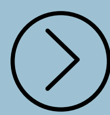
Deloitte.

Closing out 2018



Contents

The UK regulatory environment

December 2018 reporting issues

- Topical issues – reporting on the year to 31 December 2018
  - 'Brexit' and 2018 annual reports
  - The strategic report
  - The use of Alternative Performance Measures
  - Disclosure of judgements and estimates
  - Reporting the effects of income tax
  - New accounting standards
  - Reporting on dividend policy and practice
  - Supplier financing arrangements
  - Statement of cash flows
  - Other topics

Appendices

- UK GAAP developments
- ESMA Guidelines on 'Alternative Performance Measures' and IOSCO statement on 'Non-GAAP Financial Measures'
- New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2018
- IFRS Interpretations Committee agenda decisions in 2018
- New and revised IFRS Standards and Interpretations available for early application in years ending 31 December 2018

Deloitte resources

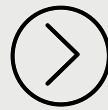
In Closing Out 2018, we discuss the principal issues arising in respect of 31 December 2018 annual reports, being primarily:

- Areas of regulatory focus identified in the Financial Reporting Council's (FRC's) *Annual Review of Corporate Governance and Reporting 2017/2018* ('the FRC annual review'), its accompanying slide deck of Corporate Reporting Review Technical Findings and year-end advice letter to audit committee chairs and finance directors.
- The European Securities and Markets Authority's (ESMA's) common enforcement priorities.
- The FRC's thematic reviews on:
  - Targeted aspects of smaller listed and AIM quoted company reports and accounts.
  - The effects of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on 2018 interim accounts.
  - The expected effects of IFRS 16 *Leases*.
  - The effects of 'Brexit' on strategic reports and related disclosures.
- Issues arising from the current economic environment and developments in reporting standards.

As in previous years, the FRC annual review provides an assessment of UK corporate reporting based on reviews of listed, AIM quoted and large private companies by the FRC's Corporate Reporting Review team whilst the year-end advice letter highlights issues relevant to the upcoming reporting season. There is a high level of consistency in the issues covered by these two publications.

As well as financial reporting issues, we also cover other aspects of reporting, including the increasing focus on disclosure of risks around 'Brexit' and climate change and of dividend policy.

© 2018 Deloitte LLP. All rights reserved



The UK regulatory environment

The FRC annual review draws primarily on the FRC Conduct Committee's reviews of the annual and interim reports of listed, AIM quoted and large private companies, which are designed to ensure compliance with legal and regulatory reporting requirements. The accompanying slide deck provides additional detail on specific issues raised in reviews of companies' annual reports. The FRC also writes to the finance directors and audit committee chairs of listed companies to highlight changes in reporting requirements and to share its perspective on areas of corporate reporting that could be improved.

The Committee directs its resources primarily towards the reports of the UK's largest listed companies as the quality of those reports is of the greatest importance to investor confidence. If its reviews identify potential substantive issues, a dialogue with the company is instigated to resolve the issues and agree any action needed to improve the company's reporting. Companies are also written to when their reports have been reviewed but no substantive queries have arisen – either with an appendix of less significant matters for the company to consider or simply to inform them that a review has been performed but no points have been raised.

The FRC has also continued its programme of thematic reviews. This year, the FRC has reviewed the effects of adopting IFRS 9 and IFRS 15 in interim reports, targeted aspects of AIM and smaller listed company reporting, the expected effects of IFRS 16 and the effects of 'Brexit' on strategic reports and related disclosures.

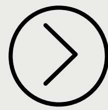
Thematic reviews for 2019/20

The FRC has recently announced the topics to be addressed by its thematic reviews in 2019/20 as:

- Follow-up reviews of disclosures around the application of IFRS 15 and IFRS 9 in annual reports.
- Impairment of non-financial assets.
- The effect of IFRS 16 *Leases* on 2019 interim reporting.
- The effect of the decision to leave the EU on companies' disclosures.

The FRC will select companies for its review on impairment of non-financial assets predominantly from sectors of the economy that are currently under pressure. It will also review the accounts of those for whom circumstances and events in the current year indicate that impairment may be a significant matter. Some, but not all, companies in the sample will be pre-informed of this review.

© 2018 Deloitte LLP. All rights reserved



The FRC's comments on the overall quality of corporate reporting were noticeably less positive than has previously been the case, noting in particular disappointment that despite warnings in previous FRC communications weaknesses are still evident in the reporting of key judgements and estimates (particularly in respect of the sensitivity of management's assumptions about the future) and in the presentation of a fair and balanced review of performance in the year. The FRC also observed that the extent of challenge and effort needed to persuade some companies to improve the quality of their reporting fell short of expectations, with basic errors in areas such as cash flows and earnings per share calculations and with the failure of some companies to comply with legal filing requirements to support dividend payments.

The FRC annual review comments that non-compliance with a basic filing requirements indicates a possible weakness in the company secretary's role and, more broadly, notes that an effective control environment should be able to address the material matters and significant events and transactions that boards and audit committees rightly focus on without overlooking the basic, mechanical requirements with which investors are entitled to assume compliance.

Disclosure of interactions with the Corporate Reporting Review team

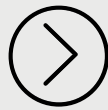
- An investigation by the Corporate Reporting Review (CRR) team can, in serious cases, result in a formal Press Notice (of which there was one in 2018). When the outcome is less serious, but a degree of publicity is still considered appropriate, the CRR will request specific disclosure in the next annual report to acknowledge the regulator's intervention. The FRC annual review expresses a disappointment that 15 such references were required in 2018/17 compared to only three in the previous year. The increase was to a significant degree due to errors in either the cash flow statement or the calculation of earnings per share.

- Cases may also be closed with a commitment by the company to make agreed changes to the next annual report. The CRR will then check that this commitment has been honoured, three cases were re-opened in the year due to a failure by companies to do so.

- The FRC's Guidance on Audit Committees was also updated in 2016 to introduce an expectation that following an interaction with the FRC the subsequent audit committee report will explain the nature and extent of that interaction, including details of the questions raised, any corrections or improvements resulting from the enquiry and the inherent limitations of the CRR's review.

- The FRC annual review observes that most companies do provide such a reference, but that the quality of the information it provides is variable. The FRC is considering the need for it to make more direct disclosures itself in light of what it sees as bland and uninformative audit committee reporting that fails to provide a fair and balanced summary of exchanges with the CRR.

© 2018 Deloitte LLP. All rights reserved



The effect of ‘Brexit’ on the UK accounting framework

- The FRC annual review highlights the fact that, whilst the UK remains in the EU, UK reporting remains subject to the EU legislative framework. This means that:
  - Application of IFRS Standards as endorsed for use in the European Union’ remains a legal requirement, meaning that new or revised standards cannot be adopted before EU-endorsement.
  - The FRC remains a competent authority of an EU member state, tasked with monitoring and supervising compliance with ESMA’s common enforcement priorities, which therefore remain relevant for UK company reporting.

- The annual review also explains that:
  - Upon exit from the EU, many legislative requirements will need to be replicated in UK law, this will include the text of EU-adopted IFRS Standards as referred to in the IAS Regulation.
  - A process for endorsement of new and revised IFRS Standards in the UK will then be required.

The FRC is working with the Department for Business, Energy and Industrial Strategy (‘BEIS’) to create a UK IFRS endorsement board and expects to provide oversight of the governance of that body and of its compliance with due process.

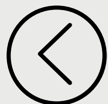
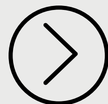
Reporting by smaller listed and AIM quoted companies

- As part of its initiative to improve the quality of reporting by smaller listed and AIM quoted companies, the FRC has conducted a thematic review of such companies’ reporting in the areas of:
  - Alternative performance measures (APMs) and strategic reports
  - Pension disclosures
  - Accounting policies, including critical judgements and estimates
  - Cash flow statements
  - Tax disclosures

In November 2018, the FRC published a report of its findings across all five areas, noting encouraging improvements in areas such as the use of APMs and the breadth of commentary in strategic reports. However, the need for further improvement was noted in several areas including the quality of disclosures on estimation uncertainties (with few companies providing sensitivity analyses or ranges of possible outcomes) and discussion of pension funding requirements.

Consistently with the its general comments on the quality of financial reporting, the FRC noted disappointment with the recurrence of ‘basic errors’ in financial reporting, particularly in preparing cash flow statements.

© 2018 Deloitte LLP. All rights reserved

Topical issues – reporting on the year to 31 December 2018

FRC Focus Area

ESMA
Enforcement Priority

'Brexit' and 2018 annual reports

Both the FRC (in its Annual Review of Corporate Governance and Reporting and ESMA (in its common enforcement priorities) highlight the importance of disclosure on the possible effects of the United Kingdom's decision to leave the European Union.

The FRC observed that, to date, companies have approached their reporting on the risks associated with Brexit in different ways. The nature and depth of disclosure depended, in part, on the potential impact on the business and the mitigating actions the company had been able to put in place.

Companies are encouraged to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, these should be clearly identified and the annual report should explain any actions planned or taken to manage the potential impact.

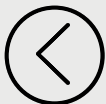
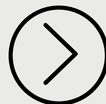
The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions. It is expected that many companies will want to consider a wider range of reasonably possible outcomes when performing sensitivity analysis on their cash flow projections and which should be disclosed and explained. Not all companies will require extensive disclosure, but where sensitivity or scenario testing indicates significant issues, relevant information and explanation should be reflected in the appropriate parts of the annual report and accounts, for example in impairment disclosures or disclosure of sources of estimation uncertainty under IAS 1. The economic scenario(s) incorporated into an assessment of expected credit losses under IFRS 9 should also be considered carefully and disclosed as appropriate.

Companies will also need to decide whether Brexit uncertainties impact their statements on viability and even their ability to continue as a going concern.

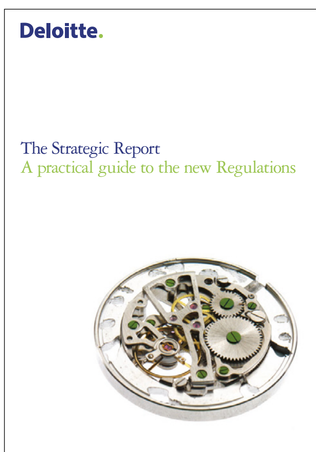
The FRC acknowledges the significant uncertainties and unknowns in respect of the final terms of the United Kingdom's departure and the challenges that poses in preparing a report for publication possible shortly before the March 2019 deadline set by the triggering of 'Article 50' in 2017 and stresses the need for a comprehensive post balance sheet events review in their year-end reporting plan, in order to identify both adjusting and non-adjusting events and to make the necessary disclosures required by IAS 10 *Events after the Reporting Period*. The distinction between adjusting and non-adjusting events should be considered carefully to ensure that only adjusting events are reflected in the recognition and measurement of assets and liabilities at the reporting date. For example, it is clear that changes in fair values after the reporting date are non-adjusting events.

Similarly, ESMA notes that the details of the exit scenario might become clearer by the date the 2018 annual financial reports are authorised for issue. In that case sufficient transparency on the impact on a company's exposures and activities as well as risks and sources of estimation uncertainty should be provided, together with information on how these risks are managed.

© 2018 Deloitte LLP. All rights reserved

FRC Focus Area



For companies looking for guidance in this area, UK Accounting Plus provides a number of resources on the strategic report and narrative reporting more generally.

The strategic report

In addition to its specific focus on APMs, the FRC highlighted issues arising in respect of other aspects of the strategic report.

Business review

The FRC continues to focus on the legal requirement for the strategic report to provide a balanced and comprehensive analysis of the development and performance of the company's business during the financial year and of the position of that business at the end of the year, making it clear that a narrative focusing only on 'core' performance is not sufficient and is not viewed as either 'balanced' or 'comprehensive'.

As a result, it challenges companies that it perceives as having inadequate or unbalanced commentary by, for example, presenting narratives that focus on an increase in 'adjusted' or 'underlying' profit when total profits have in fact decreased, or failing to fully explain that profits have not been fully translated to cash as a result of increases in working capital.

A specific challenge for 2018 reporting was highlighted in the FRC's year-end advice letter to audit committee chairs and finance directors, being the use of the modified retrospective method of implementing IFRS 15. If this approach is followed, any inconsistency between 2018 and 2017 revenues will need to be identified and explained.

Central to a discussion of business performance are a company's Key Performance Indicators (KPIs). The FRC questioned companies when the basis for calculation of KPIs or the reasons for changing them was unclear.

The importance of performance metrics to investors was highlighted in a report by the Financial Reporting Lab which identified a demand for metrics that are:

- Aligned to strategy – providing insight into the company's business model and measure its success.
- Transparent on how metrics are calculated and defined to help investors make their own assessments, with clear reconciliations from GAAP to non-GAAP metrics.
- In context – showing how a company has performed, with explanations where this is different from what it was trying to achieve, either good or bad.
- Reliable – providing information to help investors gain confidence on the process of developing, monitoring and reporting reliable metrics, and whether there are appropriate controls in place.
- Consistent – with metrics calculated consistently year-on-year and also presented consistently across reporting formats (annual report, investor presentations etc.).

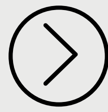
A subsequent report from the Financial Reporting Lab 'Performance metrics – Principles and practice' includes examples of how companies can apply these principles.

Risk and viability reporting

UK listed companies are required by Companies' Act 2006 to provide:

- A description of the principal risks and uncertainties facing the company or group.
- The main trends and factors likely to affect the future development, performance and position of the company or group's business.
- A description of the company or group's strategy and its business model.

© 2018 Deloitte LLP. All rights reserved



In addition the UK Corporate Governance Code requires a longer term viability statement covering:

- How the directors have assessed the prospects of the company.
- Over what period they have done so.
- Why they consider that period to be appropriate.

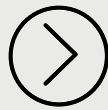
The viability statement should also state whether the directors have a reasonable expectation that the company will be able to meet its obligations as they fall due over the period of their assessment, drawing attention to any qualifications or assumptions as necessary.

In its annual review, the FRC expresses disappointment in the quality of many companies' viability statements, considering them not to be sufficiently illuminating when they do not explain the process undertaken in assessing viability, including the stress and scenario testing carried out.

The FRC's Financial Reporting Lab reported on risk and viability reporting in October 2018, recommending a two-stage process in making this assessment. Firstly describing the long-term prospects of the company, then selecting a (potentially) shorter time-period to make the statement on whether they have a reasonable expectation of the company's viability. The FRC expects the viability period to reflect the nature of a company's business and for a company specific explanation of why that period is appropriate to be provided.

The Code's requirement for a viability statement is in addition to the Companies' Act requirement for disclosure of Principal Risks and Uncertainties (PRUs). The FRC continues to challenge companies with insufficient disclosure in this area. One example cited was the lack of reference to litigation risks by a company for which this was clearly a significant issue, highlighting the continued need for consistency between different aspects of the annual report.

© 2018 Deloitte LLP. All rights reserved



The FRC's Financial Reporting Lab published a report on risk and viability reporting in 2017, providing guidance on and better practice examples of both disclosure of principal risks and uncertainties and discussion of companies' longer-term viability.

Non-Financial Information Statement

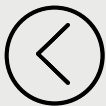
December 2018 annual reports will be the second for which the requirement of the EU Non-Financial Reporting (NFR) Directive is applicable. These regulations require the strategic report to include a separate statement with information relating to environmental matters, employees, social matters, respect for human rights and anti-corruption and anti-bribery matters, to the extent necessary for an understanding of the company's development, performance and position and the impact of its activity. The scope of this requirement includes large quoted companies with more than 500 employees, as well as some large unquoted banking and insurance companies

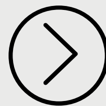
Disclosures should focus on the impact of a company's activities in respect of these matters, the policies it has in place, any due diligence processes introduced through which it assesses and tracks their effectiveness and the related outcomes. Principal risks and relevant KPIs in respect of these matters should also be disclosed. Discussion of the business model should also include information on the relationships, resources and other dependencies that are a source of value and necessary for the success of the business.

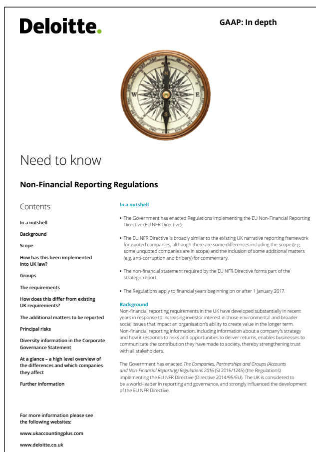
Following consultation, the FRC revised its Guidance on the Strategic Report in July 2018 to include specific guidance on how best to apply the NFR Directive in the context of a Strategic Report. The European Commission has also published guidelines on application of the Directive more generally.

ESMA's common enforcement priorities for 2018 reporting also highlights its expectations on application of the NFR directive, including the importance of companies' policy on environmental matters, which ESMA considers should include matters relating to climate-change, the need to explain any decision not to pursue a policy on the matter covered by the directive and to identify appropriate non-financial KPIs.

© 2018 Deloitte LLP. All rights reserved







Deloitte.

GAAP: In depth

Need to know

Non-Financial Reporting Regulations

Contents

- In a nutshell
- Background
- Scope
- How has this been implemented into UK law?
- Groups
- The requirements
- How does this differ from existing UK requirements?
- The additional matters to be reported
- Principal risks
- Diversity information in the Corporate Governance Statement
- At a glance – a high level overview of the differences and which companies they affect
- Further information

For more information please see the following websites:

www.ukaccountingplus.com

www.deloitte.co.uk

In a nutshell

- The Government has enacted Regulations implementing the EU Non-Financial Reporting Directive (EU NFR Directive).
- The EU NFR Directive is broadly similar to the existing UK narrative reporting framework for quoted companies, although there are some differences including the scope (e.g. some unquoted companies are in scope) and the inclusion of some additional matters (e.g. anti-corruption and bribery) for commentary.
- The non-financial statement required by the EU NFR Directive forms part of the strategic report.
- The Regulations apply to financial years beginning on or after 1 January 2017.

Background

Non-financial reporting requirements in the UK have developed substantially in recent years in response to increasing investor interest in those environmental and broader social issues that impact an organisation's ability to create value in the longer term. Non-financial reporting information, including information about a company's strategy and how it responds to risks and opportunities to deliver returns, enables businesses to communicate the contribution they have made to society, thereby strengthening trust with all stakeholders.

The Government has enacted *The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016* (SI 2016/1245) (the Regulations) implementing the EU NFR Directive (Directive 2014/95/EU). The UK is considered to be a world-leader in reporting and governance, and strongly influenced the development of the EU NFR Directive.

A Deloitte 'Need to know' publication provides more detail on the effects of the Directive on UK corporate reporting.

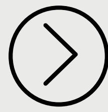
Disclosure of climate-related risks

The recent report by the Intergovernmental Panel on Climate Change (IPCC) has made it clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike. This imperative is reflected in initiatives such as the recommendations from the Taskforce on Climate-related Finance Disclosure (TCFD) and a recently announced project from the Financial Reporting Lab on Climate and Workforce Disclosures and in and increasing investor expectations that annual reports will include meaningful information on the climate-related risks facing companies.

ESMA's common enforcement priorities also highlight an expectation that relevant information will be disclosed on both the impact of a company's operations on the environment and on how environmental matters may affect the company's development, performance or position. For example, companies may need to consider whether, as a consequence of climate change, other risks such as those arising from technological obsolescence or from the potentially abrupt need to shift from a carbon-intensive to a low-carbon technology, may have a particular impact on their business model.

Taken together, these initiatives make clear the necessity for a clear articulation of how an organisation is addressing climate change, whether this is a principal risk for the business and, if so, how that risk is being managed.

© 2018 Deloitte LLP. All rights reserved



Reporting on matters in section 172(1) of the Companies Act 2006

The requirements of Section 172 of the Companies Act 2006 for a director to promote the success of the company and, in so doing, to consider a wider set of stakeholders including employees, the community and the environment continue to be an area of focus. The focus has been enhanced by changes to the law in 2018 requiring (for periods beginning on or after 1 January 2019) a 'section 172(1) statement' in the strategic report of all large companies describing how the directors have had regard to the matters set out in section 172 when performing their duty to promote the success of the company.

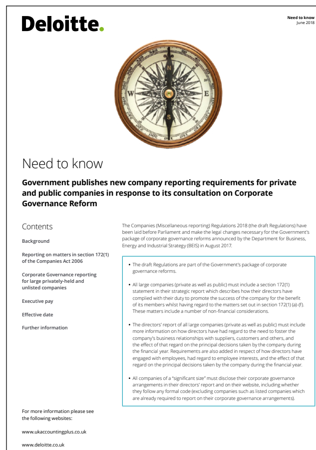
This new legislation also requires large companies to include in their directors' report:

- A statement on how directors have engaged with employees, have had regard to employee interests, and the effect of that regard on the principal decisions taken by the company during the financial year.
- A statement summarising how directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the company during the financial year.

The FRC has amended its Guidance on the Strategic Report to incorporate these new requirements.

These changes were driven by and highlight the increasing demand for better reporting on companies' behaviour with respect to a broad range of stakeholders including employees, suppliers and the environment, and the importance of information about sources of value, including those not captured in the financial statements, as crucial to investment decisions.

Although the new reporting requirements on matters in Section 172(1) and associated amendments to the Corporate Governance Code are not mandatorily effective for December 2018 year-ends, they supplement the existing requirements of Section 414C which specify that the strategic report is intended to help shareholders assess how the directors have performed their duty under Section 172.



Deloitte.

Need to know
June 2018

Need to know

Government publishes new company reporting requirements for private and public companies in response to its consultation on Corporate Governance Reform

Contents

Background

Reporting on matters in section 172(1) of the Companies Act 2006

Corporate Governance reporting for large privately-held and unlisted companies

Executive pay

Effective date

Further information

The Companies (Miscellaneous reporting) Regulations 2018 (the draft Regulations) have been laid before Parliament and make the legal changes necessary for the Government's package of corporate governance reforms announced by the Department for Business, Energy and Industrial Strategy (BEIS) in August 2017.

- The draft Regulations are part of the Government's package of corporate governance reforms.
- All large companies (private as well as public) must include a section 172(1) statement in their strategic report which describes how their directors have complied with their duty to promote the success of the company for the benefit of its members whilst having regard to the matters set out in section 172(1) (a)-(f). These matters include a number of non-financial considerations.
- The directors' report of all large companies (private as well as public) must include more information on how directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard on the principal decisions taken by the company during the financial year. Requirements are also added in respect of how directors have engaged with employees, had regard to employee interests, and the effect of that regard on the principal decisions taken by the company during the financial year.
- All companies of a "significant size" must disclose their corporate governance arrangements in their directors' report and on their website, including whether they follow any formal code (excluding companies such as listed companies which are already required to report on their corporate governance arrangements).

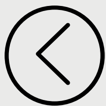
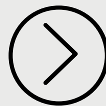
For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

A Deloitte 'Need to know' publication provides more detail on this legislation that introduces the new requirements for reporting on matters in section 172(1) of the Companies' Act, as well as enhanced disclosure on CEO pay and reporting by private companies on their Corporate Governance arrangements.

© 2018 Deloitte LLP. All rights reserved

FRC Focus Area

ESMA
Enforcement Priority

The Deloitte publication 'Alternative performance measures: A practical guide' provides additional guidance on the use of APMs, setting out what is considered best practice and providing real-life examples of how entities present such measures.

The use of Alternative Performance Measures

The use of 'non-GAAP' or 'Alternative Performance' measures continues to be an area of focus, with the FRC's thematic review on the subject followed by interim and final reports from the Financial Reporting Lab on the topic of 'reporting of performance metrics'.

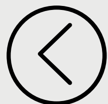
The FRC again highlights the need for APMs to be clearly presented, reconciled to IFRS figures and explained in line with ESMA's Guidelines on Alternative Performance Measures as clarified by a series of Questions and Answers published in 2017.

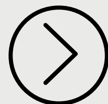
The FRC annual review and its accompanying slide deck highlight a number of common challenges raised by the CRR in respect of APMs:

- Undue prominence given to APMs over equivalent IFRS measures. The FRC expects preparers to review their strategic report before publication to ensure that IFRS measures have been given due prominence.
- Unclear or cursory explanations for the use of APMs, including simple statements that they are 'superior' to IFRS figures.
- The exclusion of normal trading items from 'underlying' profits, with frequent challenges on the exclusion of share-based payment charges, intangible asset amortisation and losses on long-term contracts.
- Unclear, or omitted, reconciliations between APMs and IFRS measures. This was noted as particularly an issue for ratios such as return on capital employed and growth-based measures such as constant currency growth.
- Mislabelling of APMs resulting in ambiguity over whether they were adjusted or IFRS measures.
- APMs presented without a clear definition or with a definition that did not seem to match the calculation used.

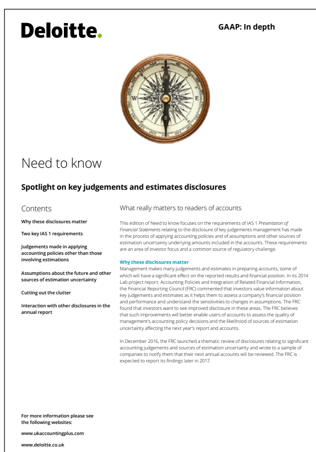
ESMA's common enforcement priorities also remind issuers of the importance of adhering to its guidelines on the use of APMs and, in particular, that possible changes to APMs may result from the application of new accounting standards (either because the changes to IFRS Standards lead to a change in the calculation of an APM, or because a new APM is considered necessary). If this is the case, disclosure should be provided on the extent of and rationale for any change in the APMs used.

© 2018 Deloitte LLP. All rights reserved





FRC Focus Area



Deloitte.

GAAP: In depth

Need to know

Spotlight on key judgements and estimates disclosures

Contents

- Why these disclosures matter
- Two key IAS 1 requirements
- Judgements made in applying accounting policies other than those involving estimations
- Assumptions about the future and other sources of estimation uncertainty
- Cutting out the clutter
- Interaction with other disclosures in the annual report

What really matters to readers of accounts

This edition of Need to know focuses on the requirements of IAS 1 *Presentation of Financial Statements* relating to the disclosure of key judgements management has made in the process of applying accounting policies and of assumptions and other sources of estimation uncertainty underlying amounts included in the accounts. These requirements are an area of investor focus and a common source of regulatory challenge.

Why these disclosures matter

Management makes many judgements and estimates in preparing accounts, some of which will have a significant effect on the reported results and financial position. In its 2014 Lab project report: Accounting Policies and Integration of Related Financial Information, the Financial Reporting Council (FRC) commented that investors value information about key judgements and estimates as it helps them to assess a company's financial position and performance and understand the sensitivities to changes in assumptions. The FRC found that investors want to see improved disclosure in these areas. The FRC believes that such improvements will better enable users of accounts to assess the quality of management's accounting policy decisions and the likelihood of sources of estimation uncertainty affecting the next year's report and accounts.

In December 2016, the FRC launched a thematic review of disclosures relating to significant accounting judgements and sources of estimation uncertainty and wrote to a sample of companies to notify them that their next annual accounts will be reviewed. The FRC is expected to report its findings later in 2017.

For more information please see the following websites:

www.ukaccountingplus.com

www.deloitte.co.uk

A Deloitte 'Need to know' publication provides more detail on the disclosure of significant judgements and sources of estimation uncertainty.

Disclosure of judgements and estimates

The disclosure of judgements and estimates remains, along with the use of Alternative Performance Measures, the most common area of concern raised by the FRC in reviews of financial statements. These disclosures are viewed as critical to an investor's ability to assess a company's financial position and results and to gauge their sensitivity to changes in assumptions.

A key focus of the FRC is on clarity of what each disclosure represents, that is:

- Distinguishing between a judgement and a source of estimation uncertainty.
- Between the items required by IAS 1 Presentation of Financial Statements to be disclosed and any additional disclosures provided voluntarily.

Significant judgements (disclosure required by IAS 1:122)

This refers to judgements other than estimations made in applying an entity's accounting policies, often in how an item is characterised. For example, an assessment of whether an entity is acting as agent or principal in a revenue transaction may require significant judgement, but once that judgement is made the measurement of revenue may be straightforward.

IAS 1.122 then requires disclosure, if the judgement as a **significant effect on the amounts recognised in the financial statements,** of information enabling a user to understand the judgement made, why it is significant and how the entity's conclusion was reached.

Sources of estimation uncertainty (disclosure required by IAS 1:125)

This refers to assumptions or other sources of estimation uncertainty (including judgement involving estimation), primarily over the measurement of an item. For example, it may be clear that an uncertain tax position exists, but assigning a value to that exposure may involve a significant degree of estimation (particularly if there is wide range of potential outcome).

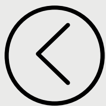
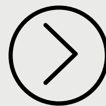
IAS 1.125 then requires disclosure, if the source of estimation uncertainty results in a **significant risk of material adjustment to assets or liabilities within the next financial year**, of the nature of the uncertainty and carrying amount of affected assets and liabilities and of sufficient information for users to understand the judgements made about sources of estimation uncertainty.

IAS 1 includes sensitivity analyses and ranges of possible outcomes as examples of disclosures that explain the estimates made and there is a clear regulatory expectation that such disclosures will be provided for all items identified as sources of estimation uncertainty disclosed under IAS 1.125. Uncertain tax positions were cited as an example where meaningful quantitative information is often not provided.

The FRC acknowledges that voluntary disclosures on items not strictly falling into either category (for example, longer term sources of estimation uncertainty not expected to be resolved within the next financial year) can also be of value to investors, but recommends that such additional disclosures be clearly identified as such and the rationale for their inclusion explained.

It is also important that the key judgements and sources of estimation uncertainty identified are reviewed and, if necessary, refreshed each year (the application of new revenue accounting policies under IFRS 15 could, for example, eliminate the need for some previous judgements but also introduce new ones) and that they are consistent with other aspects of the annual report. If, for example, an issue has been focused on by the audit committee, it might (depending on its nature) be a likely candidate for identification as a key judgement or a source of estimation uncertainty.

© 2018 Deloitte LLP. All rights reserved

FRC Focus Area

Deloitte.

GAAP: Clear vision

Need to know

FRC's Financial Reporting Lab issues report on disclosure of dividend policy and practice

November 2015

A Deloitte 'Need to know' publication provides more detail on issues surrounding the reporting of income tax.

Entities with significant U.S. operations will need to ensure that the effects of the change to U.S. tax law enacted in December 2017 are properly accounted for and disclosed. A Deloitte 'Need to know' publication provides more detail these changes and their accounting effects.

Reporting the effects of income tax

The reporting of income tax remains an area of high focus, both from the point of view of quality reporting and more generally as a result of regulatory and media scrutiny of companies' tax affairs.

In respect of financial reports, the effective tax rate reconciliation required by IAS 12 *Income Taxes* is an important source of information on the sustainability of a company's effective tax rate and the factors affecting it. The nature of reconciling items and why they have arisen should be clearly explained and a clear distinction drawn between significant one-off or unusual items and those that are expected to recur.

Care should also be applied in the recognition of deferred tax assets arising from unused tax losses, particularly if the company continues to incur losses. Entities are required to disclose the judgements made and evidence that supports the recognition of such assets. For example, where a company is loss making, disclosure of the evidence over the availability of future profits to support a deferred tax asset is required.

Income tax is also relevant to other issues discussed in this publication:

- Income tax is a common source of **estimation uncertainty**, particularly in respect of uncertain tax positions, to be disclosed in accordance with IAS 1. Significant risks of material adjustment in the next financial year should be disclosed, including quantitative information such as sensitivities or ranges of possible outcomes. The possibility of material adjustments in later periods is also valuable information which could be included in, for example, the tax note.
- The **strategic report** should include appropriate discussion of tax, particularly on variances in and expectations of the effective tax rate. Income tax should also be considered as a potential principal risk.
- The effects of income tax should be appropriately reflected in any **Alternative Performance Measures**. For example, a policy on presentation of 'adjusted' or 'underlying' profit should cover the reporting of items such as one-off tax credits.

Tax issues for 2018 annual reports

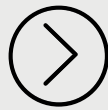
The reporting of tax for accounting purposes is, of course, driven by developments in a company's tax positions and in the tax law to which they are subject. Some topical issues relevant for December 2018 reporting are highlighted below.

'Brexit' and corporation tax

As with 'Brexit' more generally, the effects on the United Kingdom's departure from the EU on corporation tax are as yet unclear. It appears that following exit from the EU, although any withdrawal agreement may include some high-level considerations of tax legislation, there will be no detailed legislative changes. Therefore, 'Brexit' is not, in itself, anticipated to result in new tax legislation, rather it will impact which existing tax legislation applies (i.e. UK entities will no longer be subject to tax legislation applicable to EU-entities, but to tax legislation applicable to non-EU entities).

Applying SIC Interpretation 25 *Income Taxes—Changes in the Tax Status of an Entity or its Shareholders*, the effects of a change in tax status should be recognised when that change occurs. As such, the future change in tax status of UK entities will not result in changes to recognised tax balances as at December 2018. Companies should, however, provide disclosures on the significant risks and uncertainties around future tax rates and payments.

© 2018 Deloitte LLP. All rights reserved



State Aid – European Commission Investigation

In October 2017 the European Commission ("EC") gave notice to the UK that they will launch an investigation into the UK's Controlled Foreign Company ("CFC") tax rules, specifically the Finance Company Partial Exemption ("FCPE") on the basis that certain aspects of this UK legislation amounts to State Aid. The EC's decision is expected to be released imminently. Many Groups included a contingent liability disclosure in their 2017 financial statements to the extent that they may be materially impacted by an adverse finding of the EC. Clients should therefore monitor any developments closely and consider the impact on their 2018 financial statements.

U.S. tax reform

Significant and wide ranging changes to the U.S. tax code (commonly known as the Tax Cuts and Jobs Act) were signed into law on 22 December 2017, necessitating an accelerated exercise by entities with significant U.S. operations to account for their effects on 31 December 2017 reporting. For 31 December 2018 reports, entities should consider whether any refinements to that exercise are needed and ensure that the U.S. tax in 2018 has been properly accounted for and disclosed.

A Deloitte '**Need to know**' publication provides more detail these changes and their accounting effects.

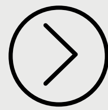
Base Erosion and Profit Shifting

The OECD and the G20 project on 'Base Erosion and Profit Shifting' ('BEPS') was initiated in 2015 to address perceived inequalities and inconsistencies in the global tax landscape. This had resulted in a 15-point action plan to modernise the principles underlying today's international tax landscape and to develop a consistent framework for countries to base their tax legislation upon.

During 2018, governments have continued to develop and implement their responses to the BEPS initiative (including the Corporate Interest Restrictions and Anti-Hybrids legislation in the UK). Tax authorities will also now have greater visibility over international businesses' transfer pricing profiles given that groups will have filed their first Country by Country reports and Master transfer pricing files. We therefore expect to see an increased focus by tax authorities in these areas going forward.

These initiatives highlight the importance that companies should give to consideration of risks relating to tax as these can have significant effects on the recognition and measurement of tax balances.

© 2018 Deloitte LLP. All rights reserved



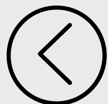
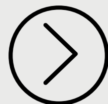
Uncertain tax positions

Whilst IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* is not mandatorily effective until 2019, the conclusions it reaches are consistent with already effective accounting standards and provide an appropriate approach to dealing with uncertain tax positions.

In brief, its conclusions are as follows:

- Uncertainties in income tax liabilities or assets should be reflected in recognising a tax liability or asset only when payment or recovery becomes probable.
- Judgement is required in identifying the unit of account to be applied in making this judgement (i.e. whether there is a single tax uncertainty or group of related uncertainties).
- Full 'detection risk' (i.e. all relevant information being available to the tax authorities) is assumed in making these judgements.

© 2018 Deloitte LLP. All rights reserved

FRC Focus Area

ESMA Enforcement Priority

New accounting standards

For many entities, the annual report for the year ending 31 December 2018 will be the first to be prepared in accordance with IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments*. It is critical that these major standards are properly applied and also that their effect is clearly disclosed.

In terms of effective disclosure, many of the issues are common to adoption of any significant new accounting standard:

- Clear and entity-specific explanation of the new accounting policies applied and, importantly, how they differ from previous policies.
- An explanation of the significant judgements and estimates made in applying the new requirements.
- Disclosure of how any choices allowed by the standard, including the use of practical expedients, have been applied.
- A clear explanation of the transition approach adopted, again including the use of any options or transitional reliefs.

Disclosures on transition will be of particular importance for December 2018 reporting, with both IFRS 15 and IFRS 7 *Financial Instruments: Disclosures* (in respect of initial application of IFRS 9) including requirements for detailed, quantitative disclosure of the effects of transition. These disclosures will be subject to heightened regulatory and investor scrutiny and should be prepared carefully and thoroughly.

The specific issues that can arise in application of such wide ranging standards are many and varied. Some of the more common issues arising from IFRS 15 and IFRS 9 are highlighted below.

IFRS 15 *Revenue from Contracts with Customers*

At the heart of IFRS 15's model for revenue recognition is the concept of a 'performance obligation' (a promise to transfer a distinct good or service to the customer). Identification of performance obligations defines the unit of account for revenue recognition and drives the subsequent exercises to allocate the transaction price and, finally, to recognise revenue for each distinct performance obligation. This assessment requires a detailed understanding of an entity's revenue streams and may result in significant differences from previous approaches to 'unbundling'. Given the significance of this assessment to revenue recognition, clear entity-specific disclosure of the performance obligations identified should be prioritised.

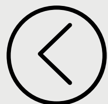
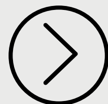
Judgement is also then required in a number of other areas, including determining a relative stand-alone selling price for each distinct performance obligation and whether revenue should then be recognised at a point in time or over time based on the transfer of control of the good or service to the customer.

It should also be remembered that IFRS 15 has detailed requirements in respect of both the statement of financial position (the recognition and measurement of contract assets and contract liabilities) and the treatment of costs (with stringent requirements on, for example, the capitalisation of costs to acquire a contract). Again, these requirements should be considered carefully and their impact on the financial statements disclosed.

This, of course, can only scratch the surface of the challenges arising from IFRS 15. The Standard also has detailed and prescriptive guidance on, amongst other things:

- Determining whether the entity is acting as an agent or as a principal in fulfilling a performance obligation and, therefore, whether revenue should be recognised on a gross or a net basis. Like the rest of IFRS 15, a control (rather than a risks and rewards) model is applied to this consideration.
- Customer options for additional goods or services, with an assessment hinging on whether the customer has paid up-front for a material right to access goods or services at a discount.
- Repurchase agreements, specifying that in many cases an arrangement in which an entity can (or can be required to) buy back an asset will not be accounted for as a sale.

© 2018 Deloitte LLP. All rights reserved

FRC thematic review of interim disclosures under IFRS 15

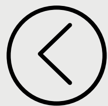
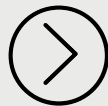
In November 2018, the FRC published the findings of its thematic review of interim disclosures in the first year of application of IFRS 15. Overall, the FRC observed that the quality of disclosures provided was 'mixed', with key findings on:

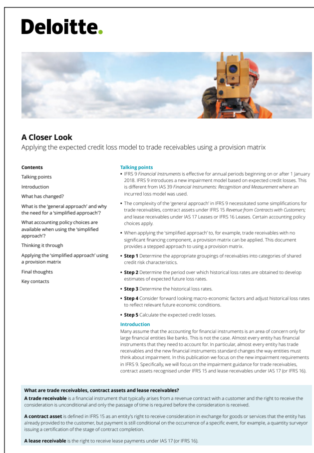
- **Changes in accounting policies** – The FRC stressed the need for a clear explanation of not only new accounting policies, but also of changes compared to previous policies. The use of boilerplate language ('when control is transferred') to describe triggers for revenue recognition and omission of policies for balance sheets items such as contract assets and liabilities were also causes for concern. More specifically, a need for additional clarity was noted in respect of variable consideration (including application of the constraint on recognition of such amounts) and the measurement of revenue over time (the actual method used and why it is appropriate, rather than simply whether an 'input' or 'output' approach is employed).
- **Transition adjustments** – The FRC expects to see clear disclosure of the transition method and then of the adjustments arising from that transition, including quantification and disaggregation of transition adjustments to provide an understanding of the nature and quantum of each significant adjustment. Explanations for adjustments are also expected to be appropriately linked to changes in accounting policies.
- **Performance obligations** – Noting the importance of performance obligations to the IFRS 15 model for revenue recognition, the FRC focused on clear, company-specific explanation of how distinct promises to customers had been identified in each company's unique contracts with customers. Again, the use of boilerplate language is discouraged in favour of company-specific language which is consistent with, and adds to, the business model disclosures in the strategic report.
- **Significant judgements** – The thematic review focuses on the requirements of IFRS 15 in respect of judgments over (for example) the determination and allocation of transaction price and the identification of costs which can be capitalised, highlighting that these requirements are in addition to (not an example of) the more general requirements of IAS 1.
- **Balance sheet accounts** – Disappointment was expressed with the level of detail provided on balance sheet accounts such as contract assets, accounts receivable and onerous contract provisions. The FRC expects to see more detail in annual reports, including an explanation of the distinction between accounts receivable and contract assets, the interaction between IFRS 15 and IFRS 9 (applying the expected credit loss approach to contract assets) and any change in the measurement of onerous contracts.
- **Comparability of amounts presented** – Companies applying the modified retrospective approach to transition will report revenue for 2017 under the old revenue standards and revenue for 2018 under IFRS 15. In reporting alternative performance measures (APMs) affected by revenue, the FRC expects companies to clarify that different measurement bases have been used in calculating current and prior year figures and to disclose current year measures in the strategic report on both an 'old' and 'new' standards basis.

Other issues noted included the disclosure of the impact of transition on earnings per share and on the accounting for costs of obtaining and fulfilling contracts (both covered by prescriptive guidance in IFRS 15).

Looking forward, the FRC urges companies to consider these points when preparing year-end disclosures on the transition to IFRS 15 and intends in particular to review the full year accounts of companies whose interim disclosures it deemed to be weak. It also plans to issue an addendum to its thematic review findings in respect of telecommunications companies (expected to be significantly impacted by IFRS 15, but largely excluded from the thematic review sample due to reporting on March rather than December year-ends) should their September 2018 interim reports give rise to additional findings.

© 2018 Deloitte LLP. All rights reserved

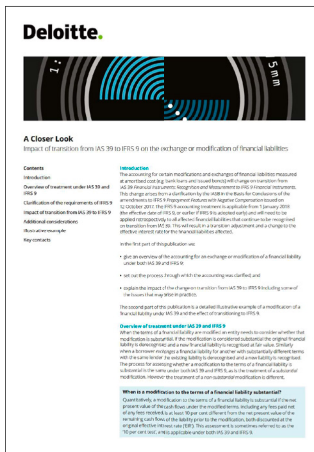




Deloitte.

A Closer Look

Applying the expected credit loss model to trade receivables using a provision matrix

A Deloitte 'A Closer Look' publication addresses the application of the expected credit loss approach to trade receivables.


Deloitte.

A Closer Look

Impact of transition from IAS 39 to IFRS 9 on the exchange or modification of financial liabilities

A Deloitte 'A Closer Look' publication provides more detail on the effect of IFRS 9 on the accounting for modifications of financial liabilities.

IFRS 9 *Financial Instruments*

IFRS 9 is sometimes depicted as a standard aimed at financial institutions, and it is true that its effects will be most pervasive for entities engaged in lending and investing activities. However, the Standard will also affect other companies in a number of significant ways:

- Application of the 'expected credit loss' approach to impairment applies not only to long-term lending by banks, but also to short-term financial assets such as trade receivables. A simplified model for the recognition of these losses is available, but it still requires the application of judgement and associated disclosure.
- Adoption of IFRS 9's revised approach to hedge accounting (which provides more flexibility in hedge designation and the assessment of hedge effectiveness) is voluntary, but additional disclosures in respect of hedging are required even if the hedging requirements of IAS 39 Financial Instruments: Recognition and Measurement continue to be applied.
- The strict requirements for measurement of a financial asset at amortised cost (based on the contractual cash flows of the asset and the business model under which it is held) apply to all entities and could result in assets being measured at fair value for the first time.
- A narrow-scope amendment to IFRS 9 in late 2017 included a clarification that modifications to financial liabilities that do not result in derecognition will still result in a gain or loss in profit or loss at the point of modification.

The FRC's year-end advice letter to audit committee chairs and finance directors also highlights that, if IFRS Standards or FRS 101 are applied in a parent company's separate financial statements, the requirements on the measurement of financial assets (including the expected credit loss approach) will apply to intercompany receivables.

For financial institutions, the impact will be more pervasive, with a high degree of scrutiny from regulators on their approach to, for example, impairment and on the quality of their disclosures. The FRC's thematic review on the adoption of IFRS 9 focused on banks and highlighted a marked difference in the quality of reporting between larger and smaller institutions and a concern that disclosures about significant judgements and accounting policies could be improved or were boilerplate in nature.

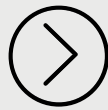
FRC thematic review of interim disclosures under IFRS 9

In November 2018, the FRC published the findings of its thematic review of interim disclosures in the first year of application of IFRS 9. The thematic review focuses on the disclosure by banks, being the group most significantly affected by the new Standard.

The FRC made the following comments on the disclosure of IFRS 9's effects on banks:

- **Classification and measurement** – The quality of banks' disclosure of the business model and 'SPPI' test for classification of financial assets was observed to be variable, with banks encouraged to address the key elements of these assessments in their accounting policies, together with an explanation of how the criteria for any designation of assets or liabilities in a particular category have been met.

© 2018 Deloitte LLP. All rights reserved



- **Impairment: Policies and methodologies** – As a key element of banks' accounting, the methodology for impairment measurement should be clear and comprehensive, covering the inputs, assumptions and estimation techniques used to determine expected credit losses. This discussion should be sufficiently granular to enable an understanding of how this approach differs by product or business line and how it differs from models used for regulatory purposes.
- **Impairment: Staging and credit risk profile** – Banks should clearly explain the quantitative and qualitative criteria used to assess whether its financial assets are in 'Stage 2' or 'Stage 3' of the expected credit loss model. If a 12 month probability of default (PD) is used as a proxy for lifetime PD in assessing whether a significant increase in credit risk has occurred, this should be disclosed.
- **Impairment: Alternative economic scenarios –** An explanation should be provided of how alternative economic outcomes are selected from a range of possibilities, how those scenarios have been weighted in calculating expected credit losses and whether any material overlays to capture factors not reflected in the models used have been applied. Key economic variables used to determine the central scenario should also be disclosed, together with the difference between the base case scenario and the expected credit loss provision.
- **Judgements and estimation uncertainty –** As is the case with IFRS 15, specific disclosures (over and above the requirements of IAS 1) are required of the judgements and estimates made in applying IFRS 9. The FRC expects judgements over significant increases in credit risk and the definition of default and estimates around economic scenarios and asset lifetimes to be clear and comprehensive.

In respect of non-banking entities, the FRC's comments were more limited, but these entities are encouraged to:

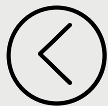
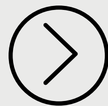
- Explain the effect of IFRS 9 on their financial statements, including (if such is the case) why that effect is not material.
- Take care not to overlook categories of instrument that might be affected by IFRS 9. For example, the expected credit loss approach should be applied to both IFRS 15 contract assets and to loans to joint ventures and (in company only financial statements) loans to subsidiaries.
- Reconsider the treatment of embedded derivatives, which will now usually result in an entire 'host contract' being measured at fair value (unless that host is a financial liability or is not within the scope of IFRS 9 at all).
- Remember the additional disclosure requirements added to IFRS 7 for entities applying IFRS 9.

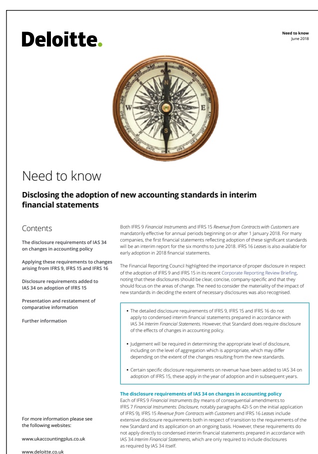
As with IFRS 15, the FRC will be reviewing the annual reports of companies with weaker disclosures to ensure that improvements have been made.

Taskforce on Disclosures about Expected Credit Losses

Three regulators in the UK have jointly established a taskforce to promote high-quality disclosures about expected credit losses and to encourage greater consistency between and comparability of those disclosures. The taskforce has published its first report setting out the disclosure principles used in developing its recommendations, as well as considerations applicable to all the recommended disclosures in respect of their scope, timing, frequency, location and granularity.

© 2018 Deloitte LLP. All rights reserved


Deloitte.

Need to know

Disclosing the adoption of new accounting standards in interim financial statements

Contents

The disclosure requirements of IAS 34 on changes in accounting policy

Applying these requirements to changes arising from IFRS 9, IFRS 15 and IFRS 16

Disclosure requirements added to IAS 34 on adoption of IFRS 15

Presentation and restatement of comparative information

Further information

A Deloitte 'Need to know' publication provides more detail on the disclosure of the effect of new accounting standards in interim financial statements

Further resources on IFRS 16 are available via www.ukaccountingplus.co.uk.

IFRS 16 *Leases*

As was the case for IFRS 15 and IFRS 9 a year ago, both the FRC and ESMA have stated an expectation that, in the year before adoption of a major new Standard, both qualitative and quantitative information on the application of that standard will be disclosed.

These disclosures should:

- Be company specific, identifying the lease portfolios most affected by IFRS 16.
- Explain the significant judgements and policy changes arising.
- Identify any exemptions or practical expedients the company intends to apply, together with its intended approach to transition to IFRS 16.

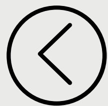
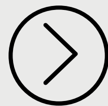
Companies should also be aware of the possibility of additional scrutiny of operating lease commitments in their 2018 financial statements, as if the 'cumulative catch up' approach to transition is applied this figure will need to be reconciled to the lease liability recognised upon application of IFRS 16.

The need for governance and control over preparation of these disclosures should also not be overlooked. Although not yet reflected in the primary statements, this information is part of the financial statements and should be robust enough to be used for that purpose. In addition, it should be noted that disclosures under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* are not optional, 'reasonably estimable' effects of applying new standards are required to be disclosed.

The FRC has also announced its intention to perform a thematic review of disclosures on the implementation of IFRS 16 in 2019 interim accounts (similar to the reviews performed on IFRS 15 and IFRS 9 adoption in 2018). In those interim accounts, the FRC expects to see:

- Quantitative disclosure accompanied by informative, company-specific and detailed explanations.
- Clear explanation of the effect of transition, including comparison of new and previous accounting policies.
- Appropriate commentary on comparative amounts when transitional arrangements may have limited their comparability with current year figures.
- Clear explanation of key judgements made by management, including policy choices and any use of exemptions.
- An explanation of how the transition has been implemented, after careful consideration of the transitional disclosure requirements under IFRS 16 and the requirements of IAS 8.

© 2018 Deloitte LLP. All rights reserved

Deloitte.

GAAP: Clear vision

Need to know

FRC's Financial Reporting Lab issues report on disclosure of dividend policy and practice

November 2015

The FRC's Financial Reporting Lab reported on the disclosure of dividends in October 2017. A Deloitte 'Need to know' publication provides more guidance Lab's recommendations and wider issues surrounding distributions.

FRC Focus Area

Reporting on dividend policy and practice

There is a perception from investors that annual reports do not provide sufficient transparency on the allocation of surplus capital between the payment of dividends and, for example, investment in research and development, acquisitions or funding of retirement benefit obligations.

The issue has been brought into sharp focus by the Government's response to its recent consultation *Insolvency and Corporate Governance*, which noted that a significant majority of respondents to the consultation thought that reform of the legal, governance and technical framework within which companies determine dividend payments was required. The key message from the Government on this issue that is most relevant to the annual report and accounts is set out in paragraph 1.51 of the consultation response:

"The Government will legislate to require companies to disclose and explain their capital allocation decisions if investor pressure and new section 172 reporting requirements do not deliver sufficient progress."

Against this background, it is important for companies to report (clearly and in one place) their policy on the payment of dividends and other returns to shareholders in the context of their wider capital allocation decisions and how that policy has been applied. This discussion should include any associated risks and constraints, the interaction of that policy with the directors' duty (under Section 172 of the Companies' Act) to stakeholders and a clear explanation of capital allocation decisions.

Supplier financing arrangements

One of the issues highlighted following the collapse of Carillion plc was its use of 'supplier financing' or 'reverse factoring' arrangements. The terms of these arrangements vary, but typically involve suppliers being paid in line with, or in advance of, invoice terms by a third-party financial institution who are then reimbursed by the purchaser at a later date.

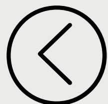
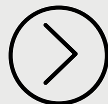
Arrangements of this type are not uncommon and raise important financial reporting questions around:

- The classification of liabilities as either trade payables (as the original obligation arose from the purchase of goods or services) or as borrowings (as the eventual payment will be made to a financial institution, possibly on a significantly deferred basis).
- The presentation of payments and receipts in the statement of cash flows. If the company's liability is classified as a trade payable, only an operating cash outflow arrives. If a borrowing is recognised, it becomes necessary to consider whether, following the form of the transaction, only a financing cash outflow arises on final payment to the financial institution, or whether the transactions should be 'grossed up' to present an operating cash outflow to the supplier and simultaneous financing inflow as a liability to the financial institution is drawn down.

These issues should be considered carefully based on the facts and circumstances of the arrangement (which can vary significantly). Critically, full and clear disclosure should be provided of:

- The approach to the presentation of significant supplier financing arrangements and (in accordance with IAS 1.122) the judgements made in applying that policy.
- The carrying amount of the liabilities in question and the line item(s) in which they are presented.
- How supplier financing transactions have been reflected in the entity's statement of cash flows, including the amount of any 'gross up' applied. The revised requirements of IAS 7 on the disclosure of movements in financing liabilities should also not be overlooked should any cash flows be presented as financing.
- Disclosures required by paragraph 39(c) of IFRS 7 *Financial Instruments: Disclosures* when supplier financing arrangements have been used as a tool to manage liquidity risk.

© 2018 Deloitte LLP. All rights reserved

Suppliers should also be aware of the need to properly account for and disclose the effects of their participation in such arrangements. Similar to a 'traditional' factoring arrangement, this includes consideration of whether the receivable from the customer has been extinguished or whether a separate liability to the financial institution now exists.

The FRC's 2014 press notice on complex supplier arrangements and its 2018 communication on 'Accounting and reporting framework for the construction and business support services sectors' contain further discussion on such arrangements.

Statement of cash flows

FRC Focus Area

In its discussion of the overall quality of financial reporting, the FRC annual review highlights errors in the preparation of the statement of cash flows as a primary reason for the increase in amendments to financial statements with a required reference to the FRC's involvement (seven companies were required to make such a reference in respect of corrections to their statement of cash flows).

The issues identified were primarily around the classification of cash flows (for example, the inclusion of restructuring or acquisition-related cash flows in investing rather than operating cash flows), but errors were also made in identifying whether items should be included in the statement of cash flows at all. Such errors arose from either the inclusion of non-cash movements such as the unwind of discounts as cash flows or from the incorrect identification of balances such as invoice factoring liabilities as being cash or cash equivalents. Errors of this nature are often quite visible in the financial statements and highlight the need for due care and an effective control environment over the final stages of preparing financial statements.

The IFRS Interpretations Committee published an agenda decision in June 2018, confirming that a loan facility with a 14-day contractual notice period should not be considered part of cash and cash equivalents because it is not due on demand and does not often fluctuate between a positive and negative balance. The significance of this conclusion should not be overlooked as it illustrates how narrow the definition of 'cash and cash equivalents.

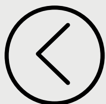
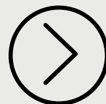
Disclosures supporting the statement of cash flows are also an important area of focus. The amendments to IAS 7, requiring disclosure of changes in liabilities from financing activities (sometimes termed a 'gross debt reconciliation'), were effective for December 2017 year-ends but the FRC notes that early indications are that some companies omitted those required disclosures. For 2018 financial statements, it is thus important to revisit those disclosures to ensure that the requirements of IAS 7.44A-E are met in full.

Other disclosures supporting the statement of cash flows should also not be overlooked. For example, any 'restricted cash' balances should be clearly explained. These disclosures might be particularly relevant for groups operating in jurisdictions with controls over currency exchange or repatriation.

Investments in Money Market Funds

Investing in Money Market Funds (MMFs) instead of holding cash at a bank is a common low risk investment strategy. Care should be given in assessing whether investments in MMFs meet the definition of cash and cash equivalents given the terms of MMFs can vary considerably. In the EU new reforms have been introduced in 2018 that standardise the terms of MMF investments and introduce a distinction between short-term MMFs and standard MMFs, the former being less risky and investing in shorter dated securities than the latter. Given these reforms, existing MMFs may have been restructured to comply with these new regulations and the classification of investments should be reconsidered.

© 2018 Deloitte LLP. All rights reserved

Other topics

Earnings per share

Similar to the preparation of a statement of cash flows, the calculation of basic and diluted earnings per share ('EPS') might sometimes be considered a purely mechanical exercise. It is, however, an important and complicated one in which errors can easily occur.

IAS 33 *Earnings per Share* is quite prescriptive in how EPS is calculated, with requirements that in some cases diverge from those of other standards. The Standard also uses terminology that does not appear elsewhere in IFRS Standards. As such, it is important to consider these calculations clearly and on their own terms, the use of 'common sense' or an assumption of consistency with other accounting requirements (for example, IFRS 2 *Share-based Payments*) is likely to lead to mistakes.

Common pitfalls in EPS calculations include failure to adjust both basic and diluted EPS retrospectively for changes in the number of shares in issue without a corresponding change in resources (arising from, for example, a scrip dividend, share split or share consolidation) and errors in the treatment of treasury shares, or shares held in an employee benefit trust (EBT) or similar vehicle. These shares are not considered 'outstanding' and so are excluded from the 'number of shares' in basic and diluted EPS and have no further effect on the calculations.

There are many other potential complications and each instrument which could potentially result in the delivery of new ordinary shares (or the repurchase of existing ordinary shares) should be considered carefully to determine its potential effect on basic and/or diluted EPS.

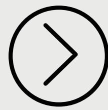
Impairment reviews

The performance and disclosure of impairment reviews remains an area of regulatory challenge. In conducting an impairment review under IAS 36 *Impairment of Assets,* it is important to consider carefully all inputs into a calculation of value-in-use (both cash flow forecasts and the discount rate(s) applied to them). It is also important to exercise care in the identification of cash-generating units and in aggregating those cash-generating units for the purposes of testing goodwill for impairment. An appropriate discount rate should also be applied to each cash-generating unit (or group of cash-generating units) rather than the same rate being applied across an entity.

In terms of disclosure, the FRC has noted, in the context of its upcoming thematic review on impairment of non-financial assets, an expectation that companies will:

- Disclose not only growth and discount rates, but also other key assumptions such as revenue growth, margins and operating costs used in estimating recoverable amounts.
- Identify, when material, assumptions that are specific for an individual cash-generating unit rather than disclosing only an average value or range for an assumption covering multiple cash-generating units.
- Clearly explain whether reasonably possible changes in key assumptions, whether individually or in combination, could result in an impairment.
- Explain the period over which growth rates are applied, why certain growth rates were used and any significant changes in growth or discount rates.
- When a post-tax discount rate has been derived from a pre-tax rate, explain how this has been done and disclose both rates.
- Indicate how impairment of subsidiaries, associates and joint ventures has been considered by a parent company whose net assets exceed its market capitalisation.

© 2018 Deloitte LLP. All rights reserved



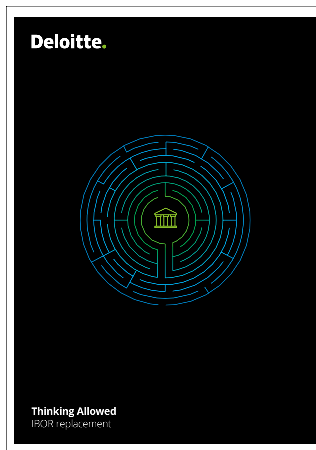
Inflation in Argentina
As noted in ESMA's common enforcement priorities, for 2018 year-ends, the Argentine economy is considered hyperinflationary (as that term is defined in IAS 29 Financial Reporting in Hyperinflationary Economies). This will impact the consolidated financial statements of companies with Argentine foreign operations (subsidiaries, associates or joint arrangements) as:

- Inflation accounting will need to be applied in preparing the foreign operations financial statements.
- Those financial statements will then be translated into the investor's presentation currency at the closing rate (differing from the usual process for translation of foreign operations).

The application of inflation accounting is complex and should be incorporated into the planning for preparation of 2018 annual reports that are affected.

A Deloitte Need to Know publication provides more details on the measurement of inflation in Argentina.

Changes to interbank offered rates (IBORs)
Work is underway in many jurisdictions, including the UK, to transition from the current interbank offered rate (IBOR) system to alternative risk-free rates (RFRs) as soon as 2020. The accounting impact of IBOR replacement is on the IASB's research agenda and is expected to move to its active standard setting agenda in due course.

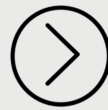


A Deloitte 'Thinking Allowed' publication provides a brief status update on IBOR replacement in several jurisdictions and focuses on some of the potential accounting consequences under IFRS Standards.

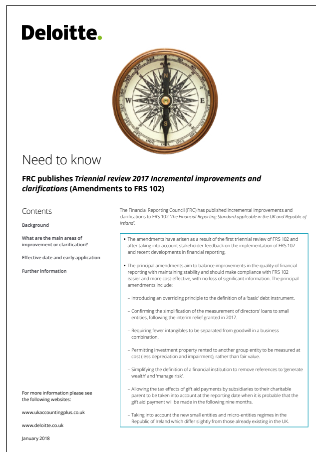
The FRC also noted concerns over:

- **Deferred tax on share-based payments** – Challenging its allocation between profit or loss and equity.
- **Business combinations** – Specifically the measurement and disclosure of deferred and contingent consideration and whether payments to former owners of an acquiree should be treated as consideration or a remuneration for post-combination services.
- **Defined benefit pension schemes** – Disclosure remains important of items such as future funding requirements and significant changes to, for example, actuarial assumptions or expected contributions.
- **Provisions and contingent liabilities** – The appropriate discount rate should be applied to provisions balances (not the rate used for impairment reviews, as the requirements of IAS 36 and IAS 37 are quite different in this respect). Also, reimbursement rights such as insurance assets should not be netted of provisions in the statement of financial position.

© 2018 Deloitte LLP. All rights reserved



Appendices



Deloitte.

Need to know

FRC publishes *Triennial review 2017 Incremental improvements and clarifications* (Amendments to FRS 102)

Contents

Background

What are the main areas of improvement or clarification?

Effective date and early application

Further information

The Financial Reporting Council (FRC) has published incremental improvements and clarifications to FRS 102 *'The Financial Reporting Standard applicable in the UK and Republic of Ireland'*.

- The amendments have arisen as a result of the first triennial review of FRS 102 and after taking into account stakeholder feedback on the implementation of FRS 102 and recent developments in financial reporting.
- The principal amendments aim to balance improvements in the quality of financial reporting with maintaining stability and should make compliance with FRS 102 easier and more cost-effective, with no loss of significant information. The principal amendments include:
  - Introducing an overriding principle to the definition of a 'basic' debt instrument.
  - Confirming the simplification of the measurement of directors' loans to small entities, following the interim relief granted in 2017.
  - Requiring fewer intangibles to be separated from goodwill in a business combination.
  - Permitting investment property rented to another group entity to be measured at cost (less depreciation and impairment), rather than fair value.
  - Simplifying the definition of a financial institution to remove references to 'generate wealth' and 'manage risk'.
  - Allowing the tax effects of gift aid payments by subsidiaries to their charitable parent to be taken into account at the reporting date when it is probable that the gift aid payment will be made in the following nine months.
  - Taking into account the new small entities and micro-entities regimes in the Republic of Ireland which differ slightly from those already existing in the UK.

For more information please see the following websites:

www.ukaccountingplus.co.uk

www.deloitte.co.uk

January 2018

A Deloitte 'Need to know' publication provides more detail on the amendments to FRS 102.

UK GAAP developments

Following completion of its first triennial review of FRS 102, the FRC has published a number of incremental improvements and clarifications to the Standard.

These amendments are not intended to fundamentally change the operation of FRS 102, but rather to make it simpler and more cost effective to apply.

The principal amendments include:

- The introduction of an overriding principle to the definition of a 'basic' financial instrument.
- Limiting the circumstances in which intangible assets are required to be recognised separately from goodwill in a business combination.
- Permitting investment property rented to another group company to be measured at depreciated cost rather than at fair value.
- Simplification of the definition of a 'financial institution'.

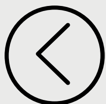
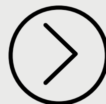
The amendments are effective for periods beginning on or after 1 January 2019 but are available for early adoption.

ESMA guidelines on 'Alternative Performance Measures' and IOSCO statement on 'Non-GAAP Financial Measures'

Concerns over the proper use of performance figures other than those stipulated by IFRS Standards has been an area of concern for regulators in many jurisdictions around the world. As can be seen below, the ESMA Guidelines on Alternative Performance Measures (APMs) are very similar to a Final Statement on Non-GAAP Financial Measures issued by the International Organisation of Securities Commissions (IOSCO) in 2016.

Other regulators have their own requirements that limit (in some case more strictly than these guidelines) the use of such information.

© 2018 Deloitte LLP. All rights reserved

ESMA Guidelines on Alternative Performance Measures

Scope – Applies to 'Alternative Performance Measures' being financial measures of historical or future financial performance, financial position or cash flows other than a financial measure defined or specified in the applicable financial reporting framework.

APMs disclosed in financial statements are not within the scope of guidelines.

The guidelines are also not applicable to:

- physical or non-financial measures;
- information on major shareholdings, acquisitions or disposals of own shares and total number of voting rights; or

information to explain compliance with the terms of an agreement (such as a lending covenant) or legislative requirement (such as the basis of calculating directors' remuneration).

Presentation and **Explanation on the use of APMs** – A clear and readable definition of APMs should be provided. APMs should also be given meaningful labels reflecting their content and basis of calculation.

The use of APMs should be explained to allow users to understand their relevance and reliability.

Presentation – Overly optimistic or positive labels for APMs should not be used.

Prominence and presentation of APMs – APMs should not be displayed with more prominence, emphasis or authority than, or distract from, measures directly stemming from financial statements.

The ESMA Questions and Answers stress that the notion of prominence is a qualitative as well as a quantitative one, covering factors such as font size, frequency of use and location within the document.

Reconciliations – Each APM should be reconciled to its most directly reconcilable item in the financial statements.

The ESMA Questions and Answers provide specific guidance on the reconciliation of an 'organic growth' figure to IFRS revenue.

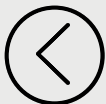
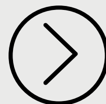
Comparatives and **Consistency** – APMs should be presented consistently from period to period with comparative information provided.

Any changes to the definition or calculation of an APM (or cessation of use of an APM) should be explained, with restated comparative figures provided.

Presentation – Items should not be mislabelled as non-recurring, infrequent or unusual. For example, items that affected past periods and will affect future periods (such as restructuring costs or impairment losses) will rarely be considered as non-recurring, infrequent or unusual.

Compliance by reference – Disclosure principles in the guidelines may be replaced by a direct reference to other documents previously published which contain disclosures on APMs and are readily and easily accessible to users.

© 2018 Deloitte LLP. All rights reserved

IOSCO Statement on Non-GAAP Financial Measures

Scope – Applies to 'non-GAAP financial measures' being numerical measures of an issuer's current, historical or future financial performance, financial position or cash flow that is not a GAAP measure (defined as a measure determined pursuant to the issuer's financial reporting framework included in, for example, a press release or narrative section of an annual report).

Disclosures contained within the financial statements are not within the scope

An operating or statistical measure that is not a financial measure is not within scope.

Defining the non-GAAP Financial measure – The measure should be defined, explained (including a statement that it is not a standardised measure), clearly labelled and the reason for its use (including an explanation of why the information is useful to investors) explained.

Unbiased purpose – Non-GAAP measures should not be used to avoid the presentation of adverse information.

Prominence of presentation of GAAP measures – Non-GAAP measures should not be presented with more prominence than the most directly equivalent GAAP measure.

Reconciliation to comparable GAAP measures – A clear and quantitative reconciliation to the most directly equivalent GAAP measure should be provided.

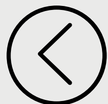
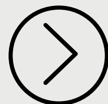
Presentation consistently over time – Comparative values should be presented and non-GAAP measures generally presented consistently from year to year.

Any changes to a non-GAAP measure (or cessation of use of a non-GAAP measure) should be explained with comparative figure adjusted accordingly.

Recurring items – In IOSCO's experience, there are rarely circumstances in which restructuring costs or impairment losses can be justified as being 'non-recurring', 'infrequent' or 'unusual'.

Access to associated information – Information supporting the use and calculation of non-GAAP measures should be readily available to users either by directly accompanying the measure or by a cross-reference to where the information is available.

© 2018 Deloitte LLP. All rights reserved

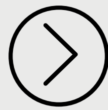
New and revised IFRS Standards and Interpretations mandatorily effective for years ending 31 December 2018

IFRS	IASB and EU-endorsed effective date – periods commencing on or after
New Standards	
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amended Standards	
Clarifications to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*	1 January 2018
Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions	1 January 2018
Amendments to IFRS 1 and IAS 28 issued in the Annual Improvement Cycle 2014-2016	1 January 2018
Amendments to IAS 40 – Transfers of Investment Property	1 January 2018
IFRIC Interpretations	
IFRIC 22 – *Foreign Currency Transactions and Advance Consideration*	1 January 2018

The clarifications to IFRS 15 issued in April 2016 addressed a number of issues highlighted by discussions of the IASB and FASB's joint Transition Resource Group (TRG) for Revenue Recognition. Details of the group's discussions can be found here.

A similar group, the IFRS Transition Resource Group for Impairment of Financial Instruments (ITG) has been instigated by the IASB to discuss issues arising from the expected loss-based impairment model of IFRS 9. Details of this group's discussions can be found here.

© 2018 Deloitte LLP. All rights reserved



IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* (including clarifications published in 2016)
IFRS 9 and IFRS 15 fundamentally change the accounting for financial instruments and revenue contracts respectively. Issues arising in their application are discussed in the main body of this publication.

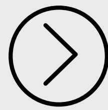
Amendments to IFRS 4 *Insurance Contracts* – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*
The amendments allow entities meeting strict criteria to be considered to be 'engaged in predominantly insurance activities' to defer application of IFRS 9 until the earlier of their adoption of IFRS 17 *Insurance Contracts* and a period beginning on or after 1 January 2021.

Separately, all entities with contracts in the scope of IFRS 4 are provided with an option to make adjustments to make adjustments to the profit or loss effects of designated qualifying financial assets to remove the impact of IFRS 9 (compared to the previous profit or loss effect of IAS 39 *Financial Instruments: Recognition and Measurement)*. This is termed 'the overlay approach'.

Amendments to IFRS 2 *Share-based Payments* – Classification and measurement of share-based payment transactions
The amendments to IFRS 2 clarify that:

- Vesting and non-vesting conditions in respect of cash-settled share-based payment transactions should be treated in a similar way to conditions over equity-settled transactions (i.e. market and non-vesting conditions factored into the estimate of fair value, whilst service and non-market conditions are taken into account by adjusting the number of awards included in the measurement of the liability). Unlike equity-settled transactions, both estimates are revised at each reporting date;
- Specifically in circumstances where tax law or regulation requires an entity to withhold on behalf of their employees a number of equity instruments necessary to meet the employee's tax liability (typically remitted to the tax authority in cash), the arrangement should be classified as equity-settled in its entirety (rather than recognising a cash-settled element in respect of the net settlement feature); and
- A modification to a share-based payment arrangement that results in the classification changing from cash- to equity-settled should be accounted for by:
  - Derecognising the cash-settled liability.
  - Recognition of the equity-settled share-based payment at its fair value (to the extent that services have been received).
  - Immediate recognition in profit or loss of any difference between the two values.

© 2018 Deloitte LLP. All rights reserved



Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investments in Associates and Joint Ventures* issued in the Annual Improvements Cycle 2014-2016

The amendments:

- Delete redundant short-term exemptions in IFRS 1 relating to the adoption of new standards whose effective date has now passed.
- Clarify that the option in IAS 28 for a venture capital organisation (or similar entity) to measure investments in associates and joint ventures at fair value through profit or loss is available separately for each associate or joint venture via an election to be made at initial recognition of the investment.

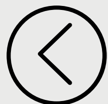
Amendments to IAS 40 *Investment Property* – Transfers of investment property

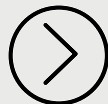
The amendments to IAS 40 clarify that a property can be transferred to or from investment property when there is evidence that a change in use of that property has occurred and that a change in management's intentions alone would not be enough to support such a change.

IFRIC Interpretation 22 – *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses the question of the measurement of transactions for which an entity pays or receives consideration in advance in a foreign currency, concluding that the 'date of the transaction' for the purposes of determining the appropriate exchange rate to be applied is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

© 2018 Deloitte LLP. All rights reserved





IFRS Interpretations Committee agenda decisions in 2018

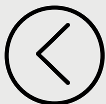
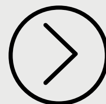
Along with its activity developing formal interpretations of IFRS Standards and proposing that the IASB make amendments to standards, the IFRS Interpretations Committee regularly publishes summaries of issues that it has decided not to add to its agenda, often accompanied by a discussion of the accounting issue submitted.

Whilst the commentary included in an agenda decision is not formally part of IFRS Standards, it is an important source of guidance that should be carefully considered when selecting a suitable accounting policy for a transaction. In many jurisdictions, there is an expectation from regulators that agenda decisions will be considered, with ESMA, for example, publicly stating an expectation to this effect.

In 2018, the following agenda decisions have been published by the Committee.

January IFRIC Update	IAS 28 – Contributing property, plant and equipment to an associate
March IFRIC Update	IFRS 9/IAS 1 – Presentation of interest revenue for particular financial instruments
	IFRS 15 – Revenue recognition in a real estate contract
	IFRS 15 – Revenue recognition in a real estate contract that includes the transfer of land
June IFRIC Update	IAS 7 – Classification of short-term loans and credit facilities
September IFRIC Update	IFRS 9 - Classification of a particular type of dual currency bond
	IAS 21 - Determination of the exchange rate when there is a long-term lack of exchangeability
	IAS 23 – Expenditures on a qualifying asset
	IAS 23 – Borrowing costs on land

© 2018 Deloitte LLP. All rights reserved

New and revised IFRS Standards and Interpretations available for early application in years ending 31 December 2018

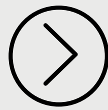
Paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to consider and disclose the potential impact of new and revised IFRSs that have been issued but are not yet effective. As discussed above, the sufficiency of these disclosures (particularly as they relate to IFRS 16 on leasing) is a current area of regulatory focus.

The list below reflects a cut-off date of 30 November 2018. The potential impact of the application of any new and revised IFRS Standards issued by the IASB after that date but before the financial statements are issued should also be considered and disclosed.

For those reporting under EU-endorsed IFRS Standards, to the extent that the below conflict with current standards, such items cannot be early adopted until they have been endorsed for use in the EU.

IFRS Standard	IASB Effective Date – periods commencing on or after:	EU-endorsed effective Date – periods commencing on or after:
New Standards		
IFRS 14 *Regulatory Deferral Accounts*	First time adopters whose first annual IFRS financial statements are for a period beginning on or after 1 January 2016.	EU has decided not to endorse as very few European companies would fall within its scope. *
IFRS 16 *Leases*	1 January 2019	1 January 2019
IFRS 17 *Insurance Contracts*	1 January 2021	TBC – Endorsement outstanding
Amended Standards		
Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	The IASB decided in December 2015 to defer indefinitely the effective date of these amendments. EU endorsement has, likewise, been indefinitely postponed.	
Amendments to IFRS 9 – Prepayment Features with Negative Compensation	1 January 2019	1 January 2019
Amendments to IAS 28 – Long-term interests in Associates and Joint Ventures	1 January 2019	TBC – Endorsement outstanding
Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 issued in the Annual Improvement Cycle 2015-2017	1 January 2019	
Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement	1 January 2019	

© 2018 Deloitte LLP. All rights reserved



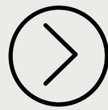
IFRS Standard	IASB Effective Date – periods commencing on or after:	EU-endorsed effective Date – periods commencing on or after:
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020	TBC – Endorsement outstanding
Amendments to IFRS 3 – Definition of a Business	1 January 2020	
Amendments to IAS 1 and IAS 8 – Definition of Material	1 January 2020	
IFRIC Interpretations		
IFRIC 23 – Uncertainty over Income Tax Treatments	1 January 2019	1 January 2019

* IFRS 14 is available only to first-time adopters of IFRSs who recognised regulatory deferral account balances under their previous GAAP and permits those entities to continue (with limited changes) their previous GAAP accounting for rate-regulated activities, although with separate presentation of balances and items of income and expense arising from that accounting.

As the EU has decided not to endorse this Standard for use in the European Union, the option to retain previous GAAP accounting on transition to IFRS Standards is not available to entities (such as those in the UK) required to apply EU-endorsed IFRS Standards.

A Transition Resource Group for Insurance Contracts has been set up following publication of IFRS 17. Details of this group's discussions can be found here.

© 2018 Deloitte LLP. All rights reserved



Deloitte resources

There are a number of resources prepared by Deloitte that can assist you during the upcoming reporting season. Many have been highlighted throughout this publication, key resources are listed below.

The Closing Out 2018 page on UK Accounting Plus

A dedicated page on UK accounting plus, providing links to a full suite of resources. This page will continue to be updated to reflect developments after the date of this publication.

Annual report insights 2018 – Surveying FTSE reporting

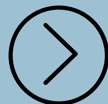
Our dedicated annual report insights site provides access to:

Our dedicated annual report insights site provides access to Annual report insights 2018: Surveying FTSE reporting, detailing the findings from our review of 100 listed UK company reports, covering a variety of contemporary issues in corporate reporting such as Brexit, companies' social licence to operate, value creation for different stakeholders, climate change, employee engagement and key reporting metrics.

On the board agenda – the 2019 reporting season

On the board agenda 2019 highlights the recent and upcoming changes in the corporate governance environment, including the ever-increasing reporting requirements regarding company activities. There is much to consider. This year our flagship publication for boards is structured around four key themes: responsible business; risk and viability; remuneration; and year-end reporting and assurance.

© 2018 Deloitte LLP. All rights reserved



© 2018 Deloitte LLP. All rights reserved

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 1 New Street Square, London EC4A 3HQ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

© 2018 Deloitte LLP. All rights reserved.