Setting the scene

**Session 1**

- Welcome
- Economic overview and update
- Brexit: What next?
- FRS 102 triennial update
- Getting to grips with IFRS 16 Leases
- The corporate governance trajectory
- Coffee break

**Presenter**

- Welcome: Glenn Roberts
- Economic overview and update: Richard Johnston
- Brexit: What next?: Donna Hemphill
- FRS 102 triennial update: Jason Starbuck
- Getting to grips with IFRS 16 Leases: Grace Cartin
- The corporate governance trajectory: Stacy Bonar
Brexit: What next?
Donna Hemphill
Brexit considerations

1. Supply chain
2. People
3. Financial environment
4. Regulatory, legal and data
5. Market access and trade
Preparing for Brexit

- Obtain Economic Operator Registration and Identification (EORI) number
- Decide who will submit your customs declarations
- Know the key data required for a customs declaration
- Customs documentation
- Making payments of duty and VAT
Supply chain review

Do you rely on EU-based suppliers?

- What are the incoterms – who arranges transport?
- What tariffs are applied to your goods?

Do you have customers in the EU?

- Who will take on responsibility for the completion of customs formalities?
- Lead times / shelf life
- Are contracts in place?
New Protocol on Ireland/Northern Ireland

NI will continue to be part of the EU Custom’s rules for its trade with ROI

No tariffs or restrictions on goods crossing the border in either direction.

NO border checks on the island of Ireland

NI aligned to EU regulations on:
- Goods
- SPS measures
- Agriculture
- Excise

VAT rates in NI same as UK
Options and restrictions to implement reduced rates in NI aligned with ROI

 Allows for the NI Assembly to provide its continued support 4 years after the end of the transition period
**Main changes to the Political Declaration**

- Managed through customs procedures and checks
- Mutual recognition of trusted trader programmes (AEO)
- Level playing field for open and fair competition
- No tariffs, fees, charges or quantitative restrictions across all sectors
  - Based on applicable rules of origin

**Removes all references to the ‘backstop’**

**Ambitious trading relationship on goods on the basis of a Free Trade Agreement**
Trade between Northern Ireland and Great Britain

'Some practical information will need to be provided electronically on movement of goods’

(Goods moving from Northern Ireland to Great Britain)

'..declarations on goods moving between NI and GB are not for customs purposes but for safety and security’

Stephen Barclay
21 October 2019

'Goods moving from Great Britain to Northern Ireland will be required to complete both import declarations and Entry Summary (ENS) Declarations’
The FRC triennial review: UK GAAP impact
Jason Starbuck
FRS 102 Triennial review

New edition of FRS 102 issued March 2018

Effective periods beginning 1 January 2019
FRS 102 Triennial review

Mainly incremental improvements and clarifications

No amendments for major changes in IFRS (expected credit loss model, IFRS 15 and IFRS 16)

Ten main areas of change

Amendments to FRS 102
The Financial Reporting Standard applicable in the UK and Republic of Ireland
Triennial review 2017
Incremental improvements and clarifications
FRS 102 Triennial review - changes

- Loans from directors to small entities
- Financial instruments Basic Vs Other
- Intangibles
- Financial instruments – accounting policy choice
- Removal of undue cost of effort exemptions
- Gift Aid payments
- Debt for equity swaps
- Definition of a financial institution
- Investment properties
- Net debt reconciliation
Loans from directors to small entities

Financial instruments – Basic Vs Other

“... cash flows on specified dates that constitute repayment of the principal advanced, together with reasonable compensation for the time value of money, credit risk and other basic lending risks and costs...”
Examples:
Does the financial asset meet the “basic” criteria before/after the amendments?

<table>
<thead>
<tr>
<th>Debt Instrument</th>
<th>Before amendment</th>
<th>After amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• 5% fixed interest rate</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Bullet repayment at end of 3 years</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>• Lender has the right to increase interest to 9% if a covenant is breached</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>
Examples:
Does the financial asset meet the “basic” criteria before/after the amendments?

<table>
<thead>
<tr>
<th>Debt Instrument</th>
<th>Before amendment</th>
<th>After amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>(GBP denominated)</em>:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 2% fixed rate + Euribor 3 months</td>
<td>×</td>
<td>✓</td>
</tr>
<tr>
<td>- Maturity of 7 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest payable every quarter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Borrower may repay the loan at fair value after 2nd anniversary of inception</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Examples:
Does the financial asset meet the “basic” criteria before/after the amendments?

<table>
<thead>
<tr>
<th>Debt Instrument</th>
<th>Before amendment</th>
<th>After amendment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate bond:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest = 2% fixed rate plus % increase in the UK House Price index</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>- Maturity of 5 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Interest payable monthly</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- No early payment available</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FRS 102 Triennial review - changes

- Loans from directors to small entities
- Financial instruments Basic Vs Other
- Investment properties
- Net debt reconciliation
Reconciliation of net cash flow to movement in net debt

**Examples:**
Reconciliation of net cash flow to movement in net debt

**Illustrative extracts from the notes of the financial statements**

Notes to the financial statements for the year ended 31 December 20x1

**(i) Analysis of changes in net debt**

<table>
<thead>
<tr>
<th></th>
<th>At 1 Jan 20X1</th>
<th>Cash flows</th>
<th>Other non-cash charges</th>
<th>At 31 Dec 20X1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and cash equivalents</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>536</td>
<td>(124)</td>
<td></td>
<td>412</td>
</tr>
<tr>
<td>Overdrafts</td>
<td>(256)</td>
<td>44</td>
<td></td>
<td>(212)</td>
</tr>
<tr>
<td>Cash equivalents</td>
<td>250</td>
<td>165</td>
<td></td>
<td>415</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>530</td>
<td>85</td>
<td></td>
<td>615</td>
</tr>
<tr>
<td><strong>Borrowings</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt due within one year</td>
<td>(149)</td>
<td>149</td>
<td>(230)</td>
<td>(230)</td>
</tr>
<tr>
<td>Debt due after one year</td>
<td>(1,262)</td>
<td>230</td>
<td></td>
<td>(1,032)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(1,411)</td>
<td>149</td>
<td></td>
<td>(1,262)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(881)</td>
<td>234</td>
<td></td>
<td>(647)</td>
</tr>
</tbody>
</table>
FRS 102 Triennial review - changes

- Loans from directors to small entities
- Financial instruments Basic Vs Other
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FRS 102 Triennial review - changes

- Loans from directors to small entities
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FRS 102 Triennial review

Subject to “emerging issues”, now intended to review FRS 102 every 4-5 years rather than “triennially”

FRS 101 will continue to be reviewed annually

New FRC Staff Factsheets released:

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 our ‘Need to Know’ publication

FRC staff factsheets

Need to know
Refresher

Majority of operating leases on balance sheet

Consequences

Significant impact on income statement & KPIs

- Depreciation on all ROU assets
- Interest expense for all lease liabilities

Example KPIs Impacted:
- Finance costs
- Operating costs
- EBITDA
- Gearing ratio
- Asset turnover
- Current ratio
Practical expedient: Short lease terms (less than 1 year)

IFRS 16 contains a practical expedient that allows a lessee the choice of keeping short-term leases ‘off-balance sheet’.

- The lease must not contain any purchase options – if it does, it automatically fails the short-term lease definition.

- The lease term comprises the non-cancellable period of a lease together with periods covered by an option to extend (terminate) the lease if the lessee is reasonably certain to exercise that option.

If a lessee applies the short-term lease recognition exemption, the lease payments associated with the relevant leases are expensed on a straight-line basis over the lease term.
### Modification of a short term lease

<table>
<thead>
<tr>
<th>Original lease term</th>
<th>Extension accounted for as...</th>
<th>Revised lease term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term</td>
<td>A new lease on the effective date of the modification</td>
<td>Determine from effective date of modification to end of extended period</td>
</tr>
<tr>
<td>Not Short term</td>
<td>A continuation of the original lease</td>
<td>Determine from commencement date of original lease to end of extended period</td>
</tr>
</tbody>
</table>
Example 1

Original lease is a short-term lease – modification qualifies for the short-term lease recognition exemption

![Diagram showing the timeline of the lease and extension process. The original lease begins on 1 Jan 2019 and ends on 31 Dec 2019. The extension begins on 1 Oct 2019 and ends on 30 Jun 2020. The effective date of the modification is 30 Jun 2020.]
Example 2

Original lease is a short-term lease – modification does not qualify for the short-term lease recognition exemption

Sign new lease for same premises for 12 months

- 1 Jan 2019
- 1 Oct 2019
- 31 Dec 2019
- 31 Dec 2020

Effective date of modification

Original lease

New lease

Deemed new lease
Example 3

**Original lease is *not* a short-term lease**

Extend lease for 6 months

1 Jan 2019  →  1 Oct 2020  →  31 Dec 2020  →  30 June 2021

Effective date of modification

At no point in time is this lease a short-term lease
Key considerations

Are your personnel involved in negotiating lease contracts aware of these accounting consequences?

Do they know how their negotiations will affect the balance sheet ratios and other key performance indicators?
Right of use ("RoU") Assets

Are they impaired?

Is there an indicator of impairment?
FRC November 2019 update

Thematic review recently conducted looking at how companies reported on their adoption of the new standard in their June 2019 interim accounts.

They have set out what they expect to see by way of disclosures in the forthcoming year end accounts:

- Clear explanation of the key judgements made in response to the new reporting requirements
- Effective communication of the impact on profit and loss, addressing any lack of comparability with the prior year
- Clear identification of practical expedients used on transition and accounting policy choices
- Well explained reconciliation, where necessary, of operating lease commitments under IAS 17, ‘Leases’, the previous standard and lease liabilities under IFRS 16
Investor & Borrowing considerations

- Awareness of impact of changes on company assets, liabilities, equity, income and expenses, cash flows, financial ratios and KPIs

- Important for companies to communicate with banks, lenders, investors and others regarding financial impacts – *Impact on bank loan covenants*

- Need for additional disclosures, including for complex features (e.g. variable lease payments, extension options)

- Understand and be able to support judgements and estimates made to auditors: lease vs service, lease terms, discount rates, practical expedients
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!
The governance trajectory
Stacy Bonar
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 should assess and monitor culture and ensure management take corrective action.

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

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 2018 UK Corporate Governance Code
Workforce policies & practices

**PRINCIPLE E**
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.

**Whistleblowing elevated to board agenda**

**Think about link to long-term sustainable success**

**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.

**PRINCIPLE K** – Consideration should be given to the length of service of the board as a whole and membership regularly refreshed

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 be 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.
PRINCIPLE P
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

Governance in brief
Non-Financial Reporting
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?

**Impact**

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.

**Vigilance**

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.

**Awareness**

The introduction of these non-financial reports have caused companies to be even more environmentally and socially aware.

**Public concern**

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.
Key messages

- Increasing importance of positive relationships
- Alignment of purpose and strategy with culture
- Criticality of Board effectiveness and need to assess it routinely
- Demands on remuneration policies/practices are increasing
- Change in the focus of Directors duties towards long term sustainability
- Requirement to report, and be able to “stand over”, non-financial reporting info
Welcome back

Session 2
Securing health and happiness for you and your staff
Update on tax matters
Financial reporting: hot topics for 2019 and beyond
Cyber risks: back to basics
Closing comments
Lunch

Presenter
Paul Hall
Peter Davis and Jane Foy
Dawn Johnston and Gareth Martin
Ross Spelman
Dawn Johnston
Health and wellness
November 2019
Before we start

- Four year old children laugh approximately 400 times per day. Adults 15.
- When you laugh your stress levels come down
- Happiness comes in small pieces
- Do I want to be right or do I want to be happy
- When your past calls, don’t answer. It has nothing new to say
- We don’t know the future but why think negatively about it?
- If you are doing something you love your mind will switch off!

A mindful minute

A deeply relaxed person breathes 7 times per minute. Slow your breathing right down and you will automatically relax.

This is especially helpful when you need to focus, do a presentation, attend a meeting or simply just to calm down.

Exercise

- Breathe in (count to 6 approximately)
- Hold it (for a count of 2)
- Let the breath out (count to 8 approximately)
What we are going to cover today

What this is
- Common sense approach to increasing our overall wellness
- Support your values as a person
- Based on theory, research and experience
- Used to drive Q&A

What this is NOT
- Substitute for a qualified nutritionist, personal trainer, psychologist etc

What we want to achieve
- Discuss the Wellness Cycle and understand how you can apply it
- To be practical in our approach – small changes can make a big difference
- Simple recommendations that can be used immediately

Using this information
- Make some positive changes
- Test and see – one size does not fit all
- Improve our overall wellness
Happy people

- Are open; use their senses to be in the present
- Savour positivity; increasing the quantity and intensity of positive deposits in the memory bank
- Create high quality relationships with others; engage, support, trust and play
- Cultivate kindness (RAKs), appreciation and gratitude
- Practice some form of meditation on a daily basis
- Know their strengths and find ways to use them
- Dispute negative thinking; gather the evidence against it
- Develop healthy distractions
- Avoid unnecessary exposure to negativity - watch their media diet
- Enjoy nature and the great outdoors; life force
The wellness cycle

What matters to you...

What’s important to you?

The first step to wellness cycle is to define what your values are.

Identify the times when you were you happiest – use examples from both your career and personal life.
- What were you doing?
- Were you with other people? Who?
- What other factors contributed to your happiness?

Identify the times when you were most proud
- Why were you proud?
- Did other people share your pride? Who?
- What other factors contributed to your feelings of pride?

Identify the times when you were most fulfilled and satisfied
- What need or desire was fulfilled?
- How and why did the experience give your life meaning?
- What other factors contributed to your feelings of fulfilment?

Determine your top values, based on your experiences of happiness, pride, and fulfilment; and then priorities these values.

For more reading see:
https://www.mindtools.com/pages/article/newTED_85.htm
**Lifestyle**

Are your lifestyle and behaviours supporting your values, physical and mental health?

- Do you have balance in your life?
- Are you doing some things that you love to do?
- Do you have hobbies to fulfil your values?
- Are you predominantly negative or positive?

What matters is we have deep, effortless involvement in what we are doing, we don’t notice the time passing and we lose consciousness of ourselves.

We have the opportunity to increase or decrease our happiness levels through what we do in our daily lives and how we think. Flourishing is a 3:1 ratio.

---

**25 things I like to do**

How many of these are you not doing that could easily be re-introduced?
Sleep

• The average adult needs 7-9 hours of uninterrupted sleep per day

• We wake up on average 15 times per night

• If we remember more that twice then our sleep is not deep enough

• **Just an extra 30 minutes sleep every night will give you 3.5 hours more per week**

• Put a pre-bed routine in place

• Get 7+ hours uninterrupted sleep

• Put blackout blinds in your bedroom

• Have the room cool

• No electronics, wi-fi or TV in the room

• No reading or TV 30 minutes pre-bedtime
Hydration

Impact of Hydration on performance
• Even slight dehydration impairs performance
• Extreme dehydration – heat stroke (or death)
• Causes cramping

Hydration is individual
• Rule of thumb is 1 litre of water per 20-25kg in bodyweight

How do you know
• Simple – 5 clear urinations, 2 post training (if you are training)
• More accurate – weight difference 1 kg loss = 1.5 litre to replace

Drink an extra ½ litre per day = 3.5 litres per week!
An attitude of gratitude

10 Finger gratitude

Bring to mind 10 things which you appreciate in your life today, counting them on your fingers.

It’s important to get to 10 things, even when over time it becomes increasingly hard after four or five! This is exactly what the exercise is about—consciously bringing in to your awareness the previously unnoticed elements in your day and life.

And because your mind can only think of one thing at once, while you are focusing on the good aspects of your life you are unable to focus on anything that may be not be quite as good.

Something like the examples on the right; sometimes go a little deeper by saying why.

Do this first thing in the morning or last thing at night

Examples

1. I appreciate my wife/parents/kids/friends
2. I appreciate my dog/cat
3. I appreciate it’s been a sunny day
4. I appreciate I’ve got my health
5. I appreciate I have eyes to see, ears to hear, the ability to walk
6. I appreciate I’ve got a bed to sleep in
7. I appreciate that I can put food on the table when I want it
8. I appreciate my fabulous son and how well he’s doing in his life
9. I appreciate all my friends and family
10. I appreciate having a sofa to sit on, a car, money for the bus-fare.....
Exercise

Most important for success

1. Sustainability
2. Consistency – just show up
3. Remember, exercise means different things for different people. Can you integrate with your hobbies?

Add a 20 minute walk x3 times a week into your schedule.
Nutrition

What does healthy nutrition mean for you?

• Can you make some healthier choices
• We are generally well aware of what is good and bad for us and our own bodies
• Take it back to basics
• Don’t overthink it
• Eat the rainbow
• Have some protein, carbs and fats with every meal
• Common sense approach
• Eat 3 squares per day
• Eat 2-3 snacks
• Plan your nutrition in advance so you don’t get caught short
• On your days off prepare for the next few days
Positivity journal

Every day we have both good and bad experiences. However, due to the negative bias of the mind we are pre-disposed to more readily remember the bad experiences, while quickly forgetting or discounting the good experiences. Research has show that after a 10 week period of recording three positive events just once a week, the brain has been trained to more readily scan for positives, with a resultant increase in happiness and well-being.

<table>
<thead>
<tr>
<th>Week 1</th>
<th>Week 2</th>
<th>Week 3</th>
<th>Week 4</th>
<th>Week 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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<table>
<thead>
<tr>
<th>Week 6</th>
<th>Week 7</th>
<th>Week 8</th>
<th>Week 9</th>
<th>Week 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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What this is

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- Support your values as a person
- Based on theory, research and experience
- Used to drive Q&A

What this is NOT

- Substitute for a qualified nutritionist, personal trainer, psychologist etc

What we want to achieve

- Discuss the Wellness Cycle and understand how you can apply it
- To be practical in our approach – small changes can make a big difference
- Simple recommendations that can be used immediately

Using this information

- Make some positive changes
- Test and see – one size does not fit all
- Improve our overall wellness
Corporation Tax
Frequently asked questions

- Research and Development Tax Credits (both SME and Large Company Schemes)
- Capital Allowances
- Permanent Establishments
Research and Development Tax Relief (R&D)

Overview

**SMEs**
- Qualifying costs must be revenue for enhanced relief or the SME cash credit
- Two year time limit for submission of R&D claims
- Accelerated 100% tax deductions for capital spend (RDAs)

**Large companies (RDEC)**
- Tax deduction of 230% for qualifying R&D
- Effective benefit of 24.7%
- From 1 January 2018 a taxable credit is available at 12%
- Effective benefit of 9.7%
- RDEC can be accounted for ‘above the line’
- Credit is offset against tax liability or is payable

**All Companies**
- Qualifying costs must be revenue for enhanced relief or the SME cash credit
- Two year time limit for submission of R&D claims
- Accelerated 100% tax deductions for capital spend (RDAs)
For an activity to be eligible as R&D for tax purposes, two key criteria must be met:

- Success is **not** a requirement
- Start and end dates need to be established
- Judgement by a ‘competent professional’

**Research and Development Tax Credits**

It must seek to achieve a **scientific or technological advance**

AND

Resolve the associated **scientific or technological uncertainty**
What is R&D for tax purposes?
Scientific or Technological Advance

- Increased technical knowledge
- New product
- New process
- Improved product or process
- New technology
- Combining systems
What is R&D for tax purposes?
Scientific or Technological Uncertainty

- There is systematic uncertainty about the integration of components within a multi-component, complex system.
- A competent professional would not know how to proceed with confidence.
- It is not certain whether it is actually feasible to achieve the product or process.
- The technological approach is unproven.
- Something has been demonstrated as feasible but it is unclear how to achieve this in practice.
Capital Allowances
Summary of key reliefs

**Main pool**
- **18%**
  - On a reducing balance basis

**Special rate pool**
- **6%**
  - On a reducing balance basis for integral features and long-life assets
  - **8% WDA pre April 2019**

**Enhanced Capital Allowances**
- **100%**
  - First-year allowance on energy and water saving plant and machinery
  - To be abolished in April 2020

**Land remediation relief**
- **150%**
  - On expenditure incurred by a company on remediation of contaminated land
  - 16% tax credit on relevant losses
Capitalised revenue
X% In line with depreciation policy

Annual Investment Allowance
100%
Increase from £200k to £1m for 2 years from 1 January 2019 on main pool or special rate pool expenditure

Research and Development Allowances
100%
On expenditure incurred by a company on capital expenditure for the purposes of research and development

Dredging Allowances
4%
On a straight line basis
Capital Allowances
Structures and Buildings Allowance

• Flat rate of 2% over a 50 year period
• Only available when the structure or building comes into use
• Relevant for contracts (including preparatory works) entered into after 29 October 2018
• Business must have an interest in the land

**Qualifying expenditure**
• New build construction
• Renovation or conversion
• Preparation of a site or demolition necessary for construction of structure/building

**Non-qualifying expenditure**
• Expenditure eligible for plant and machinery allowances
• Land acquisition costs
• Planning permission
Permanent Establishments

The taxation of cross-border business profits are governed by domestic legislation and OECD/Tax Treaty provisions between the jurisdictions.

- UK entities conducting business in other jurisdictions
- Foreign entities conducting business in the UK

A company has a permanent establishment in a territory if it has:

- Fixed place of business
- An agent acting on behalf of the company

Various countries have implemented changes to permanent establishments as a result of the OECD BEPS review.

There is an ongoing consultation and review by the OECD/G20 focuses on the taxation of the digitalised economy.
Fixed place of business

A fixed place of business has three broad elements:

- There must be a place of business
- The place of business must be fixed
- The business of the company must be carried on through the fixed place of business
Permanent Establishments

**Dependent agent**
- Previously based on where contracts are concluded
- Now may apply if authorised to negotiate
- Independent agents are not covered

**Exceptions**
- Preparatory or auxiliary activities
- Anti-fragmentation rules
UK bound employees and PAYE compliance
PAYE Overview

UK PE

Substantive Activities

Employed by / Working for / Paid by

183 days

UK PAYROLL REQUIREMENT
PAYE Overview

Permanent Establishment + Substantive Duties = Payroll from Day 1
PAYE Overview

Substantive Vs Incidental

**Substantive Duties**
- Anything that is not incidental
- Anything related to core duties
- Discussions / meetings / presentations

**Incidental Duties**
- Very limited
- Will depend on the facts
- Reading generic business emails
- Attending training
PAYE Triggers

- Employed by
- Working for
- Paid by

UK PAYROLL
PAYE and NIC Relaxations

- EP Appendix 6 Arrangement
- EP Appendix 7A/7B Certificates
- Short Term Business Visitors (STBV) Arrangement
- Section 690 Informal Treaty Direction
- EP Appendix 5 Arrangement

EP Appendix 6

Arrangement

Section 690
Informal Treaty Direction
Off Payroll Working - IR35
Off Payroll Working
Extension to the private sector
Outsourced Service Vs Personal Service

**Outsourced Service**
- Individual who does not provide personal services
- Sourcing a product / deliverable e.g. payroll
- Substitution – genuine and unfettered
- No preference about who delivers the service

**Personal Service**
- Individual who provides personal service
- Embedded in the team.
- To outside observer, individual is an employee
  - Under line management / control
  - Sits within team
  - Has responsibilities within a team
The basic proposal

Supply chain scenarios – in “normal” circumstances
(Where an individual providing a personal service is “deemed employed”)

From 6 April 2017:  Public sector
From 6 April 2020: Private sector where end clients are medium/large

Responsibility: Status decision
Liability: PAYE/NIC/App Levy

End Client
Personal service
UK Agency#1
Intermediary
Worker

End Client
Personal service
UK Agency#1
UK Agency#2
Intermediary
Worker

End Client
Personal service
UK Agency#1
Umbrella
Intermediary
Worker

End Client
Outsourced service
UK Agency#1
Service provider
Personal service
Intermediary
Worker

End Client
Personal service
Intermediary
Worker
Operation – PSC identification
Who is working in your business?

**Short term engagement**
- Office staff
- Commercial short term demand
- Interim roles
- Fixed term contracts
- **Temporary staff**
- Secondees
- Cover for statutory absences/career breaks

**Long term engagements**
- **Secondees**
- Core specialist commercial service delivery
- Legacy relationships

**Ad-hoc consultancy**
- Key operational support, e.g. IT, HR, Legal, Marketing, Training
- Strategy/ops for new commercial areas
- **Specialist compliance advice**

**Special project contractors**
- **Transformational projects**, e.g. IT, HR, Payroll
- Commercial delivery requiring specialist services
- Exceptional external compliance requirements or factors, e.g. regulatory, legal, or other political factors

Examples of common off-payroll engagements
The Journey to April 2020

Actions

- Negotiate New Contracts
- Review PSC / Agency / Consulting Contract Terms
- Analyse Supply Chain & PSCs
- Design and Implement New Processes
- Training
- Cost / Impact Assessment
IFRS update
New IFRSs for 2019

- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements 2015 – 2017 Cycle
- 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)
IFRS update
IFRSs in the pipeline

Amendments (with 1 January 2020 effective date) waiting endorsement:

Amendments to references to Conceptual Framework in IFRS Standards (issued on 29 March 2018)

Amendment to IFRS 3 Business Combinations (issued on 22 October 2018)

Amendment to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
Other recent publications
FRC guidance

FRC annual review of corporate governance and reporting 2018/19 and FRC year end advice 2019/20

- Judgements and estimates
- Consolidation adjustments
- Cash flow statements
- Supplier financing arrangements
- Income taxes
- Provisions and contingencies
- Fair value measurement
- Thematic reviews
- Strategic reports

Governance in brief
Governance related disclosures
Effective for large companies for periods beginning on or after 1 January 2019

- Section 172 (1) statement
- Statement of corporate governance arrangements
- Employee engagement
- Business relationships

Need to know
https://www.iasplus.com/en-gb/publications/uk/need-to-know/2019/need-to-know-new-reporting-requirements-for-large-private-companies
Section 172 (1) statement
Effective for large companies for periods beginning on or after 1 January 2019

Section 172 – Duty to promote the success of the company

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regards (amongst other matters) to factors (a) to (f)

a) The likely consequences of any decision in the long term
b) The interests of the company’s employees
c) The need to foster the company’s business relationships with suppliers, customers and others
d) The impact of the company’s operations on the community and the environment
e) The desirability of the company maintaining a reputation for high standards of business conduct
f) The need to act fairly as between members of the company

Board briefing on the new Section 172(1) statement

Issues, factors and stakeholders relevant
Engagement with stakeholders
Effect on decisions and strategies
**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.
Climate change reporting
A developing risk area

“The Boards of UK companies have a responsibility to consider their impact on the environment and the likely consequences of any business decisions in the long-term. They should therefore address, and where relevant report on, the effects of climate change (both direct and indirect). Reporting should set out how the company has taken into account the resilience of the company’s business model and its risks, uncertainties and viability in both the immediate and longer-term in light of climate change. Companies should also reflect the current or future impacts of climate change on their financial position, for example in the valuation of their assets, assumptions used in impairment testing, depreciation rates, decommissioning, restoration and other similar liabilities and financial risk disclosures.”

FRC response to the Government’s Green Finance Strategy
Why should businesses think about climate change?
Climate change reporting
Task Force on Climate-related Financial Disclosures

**Context and applicability**
- 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.

**Relates to**
- Governance: Your organisation’s governance around climate-related risks and opportunities.
- Strategy: The actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning.
- Risk integration: How your organisation identifies, assesses, and manages climate-related risks.
- Reporting and assurance: The metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

**Approach**
- 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.
Climate change reporting
Task Force on Climate-related Financial Disclosures

Survey of disclosures of over 1,100 firms from diverse sectors with broad geographical representation (142 countries)

- Disclosure of climate-related financial information has increased since 2016, but is still insufficient for investors
- More clarity is needed on the potential financial impact of climate-related issues on companies
- Of companies using scenarios, the majority do not disclose information on the resilience of their strategies
- Mainstreaming climate-related issues requires the involvement of multiple functions
What does climate change mean for business?
Understanding the role of finance professionals
Bringing climate change onto the board agenda
Climate change reporting
Considering impact

- No industry is immune
- Scenario planning
- Uncertainty in laws and regulations, tax, technology, public mood, investor appetite
- Business model and long term viability
Climate change reporting
Narrative reporting impact

- Business review
- Principal risks and uncertainties
- Going concern
- Non financial statement
Climate change reporting
Financial statement impact

- Asset impairment
- Asset useful lives
- Residual values
- Valuations
- Provisions
- Contingencies
- Onerous contracts
- Pension obligations
Climate change reporting
New disclosure requirements for large companies from 1 April 2019

- Disclosed in directors’ report
- Energy consumption
- Limited exemptions available
- CO2 emissions
- Intensity ratio
- Actions taken to improve energy efficiency

Need to know
https://www.iasplus.com/en-gb/publications/uk/need-to-know/2019/need-to-know/new-reporting-requirements-for-large-private-companies
Impact on companies

Brexit

Guidance
Accounting and audit if there’s no Brexit deal
Published 12 October 2018

Restrictions of exemptions
Registration of branch / place of business in EEA states
EEA businesses with a branch / place of business in UK
UK companies trading on EEA regulated market

A scenario in which the UK leaves the EU without agreement (a ‘no deal’ scenario) remains unlikely given the mutual interests of the UK and the EU in securing a negotiated outcome.

Negotiations are progressing well, and both we and the EU continue to work hard to seek a positive deal. However, it’s our duty as a responsible government to prepare for all eventualities, including ‘no deal’, until we can be certain of the outcome if those negotiations fail.

For two years, the Government has been implementing a significant programme of work to ensure the UK is ready for all eventualities, including a potential ‘no deal’ outcome in March 2019.

It has always been the case that as we get nearer to March 2019, preparations for a ‘no deal’ scenario would have to be accelerated. Such an acceleration does not reflect an increased likelihood of a ‘no deal’ outcome. Rather, it is about ensuring our plans are in place in the unlikely scenario that they need to be relied upon.

This series of technical notices sets out information to allow businesses and citizens to understand what they would need to do in a ‘no deal’ scenario, so they can make informed plans and preparations.

This guidance is part of that series.
Cyber Risk
Back to Basics

Ross Spelman
Senior Manager, Cyber Risk Services
Change will never be this slow again

1970
TECHNOLOGY CORE
Mainframes
Core computing

1980
TECHNOLOGY ENABLEMENT
Office computing
Mini-computers
Word processing
Spreadsheets

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

2000
TECHNOLOGY ENGAGEMENT
Internet revolution
Customer engagement
Intranet applications
Broadband

2010
DIGITAL
Mobile connectivity
Cloud computing
Big data – analytics
Social media

2020
EXponential
Sensing
Home automation
Digital cars
Digital money
3D printing / manufacturing
Future of risk in the digital era - Transformative Change, Disruptive Risk

Managing the black box of artificial intelligence

The use of artificial intelligence (AI) techniques and solutions for a wide range of novel use cases leaves organizations open to new AI risks.

Evolving governance and controls for automation

Operating environment changes driven by the adoption of automation technologies call for redefined governance mechanisms and operational controls.

Protecting against the changing cybersecurity risk landscape

In order for digital technologies to deliver on their immense promise, evolving cyber vulnerabilities and threats need to be addressed.
Cybersecurity – Focus on Financial Information

Why increase the focus on IT controls?

- Effective controls in operations, compliance with laws and regulations are fundamental to well-managed entities
- Cyber security risk is a broad business risk to be managed
- Cyber incidents are increasing in frequency and complexity
- Information is relied upon by management to manage the business and key decision-making
- 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
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 – The Basics

Technology Elements

| Application | Databases | Operating Systems/Network |
**RISK:** Users have access privileges beyond those necessary to perform their assigned duties

**Control:**
- Access request authorisation
- Timely access revocation
- User access review
- Privileged-level access
- Logging and Monitoring
RISK: Systems are not adequately configured to restrict system access to properly authorised users.

Control: Unique user IDs and password configurations
**General IT Risks and Controls – The Basics**

**RISK:** Inappropriate changes are made to systems

**Control:**
- Change approval and testing
- Segregation of development and implementation functions
**RISK:** Systems and data may not be available in a timely manner in the event of a disaster.

**Control:**
- How long can you be without your data?
- Document and incorporate into BCP plans and communicate with IT.
- IT should carry out data restore tests.
**RISK:** Individuals gain inappropriate access to datacenters and buildings.

**Control:**
Restrict access, via controlled and monitored swipe cards, pin access, biometrics.
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

- Security Awareness and Trainings
- Third Party Management
- IT Policies
- Data Management and Protection
Control Activities – IT Governance

Tone from the top

Risk Management

People
Control Activities – IT Governance

- Diverse range of non-executive directors
- Understanding of digital technologies
- Ability to ask the right questions
- Bring insights and constructive challenge on cyber agenda
Control Activities – IT 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
Control Activities – IT Governance

- 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

- Fewer vulnerabilities to be exploited as part of a cyber breach
- Greater chance of discovering issues early, before they can become a big problem
- Increased reliability of information used for reporting, and the achievement of business objectives
- Easier compliance with laws and regulations
- Improved management decision making through high quality information
Closing Comments
Dawn Johnston
Economists among ‘least trusted professionals’ in UK

Leave voters increasingly distrust economists to provide honest answers, survey reveals

Chris Giles in London 3 HOURS AGO

British people are keen to have a better understanding of economic issues, but Leave voters increasingly distrust economists to provide honest answers, according to a large new survey of public attitudes.
Trade grinds to a halt

Global Trade Is Deteriorating Fast, Sapping the World’s Economy

Apple considers supply chain shift out of China

China to hit $75bn of US goods with additional tariffs

US and China are weaponising global trade networks

Businesses and supply chains have become pawns in a strategic ‘quiet war’
Persistent uncertainty

Cost control is king

Source: Deloitte UK CFO Survey
Support for redistribution in US and UK

- Higher taxes on corporates and high earners
- Wealth tax
- Break up big tech and other sectors
- $15 minimum wage
- 40% of board seats for worker representatives
- Free public university and cancel student debt
- Net-zero by 2030
- Break up big banks and restrict private equity
- Medicare for all (universal public healthcare)
- Elimination of private health insurance

- Higher taxes on corporates and high earners
- Land for the Many
- Nationalisation of train, energy, water and Royal Mail
- £10 minimum wage
- 10% of company shares and one third of board seats to employees
- Free public university
- Net-zero by 2030
- Public inquiry into the financial sector
- £500bn infrastructure investment
Profits or purpose?
Rethinking the role of firms

What are companies for?
Big business is beginning to accept broader social responsibilities
Pursuing shareholder value is no longer enough, it seems

The limits of the pursuit of profit

Investors should look beyond the bottom line

More Companies Are Making Noise About ESG
Deloitte Economic Research, London

To receive our weekly Monday Briefing email please google ‘Deloitte Monday Briefing’ and subscribe

Deloitte Monday Briefing

Deloitte CFO Survey
Nostradamus Predictions for 2020

...... a great earthquake

...... economic crisis

...... record storms

...... wildfires

...... An Eastern Power triumphing over the West

...... Humans living on the moon

...... Bodily chip implants

...... A new King in England

...... Kim Jong-Un dethroned
Networking Lunch