments to ensure that at least 60% of our expected production retains exposure to rising oil prices. Alongside this, we maintain a relentless focus on managing our cost base and implementing targeted cost optimisation initiatives, which, together with disciplined capital allocation, underpin our ability to maintain financial resilience in a volatile oil price environment.

The following table demonstrates the timing, volumes and prices of the Group’s commodity hedge portfolio at year end:

First half of 2026 hedge portfolio at 31 December 2025	Bopd	Bought put (floor)	Sold call	Bought call
Hedge structure				
Straight puts	3,750	\$58.20	-	-
Collars	10,200	\$58.48	\$75.17	-
Three-way collars (call spread)	2,224	\$57.99	\$69.90	\$79.90
Total/weighted average	16,174	\$58.35	\$74.23	\$79.90
Second half of 2026 hedge position at 31 December 2025	Bopd	Bought put (floor)	Sold call	Bought call
Hedge structure				
Collars	7,500	\$58.97	\$74.88	-
Total/weighted average	7,500	\$58.97	\$74.88	-

The narrative, in the strategic report, explains the company’s exposure to commodity price risk and how the entity responds to changes in this risk.

The table, in the notes to the accounts, explains the hedging instruments used to hedge the company’s exposure to commodity price risk and the extent of risk exposures that the company manages at the balance sheet date.

The disclosure can be linked to the strategic report.

Tullow Oil plc, Annual Report and Accounts 2025, p6 and p129

3.2 Understanding the effect of hedging

The amount, timing and uncertainty of future cash flows

Paragraph 21A(b) of IFRS 7 requires entities to disclose information about how their hedging activities may affect the amount, timing and uncertainty of their future cash flows (paragraphs 23A to 23F).

Quantitative disclosures required to meet the disclosure objective are set out in paragraphs 23A and 23B of IFRS 7. Paragraph 23B requires entities to provide a breakdown of the timing profile of the nominal amount of the hedging instrument and, if applicable, its average price or rate (for example, strike or forward prices).

This disclosure helps users understand how the company's hedging strategy affects the timing of its future cash flows.



We identified instances where companies did not provide breakdowns of the average prices or rates of their hedging instruments, where applicable.



One company included a significant volume of transaction-level data that could be aggregated to provide more useful information to users. We encourage companies to consider the appropriate level of granularity in their disclosures (see [section 3.4](#)).

Paragraphs 23D and 23E of IFRS 7 require entities to disclose, by risk category, a description of the sources of hedge ineffectiveness that are expected to affect the hedging relationship during its term and, if other sources of ineffectiveness emerge, to explain the resulting hedge ineffectiveness.



Several companies in our sample did not disclose the sources of hedge ineffectiveness despite features of the hedging relationship indicating potential sources of ineffectiveness. Where such features materially affect hedge effectiveness, company-specific explanation may be helpful.



The following disclosure illustrates how one company provided a clear, company-specific narrative.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency revenue and cost of sales, the Group enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item. The Group therefore performs a qualitative assessment of effectiveness. If changes in circumstances affect the terms of the hedged item such that the critical terms no longer match exactly with the critical terms of the hedging instrument, the Group uses the hypothetical derivative method to determine whether an economic relationship remains, and so assess effectiveness. As all critical terms matched during the year, the economic relationships were 100% effective.

Ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the Group or the derivative counterparty.

[The Weir Group PLC, Annual Report and financial statements 2025, p231](#)

3.2 Understanding the effect of hedging (continued)

The effect of hedge accounting on financial position and performance

Paragraph 21A(c) of IFRS 7 requires entities to disclose information about the effect that hedge accounting has had on the entity's statement of financial position, statement of comprehensive income and statement of changes in equity (paragraphs 24A to 24F).

Paragraphs 24A to 24F of IFRS 7 set out disclosure requirements to support companies in meeting the hedge accounting disclosure objective. Paragraphs 24A and 24B require entities to disclose, in a tabular format, quantitative information related to hedging instruments, hedged items and types of hedges separately by risk category.

In a minority of cases, companies did not disclose either the carrying amount of the hedging instrument or the nominal amounts (including quantities such as tonnes or cubic metres). These omissions generally related to non-derivative foreign currency borrowings designated as the hedging instrument in a net investment hedge.



One company disclosed the designation of foreign currency-denominated borrowings as the hedging instrument in a net investment hedge; however, its analysis of borrowings by foreign currency did not include any borrowings in the relevant currency and this apparent inconsistency was not explained.

Five companies did not disclose the change in fair value of the hedging instrument, the change in value of the hedged item used as the basis for recognising hedge ineffectiveness for the period, or both. However, where hedge ineffectiveness was minimal, omission of one of these amounts may have reflected a judgement that the information was not material to users.

In other cases, there were apparent errors in the amounts disclosed.



We identified an apparent inconsistency where the change in fair value of the hedging instrument and the change in value of the hedged item (paragraphs 24A(c) and 24B(b)(i) of IFRS 7) used as the basis for recognising hedge ineffectiveness were reported as nil, despite other hedge accounting disclosures indicating otherwise.



We observed inconsistencies in disclosures in hedge accounting tables, figures that were difficult to interpret and, in some cases, we could not trace the financial effect of hedge accounting through the primary statements. We encourage companies to ensure disclosures are consistent and connected throughout the annual report, and to be more targeted in their disclosures while keeping the disclosure objective in mind.

We discuss materiality and cutting clutter further in [section 3.4](#).

3.2 Understanding the effect of hedging (continued)

The effect of hedge accounting on financial position and performance (continued)



The following hypothetical example illustrates a clear and comprehensive tabular disclosure about the effect that fair value hedge accounting has had on a company’s statement of financial position and statement of comprehensive income.

The Group borrows at fixed rates but holds financial assets that earn interest at floating rates. To align the interest profile of its borrowings with that of its financial assets and to reduce variability in its net interest cost, the Group has entered into interest rate swaps under which it receives fixed interest and pays interest at floating rates. The swaps are designated as fair value hedges and their effects on the Group’s financial position and performance are set out below.

31 December 20XX	Hedged Item (Fixed Rate Borrowings) ¹				Hedging Instrument (interest rate swaps) ²				
	Hedged amount £m	Cumulative FVH adjustment £m	Carrying value of borrowings £m	FVH adjustment in the year £m	Nominal amount £m	Carrying value (assets) £m	Carrying value (liabilities) £m	Fair value changes in the year £m	Hedge ineffectiveness: gain (loss) ³ £m
5.5% notes due 2033	(600)	18	(582)	7	600	-	(17)	(6)	1
3.5% notes due 2036	(350)	(9)	(359)	(5)	350	10	-	6	1
Total	(950)	9	(941)	2	950	10	(17)	-	2

1 Hedged items are included in borrowings in the balance sheet
2 Hedging instruments are included in other financial assets or liabilities in the balance sheet
3 Hedge ineffectiveness is included in finance income or expense in the income statement

Identification of the line items in the primary statements that include the hedging instrument, hedged items and the recognised hedge ineffectiveness.

Disclosure of relevant amounts for hedging instruments is provided alongside relevant amounts for hedged items.

The table details the nominal amounts and terms of the hedging instruments.

3.2 Understanding the effect of hedging (continued)

The effect of hedge accounting on financial position and performance (continued)



The following hypothetical example illustrates how a company may provide a similar tabular presentation of amounts for cash flow hedge accounting within the same section of its annual report and accounts that can be easily reconciled to the primary statements.

The Group hedges highly probable forecast purchases of raw materials denominated in US dollars and highly probable forecast sales denominated in euros using forward foreign exchange contracts designated as cash flow hedges. The tables below set out details of the hedged items and hedging instruments together with their effect on the financial statements.

(a) Hedged items, hedging instruments and hedge ineffectiveness

	Hedged Item		Hedging Instrument			
	Change in fair value used to measure ineffectiveness £m	Nominal amount £m	Carrying value (assets) £m	Carrying value (liabilities) £m	Fair value gain or loss in the year £m	Hedge ineffectiveness: gain (loss) £m
At 31 December 20XX						
US dollar forecast raw material purchases	(21)	840	19	(4)	22	1
Euro forecast sales	13	520	3	(11)	(13)	-
Total	(8)	1,360	22	(15)	9	1

The columns are clearly labelled, and the table is divided into distinct columns.

(b) Movements in cash flow hedge reserve

	At 1 January 20XX £m	Recognised in OCI £m	Reclassified to profit or loss £m	Transferred to carrying amount of inventory £m	At 31 December 20XX £m
Cash flow hedge reserve					
US dollar forecast raw material purchases	8	21	-	(14)	15
Euro forecast sales	-	(13)	5	-	(8)
Total	8	8	5	(14)	7

The note clearly links the amounts disclosed to the related amounts reported in the statement of comprehensive income and statement of changes in equity.

3.2 Understanding the effect of hedging (continued)

The effect of hedge accounting on financial position and performance (continued)



The following example illustrates how one company provides useful information to enable users to trace the effect of hedge accounting through the primary statements.

Items that may be reclassified to the income statement in subsequent periods

Cash flow hedges		
Gains/(Losses) arising in the year	18	0.3
Losses arising in the year – time value	18	(5.8)
Reclassification adjustments for items included in profit on realisation	18	–
Reclassification adjustments for items included in loss on realisation – time value	18	18.8

[Tullow Oil plc, Annual Report and Accounts 2025, p97](#)

The line items in the statement of comprehensive income are clear and reconcile with the note.

3.2 Understanding the effect of hedging (continued)

The effect of hedge accounting on financial position and performance (continued)

Paragraph 24E of IFRS 7 requires entities to provide a reconciliation of each component of equity and an analysis of other comprehensive income. Paragraph 24F requires this information to be disclosed separately by risk category and it may be provided in the notes to the financial statements.



We were pleased that most companies in our sample provided a clear reconciliation. The following example is from a company that was not part of the sample for this thematic review but was identified as an example of better disclosure as part of our routine review work.

The following table provides a reconciliation by risk category of the net of tax impacts on the cash flow hedge reserve disclosed in Note 17, resulting from cash flow hedge accounting:

Cash flow hedges	Foreign currency contracts € million	Commodity contracts € million	Interest rate and cross currency swaps € million	Total € million
As at 1 January 2023	20	79	5	104
Net fair value gains/(losses) recognised in OCI	(26)	67	(3)	38
Net (gains) reclassified from OCI to income statement	(1)	(17)	(10)	(28)
Net (gains)/losses transferred to cost of inventories	11	(94)	—	(83)
As at 31 December 2023	4	35	(8)	31
Net fair value gains/(losses) recognised in OCI	41	(27)	8	22
Net (gains) reclassified from OCI to income statement	—	(6)	(4)	(10)
Net (gains)/losses transferred to cost of inventories	5	(18)	—	(13)
Net losses transferred to goodwill in connection with the Acquisition	2	—	—	2
As at 31 December 2024	52	(16)	(4)	32
Net fair value gains/(losses) recognised in OCI	(56)	(18)	13	(61)
Net (gains)/losses reclassified from OCI to income statement	1	1	(3)	(1)
Net losses transferred to cost of inventories	8	1	—	9
As at 31 December 2025	5	(32)	6	(21)

CCEP plc, 2025 Annual Report and Form 20F, p167 and p168

The following table summarises the net of tax effect of the cash flow hedges in the consolidated income statement for the periods presented:

		Amount of gain/(loss) reclassified from the cash flow hedge reserve into profit		
		Year ended 31 December		
Cash flow hedging instruments	Location – Income statement	2025 € million	2024 € million	2023 € million
Foreign currency contracts	Cost of sales	—	—	1
Foreign currency contracts	Selling and distribution expenses	(1)	—	—
Commodity contracts	Selling and distribution expenses	(1)	6	17
Interest rate and cross currency swaps	Finance costs	3	4	10
Total		1	10	28

The reconciliation of the cash flow hedge reserve is clear, with appropriately named line items.

The company clearly identifies the amounts reclassified from the cash flow hedge reserve during the year and where they are recognised.

The finance costs note elsewhere in the annual report and accounts clearly shows which line items include the income and expenses relating to fair value and cash flow hedges.

3.2 Understanding the effect of hedging (continued)

Cost of hedging

Paragraphs 6.2.4(a) and (b) of IFRS 9 permit entities to exclude certain components of a hedging instrument from the hedge designation, including the time value of options, the forward element of forward contracts and foreign currency basis spreads.

Paragraphs 6.5.15 and 6.5.16 of IFRS 9 set out the accounting for these excluded components, commonly referred to as the 'cost of hedging' approach. Where this approach is used, entities account for changes in the excluded component through other comprehensive income (OCI), reducing potential volatility in profit or loss.

Six companies in our sample did not designate certain qualifying instruments in their entirety and instead applied the cost of hedging approach.

Most of these companies clearly explained the accounting treatment applied; however, in a minority of cases the explanation was inconsistent with information provided elsewhere in the financial statements.



One company stated that only the spot elements of forward contracts were designated as the hedging instruments, with the forward elements recognised in OCI and accumulated in a separate component of equity; however, no such component was clearly identifiable in the financial statements.



Good practice examples clearly disclosed the effect of cost of hedging on financial position and performance, with the narrative positioning it within companies' risk management strategies.

Paragraphs 24E(b) and (c) of IFRS 7 require that the reconciliation of each component of equity and analysis of other comprehensive income, taken together, should differentiate between the time value of options, the forward element of forward contracts and foreign currency basis spreads accounted for under paragraphs 6.5.15 and 6.5.16 of IFRS 9 that hedge transaction-related and time-period related hedged items.

Half of the companies that applied the cost of hedging approach clearly presented the movement in the cost of hedging reserve.



The better examples made clear when and how amounts would be reclassified to profit or loss.

The company clearly explains that the foreign currency basis spread is excluded from the designation of the cross-currency swap and links this to its effect on the statement of changes in equity.

The group recognises the cost of hedging reserve as a component of equity. This reserve reflects accumulated fair value movements on cross-currency swaps resulting from changes in the foreign currency basis spread, which represents a liquidity charge inherent in foreign exchange contracts for exchanging currencies and is excluded from the designation of cross-currency swaps as hedging instruments.

[United Utilities Group PLC, Integrated Annual Report and Financial Statements for the year ended 31 March 2026, p213](#)

3.3 Accounting policies

Accounting policies for hedge accounting



We were pleased that the majority of companies in our sample provided clear accounting policy disclosures that explained their hedging activities.

In a minority of cases, the accounting policies were not consistent with other information presented in the notes to the financial statements.



We identified inconsistencies in hedge accounting disclosures, with some cash flow hedges described as hedges of firm commitments in one part of the annual report and accounts, and as hedges of highly probable forecast transactions elsewhere.

For most companies, the eligibility of hedged items was clear. However, additional explanation may be needed in more complex situations, particularly where it is not apparent that items are 'highly probable' or expose the entity to the risk being hedged.



We observed disclosures in which intercompany services were designated as the hedged item in a cash flow hedge involving foreign exchange forward contracts. However, it was unclear how those services met the qualifying criteria for hedge accounting (paragraph 6.3.6 of IFRS 9).



We observed that some companies included accounting policies that were not company-specific, instead repeating the principles of the accounting standard. For example, one company referred to fair value hedges despite appearing not to have any, while another included a policy relating to basis adjustments, even though its hedged forecast transactions would not give rise to non-financial assets.

In our publication '[What Makes a Good Annual Report and Accounts](#)', we refer to corporate reporting and effective communication principles that preparers should take account of when producing a high-quality annual report and accounts. We recommend that accounting policies should be clear, company-specific and consistent with other information in the annual report and accounts.

3.3 Accounting policies (continued)

Accounting policies for hedge accounting (continued)



The following example illustrates how one company provides a clear, concise and company-specific accounting policy that explains the purpose and effect of entering into a fair value hedge.

Explains the original measurement basis for borrowings.

The default treatment of measuring borrowings at amortised cost, while associated hedging derivatives are recognised at fair value, gives rise to an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position.

Provides context for the company's use of fair value hedge accounting and, in certain circumstances, the designation of borrowings at fair value through profit or loss.

Therefore, where feasible, the group takes advantage of the provisions under IFRS 9 'Financial Instruments' to make fair value adjustments to its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. To apply fair value hedge accounting, it must be demonstrated that there is an economic relationship between the borrowing instrument and the hedging derivative and that the designated hedge ratio is consistent with the group's risk management strategy.

Borrowings designated within a fair value hedge relationship

Where designated, bonds and loans are initially measured at fair value, being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received and are subsequently measured at fair value at each reporting date, with changes in fair value being charged or credited to finance expense in the income statement.

Clearly sets out the conditions that must be met to apply hedge accounting.

Flows logically into a description of the resulting accounting treatment.

Describes the alternative approach of designating borrowings at fair value through profit or loss where hedge accounting cannot be applied at inception.

[United Utilities Group PLC, Integrated Annual Report and Financial Statements for the year ended 31 March 2026, p235](#)

3.4 Characteristics of good reporting

Location

Paragraph 21B of IFRS 7 requires entities to present the disclosures required by paragraphs 22A to 24F in a single note or separate section of their financial statements.

Paragraph 21B of IFRS 7 emphasises that an entity need not duplicate information presented elsewhere, provided that it is incorporated by cross-reference from the financial statements to another statement available to users of the financial statements on the same terms and at the same time.

The companies in our sample provided hedge accounting disclosures in up to four separate locations in their financial statements, resulting in varying degrees of fragmentation.

Where companies presented disclosures in multiple locations, disclosure quality was affected by several factors:

-  In some cases, key details were spread across several locations that were not fully internally consistent, making the hedge accounting narrative difficult to follow. We expect hedge accounting disclosures to explain how hedge accounting reflects a company's risk management strategy. For this narrative to be coherent, the disclosures should be connected and consistent.
-  One company presented a detailed table explaining the timing, volumes and prices of its hedge portfolio. However, the same table was repeated elsewhere in the report.



We observed an opportunity for one company to rationalise its hedge accounting disclosures, including its accounting policy. Irrelevant information and boilerplate wording were repeated across several locations and could be consolidated and streamlined, whilst retaining company-specific information.

As detailed in our publication '[What Makes a Good Annual Report and Accounts](#)', only relevant information capable of influencing users' decisions should be included in a high-quality annual report and accounts. Irrelevant material obscures the important information users need to make informed decisions and judgements.

Companies should consider materiality in determining what information is relevant to include (see [Materiality and hedge accounting disclosures](#)).



One company presented its hedge accounting disclosures in a coherent manner, with all relevant information, including accounting policies, contained within a single note.

3.4 Characteristics of good reporting (continued)

Materiality and hedge accounting disclosures

To meet the disclosure objective for hedge accounting, paragraph 21D of IFRS 7 requires entities to determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information disclosed.

Companies should consider materiality when determining the amount and granularity of information to include.

Information is material if omitting, misstating or obscuring it could influence the decisions and assessments of users of the annual report and accounts.



One company disclosed a significant volume of transaction-level data for its hedging instruments that, while potentially relevant, could be aggregated (for example by currency or maturity) to provide a clearer overview of how the instruments were used to manage risk. Companies should apply materiality to relevant information when determining what to disclose; otherwise, key information may be obscured by distracting detail.

Materiality is a complex issue for hedge accounting. The amounts recognised in a company's financial statements can be volatile, changing from year to year due to market factors outside its control. Whether an issue is 'material' is not simply a matter of comparing the amounts recognised in the financial statements with a materiality benchmark. Consideration should also be given to factors such as the size of the

exposure being hedged, the duration of the hedge relationship and the nature of the underlying risk, as these may affect the significance of the hedge and the related disclosures.

Some companies in our sample applied materiality effectively to filter non-decision-useful information from hedge accounting disclosures. For example, where the effect of hedge accounting appeared immaterial, some companies avoided providing boilerplate or extensive accounting policy disclosures, indicating that materiality had been considered when drafting those disclosures.

However, in some cases, information that appeared relevant to understanding hedge activities was not disclosed.



For example, some companies did not disclose the nominal values of their hedging instruments, thereby potentially limiting users' ability to understand the scale and effect of those activities and assess the outcomes of hedge accounting.

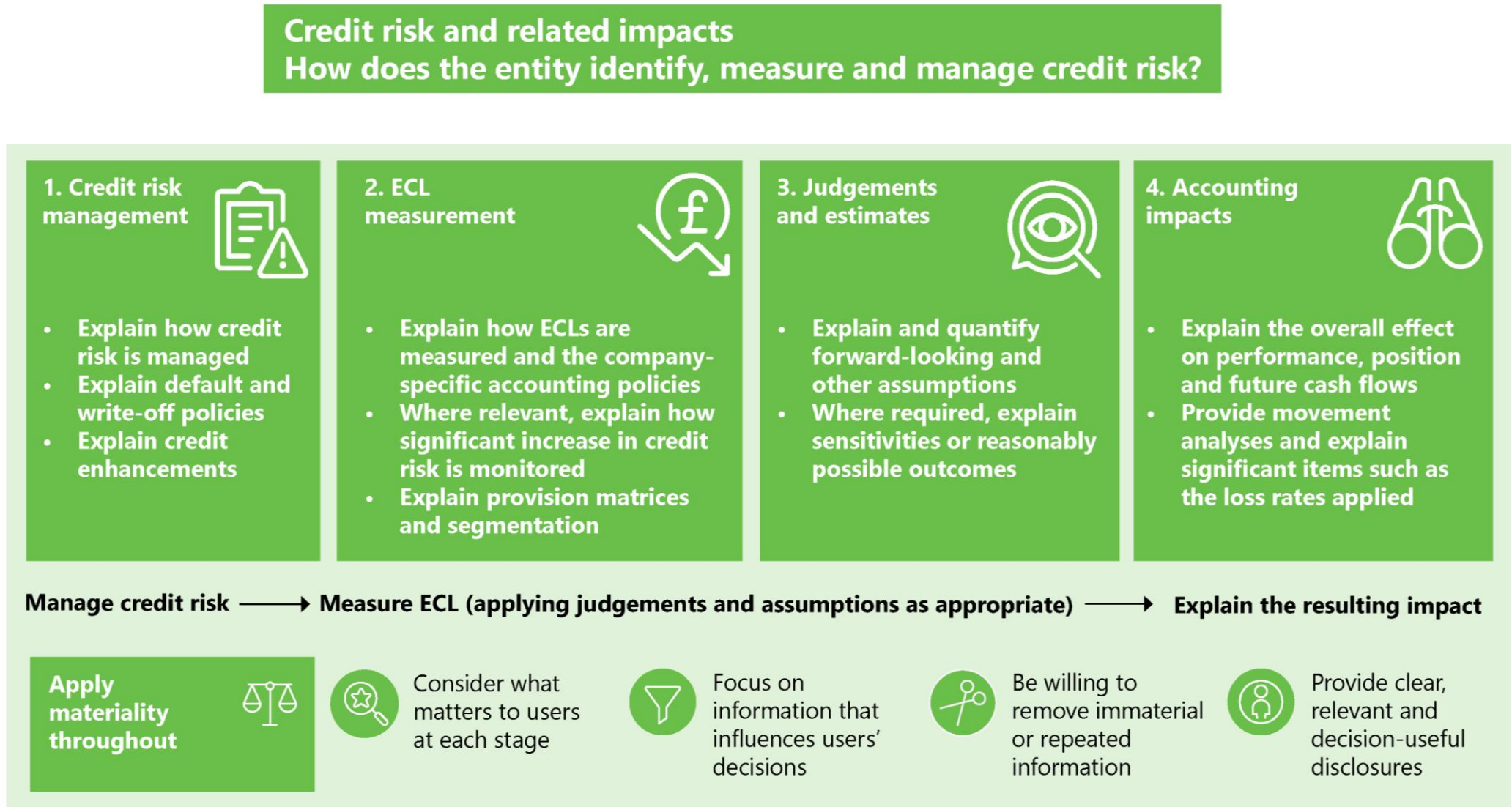


Many companies provided a complete set of hedge accounting disclosures. Although completeness is an overarching qualitative characteristic of a good annual report and accounts, it is not a tick-box exercise, and materiality should still be applied when determining what to disclose. We would encourage companies to be more targeted in their disclosures, keeping the disclosure objective in mind.

Further guidance on the assessment and application of materiality can be found in the FRC's publication '[Applying materiality in corporate reporting](#)', which provides practical insights for boards, preparers and investors.

4. Expected credit losses (ECLs)

Good expected credit loss disclosures link the credit risk being managed, the judgements underpinning the amounts recognised and the related disclosures. The diagram below provides a holistic view of the key considerations for providing clear, connected and decision-useful ECL information. Sections 4.1 to 4.4 then examine the reporting practices identified in our thematic review of selected companies in this context.



4.1 Accounting policies, judgements and estimates

Accounting policies for ECLs

Paragraph 117 of IAS 1, 'Presentation of Financial Statements', requires an entity to disclose material accounting policy information.³ Paragraph 21 of IFRS 7 states that information about the measurement bases for financial instruments used in preparing financial statements is expected to be material accounting policy information.

Most of the companies in our sample disclosed an accounting policy that addressed recognition and measurement of lifetime ECLs on trade receivables and contract assets, applying the simplified approach in paragraph 5.5.15 of IFRS 9. Additionally, most accounting policies clearly mentioned the use of a provision matrix for estimating ECLs.

Policy covers measurement of lifetime ECLs; use of the simplified approach; addresses specific/individual ECL provisions against material and high-risk balances and lists the key factors considered for grouping.

Disclosure mentions ECLs on contract assets as well as grouping based on shared-risk characteristics for the purpose of ECL measurement.

Explains why the incidence of credit loss is low.



Good accounting policies made reference to the use of a provision matrix, including ECL rates and segmentation /grouping of trade receivables and contract assets, using relevant criteria such as risk profile, in relation to ECL measurement.

The Group assesses for doubtful debts (impairment) using the expected credit losses model, as required by IFRS 9. For trade receivables, the Group applies the simplified approach, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. Material or high-risk balances are reviewed and provided for individually, based on a number of factors including:

- the financial strength of the customer;
- the level of default that the Group has suffered in the past;
- the age of the receivable outstanding; and
- the Group's trading experience with that customer.

The Group has implemented an expected credit loss impairment model with respect to contract assets which are included in accrued income, using the simplified approach. These contract assets have been grouped on the basis of their shared-risk characteristics and a provision matrix has been developed and applied to these balances to generate the loss allowance. The majority of these contract asset balances are with blue chip customers and the incidence of credit loss is low. There has therefore been no material adjustment to the loss allowance under IFRS 9. Specific provisions are made against material or high-risk balances based on trading experience or where doubt exists about the counterparty's ability to pay. The expected credit losses on contract assets which are within accrued income are considered to be immaterial.

[Computacenter plc, Annual Report and Accounts 2025, p165, 173](#)

³ Paragraph 27A of IAS 8, 'Basis of Preparation of Financial Statements', after IFRS 18, 'Presentation and Disclosure in Financial Statements', is effective.

4.1 Accounting policies, judgements and estimates (continued)

Judgements and estimates for ECLs

As highlighted in our [Annual Review of Corporate Reporting 2025/26](#), and the [2022 thematic report on Judgements and Estimates](#), paragraph 125 of IAS 1 requires disclosures of key sources of estimation uncertainty to be clearly distinguished from other estimates and contain sufficient company-specific information. Additionally, paragraph 129 requires that sufficient information is provided for users to understand significant estimates, for example disclosure of sensitivities and the range of reasonably possible outcomes.⁴



Where companies disclose that ECLs are a significant source of estimation uncertainty, we would expect disclosure of quantitative sensitivity analysis or the range of reasonably possible outcomes.



We may challenge companies where they disclose that ECLs are a significant source of estimation uncertainty but do not provide any quantitative information on sensitivities and possible outcomes.



We were pleased to see a clear distinction between the required disclosures under paragraph 125 of IAS 1 (i.e. assumptions and other major sources of estimation uncertainty with a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next 12 months) and additional disclosures of other uncertainties (i.e. those carrying lower risk, having a smaller impact or crystallising over a longer timeframe).

Disclosure shows credit risk, including ECL estimation, as an area of lower risk of material adjustment to the carrying amount of assets and liabilities within 12 months.

Other assumptions and estimates which have a lower risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next 12 months include:

Note 22: Credit risk

Note 22 contains information about the Group's exposure to credit risk, including a sensitivity analysis. The Group establishes a loss allowance for its estimate of expected credit losses against receivables.

[Morgan Advanced Materials plc, Annual Report 2025, p132](#)

⁴ Paragraphs 31A and 31E of IAS 8, 'Basis of Preparation of Financial Statements', after IFRS 18, 'Presentation and Disclosure in Financial Statements', is effective.

4.2 Disclosure of ECLs

ECL movement tables and provision matrices

Paragraph 35H(b)(iii) of IFRS 7 requires entities to provide, by class of financial instrument, a reconciliation from the opening balance to the closing balance of the ECL allowance, in a table, showing separately the changes during the period for trade receivables, contract assets or lease receivables for which loss allowances are measured using the simplified approach.

Most of the companies in our sample disclosed a provision matrix showing ECL allowances by categories based on the number of days past due and the applicable expected credit loss rates. We did not identify companies that used alternative methods to provide these disclosures.

Similarly, an ECL movement table was disclosed by all companies in our sample except where the ECL allowance was below materiality. Most ECL movement tables disclosed useful information including amounts of receivables written-off and recovered.



We were pleased to see a company that disclosed information that included the basis for the year-to-year changes in the loss rates applied, relating to the requirement in paragraph 35B(b) of IFRS 7.

The following table provides information about the expected credit losses allowance determined by applying the simplified Expected Credit Loss (ECL) model under IFRS 9:

			Past due but not impaired				
	Total £m	Neither past due nor impaired £m	<30 days £m	30–60 days £m	60–90 days £m	90–120 days £m	>120 days £m
2025							
Expected loss rate	0.3%	0.2%	0.4%	0.4%	1.3%	3.6%	8.7%
Trade receivables, gross	1,867.7	1,566.8	209.3	55.1	16.0	5.6	14.9
Allowance for expected credit losses	6.4	3.6	0.9	0.2	0.2	0.2	1.3
2024							
Expected loss rate	0.5%	0.3%	0.5%	0.7%	2.0%	4.3%	14.4%
Trade receivables, gross	1,628.2	1,384.0	163.9	46.1	15.3	9.2	9.7
Allowance for expected credit losses	8.0	4.8	0.8	0.3	0.3	0.4	1.4

Year-on-year fluctuations in the ECL model percentages are due to changes to the mix of customers and their associated credit history, coupled with the impact of specific transactions which may or may not attract greater risk weighting in the ECL calculations.

Describes the basis for the year-to-year changes in the loss rates applied.

Computacenter plc, Annual Report and Accounts 2025, p 188

4.2 Disclosure of ECLs (continued)

ECL movement tables and provision matrices (continued)

Paragraph 35M of IFRS 7 requires disclosure of the gross carrying amount of financial assets, among other requirements, to enable users of financial statements to assess credit risk exposure and understand significant credit risk concentrations. Paragraph 35N explains that, for trade receivables, contract assets and lease receivables to which the simplified approach is applied, this information may be based on a provision matrix.

 The following example shows a provision matrix analysed by customer segment and risk profile, which may be helpful to users to better understand where credit risk originates or is concentrated.

Trade receivables due from residential energy customers as at 31 December ⁽ⁱ⁾

Days beyond invoice date ⁽ⁱⁱ⁾	2025				Percentage of credit risk	2024				Percentage of credit risk
	<30 days £m	30-90 days £m	>90 days £m	Total £m		<30 days £m	30-90 days £m	>90 days £m	Total £m	
Risk profile										
Direct debits ⁽ⁱⁱⁱ⁾										
Gross receivables	358	73	243	674		303	67	227	597	
Provision	—	(1)	(18)	(19)		—	—	(10)	(10)	
Net	358	72	225	655	3%	303	67	217	587	2%
Payment on receipt of bill ⁽ⁱⁱⁱ⁾										
Gross receivables	89	86	1,095	1,270		89	56	815	960	
Provision	(4)	(13)	(551)	(568)		(4)	(8)	(445)	(457)	
Net	85	73	544	702	45%	85	48	370	503	48%
Final bills ^(iv)										
Gross receivables	19	33	485	537		19	22	347	388	
Provision	(6)	(19)	(426)	(451)		(7)	(14)	(311)	(332)	
Net	13	14	59	86	84%	12	8	36	56	86%
Total net residential energy customers trade receivables	456	159	828	1,443	42%	400	123	623	1,146	41%

Discloses ECL provision by customer segments and risk profile including residential energy customers, direct debits, payment on receipt of bills and final bills.

Discloses the percentage of credit risk/ECL loss rates by customer segment and risk profile.

[Centrica plc, Annual Report and Accounts 2025, p175](#)

4.2 Disclosure of ECLs (continued)

Forward-looking information in ECL measurement

Paragraph 35G(b) of IFRS 7 requires an entity to disclose how forward-looking information has been incorporated into the determination of ECLs, including the use of macroeconomic information.

Most of the companies in our sample disclosed that they had considered forward-looking information in their ECL estimation.



Incorporating forward-looking information, including the use of macroeconomic factors, is one of the key distinguishing features of the expected credit loss model under IFRS 9. Therefore, where an ECL provision is material, companies should consider disclosing forward-looking, company-specific information.



Good practice disclosures identified the specific macroeconomic factors considered such as unemployment figures, inflation and interest rates in ECL measurement. We were also pleased to see one company explain and quantify the impact of the forward-looking macroeconomic adjustments made to its ECL provision.

The Group utilises a range of factors, including both internal and external, historic and forward-looking, to assess the adequacy of its credit provisions. Whilst the Group utilises a matrix output model to record provision coverage, management recognises that the model does not always adequately capture scenarios where there is a delayed impact on customer payments, such as forward-looking macroeconomic changes. In the current year, the Group has continued to assess the model and has recorded a macroeconomic credit provision of £11 million (31 December 2024: £49 million)

[Centrica plc, Annual Report and Accounts, 2025, p144](#)

Discloses a forward-looking macroeconomic adjustment to ECL provision and quantifies the impact.

4.3 Credit risk management and ECLs

Credit risk management practices

Paragraph 35F of IFRS 7 requires entities to explain their credit risk management practices and how they relate to the recognition and measurement of ECLs including (i) how the instruments were grouped if expected credit losses were measured on a collective basis; (ii) the write-off policy, including the indicators that there is no reasonable expectation of recovery; and (iii) information about the policy for financial assets that are written-off but are still subject to enforcement activity.



We were pleased to see helpful disclosures such as:

- specific factors considered for receivables to be deemed in default – for example, the number of days past due from the date of issuance of a final bill to a customer.
- application of different definitions of default to different groups of customers.
- specific indicators for lack of recoverability in respect of write-offs.
- policies for recovery of receivables after write-offs such as legal and enforcement activities.
- disclosure of the use of bank guarantees and credit insurance in respect of past due debtor balances.

Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

[TP ICAP GROUP PLC, Annual Report and Accounts, 2025, p147](#)

Explains the factors considered for a financial asset to be written-off, such as financial difficulty of the debtor.

Explains the company's policy for recovery of financial assets written-off including enforcement activities.

The footnotes to the ECL movement table disclose the gross carrying value of write-offs related to trade receivables where enforcement activity is ongoing.

- (i) Includes £410 million (2024: £364 million) of credit losses related to trade receivables resulting from contracts in the scope of IFRS 15.
- (ii) All loss allowances reflect the lifetime expected credit losses on trade receivables and contract assets.
- (iii) Excludes recovery of previously written-off receivables of £3 million (2024: £10 million). Due to the large number of individual receivables and the matrix approach employed, any reduction in provision is reflected in a reduced charge for the relevant period, rather than in separately identifiable reversals of previous provisions.
- (iv) Materially all write-offs relate to trade receivables where enforcement activity is ongoing. The gross carrying value of write-offs related to trade receivables where enforcement activity is ongoing was £105 million (2024: £122 million).

[Centrica plc, Annual Report and Accounts, 2025, p173](#)

4.4 ECLs in separate financial statements

ECL accounting in parent company's separate financial statements

We continue to remind companies that the ECL requirements of IFRS 9 also apply to other financial assets measured at amortised cost such as intra-group loans and loans to joint ventures, as well as to financial guarantee contracts not accounted for as insurance contracts in a parent company's separate financial statements. While most of our review focused on trade receivables, these balances can sometimes be significant for separate financial statements, as we often observe in our routine reviews.



We were pleased to see disclosures of accounting policies on ECLs, in relation to loans to subsidiaries and financial guarantee contracts not accounted for as insurance contracts, in the parent company's separate financial statements in line with IAS 1. One company mentioned the use of the general model in estimating ECL on loans to subsidiaries, in line with paragraphs 5.5.1 to 5.5.12 of IFRS 9. Another company disclosed that ECLs were a source of estimation uncertainty that could lead to a material adjustment to the intercompany receivables' carrying amount within 12 months; the company also disclosed a relevant quantitative sensitivity analysis.



Where intra-group loans or guarantees are material, we would expect companies to explain the basis of their ECL assessment under IFRS 9, including, where relevant, key judgements and any sources of estimation uncertainty. Entity-specific disclosures are particularly important where recoverability depends on the future performance and funding capacity of the subsidiary.



We may write to companies that disclose material amounts owed by subsidiaries to the parent in the separate financial statements without disclosing an accounting policy for ECLs.

FRS 101 Reduced Disclosure Framework

The majority of the companies in our sample applied FRS 101, 'Reduced Disclosure Framework', to the parent company's individual financial statements and took advantage of the disclosure exemptions in paragraphs 7A to 9 of the standard. Nonetheless, we observed that some of the entities disclosed information about ECLs on intra-group loans and guarantees, especially when the balances were material.

We also remind companies that, when applying FRS 101 exemptions in respect of IFRS 7 to the parent company's separate financial statements, the requirements of paragraph 18 of IAS 24, 'Related Party Disclosures', should be considered unless a company has taken advantage of the exemption in paragraph 8(k) of FRS 101, which permits entities not to disclose related party transactions with wholly owned subsidiaries.

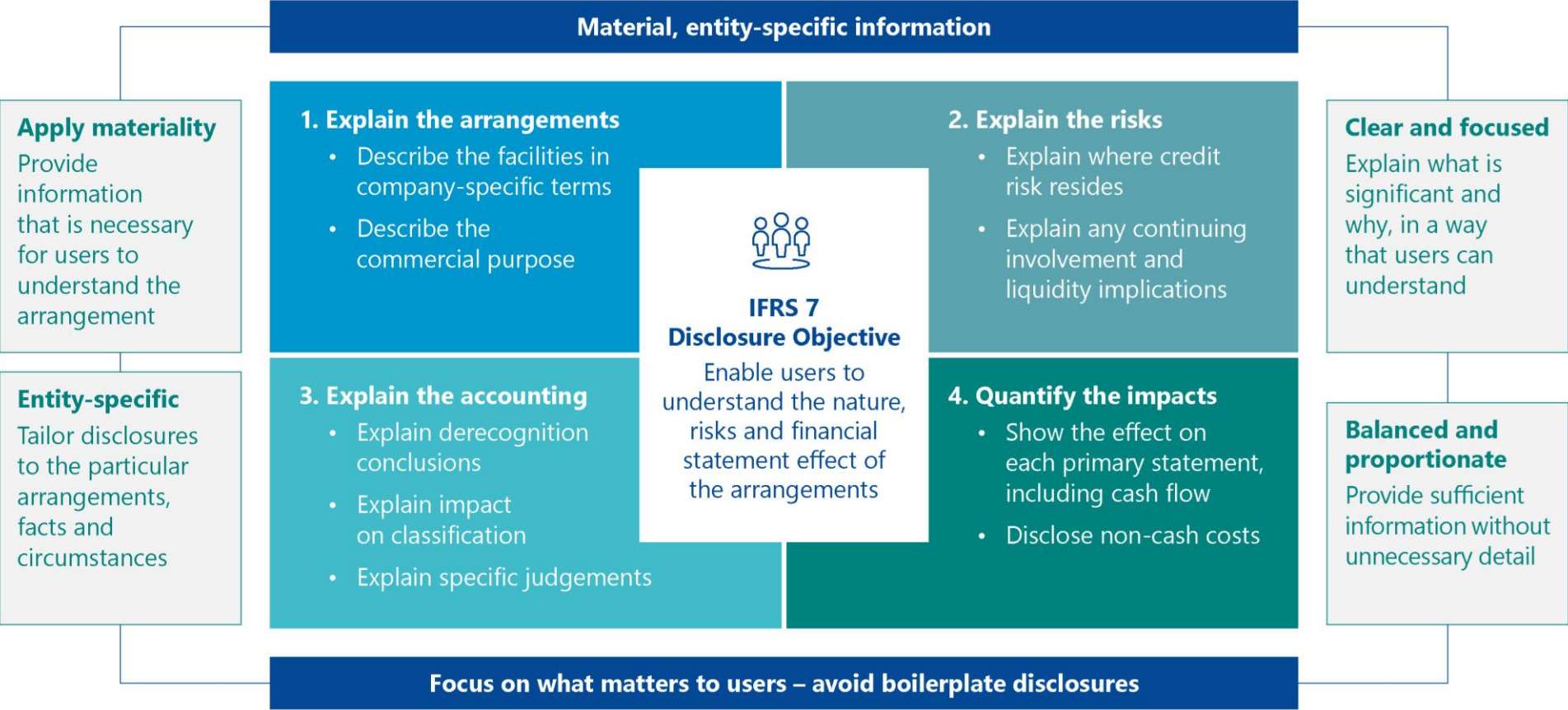
The Company considers the probability of default upon initial recognition of an asset and subsequently whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting year. To assess whether there is a significant increase in credit risk, the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The primary indicators considered are actual or expected significant adverse changes in business and financial conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.

[The Weir Group PLC, Annual Report and Financial Statements 2025, p243](#)

Explains the approach for measuring ECLs on amounts owed by subsidiaries including the basis for determining if there has been a significant increase in credit risk.

5. Debt factoring

Good reporting in this area enables users to understand the commercial purpose of these arrangements, any accounting judgements involved and their effect on the financial statements. The diagram below, organised around the IFRS 7 disclosure objective, provides a holistic view of the key considerations for presenting clear, connected and decision-useful information about debt factoring arrangements. Sections 5.1 to 5.4 then examine the reporting practices identified in our thematic review of selected companies in this context.



5.1 Qualitative disclosures

Qualitative disclosures

There are limited specific disclosure requirements in IFRS for debt factoring arrangements. Entities therefore need to consider the overarching disclosure objective of paragraph 31 of IFRS 7.

Paragraph 31 of IFRS 7 requires entities to disclose information that enables users of their financial statements to evaluate the nature and extent of risks arising from financial instruments to which they are exposed at the end of the reporting period.

Debt factoring arrangements are used by corporates to accelerate cash collection from trade receivables and, in some cases, to mitigate exposure to credit risk. This section considers the factoring of trade receivables; it does not address supplier finance (reverse factoring) arrangements, which were considered in Appendix 2 to our [2024/25 Annual Review of Corporate Reporting](#).

These arrangements can be complex, with varying recourse features, degrees of risk and reward transfer and cash flow mechanics. Different features can lead to different accounting outcomes and applying the IFRS principles can be challenging; entities often need to develop accounting policies and apply significant judgement.

The majority of companies in our sample clearly explained the nature and purpose of their debt factoring arrangements, including the key contractual terms relevant to understanding the accounting treatment applied.



The better examples explained recourse features, whether the company acted as a collection agent for the factor, and the relationship between the customer, factor and company, including who initiated the arrangement and bore the cost. This enabled a clearer understanding of the commercial rationale and how it was reflected in the accounting treatment.

Typically in these arrangements, the Group also acts as a collection agent for the bank. At 31 December 2025, the value of trade receivables derecognised through the factoring arrangements where the Group acts as a collection agent was £629 million (2024: £535 million) and where the Group does not act as a collection agent was £14 million (2024: £7 million).

[BAT, Annual Report 2025, p302](#)

The company enters into several factoring arrangements with different features and distinguishes those where it acts as a collection agent for the factor from those where it does not.

5.2 Primary statements and related disclosures

Balance sheet and related disclosures

Paragraphs 3.2.1 to 3.2.9 of IFRS 9 set out the conditions to either derecognise a financial asset, continue to recognise the financial asset or recognise a continuing involvement in a financial asset.



All nine of the companies in our sample with debt factoring arrangements appeared to apply the derecognition conditions appropriately.

Most debt factoring arrangements entered into by companies in our sample resulted in transfers of receivables that qualified for derecognition.

Some companies referred to master or revolving debt factoring arrangements affecting trade receivables. In such cases, companies may need to consider the business model applicable to those receivables, as this could affect their classification and subsequent measurement under IFRS 9 and the assessment may involve judgement. We did not identify this as a material issue in any of the companies in our sample.



Companies should consider whether disclosing the classification of these trade receivables would provide material and relevant information.



The example on page 35 illustrates how one company has considered the classification of trade receivables subject to debt factoring.

5.2 Primary statements and related disclosures (continued)

Balance sheet and related disclosures (continued)

Trade receivables

Trade receivables are measured in accordance with the business model under which each portfolio of trade receivables is held. The Group has portfolios in each of the three business models under IFRS 9: to collect the contractual cash flows where there is no factoring agreement in place (measured at amortised cost); to sell the contractual cash flows where the trade receivables will be sold under a factoring agreement (measured at FVTPL); and both to collect and to sell the contractual cash flows where the trade receivables may be sold under a factoring arrangement (measured at FVTOCI). Trade receivables measured at amortised cost are carried at the original invoice amount less allowances for expected credit losses.

The company has segmented receivables into separate portfolios with different business models. Note - A fair value through other comprehensive income (FVTOCI) portfolio arises where receivables subject to factoring arrangements that result in derecognition cannot be subdivided between those expected to be factored or retained.

(b) Trade and other receivables and Other non-current assets in scope of IFRS 9

	2025						2024					
	At FVTPL £m	At FVTOCI £m	Amortised cost £m	Financial instruments £m	Non- financial instruments £m	Total £m	At FVTPL £m	At FVTOCI £m	Amortised cost £m	Financial instruments £m	Non- financial instruments £m	Total £m
Trade and other receivables (Note 25)	56	2,346	4,091	6,493	978	7,471	53	2,163	3,733	5,949	887	6,836
Other non-current assets (Note 23)	14	–	2	16	2,132	2,148	31	–	5	36	1,906	1,942
	70	2,346	4,093	6,509	3,110	9,619	84	2,163	3,738	5,985	2,793	8,778

Trade and other receivables include trade receivables of £5,913 million (2024: £5,563 million). The Group has portfolios in each of the three business models under IFRS 9: £41 million (2024: £51 million), measured at FVTPL, is held to sell the contractual cash flows as the receivables will be sold under a factoring arrangement, £2,346 million (2024: £2,163 million), measured at FVTOCI, is held to either collect or sell the contractual cash flows as the receivables may be sold under a factoring agreement, and £3,526 million (2024: £3,349 million), measured at amortised cost, is held to collect the contractual cash flows and there is no factoring agreement in place.

[GSK,⁵ Annual Report 2025, p195, p254](#)

⁵ GSK was not part of the sample for this thematic review but was identified as an example of better disclosure as part of our routine review work.

5.2 Primary statements and related disclosures (continued)

Income statement and related disclosures

Paragraph 20A of IFRS 7 requires entities to disclose an analysis of the gain or loss recognised in the statement of comprehensive income arising from the derecognition of financial assets measured at amortised cost, showing separately gains and losses arising from derecognition of those financial assets. This disclosure shall include the reasons for derecognising those financial assets.

Where the terms of the factoring arrangement resulted in derecognition of the relevant receivables in their entirety, one company quantified the loss on sale.

Unlike derecognised receivables, the accounting standards do not contain a specific disclosure requirement to identify the financing costs associated with factoring arrangements that do not result in derecognition. However, disclosure of such costs may be necessary where material to an understanding of the arrangement and its effect on the financial statements.

The Group also uses Customer Financing arrangements whereby specific customer invoices are settled on a weekly basis, in advance of their normal settlement date. The value of invoices funded under the Customer Financing arrangements was £66.6m at 31 December 2025 (2024: £74.1m). Costs incurred in relation to these arrangements are charged to comprehensive income as finance charges when incurred. The amounts settled under each customer's agreement are limited to the amounts invoiced to that customer each week. The total finance charges incurred during the year amounted to £4.1m (2024: £4.7m).

The company quantifies the finance charges.

[Staffline Group PLC, Annual Report and Accounts 2025, p142](#)

5.2 Primary statements and related disclosures (continued)

Income statement and related disclosures (continued)



The following example identifies the line item in which invoice financing interest charges are recorded and signposts the finance costs note where they are quantified.

Invoice financing

The Group's operating activities in the UK, Chile and Peru are part-funded by invoice financing facilities. The debt provider has full recourse to the Group for any irrecoverable debt: these debts are presented within current borrowings and the asset due from the client in current assets in the Group's balance sheet. Movements in the invoice finance balance are shown within financing activities in the Group's cash flow statement.

Interest charges on invoice financing are included in finance costs and service charges are included in administrative costs in the Group's income statement.

[Empresaria Group plc, Annual report and accounts 2025, p67](#)

Explains the accounting treatment applied and links the balance sheet effect to the corresponding effect on the income statement.

Cash flow statement and related disclosures



Several companies did not clearly explain the presentation of cash flows arising from factoring arrangements.



Limited IFRS guidance on the presentation of cash flows arising from factoring arrangements has led to diversity in practice. Presentation outcomes may differ depending on whether the arrangement results in derecognition of receivables and how cash is collected and transferred between customers, the company and the factor. Clear entity-specific disclosures about the presentation adopted are therefore the most effective way of meeting users' needs.

5.3 Accounting policies and significant judgements

Accounting policies and significant judgements

Most of the companies in our sample provided accounting policies with a level of detail proportionate to the complexity of the debt factoring arrangements they had entered into.



We observed boilerplate wording in an accounting policy describing circumstances in which the derecognition criteria would or would not be met. However, the disclosure did not specify which treatment applied to the entity's own debt factoring arrangement.



The better accounting policies were complete, company-specific and clearly linked the terms of the debt factoring arrangements to the IFRS 9 derecognition principles. They also provided clear signposts to the effect of the arrangement on the financial statements, enabling a user to trace that effect.

None of the companies in our sample disclosed significant judgements relating to debt factoring arrangements. However, in some instances, it appeared that judgement may have been involved in determining the accounting treatment applied. For example, there may have been judgements related to the classification of trade receivables subject to master or revolving debt factoring arrangements and in assessing whether the company or factoring counterparty was acting as a principal or agent.

Trade receivables that are factored out to banks and other financial institutions without recourse to the Group are derecognised at the point of factoring as the risks and rewards of the receivables have been fully transferred. In assessing whether the receivables qualify for derecognition, the Group has considered the receivables and receivable insurance contracts as two separate units of account. Therefore, the insurance is not included as part of the derecognition assessment on the basis that the insurance is not similar to the receivables. The Group has elected to recognise cash inflows from the sale of factored receivables as an operating cash flow.

[SIG, Annual Report and Accounts 2025, p131](#)

The company explicitly addresses the treatment of the associated credit insurance when determining whether the significant risks and rewards of the receivables have been substantially transferred to the factor, which might otherwise be unclear.

5.4 IFRS 7 disclosures and other reporting matters

IFRS 7 disclosures – credit and liquidity risk

For each type of risk arising from financial instruments, paragraph 33 of IFRS 7 requires entities to disclose their exposures to risk and how they arise, their objectives, policies and processes for managing the risk and the methods used to measure the risk and any changes in these compared with the previous period.

Most of the companies in our sample clearly described the effect of the debt factoring arrangements on credit risk and indicated where that risk resided following the transfer.

The effect of debt factoring arrangements on liquidity risk, including the extent of reliance on them as a source of funding, was also generally clear.

 The majority of companies provided disclosures relevant to an understanding of the scale of the factoring arrangements and their impact on reported cash flows (for example, the amount of any committed facilities provided by factoring companies, utilisation of those facilities at the year end, and the extent to which they were used during the year).

 One company disclosed the average utilisation of a factoring programme during the year and explained that the year-end working capital improvement reflected higher utilisation of its recourse factoring programme. Where a company attributes a working capital improvement to increased use of a factoring programme, it would be helpful to disclose the amount outstanding under the programme at the year end.

Other reporting matters

 We were pleased that the majority of companies in our sample reported debt factoring arrangements consistently across the financial statements and narrative reporting.

In December 2022, the Group put in place non-recourse receivables financing facilities for a maximum committed amount of €200m. Factored receivables assigned under the facilities amounted to £105.6m net at 31 December 2025 (30 June 2025: £114.1m net, 31 December 2024: £87.3m net). Under the facilities, the risks and rewards of ownership are transferred to the assignees. The duration of the committed receivables financing facility was recently extended to 31 July 2027.

[Synthomer plc, Annual Report 2025, p17](#)

The strategic report positions receivables funding arrangements within the company's broader funding strategy, explaining why they are used.

Paragraphs 42B to 42H of IFRS 7 include supplementary disclosure requirements relating to transfers of financial assets.

These disclosure requirements mainly apply where a company continues to recognise an asset for part of the original financial asset or due to continuing involvement following the transfer. For the companies in our sample, this arose where trade receivables were sold to a factor but the company retained exposure to initial credit losses via a reserve balance.

 We may challenge companies that fail to include sufficient information to enable users to understand the nature of, and risks associated with, their continuing involvement in the assets sold.

6. Key expectations

We expect companies to consider the examples provided of better disclosure and opportunities for improvement identified in this report, and to incorporate them in their future financial instruments reporting, where relevant and material. In particular, companies should:

	Describe how hedge accounting supports their risk management strategy, including the risks being managed, the hedging instruments used and the extent of exposures being hedged.
	Provide information that enables users to understand the effect of hedge accounting on financial performance, financial position and future cash flows.
	Ensure that accounting policies for hedge accounting are company-specific and avoid repeating accounting standard requirements that are not relevant to their facts and circumstances.
	Disclose a quantitative sensitivity analysis or the range of reasonably possible outcomes, where ECLs are a key source of estimation uncertainty.
	Ensure that the ECL requirements of IFRS 9 are also applied to other financial assets measured at amortised cost such as intra-group loans and loans to joint ventures, as well as to financial guarantee contracts not accounted for as insurance contracts in a parent company's separate financial statements.
	Consider whether disclosing the classification of trade receivables subject to master or revolving debt factoring agreements would provide material and relevant information.
	Provide clear, entity-specific disclosures about the cash flow presentation adopted for factoring arrangements, including any significant judgements made in accordance with paragraph 122 of IAS 1 in assessing whether the company or the factoring counterparty is acting as a principal or agent.
	Apply materiality to financial instruments disclosures, providing clear, connected information that meets the disclosure objective.



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