Clayton Hotel
15 October 2019

Deloitte
Financial Reporting
plus
Welcome
Kevin Butler, Partner, Audit and Assurance
15 October 2019
Economic backdrop for 2019 reporting
Gerard Moore
Goodbody
Ultra-low rates
Deloitte Financial Reporting Plus Conference

October 15th 2019
Gerard Moore, Director of Investments
Eurozone hit by slowing trade

**Global trade and export orders**

- Left hand scale: three-month-on-three-month percentage change
- Right hand scale: diffusion index

- Global merchandise imports excluding the euro area (left hand scale)
- Average global merchandise imports excluding the euro area 1991-2019 (left hand scale)
- Global PMI: new export orders, excluding the euro area (right hand scale)

**Sources:** Markit, CPB Netherlands Bureau for Economic Policy Analysis and ECB calculations.

**Note:** The latest observations are for April 2019 for global merchandise imports and June 2019 for the PMI.

**Euro area macro indicators**

**Euro area business**

- Source: Bloomberg & Factset

**Euro area consumer**

- Source: Factset

**Source:** Bloomberg
After a prolonged period of weak growth
Which triggered rate cuts
More should have been done
QE provided additional help

**ECB gross asset purchases**

*Source: ECB*

**Cumulative balance sheet holding**

*Source: ECB*

**Exhibit 58: EGB net issuance versus ECB PSPP purchases**

*Source: ECB, Morgan Stanley Research*

**Exhibit 62: Estimated holdings of EGBs by country**

*Source: ECB, IMF, Morgan Stanley Research*
This provided a boost
But has faded once again

GDP forecasts (Sep 2019)
2019  1.1% vs 1.2% previously
2020  1.2% vs 1.4% previously

Inflation forecasts (Sep 2019)
2019  1.2% vs 1.3% previously
2020  1.0% vs 1.4% previously
Inflation remains persistently low

Sources: Eurostat, Markit and ECB calculations.

Notes: The Purchasing Managers’ Index (PMI) is expressed as a deviation from 50 divided by 10. The latest observations are for the third quarter of 2018 for employment, November 2018 for the PMI and October 2018 for the unemployment rate.

Contributions of components of euro area headline HICP inflation

Sources: Eurostat and ECB calculations.

Notes: The latest observations are for the third quarter of 2018. "Non-market services" covers activities by government and private non-profit institutions in fields such as public administration, education and health (sections 0 to 5 to 9 in the NACE Revision 2 breakdown). "Market services" is the remaining difference from total services (sections 0 to 9 to 18 to 18 in the NACE Revision 2 breakdown).
Pushing rates down to negative levels
European sovereign and senior bank bonds

Yield relative to maturity and credit rating

Source: Bloomberg
Change in yields over the last six months
Expectations are that this will persist
**Driving unusual consequences**

**Danish bank launches world's first negative interest rate mortgage**

Jyske Bank will effectively pay borrowers 0.5% a year to take out a loan.

A Danish bank has launched the world’s first negative interest rate mortgage - handing out loans to homeowners where the charge is minus 0.5% a year. Negative interest rates effectively mean that a bank pays a borrower to take

---

**UBS plans negative interest rate for rich clients**

Latest European bank to pass cost of central banks’ “lower for longer” stance to depositors

David Crow, Stephen Morris and Alice Ross in London, JULY 31 2019

UBS plans to levy a negative interest rate on wealthy clients who deposit more than SFr2m with its Swiss bank, as lenders hunker down for a period of ultra-loose monetary policy.

Several banks in Switzerland and the eurozone already pass on the cost of negative official rates to corporate depositors, although most large players have refrained from doing so with individual clients.

But with policymakers expected to adopt a “lower for longer” stance for the foreseeable future, UBS Switzerland will from November charge 0.75 per cent a year on individual cash balances above SFr2m, according to three people briefed on the plans.
### Table A1—Measurement bases and inputs

<table>
<thead>
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<td>assets and liabilities required or permitted by other IFRS Standards to be measured at fair value</td>
<td>non-financial assets tested for impairment when recoverable amount is value in use</td>
<td>provisions</td>
<td>defined benefit obligations</td>
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<td>no</td>
</tr>
<tr>
<td>Measurement basis (as described or inferred)</td>
<td>fair value</td>
<td>value in use</td>
<td>amount to settle or transfer</td>
<td>present value of estimated ultimate cost</td>
</tr>
</tbody>
</table>

#### Measurement inputs included:

- Central estimate of cash flows
- Time value of money
- Risk premium
- Liquidity
- Own credit risk

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<thead>
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</thead>
<tbody>
<tr>
<td></td>
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<tr>
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<td>unclear (not observed in practice)</td>
<td>some (if implicit in bond rate)</td>
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<tr>
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<td>n/a</td>
<td>unclear (mixed practice)</td>
<td>some (issuers' credit risk implicit in bond rate)</td>
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<tr>
<td>Measurement inputs clear</td>
<td>yes</td>
<td>yes</td>
<td>no</td>
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</tbody>
</table>
Introducing a new type of risk?

(c) Market risk
Market risk is the risk that changes in market prices and indices, such as interest rates and foreign exchange rates will affect the Group’s profit or the value of its holdings of financial instruments.

(1) Interest rate risk
The Group is exposed to floating interest rates on its debt obligations and uses hedging instruments to mitigate the risk associated with interest rate fluctuations. This is achieved by entering into interest rate swaps and an interest rate cap (note 14) which hedge the variability in cash flows attributable to the interest rate risk.

The interest rate profile of the Group’s interest-bearing financial liabilities as reported to the management of the Group is as follows:

<table>
<thead>
<tr>
<th>Nominal amount</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>€’000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable rate instruments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial liabilities – borrowings</td>
<td>306,078</td>
<td>282,310</td>
</tr>
<tr>
<td>Effect of interest rate swaps</td>
<td>(197,310)</td>
<td>(114,403)</td>
</tr>
<tr>
<td>Effect of interest rate cap</td>
<td>(8,212)</td>
<td>(19,413)</td>
</tr>
<tr>
<td>Total</td>
<td>100,556</td>
<td>128,498</td>
</tr>
</tbody>
</table>

The weighted average interest rate for 2018 was 2.94% (2017: 3.16%), of which 2.15% (2017: 2.42%) related to margin.

Estimation of fair values
The principal methods and assumptions used in estimating the fair values of financial assets and liabilities are explained below.

Cash at bank and in hand
For cash at bank and in hand, the carrying value is deemed to reflect a reasonable approximation of fair value.
Aggregate deficit for S&P1500 companies

With real world consequences

No FTSE 100 company now has a DB scheme open to newcomers

Source: Mercer, August 2019
• Rates have been pushed down to ultra-low levels
• Expectation is for this to remain the case
• Testing the Effective Lower Bound
• Distorting asset and liability calculations
• Having a real world impact
• And potential unforeseen consequences on financial statements
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Thinking about last year and the 2019 impacts
Oliver Holt, Sandra Brookes, Tim Crotty, Maria Down
The governance trajectory
Ciarán Treacy
Director, Risk Advisory
The 2018 UK Corporate Governance Code
The 2018 UK Corporate Governance Code
Some far-reaching measures reflecting the UK social reform agenda

A new-style, shorter and sharper version of the UK Corporate Governance Code

Revised Guidance on Board Effectiveness

Update to the Stewardship Code to be consulted on later this year

Headlines….

Purpose, values, culture
Workforce policies & practices
Board composition & independence
Emerging risks & internal assurance
Remuneration

Applies for periods commencing on or after 1 January 2019.
The 2018 UK Corporate Governance Code
Purpose, values, culture & s172

PRINCIPLE A
A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

All directors must act with integrity, lead by example and promote the desired culture

Board to establish and align company purpose, strategy, values and culture

Board should assess and monitor culture and ensure management take corrective action

Describe how the interests of key stakeholders and other matters in s172 impacted board decisions

Think about your sources of culture insights – not just employee related
The board should ensure that workforce policies and practices are consistent with the company’s values and support its long-term sustainable success.

Workforce should be able to raise ANY matters of concern.

Explain the approach to investing in and rewarding the workforce.

One, or a combination, of the following methods to be used for engagement with the workforce:

- a director appointed from the workforce;
- a formal workforce advisory panel;
- a designated non-executive director.

If not one of these methods, explain what arrangements are in place and why effective.

Be careful...
Mechanism(s) must be meaningful AND effective.
They will be quickly exposed if not.
The 2018 UK Corporate Governance Code
Board composition & independence

**PRINCIPLE H** - Non-executive directors should have **sufficient time** to meet their board responsibilities.

**Independence of non-executives reverts to being a matter for board judgement**

**BUT clearer explanations** called for where independence may appear impaired

**Chairman reverts to just needing to independent on appointment** **BUT a nine year maximum tenure** is imposed (from date of joining the board)

**Appointments and succession plans should promote diversity** of gender, social and ethnic backgrounds, cognitive and personal strengths

**Greater emphasis on the quality of the external board evaluation including clarity of outcomes and level of interaction with the board**

**Strengthening consideration of ‘overboarding’**

**This period can be extended for a “limited time” to help succession planning**
The 2018 UK Corporate Governance Code
Emerging risks & internal assurance

Two matters which were not consulted on:

Emerging risks
The board should carry out a robust assessment of the company’s emerging and principal risks. The board should confirm in the annual report that it has completed this assessment, including a description of its principal risks, what procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.

Internal audit
Where there is no internal audit function, an explanation for the absence, how internal assurance is achieved, and how this affects the work of external audit.
Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company’s long-term strategy.

- Remuneration Committee Chair should have served for at least twelve months on a Remuneration Committee before becoming chair
- Independent judgement when evaluating advice of third parties
- Remuneration schemes should promote long-term shareholdings
- Share awards to be subject to a total vesting and holding period of five years or more
- Schemes to enable the use of discretion to override formulaic outcomes
- Alignment of pension arrangements with those for the workforce as a whole
Further information

Governance in brief – FRC issues new UK Corporate Governance Code

Updated supplementary material for audit committee report templates

Need to know on the new reporting requirements
Agenda

- Sustainability as a hot topic
- Emerging legislation and reporting frameworks
- Directive 2014/95/EU
- Global Reporting Initiative (GRI)
- Taskforce on climate related financial disclosures
Hot topics

• Significant spotlight is being put on organisations in relation to their holistic impact.
• Management, boards, and wider stakeholders are broadening their awareness and placing increasing focus on sustainability, environmental impact and social impact of organisations.
• The immediacy of social media is heightening public awareness of events as soon as they occur.
Why the focus on Non Financial Reporting?

In today’s turbulent business environment, the impact of environmental or social controversies along with a lack of a company’s focus on sustainability, can become a huge issue for any company. The introduction of these non-financial reports have caused companies to be even more environmentally and socially aware.

Companies have to remain vigilant with their social and environmental impact as a negative non-financial report could, with the new-age speed of communication, become a global issue in a matter of minutes.

The public are becoming increasingly concerned with businesses’ impact on the environment, their unchecked harvesting and use of data, their anti-competitive instincts, and their treatment of employees and customers alike.
Emerging legislation and reporting frameworks

In recent years, a number of new non-financial reporting frameworks and standards have been released.

**Non-Financial Reporting Regulations**

The Government has enacted Regulations implementing the EU Non-Financial Reporting Directive (EU NFR Directive). The Regulations apply to financial years beginning on or after 1 August 2017 and are relevant to all public interest entities (PIEs) that have over 500 employees, on average, in the financial year.

A non-financial statement is required on environmental matters, employees, social matters, respect for human rights, and anti-corruption and anti-bribery matters.

**Gender pay gap reporting**

The UK Government has introduced legislation requiring employers with 250 or more employees to publish statutory calculations every year showing how large the pay gap is between their male and female employees.
Emerging legislation and reporting frameworks

They include 3 universal Standards applicable to all organisations and topic-specific Standards organised into economic, environmental, and social series.

Task Force on Climate-related Financial Disclosures (TCFD)
Established by the Financial Stability Board (FSB) to develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to lenders, key stakeholders.
The TCFD has developed four widely adoptable recommendations on such disclosures, covering governance, strategy, risk management and metric and targets.
Non-Financial reporting regulations – Directive 2014/95/EU

• Adopted by the EU on 22 October 2014 and is part of a wider strategy to promote Corporate Social Responsibility in the EU.

• Transposed into Irish law through S.I. No. 360 of 2017 on 31 July 2017. The S.I. came into operation on 21 August 2017 and will affect financial years commencing on or after 1 August 2017.

• Applies to large public-interest entities.

• Requires:
  • a “Non-Financial Statement” to be included in the company’s directors’ report
  • Covering at least the following matters:
    ➢ Environmental
    ➢ Social and employee
    ➢ Respect for Human Rights
    ➢ Bribery and Corruption
Non-Financial reporting regulations – Directive 2014/95/EU

The Directors of a large traded company shall include in its corporate governance statement a diversity report.

• A description of the diversity policy applied in relation to the board of directors.
• Objective of the diversity policy
• How the policy has been implemented
• The results of the policy in that financial year

Where there is no diversity policy, the directors shall include in the corporate governance statement an explanation why.
Global reporting Initiative (GRI)

• The Global Reporting Initiative (GRI) is an international not-for-profit organisation, with a network-based structure.

• The main objective of GRI is to enable all companies and organisations to report their economic, environmental, social and governance performance, GRI produces free Sustainability Reporting Guidelines.

• GRI helps businesses and governments worldwide understand and communicate their impact on critical sustainability issues such as climate change, human rights, governance and social well-being.

• This enables real action to create social, environmental and economic benefits for everyone.
GRI Reporting Principles

<table>
<thead>
<tr>
<th>Reporting principles for defining report content</th>
<th>Reporting principles for defining report quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Stakeholder inclusiveness</td>
<td>• Accuracy</td>
</tr>
<tr>
<td>• Sustainability context</td>
<td>• Balance</td>
</tr>
<tr>
<td>• Materiality</td>
<td>• Clarity</td>
</tr>
<tr>
<td>• Completeness</td>
<td>• Comparability</td>
</tr>
<tr>
<td></td>
<td>• Reliability</td>
</tr>
<tr>
<td></td>
<td>• Timeliness</td>
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</table>
Taskforce on climate-related financial disclosures (‘TCFD’)

The scale of investor endorsement and adoption of the TCFD by financial institutions has accelerated, with over 500 organisations worldwide expressing their support.

- Applicable to all organisations, aiming to encourage market-led, industry-focused initiatives.
- Responds to systemic risk in the financial system related to climate change.
- Over 250 companies. Including CFOs of British Land, Burberry, M&S, National Grid, Tata Steel, Tesco, Unilever
- This is an area of increasing interest, activity and engagement from active institutional investors.

Context and applicability

Governance:
Configure robust structures to management climate related risks.

Risk integration:
How your organisation identifies, assesses, and manages climate-related risks.

Risks:
The actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.

Reporting and assurance:
The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Relates to
Approach

Your organisation’s governance around climate-related risks and opportunities.
Configure robust structures to management climate related risks.

Identification of physical, transitional and liability climate risk to both identify and quantify risks.

Strategy development and financial risk integration and implementation, including scenario analysis and risk modelling.

Align reporting with international and industry recognised frameworks in addition to external assurance.
Assurance

- An organisation can use a variety of approaches to enhance the credibility of its report.
- The use of external assurance for sustainability reports is currently not mandatory in Ireland.
- However it can be more impactful to have external confirmation.
- In some jurisdictions external assurance over certain disclosures is mandatory.
- GRI Disclosure 102-56 covers external assurance.
- GRI Requirements:
  - Independent and therefore able to reach and publish an objective and impartial conclusion
  - Demonstrably competent
  - Apply quality control procedures and implement a systematic, documented, and evidenced-based approach
  - Assess whether the report provides a reasonable and balanced presentation of performance
  - Assess the extent to which the GRI Standards have been applied in the preparation of the report
  - Issue a written report that is publicly available and includes a set of conclusions.
Summary

Definite move to non-financial reporting

Increased pressures from stakeholders/investors including closer and immediate public scrutiny of actions and their impacts

Basis for decision-making moving away from purely profit-based information

Increasing legislative demand

Future: integrated reporting
The interaction of IFRS 16 with other standards
John Kelly
Director, Audit and Assurance
Refresher

Majority of operating leases on balance sheet

Significant impact on income statement & KPIs

Assets: Right-of-Use Asset
Liabilities: Financing

Finance costs
Operating costs
EBITDA

Example KPIs Impacted:
Gearing Ratio
Asset turnover
Current ratio
The interaction of IFRS 16 with other standards

IFRS 16?

IAS 36?

IFRIC 21?

IAS 12?

CONFUSED ACCOUNTANT
Right of use ("RoU") Assets

Are they impaired?

Is there an indicator of impairment?
IAS 36

**Cash Generating Units**

RoU assets grouped within a CGU for impairment testing

Goodwill?
Indefinite-life intangible assets?
Intangible assets not ready for use?
IAS 36

Value in use calculations

**VIU –**

Financing cash flows excluded from VIU calculations

RoU asset is included and the lease liability is excluded

**Fair value less costs to sell –**

Include the lease liability if that’s what market participants would do.
IAS 12

Deferred tax and leases

Two approaches seen in practice to the deferred tax accounting for lessees

Accounting policy choice

1. Separately
   • Temporary difference on initial recognition
   • Initial Recognition Exemption
   • No DT over the lives of the asset and liability

2. Single transaction
   • No net temporary difference at inception
   • Differences may emerge over time resulting in DT
IFRS 3 – Business combinations

Leases as an exception to the fair value principle

**Lease liability assumed:**
- PV of the lease payments at the acquisition date
- Lease term and discount rate will likely be different to the acquiree
- Accounting for the lease will be different in the separate FS of the acquiree

**RoU asset acquired:**
- Recognised in line with the lease liability
- Adjusted for favourable or unfavourable market terms
- Low value and short term exceptions
IFRIC 21 Levies

VAT on leases

For all reporters regardless of VAT status:

• IFRC 21 says you only account for levies when you are obliged to pay them

• The lease liability calculation excludes VAT
Google trends

IFS 16
Search term

FRS 102 lease
Search term

Add comparison

United Kingdom
1/18 - 10/19
All categories
Web Search

Interest over time

Jan 7, 2018
Aug 19, 2018
Mar 31, 2019
Google trends
Reminder: IFRS 16 – Deloitte material

**Lease modifications – extending the lease term:**

1. **What** constitutes a lease modification?
2. **When** should a lease modification be accounted for?
3. **What** is the impact of a lease modification on the lease term?
4. **How** do the modification requirements interact with transition reliefs?

**A guide to the incremental borrowing rate:**

1. **Three step approach**, determining:
   i. Reference rate
   ii. Financing spread adjustment
   iii. Lease specific adjustment
2. **Timing** considerations
3. **Transition** considerations
4. **Financial reporting** and **disclosure** considerations

And much more on IAS Plus!
Budget 2020

At a glance – doesn’t seem like a whole lot

But devil is in the detail!
“Ireland has a competitive corporation tax rate. It has served us well and it will not be changing”

Budget 2020

12.5% rate
2019

- Jan: CFC effective, MLI deposited, Haven substance rules, Interest consultation
- April: TP consultation, ORIP regime UK
- May: MLI effective, BEPS 2.0, R&D review
- July/Aug: TP feedback statement
- Sept: Exit tax guidelines, CFC guidelines, EU notice 6 Aug/Interest limitation
- Oct: Technical amendment to exit tax
2020+

Jan

Likely 2020

2021+

TP rules
Hybrid mismatch rules

DAC 6 Reporting

OECD BEPS 2.0

Interest limitation?
Transfer pricing is the setting of the price for goods and services sold between related entities.
New Transfer Pricing Rules 2020

- Broadens the scope of TP
- Adopts 2017 OECD guidelines (DEMPE)
- Removes pre July 2010 grandfathering
- Extends TP to SMEs
New Transfer Pricing Rules 2020

- Enhanced TP documentation
- Extends to non trading income
- Extends to capital transactions > €25m

Master file €250m
Local file €50m

Exceptions between 2 Irish resident companies

Certain exemptions
Transfer Pricing for SMEs

Small = Exempt

Headcount <50

AND

Annual turnover <€10m

Or

Balance sheet <€10m
Transfer Pricing for Medium Enterprises
1 January 2020

- Headcount <250
- And turnover <€50m or balance sheet <€43m
- Applies to relevant arrangements
Relevant Arrangements?

- Schedule D type transactions with a foreign counterparty
- Consideration > €1m
- Capital transactions with foreign counterparty > €25m
- Reduced documentation requirements
Budget 2020
New Measures

Stamp Duty on non-residential property increases from 6% to 7.5%

Dividend Withholding Tax - From 1 January 2020 rate increases from 20% to 25%

PRSI - additional 0.1% employer contribution to the National Training Fund Levy
Budget 2020

Key Employee Engagement Programme ("KEEP")

Gains arising to employees on the exercise of KEEP share options will be liable to Capital Gains Tax on disposal of the shares, in place of the current liability to income tax, USC and PRSI on exercise.

Available for qualifying share options granted between 1 January 2018 and 31 December 2023.

Share-based remuneration incentive for unquoted SME companies to attract key employees.
Budget 2020
KEEP - New Measures

Amendments to qualifying companies & holding companies definitions to allow group structures to qualify

Amendments to qualifying employee definition to reflect part-time and flexible working arrangements and movement within group structures

Existing shares to qualify?
## Budget 2020
### SARP & FED

<table>
<thead>
<tr>
<th>Special Assignee Relief Programme (SARP)</th>
<th>Foreign Earnings Deduction (FED)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive to reduce the cost of bringing in skilled workforce to Irish operations</td>
<td>Incentive to support Irish companies expanding into new markets</td>
</tr>
<tr>
<td>30% of income over €75k threshold exempt from income tax where certain conditions met</td>
<td>Income tax relief up to €35k for travel to certain qualifying countries</td>
</tr>
<tr>
<td>Income threshold of €1m</td>
<td>Must have 30 days in a relevant country in 12 month period</td>
</tr>
<tr>
<td></td>
<td>Qualifying days = 3 consecutive days</td>
</tr>
</tbody>
</table>

**Schemes extended from 31 December 2020 to 31 December 2022**
Budget 2020
R&D Tax Credit – New Measures

Increase in credit from 25% to 30%
Applies to micro and small companies

Credit can be claimed on qualifying pre-trading expenditure
Available via offset against VAT and payroll taxes

Limit for third level educational institutes increased from 5% to 15%

New provisions are subject to State Aid approval
Budget 2020
Employment and Investment (“EII”) – Main changes

- Full income tax relief (40%) to be provided in year investment is made.
- Annual investment limit increased from €150,000 to €250,000 per annum.
- Increased to €500,000 per annum for minimum investment period of 10 years.
Hot topics for 2019 annual reports
Oliver Holt
National Director of Financial Reporting Services
What does climate change mean for business?
Understanding the role of finance professionals
Context / Awareness

Why climate change is an issue for humanity

Why climate change is a current issue for business

Why it’s time for businesses to adapt
Perspectives from drivers of climate action

Perspectives from drivers of climate action:
Dr Emily Shuckburgh

Perspectives from drivers of climate action:
Russell Picot

Perspectives from drivers of climate action:
Julie Baddeley

Perspectives from drivers of climate action:
Emily Farnworth

Perspectives from drivers of climate action:
Jo Paisley

Perspectives from drivers of climate action:
Hans Hoogervorst

Perspectives from drivers of climate action:
Catherine Howarth
Implementation

Why should businesses think about climate change?

Bringing climate change onto the board agenda

Strategy and risk assessment

Opportunities and scenario analysis

Choosing metrics and targets

Financial statement impact

Narrative reporting in the annual report
Why should businesses think about climate change?
Bringing climate change onto the board agenda
Financial statement impact
Climate: Financial statement impact

No industry is immune – we all on the same one planet!
May need to consider a number of scenarios

Not impossible that changes in public mood/investor demands/technology/tax/regulations on climate could impinge on long term viability/going concern of entities that are not (or are not seen as) aiming to be climate/resource friendly
Climate: Financial statement impact

<table>
<thead>
<tr>
<th>Climate could impact on:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset impairment/ECL</td>
<td>Provisions</td>
</tr>
<tr>
<td>Asset useful lives</td>
<td>Contingencies</td>
</tr>
<tr>
<td>Residual values</td>
<td>Onerous contracts</td>
</tr>
<tr>
<td>Valuations</td>
<td>Pension obligations</td>
</tr>
</tbody>
</table>
Narrative reporting in the annual report
Climate change: Narrative reporting
Companies Act 2014 disclosure considerations

Required in the directors’ report:

**Description of the principal risks and uncertainties facing the company** (or if group accounts are prepared, the group)

The **business review**, where appropriate, includes information relating to environmental matters

**Non Financial Information Reports** supplemented by non-mandatory EU guidelines have more specific requirements
Countdown to Brexit

From noon today:

16 days

11 hours

until 11pm 31 October 2019
The outlook for the economy differs under a Brexit deal and no-deal scenario.

**Growth forecast**
- **Deal**: 5% (2019), 4.3% (2020), 3.9% (2021)
- **No Deal**: 4.7% (2019), 0.8% (2020), 1.9% (2021)

**Unemployment**
- **Deal**: 5.3% (2019), 5.8% (2020), 6.9% (2021)
- **No Deal**: 5% (2019), 4.8% (2020), 4.8% (2021)

**Inflation rate**
- **Deal**: 0.8% (2019), 1.1% (2020), 1.4% (2021)
- **No Deal**: 0.8% (2019), 0.9% (2020), 1.2% (2021)

*Gross Domestic Product.
Brexit: Companies Act 2014 disclosure considerations – Directors’ Report

Description of the principal risks and uncertainties facing the company (or if group accounts are prepared, the group)

Indication of likely future developments in the business

IASSA:

....disclose entity specific impacts of Brexit on the judgements and sources of estimation uncertainty that reflect the specific facts and circumstances applying and the risks and uncertainties [arising]...
IAASA expects management, Directors and Audit Committees to ensure that they apply medium and long-term assumptions that reflect changes in the current market expectations for the products, services, markets and countries in which they operate or on which they rely. Issuers’ medium and long-term key assumptions need to reflect on-going market uncertainty and possible future market disruption.

Observations on selected financial reporting issues – years ending on or after 31 December 2019
Issued: 17th September 2019
# Brexit: financial reporting considerations are not pretty

May need to consider a number of scenarios with impacts on:

<table>
<thead>
<tr>
<th>Foreign exchange</th>
<th>Derivatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset impairment</td>
<td>Provisions</td>
</tr>
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<td>Asset useful lives</td>
<td>Contingencies</td>
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<td>Onerous contracts</td>
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<tr>
<td>Valuations</td>
<td>Pension obligations</td>
</tr>
</tbody>
</table>
What version of FRSs to use?

• For accounting periods commencing on or after 1 January 2019 must use the FRC’s March 2018 publications
FRS 102 Triennial review - amendments

- Mainly incremental improvements and clarifications
- No amendments for major changes for new IFRSs (expected credit loss model, IFRS 15 and IFRS 16)
- No change to control model (IFRS 10), but a new disclosure is required of the nature and extent of its interest in unconsolidated special purpose entities, and the risks associated with those interests.
- Six main areas of change

Mainly incremental improvements and clarifications

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No change to control model (IFRS 10), but a new disclosure is required of the nature and extent of its interest in unconsolidated special purpose entities, and the risks associated with those interests.

Six main areas of change
FRS 102 Triennial review – mandatory for periods beginning 1 January 2019 – main changes

- **Intangibles**
- **Definition of a financial institution**
- **Loans from directors to small entities**
- **Financial instruments – basic versus other**
- **Investment properties**
- **Net debt reconciliation**
- **Loans from directors to small entities**
FRS 102 Triennial review – adoption of amendments

Retrospective accounting on adoption (i.e. prior year adjustment) with two transitional provisions:

**Intangible assets**
change in accounting policy for intangibles to be accounted for prospectively i.e. previously separated intangible assets are not subsumed into goodwill
FRS 102 Triennial review – adoption of amendments

Investment property rented to another group entity

If previously at FVTPL may now be accounted under the **cost model** in Section 17 of FRS 102 with a one-time choice at transition between:

- **historical cost** or

- **fair value at transition date** (usually 1.1.18) as deemed cost (but will have revaluation surplus on face of balance sheet; deferred tax on capital gain, and legally required historical cost disclosures in notes)
Next steps

Entities will need to:

• **Identify changes** as a result of applying FRS 102 (March 2018)

• **Update their accounting policies** note as required to reflect the new requirements of FRS 102 and any accounting policy choices that have been made

• Calculate any **prior year adjustments** to be made on adoption for their 2019 statutory financial statements
FRS 102 useful information

FRC Staff Factsheets:

1: Triennial Review 2017 Amendments
2: Triennial Review 2017 Transition
3: Illustrative Statement of Cash Flows
4: Financial Instruments
5: Property: Fair Value Measurement
6: Business Combinations
7: Transition to FRS 102

See also: Deloitte need to know

Good illustration here of the net debt reconciliation now required by FRS 102
New IFRSs for 2019

New standard: IFRS 16 Leases

New Interpretations:

IFRIC 23 Uncertainty over Income Tax Treatments

Annual Improvements 2015-2017 Cycle

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements
- IAS 12 Income Taxes
- IAS 23 Borrowing Costs
New IFRSs for 2019

New Interpretations continued:

• Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
• Prepayment Features with Negative Compensation (Amendments to IFRS 9)
• Amendment, Curtailment or Settlement (Amendments to IAS 19)
IFRSs in the pipeline

Amendments (with 1.1.2020 effective date) waiting endorsement:

- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018)
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)
IFRSs in the pipeline continued

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Amendment published 26\textsuperscript{th} September 2019:

Effective for annual periods beginning on or after 1 January 2020, with earlier application permitted

Accelerated EU Endorsement likely

EFRAG conference on IFRS and regulation
10 Oct 2019

The European Financial Reporting Advisory Group (EFRAG) announces that they will host a conference 'IFRS & Regulation: Searching for Common Ground' on 28 November 2019 in Brussels.

FRC publishes thematic review findings of IFRS 9, IFRS 15, and IAS 36 company disclosures
10 Oct 2019

The UK Financial Reporting Council (FRC) has published three thematic reviews to help companies improve the quality of their corporate reporting in relation to IFRS 9 ‘Financial Instruments’, IFRS 15 ‘Revenue from Contracts with Customers’ and the impairment of non-financial assets.
Central Register of Beneficial Ownership of Companies and Industrial and Provident Societies

Deadline for Filing Beneficial Ownership details:

22nd November 2019

File online at: www.rbo.gov.ie
The Central Register of Beneficial Ownships and Industrial and Provident Societies

www.rbo.gov.ie

What information do I need to file with the Central Register?

The full list of information required for each Beneficial Owner can be found at section 3.2 of the FAQ, but includes:

- Company / Society Name
- Company / Society Number
- Surname
- Forename(s)
- Date of Birth
- PPS Number
- Nationality
- Country of Residence
- Statement of the nature & extent of interest held
- Statement of the nature & extent of control exercised
- Residential Address
- Eircode (optional)
- Date of entry as beneficial owner
- Date of cessation as beneficial owner
Cyber Risk – back to basics
Paul Hare
Director, Risk Advisory
Change will never be this slow again

1970
- Mainframes
- Distributed terminals
- Core computing

1980
- Office computing
- Mini-computers
- Word processing
- Spreadsheets
- Home computing

1990
- PC revolution
- Network computing
- Email
- Relational databases
- Client-server applications

2000
- Internet revolution
- Browser wars
- Customer engagement
- Intranet applications
- Broadband

2010
- Mobile connectivity
- Cloud computing
- Big data – analytics
- Social media
- Wearables

2020
- Sensing
- Home automation
- Digital cars
- Digital money
- Quantum computing
- 3D printing / manufacturing

Technology Core
- Technology Enablement
- Technology Collaboration
- Technology Engagement
- Digital
- Exponential
IT IS NOT THE STRONGEST OF THE SPECIES THAT SURVIVES, NOR THE MOST INTELLIGENT THAT SURVIVES. IT IS THE ONE THAT IS THE MOST ADAPTABLE TO CHANGE.

CHARLES DARWIN
Future of risk in the digital era

- Managing the black box of artificial intelligence
- Evolving governance and controls for automation
- Protecting against the changing cyber security risk landscape
- Combating weaponized misinformation
- Managing data risks for value creation
- Bolstering organizational resilience in the age of hyperconnectivity
- Navigating regulatory change for emerging technologies
- Enabling digital transformation by managing culture risk
- Owning digital responsibility and ethics
Cybersecurity – Focus on Financial Information
Why increase the focus on IT controls?

- Cyber security risk is a broad business risk to be managed
- Effective controls in operations, compliance with laws and regulations are fundamental to well-managed entities
- Information is relied upon by management to manage the business and key decision-making
- The complexity of financial reporting, business models, and the technology
- Regulators expect enhanced reliability of information, and customers are looking for more specific information and transparency
- Automation is becoming increasingly important given the reliance on automated controls.
- Cyber incidents are increasing in frequency and complexity
IT controls are a critical component of business operations and financial information controls. They provide the foundation for reliance on data, reports, automated controls, and other system functionality underlying business processes.

The security, integrity, and reliability of financial information relies on proper access controls, change management, and operational controls.
## General IT Risks and Controls - Basics

<table>
<thead>
<tr>
<th>Risk</th>
<th>Controls</th>
<th>Technology Elements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Users have access privileges beyond those necessary to perform their assigned duties</td>
<td>Users have access privileges beyond those necessary to perform their assigned duties</td>
<td>Application</td>
</tr>
<tr>
<td>Systems are not adequately configured to restrict system access to properly authorised users.</td>
<td>Unique user IDs and password configurations</td>
<td>Databases</td>
</tr>
<tr>
<td>Inappropriate changes are made to systems</td>
<td>Security configuration key attributes</td>
<td>Operating Systems/Network</td>
</tr>
<tr>
<td>Individuals gain inappropriate access to equipment datacentre.</td>
<td>Change approval and testing</td>
<td></td>
</tr>
<tr>
<td>Systems and data may not be available in a timely manner in the event of a disaster.</td>
<td>Segregation of development and implementation functions</td>
<td></td>
</tr>
<tr>
<td>inaccurate, incomplete, or unauthorised processing of data.</td>
<td>Logical and Physical access restriction to datacentre.</td>
<td></td>
</tr>
</tbody>
</table>
Privileged Misuse

- A privileged identity has the ability to exploit the system without being noticed.
- These identities can perform multiple anonymous actions.
- Impact the confidentiality, integrity and availability of systems.

If a threat actor gets into the environment and enumerates the privilege identities, which is easy to do, they can make a lot of damage very quickly with low chance of discovery.
Control Activities – IT Environment

- Third Party Management
- Information and Asset Management
- Security Operations
- Threat and Vulnerability Assessment
- Data Management and Protection
- IT Policies
- Identity and Access Management
- Security Awareness and Trainings
- IT Environment
Control Activities – IT Governance

**Tone from the top**
- Diverse range of non-executive directors
- Understanding of digital technologies
- Ability to ask the right questions
- Bring insights and constructive challenge on cyber agenda

**Governance**
- The Board and Senior Management are responsible for setting and overseeing the firm’s business strategy
- IT risk management framework facilitates an effective assessment of the IT risks
- Board and Senior Management are sufficiently informed on IT operations and cyber risks

**People**
- Adequate level of IT Security Awareness training of staff
- Awareness of company security policies
- Adequate processes in place to monitor user activity
Benefits of Effective IT Controls

• Reduced risks and opportunities for fraud
• Fewer vulnerabilities to be exploited as part of a cyber breach
• Increased reliability of information used for reporting, and the achievement of business objectives
• Greater chance of discovering issues early, before they can become a big problem
• Easier compliance with laws and regulations
• Competitive advantage through improved controls
• Improved management decision making through high quality information
Finance & Performance - Our practice in numbers

3,300+
Clients served globally in 2018-2019 with Deloitte’s Finance & Performance services

10k Globally
80+ Dublin
Deloitte practitioners globally with Finance & Performance

100+
Countries with Deloitte Finance & Performance practices
Agenda

How is Finance changing?

What trends are we seeing with our clients?

How will technology change how we work?
The role of finance is rapidly changing

The gap between the lowest and leading functions has never been larger.

The current development is exponential – the next step has never been larger.

The gap between the lowest and leading functions has never been larger.
What’s keeping Finance Leaders up at night?

Prepared for disruption
>90%

organisations anticipate disruption by digital trends, but only half believe they have a clear strategy for Finance to address these

Understand digital impact
>50%

of CFOs continue to request education on the emerging technologies, and their practical use cases within Finance

Investment in analytics
>60%

CFOs cite “fact provider” and “challenger” among their top three expected roles, pointing to a need for insight generation.

Automation is a priority
>70%

Increasing automation is one of the top priorities for Finance & GBS leaders

Talent concerns
>80%

Organisations are struggling to do more with less resources and increase Finance capabilities. Many CFOs experience cultural barriers.
## Finance Trends

### Global Governance

**Global process ownership**
- Single oversight and accountability of end-to-end process solutions: policy, design, delivery, continuous improvement

### Efficiency

**Automation**
- Automate rule-based, repetitive tasks in finance, particularly in core Finance processing, utilising Robotics Process Automation (RPA) and other automation technologies

**Self service**
- Reduce reporting burden on Finance and help move them focus on more value driven activities, by using BI tools to drive through self service in the business.

### New Horizons

**Streamlined, analytical forecasting models**
- More models, less detail & iterations, global oversight; move to driver-based and predictive planning, on 80/20-rule

**Expertise centres act as talent incubators**
- Centres are front, middle or back office orgs; hubs become talent incubators for staff rotating every 2 to 4 years

### Emerging uses of AI and cognitive technologies
- Identification and experimentation with artificial intelligence such as machine learning, to solve for complex financial challenges, including incorporating unstructured information

### Focus on ‘what matters’
- Drive finance to firm strategic direction; define “what matters” (gross vs. operating margin, cost pools) w/ top-down ownership

### Above market performance mgt
- Pull resources out-of-market, away from country-level leaders, left-behind personnel with targeted focus: performance impact

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Finance Trends

**SCOPE**

*What the role of Finance is, how work is managed, and how Finance is structured*

- The role of finance, including services delivered, ownership and accountability
- How work will get done differently (humans & machines)
- Value-add opportunities – things Finance doesn’t do today
- The future Operating model

**KEY QUESTIONS**

- What opportunities exist to accept, preserve, optimize & automate Finance processes?
- What digital capabilities should Finance have?
- How can Finance leverage freed capacity to add new value?

**WORK**

*Who will do the work, what skills will be needed, & how Finance will access/develop them*

- Who does what – and how do they do it
- The skills needed in future
- How to access and develop those skills, via new talent models and internal skill development

- What skills will the Finance workforce need in the future?
- How can we leverage alternative talent models?
- How will we develop the skills needed in Finance?

**WORKFORCE**

*Where will people in Finance work, how will they collaborate, and what leadership is required*

- Where people will be physically located
- How to foster collaboration
- How to enable a digital culture and leadership that ‘walks the talk’

- What does the future physical workplace look like? Who will work where?
- How will we foster a collaborative culture that both enables transformation and is strengthened by digital?

**WORKPLACE**

*INHERENTLY CONNECTED AND MUTUALLY REINFORCING*
Framing the Future

The case for change ...

- Data volumes are exploding, information is flooding into business - big data, social media, the Internet of Things, 2.5 quintillion bytes of data every day.
- Unstructured data from video, photographs, and text raises analytical challenges.
- New technologies with significant value compressing cycles for planning, forecasting, capital allocation, and close.
- Talent crunch is real and tilting towards data scientists. Training and development needs are acute and urgent.
New challenges, new tools

Our research suggests that these seven technologies have growing relevance to how the work of Finance gets done.

Some of the new digital tools available to Finance focus specifically on updating core systems and existing capabilities.

Other tools — we call them exponentials — are designed to deliver new and different capabilities.

Together, they form a toolset Finance can use to improve its own performance and serve the business more effectively, especially when these tools are used together.
Case Study: Digital as the new frontier for efficiency and effectiveness...

**Traditional Spend Reduction Levers**
- Organization Simplification
- Business Process Optimization
- Infrastructure Rationalization
- Outsourcing / Managed Services
- External Spend Reduction

**Next Generation Operating Model**
- Commercial Finance Hubs (FP&A)
- Technical Accounting CoE’s
- Manufacturing Finance CoE’s
- FCPA CoE
- Indirect Tax CoE
- Statutory CoE
- Transfer Pricing CoE

**‘Digital Efficiency Solutions’**
- Lead on Digital and focus on innovation & execution
- Continue operational simplification and value creation
- Analytics as an efficiency lever
- Robotics and cognitive automation
- Automation through off-the-shelf tools and other (i.e. Alteryx)
- Emerging solutions (i.e., Blockchain)

“80+ countries migrated onto Finance Shared Service platform – 100% revenue coverage”

“First-in-industry CoE and Shared Service operating model and organisation designs”

“Initiated and executing one of the largest Digital Finance programs in the world”
Case Study: Statutory CoE digital optimisation

1. Statutory Trial Balance
   - Prepare and Maintain Local Books & Records
   - Controllership Reports
   - Prepare & Review Balance Sheet Reconciliations
   - Quarterly Balance Sheet Reviews
   - Pension Accounting

2. Audit Deliverables
   - Prepared by Client Deliverables
   - Statutory Controllership for select markets (i.e. ownership P&L / BS, FS notes)
   - Tax Audit & Deliverables
   - Legal Entity Financial Statement Preparation
   - Consolidated Financial Statements
   - Governmental & Statistical Reporting

3. Analytics and Audit
   - Legal Entity Local GAAP analytics
   - Statutory Audit Query Resolution
   - Global Audit Oversight & Management
   - Global Statutory Governance
   - Global Status Tracking and Reporting

DIGITAL OPTIMISATION

- ERP (SAP & E1)
- RPA
- Financial Statement Generation (Wdesk)
- Statutory Analytics Hub (Alteryx & Tableau)

Solution overview to follow
Thank you
Honor Moore, Partner, Audit and Assurance
15 October 2019
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