

Deloitte Finance Club

Technical update

Wednesday 06 December 2017

Deloitte Finance Club

Winter finance checklist agenda

- Opening remarks
Tom Murray
- Year-end hotspots
Peter Westaway
- Narrative & UK GAAP
Amanda Swaffield
- IFRS 15 & 16
Sarah Waddington
- Corporate governance
Corinne Sheriff
- Remuneration
David Cullington
- Closing
Tom Murray

Year-end hotspots

Peter Westaway

IFRS – Closing out 2017

Newly effective for December 2017 year-ends

IFRS Amendments

AIP 2014-16 Cycle (IFRS 12 amendment)

EU endorsement
expected before end of
2017

Recognition of DTA for
unrealised losses
(amendment to IAS 12)

EU endorsed in Nov

Disclosure initiative
(amendments to IAS 7)

EU endorsed in Nov

**Need to know
newsletters
available at UK
Accounting Plus**

Newly effective for December 2017 year-ends

IAS 7 amendment

- Required to disclose changes in **liabilities arising from financing activities**, where relevant separating:
 - financing cash flows;
 - changes from acquisition or disposal of subsidiaries;
 - foreign exchange movements;
 - fair value changes; and
 - other changes.
- Standard suggests presenting reconciliation of relevant balance sheet liabilities and provides illustrative examples
- If combining above disclosure with a broader asset/liability reconciliation (such as a 'net debt reconciliation') then IAS 7 disclosures on changes from financing activities need separate identification
- Comparatives not required in first year of application

Those where associated cash flows are financing activities per IAS 7 e.g. borrowings and lease liabilities

Financial assets included if associated cash flows are financing activities e.g. assets hedging financing liabilities

Recent FRC publications

Available at www.frc.org.uk

Letter to Audit Committee
Chairs and Finance
Directors

Annual Review of
Corporate Reporting

Thematic review feedback
reports

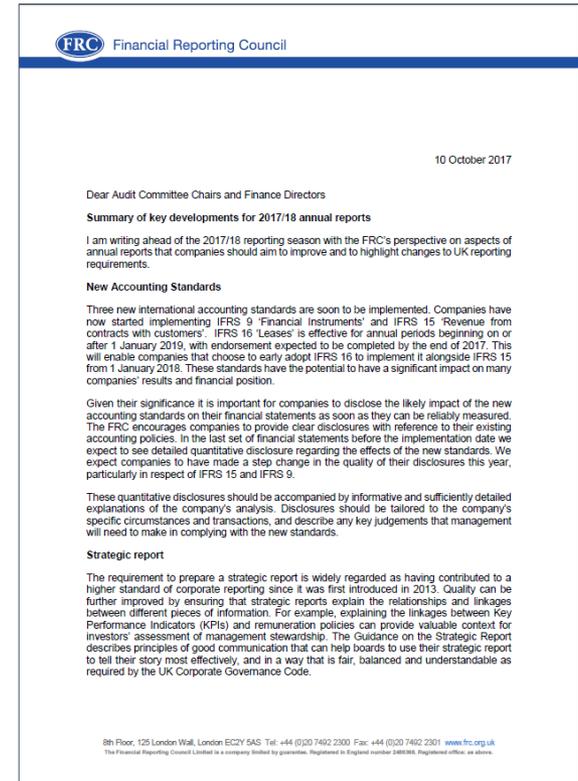
CRR technical findings
slide deck

Deloitte publication 'Closing out
2017' available at:
www.ukaccountingplus.co.uk



FRC Letter to Audit Committee Chairs and Finance Directors

- New accounting standards (IFRS 9, IFRS 15, IFRS 16)
- Strategic report
 - Non-financial reporting
 - Performance reporting and APMs
 - Risk reporting and viability statements
 - UK referendum result
- Financial statements
 - Cash flow statement
 - Dividends
 - Critical judgements and estimates
 - Accounting policies
 - Business combinations
 - Pensions
- Audit quality and effectiveness



FRC focus areas

Four areas that companies need to pay particular attention to:

- Explain and quantify key judgements and estimates
- Fair and balanced assessment of performance and prospects – positive and negative
- Clear links between financial statements and discussions of strategy, performance (including KPIs), financial position and cash flows, including use of APMs
- Provide company-specific information that is material to understanding of business, its performance and prospects



FRC thematic review

Judgements and estimates

FRC's watch list

- **Differentiate** estimates clearly from judgements
- Give details of judgements with most significant effect on amounts
- Distinguish estimates with significant risk of material adjustment within next year from other estimates with longer-term impact
- Provide **company-specific** disclosures that:
 - pinpoint areas of estimation uncertainty, and
 - provide useful additional information, avoiding boilerplate
- **Quantify** specific amounts of estimates at material risk in next year
- **Quantify** underlying assumptions
- Provide **sensitivity** analysis or **range** of reasonably possible outcomes

FRC thematic review

Alternative performance measures

ESMA
FAQs
updated
October
2017

FRC's watch list

- Define and **explain** clearly all APMs
- Do not use “**non-recurring**” or similar unless it really is appropriate
- Reconcile all APMs not directly from accounts, including ratios
- Do not display APMs with greater **prominence** than GAAP measures
- Discuss IFRS results and adjustments thereto
- Highlight IFRS results early in narrative
- Explain changes to APMs compared to last year
- Explain why items are **excluded** from adjusted profits
- If excluding items to better reflect underlying performance, be clear why

FRC thematic review

Defined benefit pension disclosures

FRC's watch list

- Provide additional information necessary to understand **risks and potential impact** on future cash flows
- When recognising assets, explain **judgements** in assessing trustees' rights
- Describe asset/liability matching **strategy**
- Refer to scheme in strategic report if appropriate (risks, changes, actions)
- Disaggregate plan assets that differ in nature into separate classes
- Explain how **unquoted** plan assets have been **valued**

FRC 2017 key messages

CRR top 10 challenge areas



ESMA Common Enforcement Priorities 2017

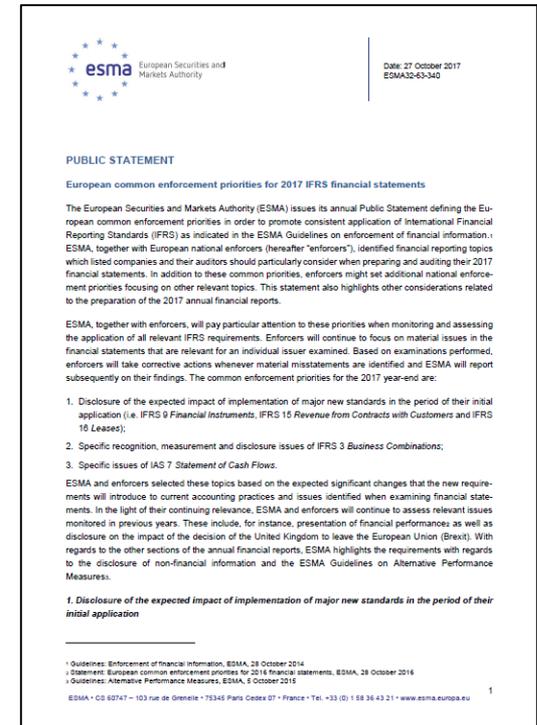
Key focus areas

Key focus areas

- Disclosures on impact of IFRS 9 and IFRS 15
- Specific issues on IFRS 3 Business Combinations
- Specific issues on IAS 7 Statement of Cash Flows

Other areas highlighted

- Measurement and disclosure of non-performing loans by credit institutions
- Fair presentation of financial performance
- Impact of UK's exit from EU
- Non-financial and diversity information for certain large groups and undertakings



Disclosures: Impact of new IFRSs

ESMA statements and FRC comments

Expectation

- Expectation more advanced as date of initial application 1 Jan 2018
- FRC expecting “**step change**” in disclosure

Impact and key judgements

- What is expected impact?
- What key **judgements** does management expect to have to make?

Timeline and transition

- Timeline for transition – if you can’t quantify yet, when do you expect to be able to?
- Which **transitional provisions** will you use?

Impact quantified?

- **Yes:** quantify **required** by IAS 8
- **No:** additional qualitative description of likely impact

IFRS 9:
> More advanced in financial institutions due to systems efforts

IFRS 16:
> Think about early adopting (now EU endorsed) e.g. lessors aligning with IFRS 15
> Future focus on lease commitment note rec – get it right now

See our Closing Out newsletter at UK Accounting Plus

Annual report insights 2017

Surveying FTSE reporting



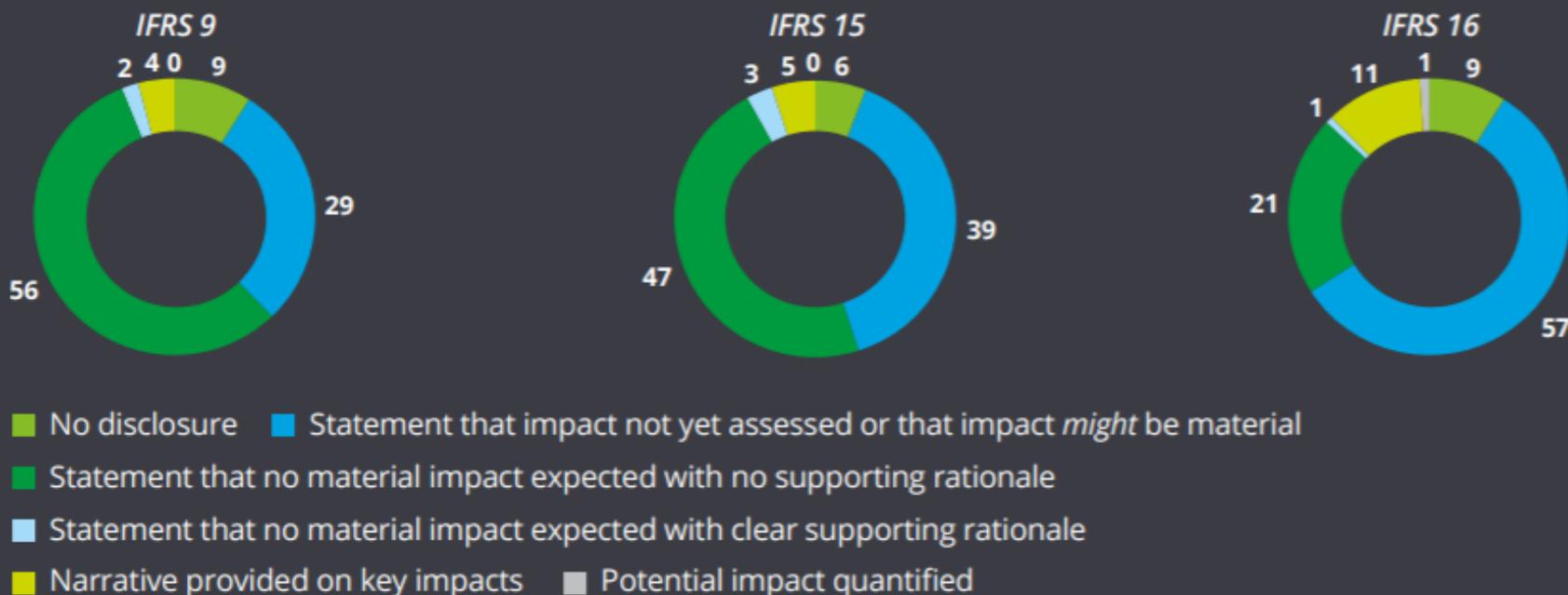
- Our annual survey of 100 FTSE listed companies across all sectors and sizes.
- A comprehensive picture of narrative, corporate governance and financial reporting trends, together with ideas to help enhance your annual report and avoid potential pitfalls. Lots of better practice examples.
- We focus on company purpose, sustainable value generation, alternative performance measures, corporate governance reform, the FRC's thematic review areas and Brexit.
- Available via UK Accounting Plus and on our dedicated website:
www.deloitte.co.uk/annualreportinsights

Annual report insights 2017

Financial statements

- **94%** had at least one “significant” judgement or key source of estimation uncertainty open to challenge
- Only **7%** providing comprehensive sensitivity disclosures for estimation uncertainties
- Future pension funding levels (beyond just the next year) were only provided by **16%**

Detail on new IFRSs not yet effective



IFRS – Looking ahead

IFRS 9 and 15 Resources

Available at UK Accounting Plus

**Don't forget
designations
required by 1
Jan 2018**

Newsletters

Industry
insights

E-learning

Practical
guide (IFRS
15)

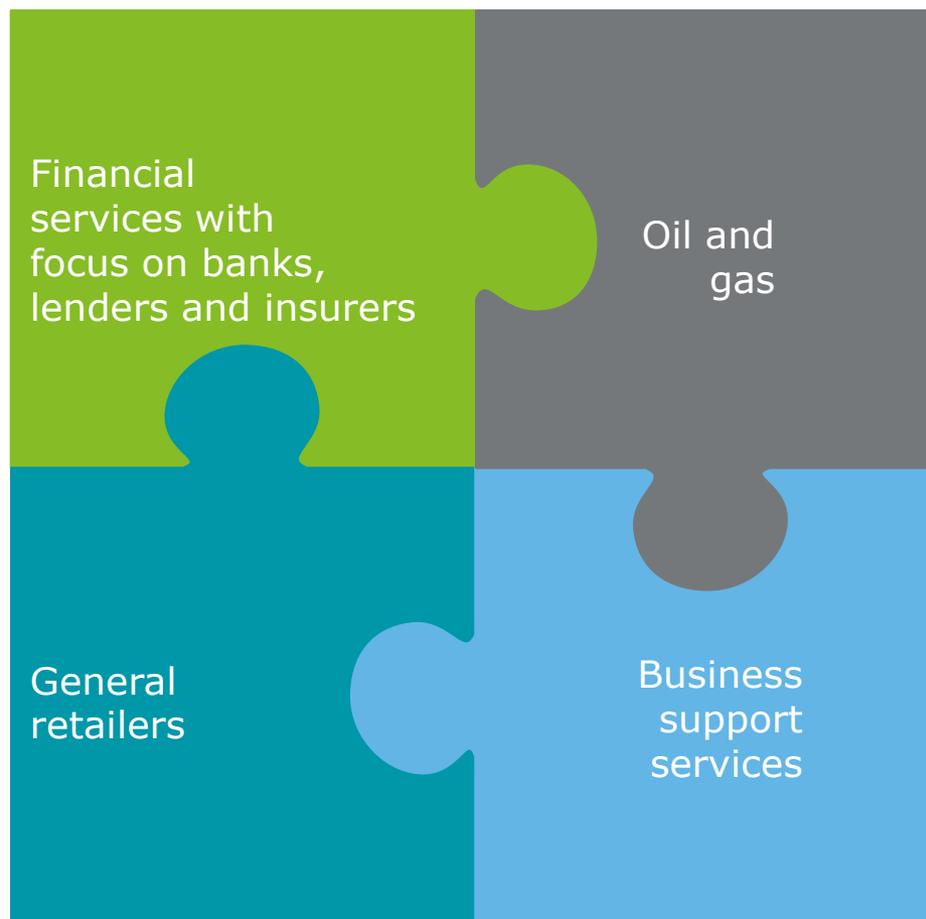
GAAP
manuals

FRC Priority Sectors 2017/18



Source: FRC Plan and Budget and Levies 2017/18

FRC Priority Sectors 2018/19



Source: FRC announcement 17 November 2017

FRC thematic reviews

Next round from December 2017

Key focus areas

- Targeted aspects of **smaller listed and AIM** reports and accounts
- Effect of IFRSs 9 and 15 on **2018 interim accounts**
- Expected effect of IFRS 16 on leasing
- Effects of Brexit on companies' disclosure of principal risks and uncertainties

Smaller listed and AIM

- 40 companies to be pre-notified
- For each, FRC will look at two from five areas:
 - Strategic report and APMs
 - Accounting policies including critical judgements and estimates
 - Cash flow statements
 - Tax disclosures
 - Pension disclosures

IFRS – finalised pronouncements

IFRS 17

- Insurance Contracts
- Replaces IFRS 4
- Effective for periods commencing on or after 1 January 2021
- Likely to require significant changes to systems and processes

IFRIC 23

- Addresses uncertain income tax positions
- Assess whether it is probably that tax authority will accept the uncertain treatment
- Effective for periods commencing on or after 1 January 2019

IFRS – finalised pronouncements

Prepayment features with Negative Compensation (Amendments to IFRS 9)

- Changes regarding symmetrical prepayment options to allow measurement at amortised cost (or depending on the business model at FVTOCI) even in the case of negative compensation payments
- Clarification regarding the modification of financial instruments
- Effective for periods commencing on after 1 January 2019

Amendments to IAS 28

- Clarification that entities should apply IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied
- Includes illustrative example
- Effective for periods commencing on or after 1 January 2019

Practice Statement: Making Materiality Judgements

- Non-mandatory guidance
- Four-step process:
 - Assess materiality qualitatively and quantitatively
 - Organise information to communicate effectively and efficiently
 - Review draft financial statements as a whole
 - Identify potentially material information

Questions?

Narrative/UK GAAP

Amanda Swaffield

FRS 101 and FRS 102

Newly effective for December 2017 year-ends

FRS 101 and FRS 102

FRS 101

- FRS 101 reporters exempt from IAS 7 and IFRS 12 unlikely to be relevant
- IAS 12 amendment will be relevant to FRS 101 reporters

FRS 102

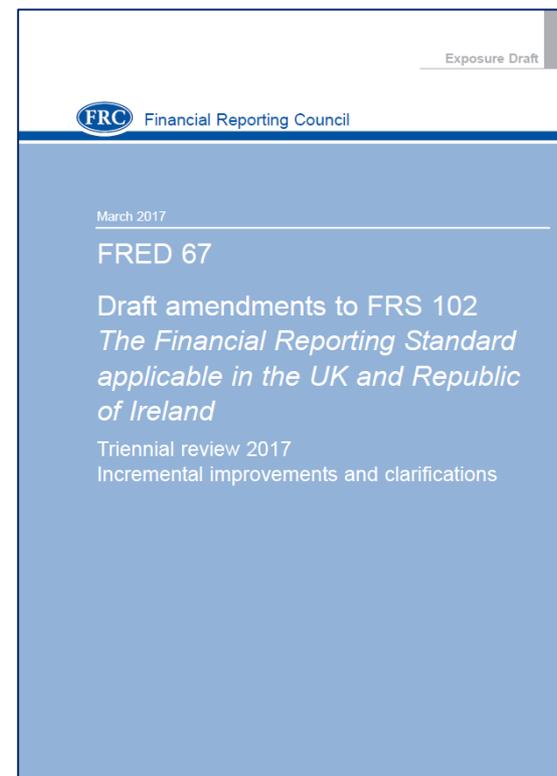
- FRS 102 amendment regarding fair value hierarchy disclosures provided by financial institutions and retirement benefit plans
- FRS 102 interim amendment for small entities with basic loans from directors that are shareholders

Triennial review of FRS 102

FRED 67 – Draft amendments

- First triennial review
- Incremental improvements and clarifications to FRS 102
- Does not incorporate major changes in IFRS
- Deadline for comment – 30 June 2017
- Proposed effective date – periods beginning on or after 1 January 2019
- Also immediate short-term fix to FRS 102 for loans from directors of small companies

The FRC concluded that "FRS 102 is working well in practice but there are a small number of areas where a significant improvement could be made to the cost effectiveness of FRS 102 without loss of useful information"



Triennial review of FRS 102

Principal amendments



- Also further amendments that clarify but don't change the underlying requirements

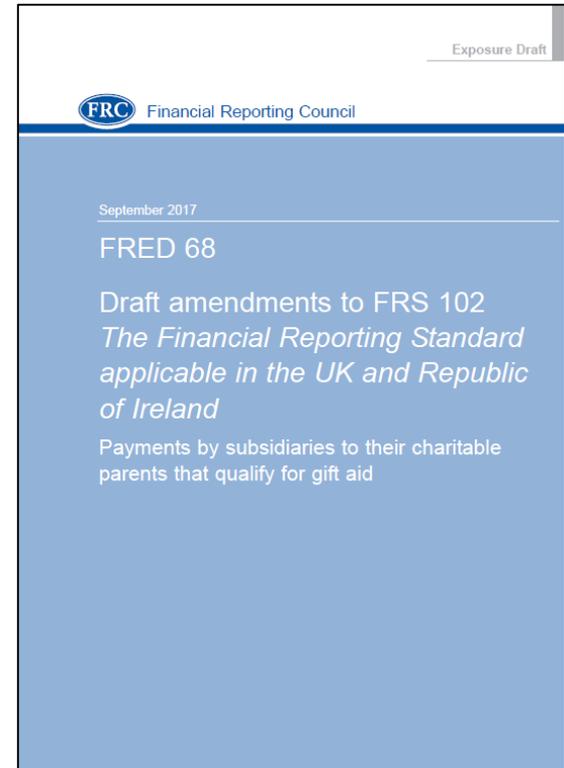
Available at
<https://www.frc.org.uk>

FRS 102

FRED 68 – Gift Aid payments

- Gift Aid payments by subsidiaries to their charitable parent
- Usually paid after year end
- Payments are distributions when made (TECH 16/14)
 - Do not accrue (unless have Deed of Covenant)
 - Recognise in equity when paid
- Tax:
 - Tax effects of Gift Aid payments go through P&L
 - Take account of tax effect of probable Gift Aid payment at reporting date
- Changes to be included in revised FRS 102?

In practice, this means you can treat tax rate as nil if probable that will pay all profits up as Gift Aid and no tax will be payable on profits for the year.



The strategic report

Non-Financial Reporting Regulations Effective for December 2017 reporters

- Implements the EU Non-Financial Reporting Directive
- Apply to periods commencing on or after 1 January 2017
- Similar to the strategic report requirements – extends disclosure on diversity and bribery and corruption
- In relation to non-financial reporting matters, these are included to the extent necessary for an understanding of the development, performance or position and impact of its activity, the strategic report should include information relating to, as a minimum:

Environmental matters (including the impact of the entity's business on the environment)

The entity's employees

Social and community matters

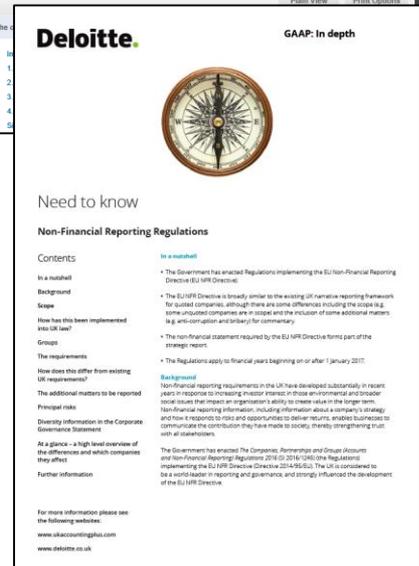
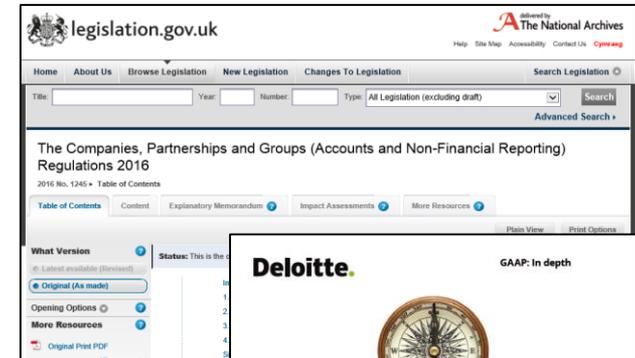
Respect for human rights

Anti-corruption and anti-bribery matters

For each:

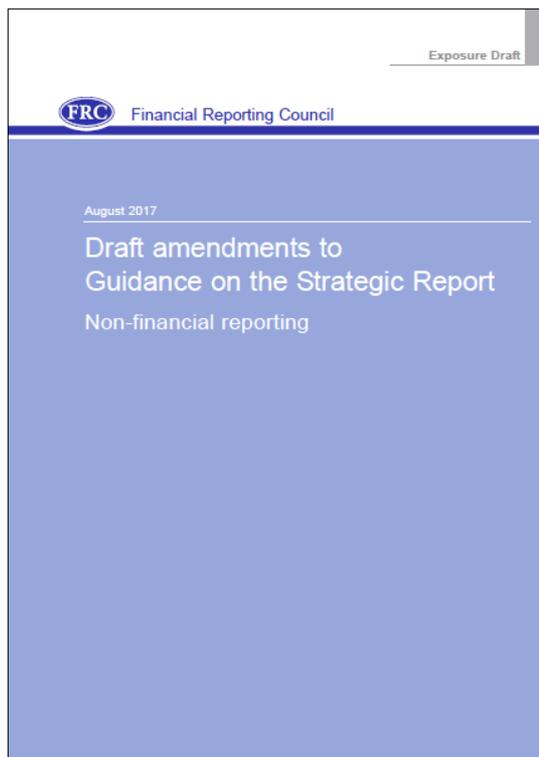
- Description of policies
- Due diligence processes
- Outcomes
- Principal risks and how managed

Our survey said:



FRC Guidance on the Strategic Report

Consultation on amendments



- Draft amendments to the Guidance on the Strategic Report
- Encourages companies to consider the broader matters that may impact their business over the longer term.
- The updates:
 - Enhance the link between the purpose of the strategic report and the matters the directors should have regards to under section 172 of the Companies Act 2006;
 - Reflect the new disclosure requirements arising from the UK implementation of the EU Non-Financial Reporting Directive which are effective for periods beginning on or after 1 January 2017; and
 - Reflects ESMA Guidelines on APMs
- The extent of the new disclosures will vary by company as the scope of the Directive differs from that of the previous strategic report (i.e. it includes some unquoted companies).
- The Guidance remains non-mandatory with a view to encouraging best practice.
- Consultation closed on 24 November.

FRC Guidance on the Strategic Report

Will need to wait until next year...in the meantime...

FAQs on implementing the NFR Directive - published this week!

- Who is covered?
- What are the requirements?
- What is meant by 'impact of activities'?

Etc etc....

Available at www.frc.org.uk

Our Need to know is available at www.ukaccountingplus.co.uk

CALENDAR CAREERS CONSULTATIONS PUBLICATIONS NEWS LOGIN CONTACT US FAQs

FRC Financial Reporting Council

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INVESTORS ACCOUNTANTS ACTUARIES AUDITORS DIRECTORS FRC FOR YOU ABOUT THE FRC

NEWS DECEMBER 2017 STRATEGIC REPORT GUIDANCE TO FOLLOW GOVERNMENT LEGISLATION

Strategic report guidance to follow government legislation

04 December 2017

The Non-Financial Reporting Regulations (NFR) will be introduced by the Government in August 2017. The FRC has published guidance on the NFR. Since the Regulations were introduced in August 2017, it has amended the guidance to reflect changes to the Regulations. Responses to the consultation on the Regulations are being considered.

Frequently Asked Questions on Non-Financial Reporting

These Frequently Asked Questions have been prepared by FRC staff to assist with the application of the Non-Financial Reporting Regulations (NFR). They are intended to serve as a guide in the interim period whilst the FRC finalises its update to the Guidance on the Strategic Report. Therefore, the content below may be subject to change when we issue our final guidance as we take into account feedback on the application of the Regulations.

The Non-Financial Reporting Regulations insert sections 414CA and 414CB into the Companies Act 2006, supplementing the existing strategic report requirements as set out in section 414C of the Companies Act 2006.

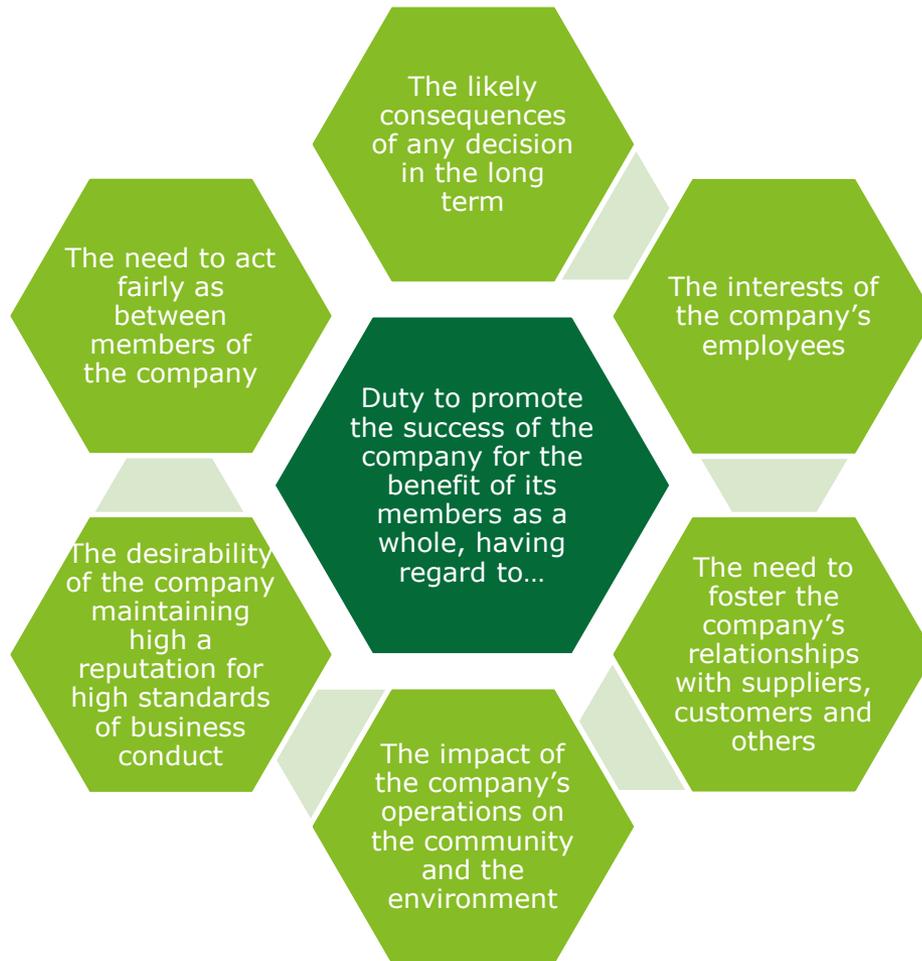
The frequently asked questions covered in this paper are set out below.

1. Who is subject to the NFR requirements?
2. What are the new requirements?
3. If I am a quoted company, what are the new additional disclosures?
4. Is this now a report for stakeholders?
5. Is the non-financial information statement required to be a separate statement headed up 'Non-financial information statement' either outside of or within the strategic report?
6. What is meant by the impact of a company's activities?
7. What do I have to disclose in relation to policies and due diligence?
8. Are the principal risk disclosures referred to in s414CB different from the principal risks that I already disclose in my strategic report?
9. What do I need to disclose in relation to business relationships, products and services which are likely to cause adverse impacts?
10. If any of the non-financial reporting matters are not material to my business, do I still need to disclose them?
11. What will the auditor's responsibilities be in respect of non-financial information?

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Considering wider stakeholders – central to the solution

Duties of directors under the Companies Act 2006 – s172



414C Contents of strategic report

(1) The purpose of the strategic report is to inform members of the company and help them assess how the directors have performed their duty under section 172 (duty to promote the success of the company).

(2) The strategic report must contain-

Narrative content now at 61% ↑

FRC update to the Strategic Report Guidance

Other key changes proposed

41 giving purpose beyond making profits for shareholders

Company purpose

Why an entity exists

Success depends on a complex network of relationships with a range of stakeholders

Provide information about the most important of these relationships and how they are taken into account in the decision making process

Sources of value

Identify items not recognised in the financial statements, e.g. customer base, highly trained workforce or intellectual property

The strategic report should explain how these sources of value are managed, sustained and developed

77% identifying off-balance sheet inputs into their business model – **32** considering <IR> notion of capitals

17% referring to s172 and directors duty to consider broader stakeholders

Section 172 reporting

Who are the key stakeholders?

How are relationships with key stakeholders developed and maintained?

How are they engaged and what regular interactions have there been during the period?

How were the interests of these stakeholders taken into account for strategic decisions?

Principal risks & uncertainties

Not just risks facing the entity, also need to consider the risks arising from the impact the entity has on external parties – think about risks arising from business relationships, products & services

Also consider long-term systemic risks to the ability to generate & preserve value e.g. climate change and changing technology

63% discussing value creation for stakeholders other than shareholders

Risk reporting and viability statements

Prospects and viability

A reminder of the Code provision

STAGE ONE

C.2.2. Taking account of the company's current position and principal risks, **the directors should explain in the annual report how they have assessed the prospects of the company**, over what period they have done so and why they consider that period to be appropriate. **The directors should state whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment**, drawing attention to any qualifications or assumptions as necessary.

STAGE TWO

Prospects and viability

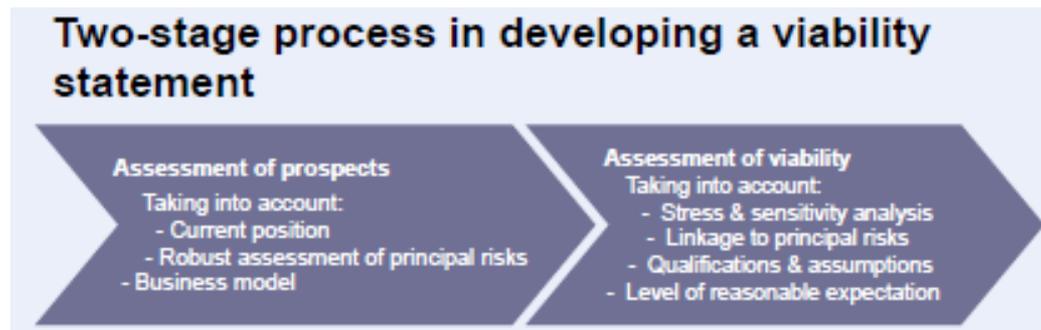
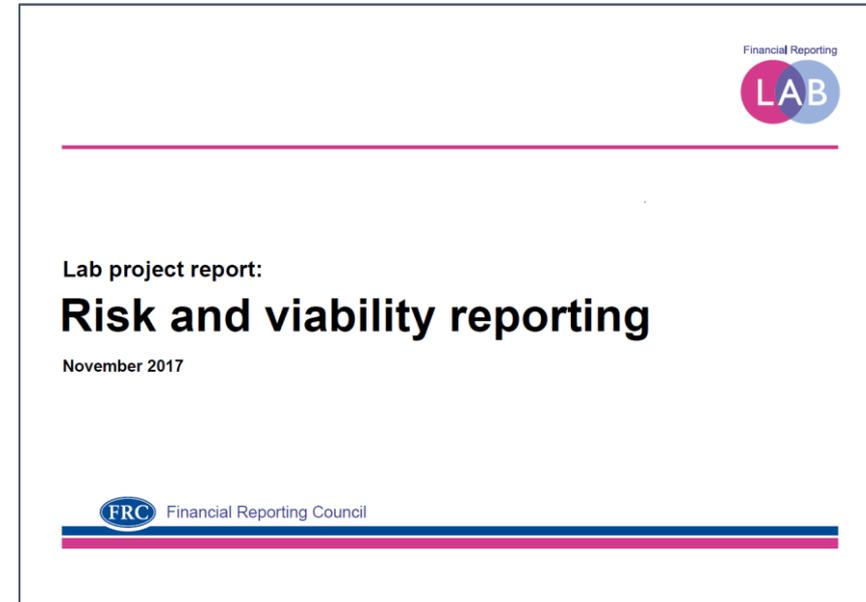
Questions to consider

Principal risks

- Specific?
- How identify, categorise and prioritise?
- Movements explained?
- Linkage to other parts of the report?
- Mitigating activities specific?

Viability statements

- Long term prospects vs statement?
- Considered other public statements?
- Qualifications and assumptions?
- Link to risks?
- Explanation of stress and scenario analyses?



Available at www.frc.org.uk

Annual report insights 2017

Other narrative reporting findings

Risks and viability

- 89 companies mentioned Brexit – 55 included it as a principal risk or contributing factor
- 21 stated business model won't be changing because of Brexit
- 71% of FTSE 350 and 49% of smaller companies had cyber-related principal risks
- Only 58% with satisfactory explanation for lookout period for viability statement

Task Force on Climate-related Financial Disclosures Final Report

Recommended Disclosures

The organisation's governance around climate-related risks and opportunities.

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

How the organisation identifies, assesses, and manages climate-related risks.

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



Applicable to all organisations, aiming to encourage market-led, industry-focused initiatives.

Responds to systemic risk in the financial system related to climate change.

2 identified climate risk as a principal risk in its own right



Dividends

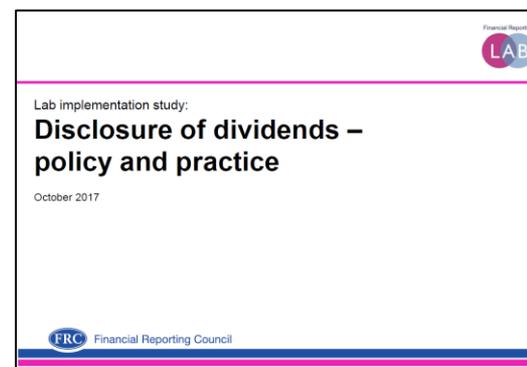
78

companies
disclosed a
dividend policy

Revised
guidance on
distributable
profits TECH
02/17BL

- Applies equally to IFRS and UK GAAP reporters
- New guidance on accounting for intragroup off market loans
- Guidance on retirement benefit schemes has been rewritten
- Clarity provided on the application to long term insurance businesses under Solvency II

- Follow up to previous reports
- Looks at how practice is changing
- Most notable change is 58% (2015:40%) FTSE 100 disclosing some information re. distributable reserves
- Would like to see more information on risks and constraints and explanation of the links between dividend, principal risks and viability



Questions?

Sarah Waddington

IFRSs 15 & 16 – practical
update

IFRSs 15 & 16 - practical update

IFRS 15 – lessons learned

IFRS 15 vs IAS 18

- Lack of guidance under IAS 18
- In some areas, practice varied under IAS 18
- New guidance under IFRS 15

Contract reviews

- Don't rely on high level reviews
- Do you know what your contracts say?
- What happens in practice

Strange but true

- Detailed contract reviews can result in some surprises, e.g. identification and measurement of material rights

Know your options

- IFRS 15 contains options and practical expedients
- Understand the implications of these options on transition and going forward

Don't forget disclosure

- FRC annual review of corporate reporting
- Disclosures prior to adoption
- Significantly more disclosures under IFRS 15

IFRSs 15 & 16 - practical update

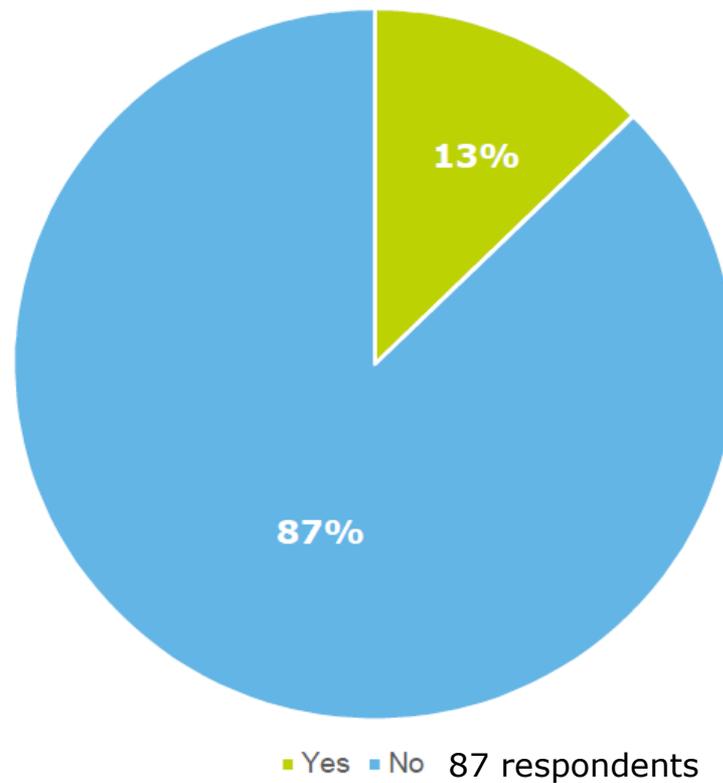
IFRS 15 – lessons learned



IFRSs 15 & 16 - practical update

IFRS 16 – are you ready?

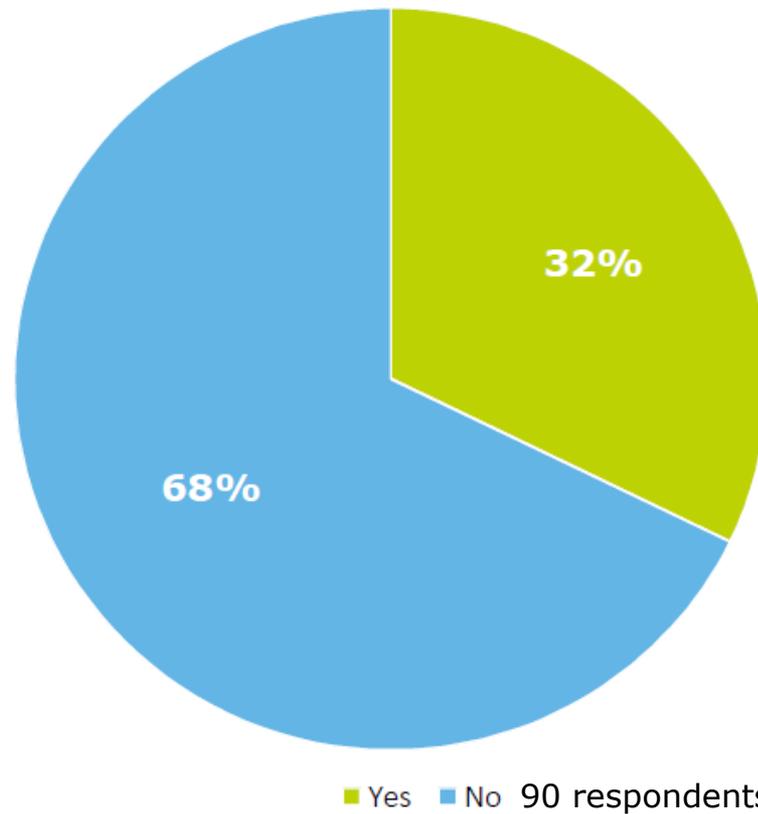
1. Do you plan on early adopting the standard?



IFRSs 15 & 16 - practical update

IFRS 16 – are you ready?

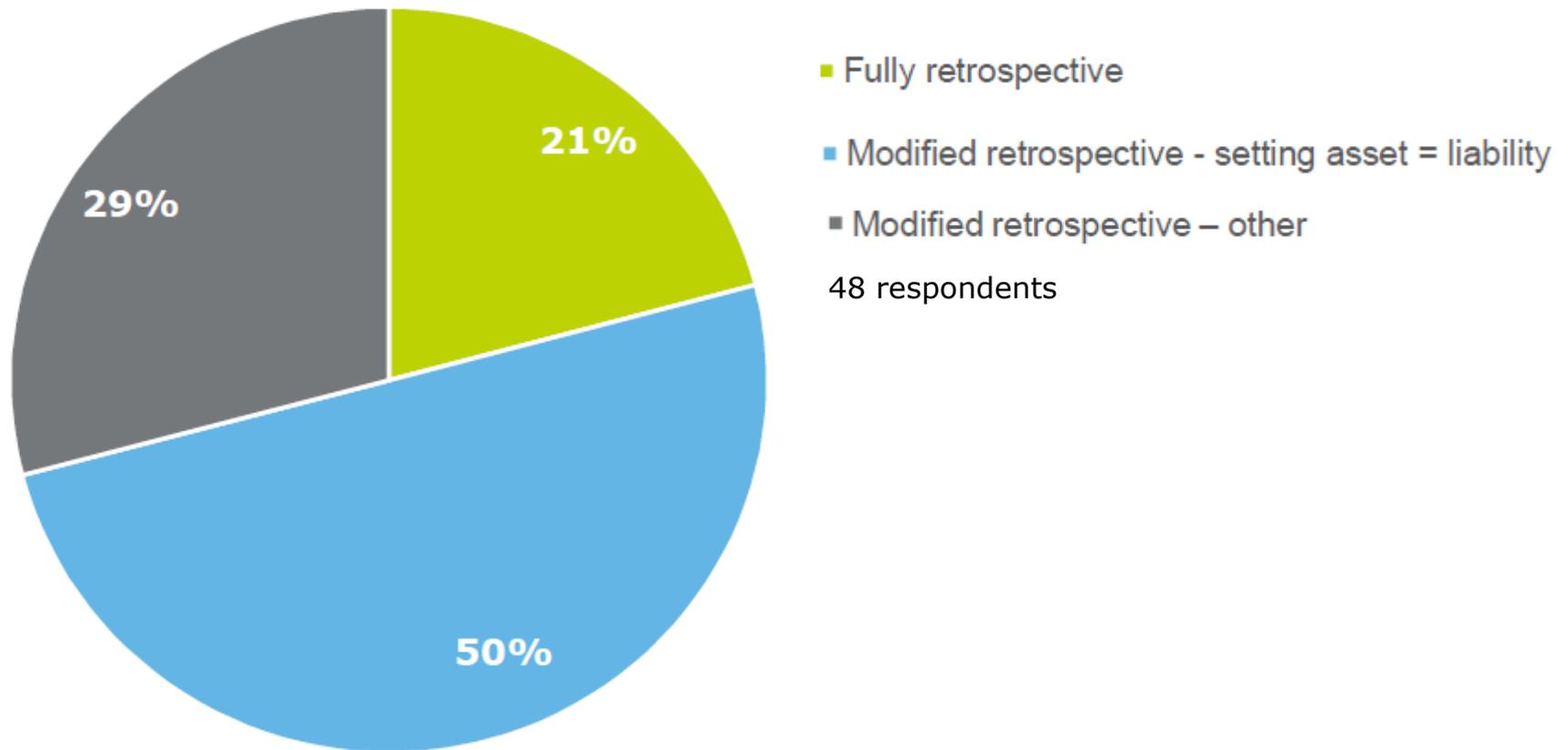
2. Have you finalised your transition option choice selection?



IFRSs 15 & 16 - practical update

IFRS 16 – are you ready?

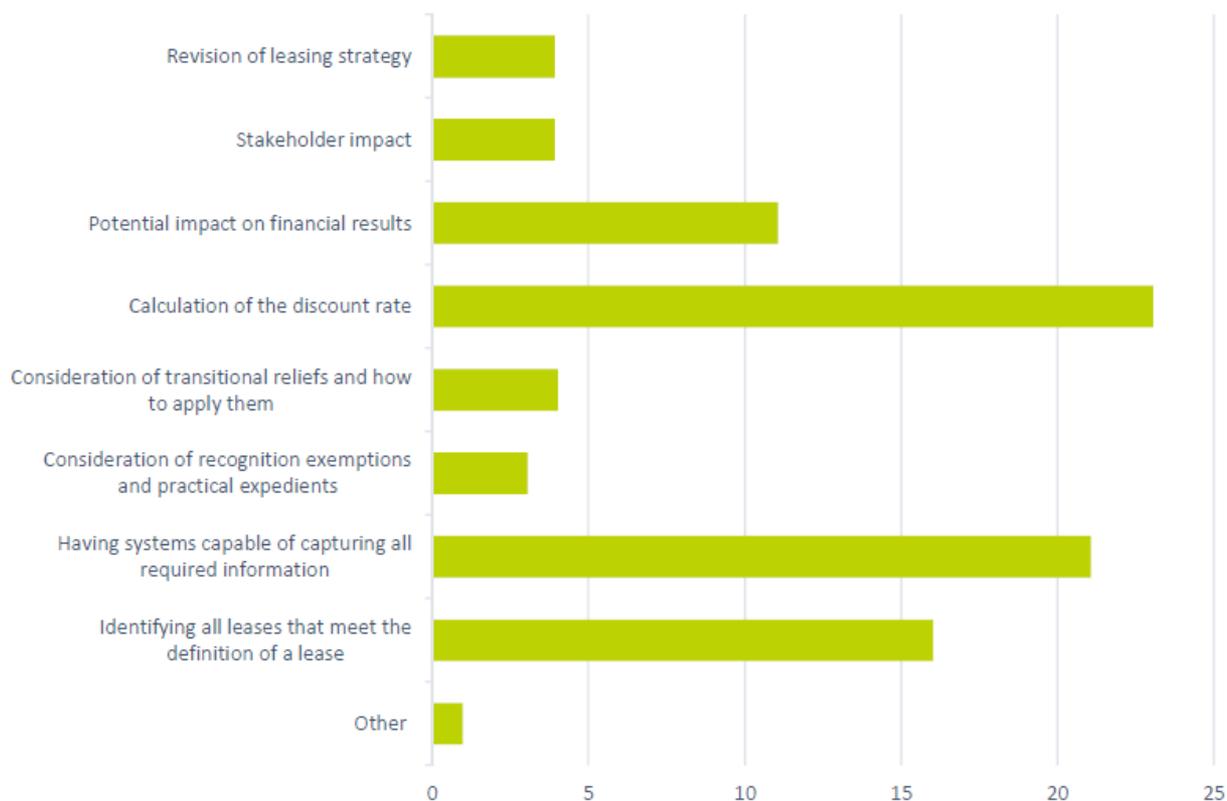
3. If finalised, what is your expected approach to transition?



IFRSs 15 & 16 - practical update

IFRS 16 – are you ready?

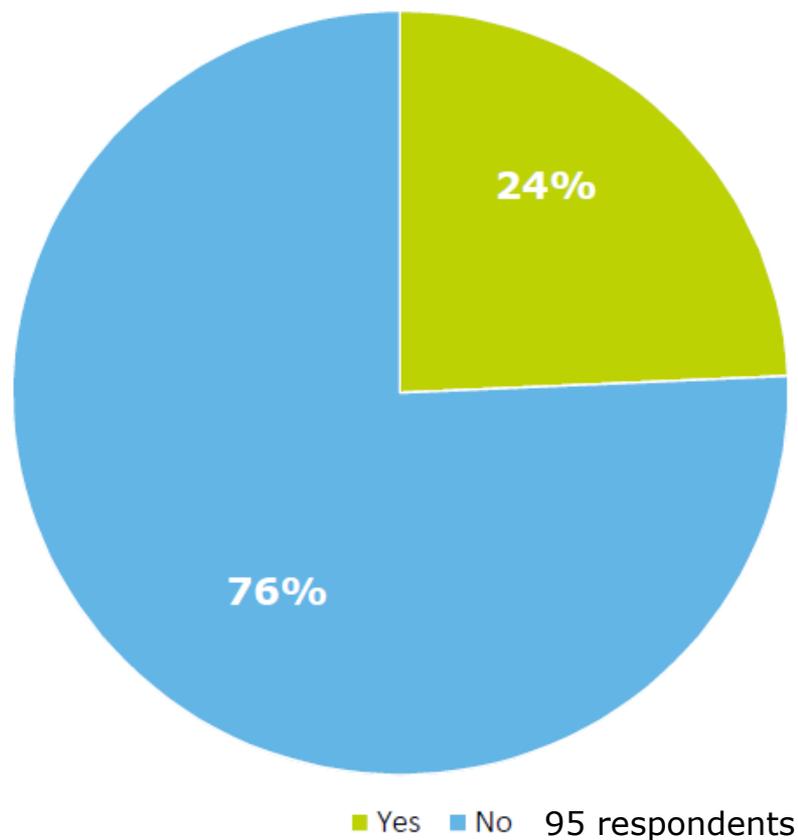
4. Which aspects of IFRS 16's implementation do you consider the most challenging for your organisation?



IFRSs 15 & 16 - practical update

IFRS 16 – are you ready?

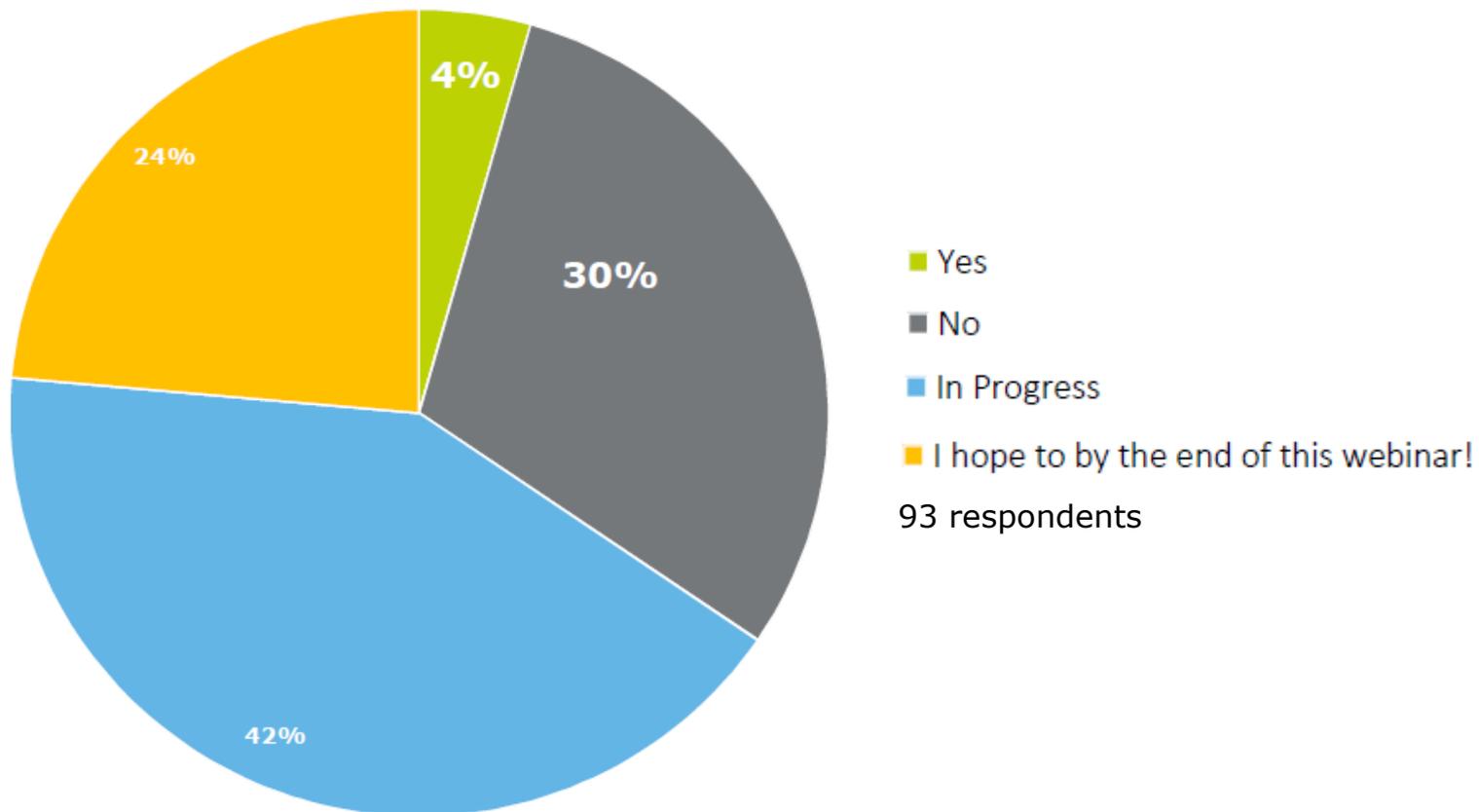
5. Do you consider your current systems capable of monitoring leases and keeping track of ongoing requirements?



IFRSs 15 & 16 - practical update

IFRS 16 – are you ready?

6. Have you established your discount rate methodology?



Questions?

Corporate Governance

Corinne Sheriff

Corporate governance update

Agenda

1. Current transparency initiatives
2. Annual report changes for 2017 year ends
3. Corporate governance reform
4. FRC consultation on the UK Corporate Governance Code

Current transparency initiatives

Gender pay gap reporting

First “snapshot” date is 5 April 2017

Will need to be reported by 4 April 2018

The Government Equalities Office has issued regulations for gender pay gap reporting – guidance has been published jointly with ACAS.

Employers are being asked to publish the following information for each financial year:

- the percentage difference in **mean** pay between male and female full-pay employees;
- the percentage difference in **median** pay between male and female full-pay employees;
- the percentage difference in **mean bonuses** received by male and female employees;
- the percentage difference in **median bonuses** received by male and female employees;
- the proportion of men and women who receive **bonuses**; and
- the number of men and women in each **quartile of pay** within the workforce – calculated by ranking employees and dividing into equal sized groups.

Applicable to all private sector “employers” with more than 250 relevant employees

Data to be collated on 5 April each year

Data to be **published** (and submitted to government) within one year

Pay consists of basic pay, pay for leave and bonus pay

Pensions, benefits in kind and overtime are not included

Non-compliance will be an unlawful act and will empower the Equality and Human Rights Commission to take enforcement action.

Payment Practices and Performance reporting

Reporting required every six months

Objectives to enable greater transparency / public scrutiny and better information to suppliers

Financial years commencing on or after 6 April 2017

Reporting on a government web based service within 30 days

Reporting is required by all UK companies and LLPs, whether listed or unlisted, that exceed two or all three of the following thresholds on both of their last two balance sheet dates:

- Over £36 million annual turnover
- Over £18 million balance sheet total
- Over 250 employees

Narrative descriptions of:
Payment terms
Process for dispute resolution

Average payment times
Percentage of invoices paid in 30, 60, > 60 days
Proportion not paid in agreed time

Failure to publish a report is a criminal offence: company and all directors are liable

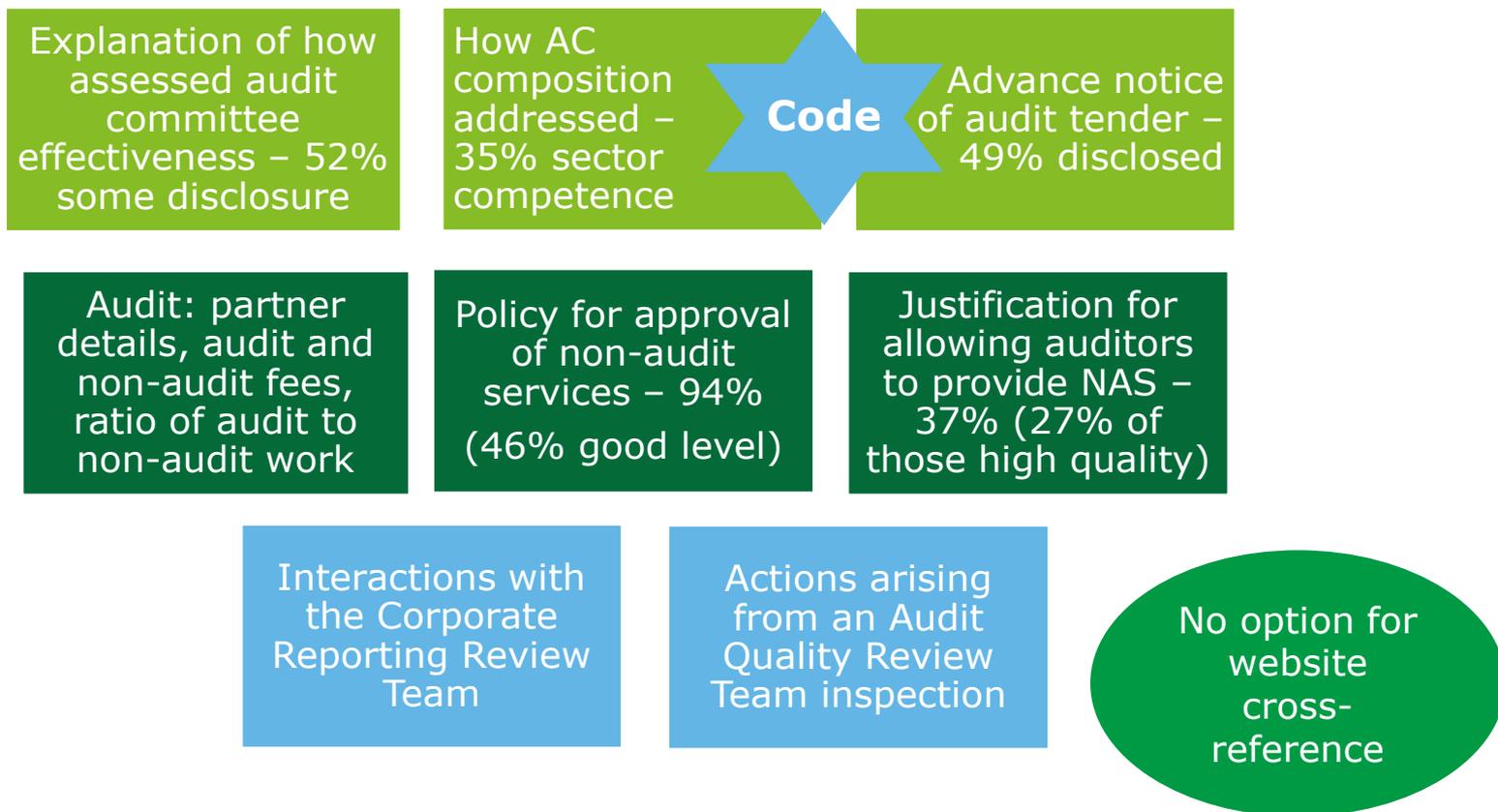
Duty to report on payment practices and performance – updated guidance issued in October 2017:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/649941/payment-practices-performance-reporting-requirements-oct-2017.pdf

Annual report changes for 2017 year ends

Changes to the Code and Guidance on Audit Committees

Effective for periods commencing on or after 17 June 2016

New recommendations in relation to audit committee **reporting**:

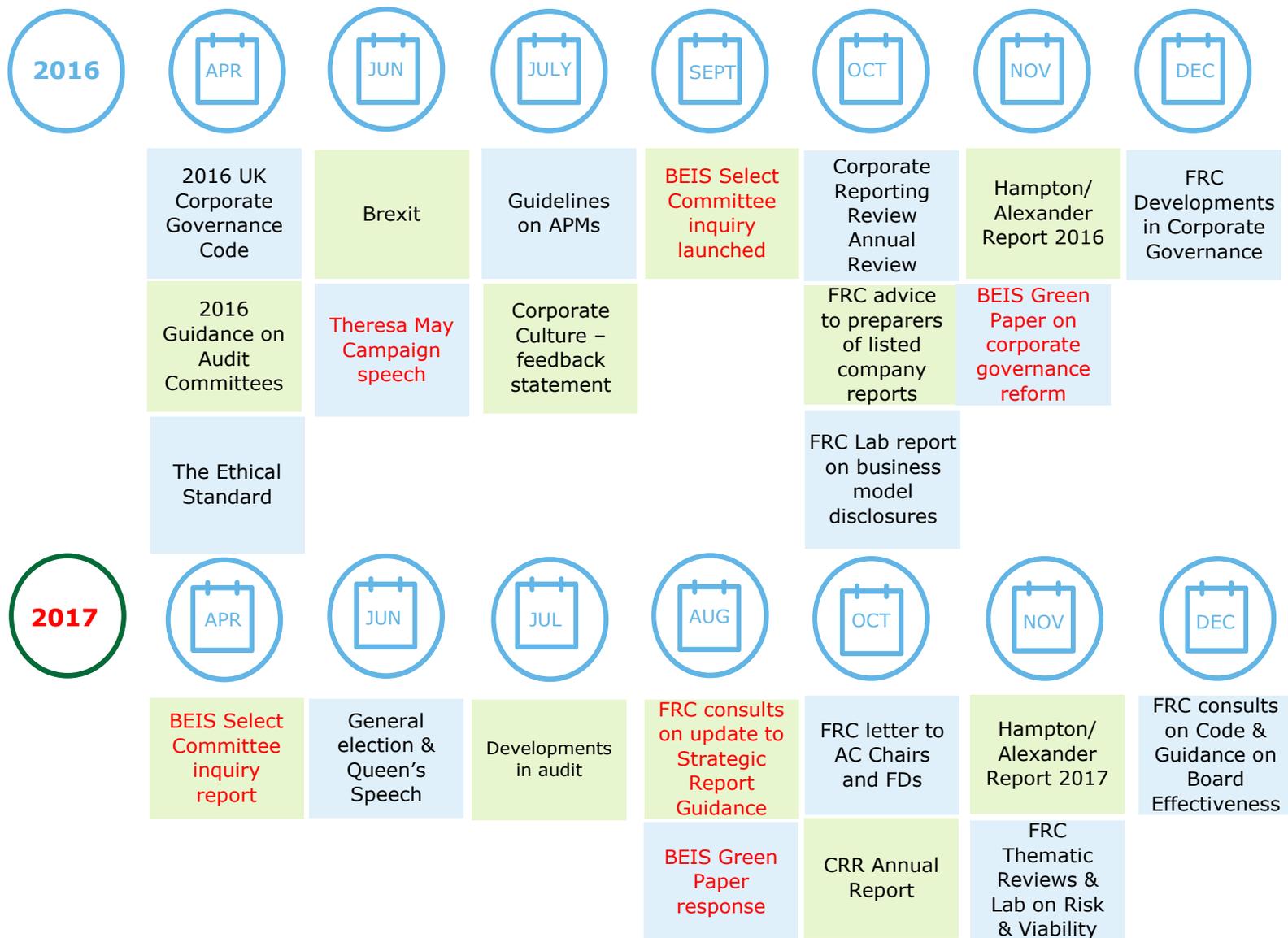


ALSO – non-financial reporting on policies, objectives, implementation and results on diversity (going beyond gender) in the corporate governance statement, DTR 7.2.8AR

Corporate governance reform

Corporate governance update

Timeline of developments



BEIS corporate governance reforms

Reforms announced to increase boardroom accountability and enhance trust in business

Following the Green Paper and the BEIS Select Committee Inquiry report, the Government has issued a package of reforms across three areas:

Executive pay

Strengthening the
employee, customer
and supplier voice

Corporate
governance in large
privately-held
businesses

A combination of secondary legislation, changes to the UK Corporate Governance Code and other industry-led solutions will be used.

BEIS corporate governance reforms

Executive pay

Secondary legislation

Report on **and justify** the ratio of CEO pay to the average pay of their UK workforce

Provide a clearer explanation of a **range of potential outcomes** from complex, share-based incentive schemes

Proposed changes to UK Corporate Governance Code

Steps to address significant shareholder opposition to pay policies

Extend remit of RemCo to cover pay & incentives of and engagement with the wider workforce

Extend share award holding period from 3 to 5 years

RemCo chair to have served for at least 12 months

Industry-led solution

The Investment Association will be asked to develop and maintain a public register of listed companies encountering more than a 20% or more shareholder vote against pay awards

The Government has also committed to examining the use of **share buybacks**

BEIS corporate governance reforms

Strengthening the employee, customer and supplier voice

Secondary legislation

All companies of significant size to explain how their directors comply with the requirements of section 172

“Significant size” suggested to be entities with greater than 1,000 employees

Proposed changes to UK Corporate Governance Code

New Code principle - strengthening the voice of employees and other stakeholder interests at board level

New Code provision - companies to adopt one of three employee engagement mechanisms:

- a designated non-executive director;
- a formal employee advisory council; or
- a director from the workforce

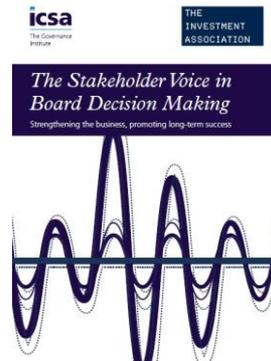
Industry-led solution

ICSA and the Investment Association has issued guidance on practical ways to engage with employees and other stakeholders at board level

GC100 has been asked to publish new advice and guidance on the practical boardroom interpretation of section 172

Considering wider stakeholders – central to the solution

The stakeholder voice in board decision making – new guidance from ICSA and the Investment Association



**Stakeholder
identification**

Board composition

**Induction and
training**

Board discussions

**Engagement
mechanisms**

**Reporting and
feedback**

BEIS corporate governance reforms

Corporate governance in large privately-held businesses

Secondary legislation

All companies of significant size to disclose their corporate governance arrangements in their Directors' Report and on their website, including whether they follow any formal code

For this requirement "significant size" suggested to be entities with greater than 2,000 employees

Plus there would be the section 172 disclosure requirement referred to earlier if size criteria met

Industry-led solution

The FRC will be invited to work with the Institute of Directors, the CBI, the Institute of Family Business, the British Venture Capital Association and others to develop a voluntary set of corporate governance principles for large private companies

BEIS corporate governance reforms

Next steps

The current intention is to bring the legislative reforms into effect **by June 2018** to apply to company reporting years commencing on or after that date.

Draft secondary legislation will be laid before **March 2018**

FRC to consult on revisions to the Code in "**late Autumn**"

Work on the governance principles for large privately-held companies to start **in the Autumn**

FRC consultation on the UK Corporate Governance Code

FRC's review of the UK Corporate Governance Code

A three-part package

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

Revised Guidance on Board Effectiveness

Questions on the future of the UK Stewardship Code

Five new sections....

Leadership & Purpose

Division of responsibilities

Composition, succession & evaluation

Audit, risk and internal control

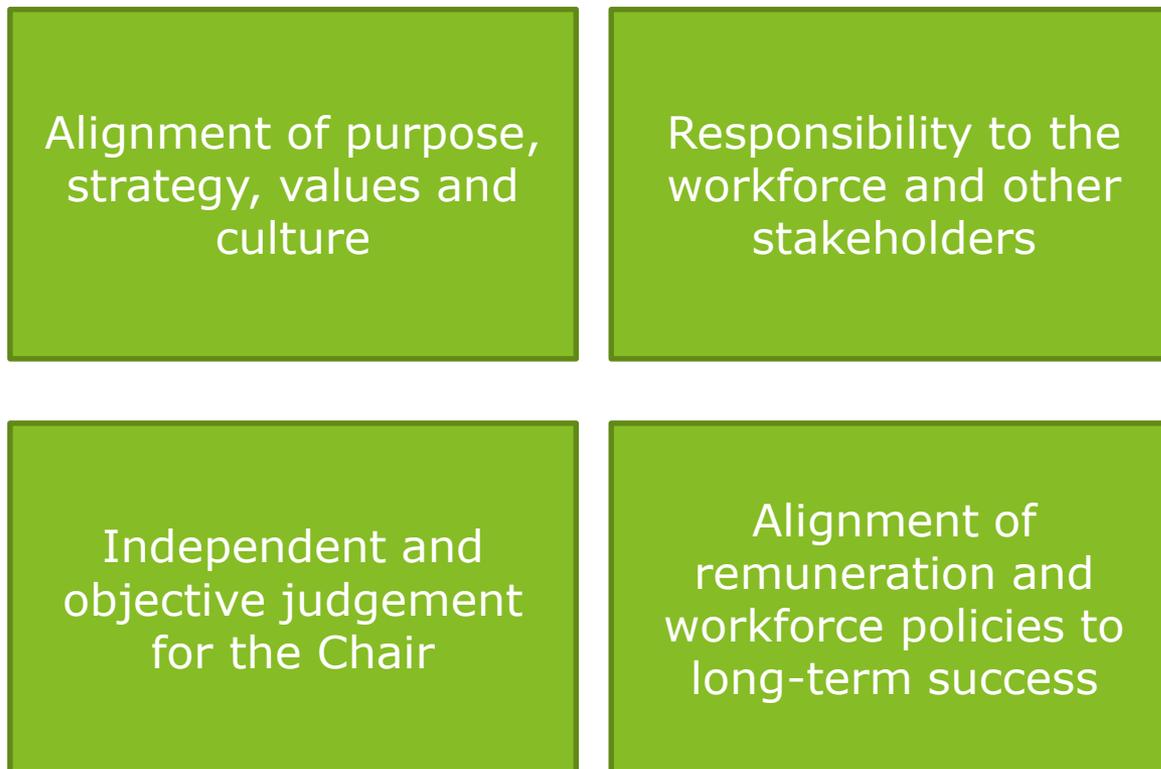
Remuneration

Updated Code to apply for periods commencing on or after 1 January 2019.

Consultation responses by **28 February 2018**.

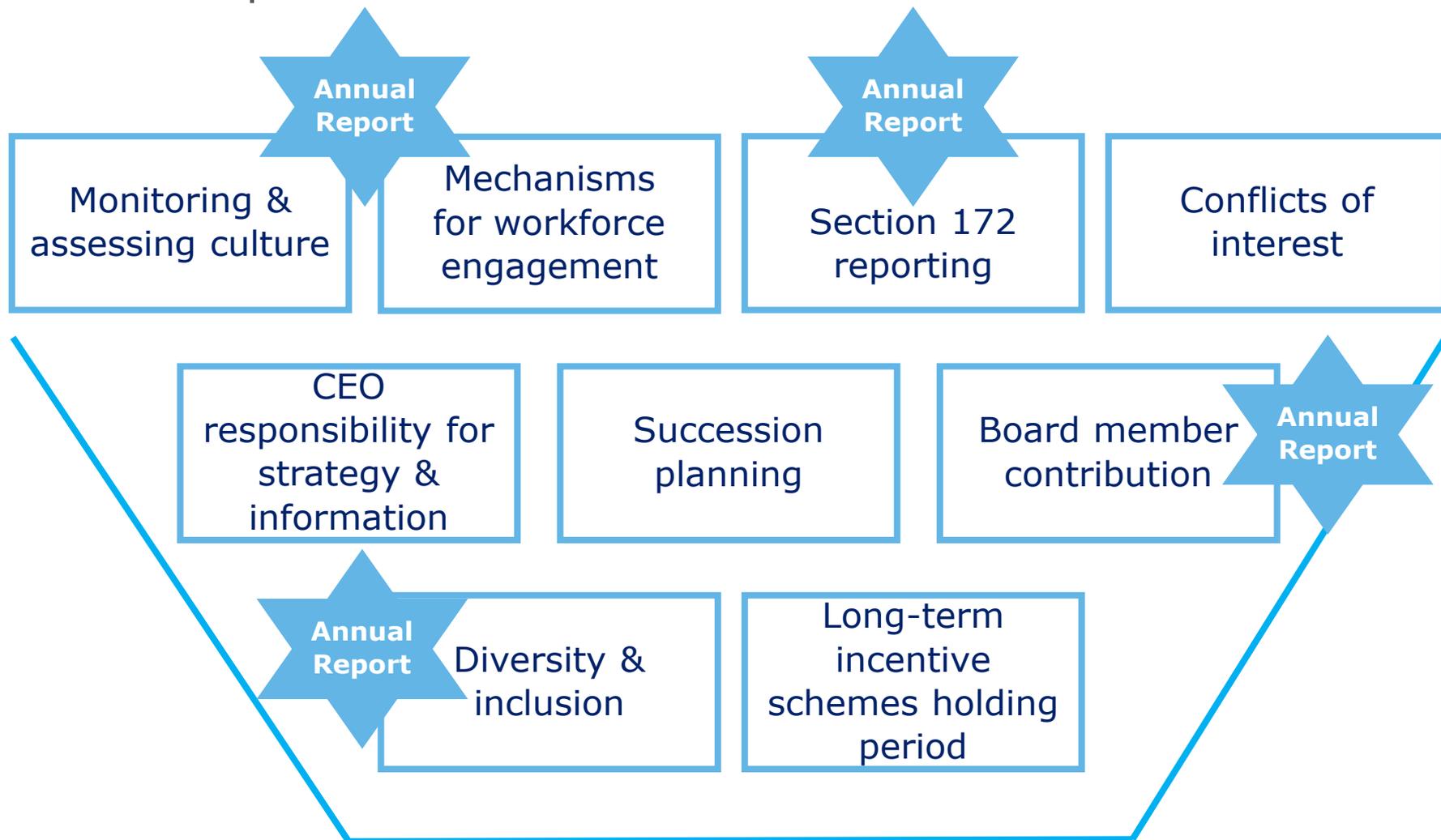
FRC's review of the UK Corporate Governance Code

New Code principles



FRC's review of the UK Corporate Governance Code

New Code provisions



FRC's review of the UK Corporate Governance Code

Other changes to existing principles and provisions

Independence

Composition of the board

Whistleblowing

Annual Report

Significant votes against a resolution

Development and induction

Board evaluation

Exemptions outside of FTSE 350

Questions?

Remuneration

David Cullington

Remuneration update

UK Government proposals

Enact via secondary legislation

Ratio of CEO pay to average pay of UK workforce

Clearer explanation of potential outcomes from LTIPs

Expected timeline

- White Paper – late 2017
- Legislation effective – circa June 2018
- Application – 2019 but pressure for early voluntary application

Enact via proposed changes to UK Corporate Governance Code

How to address significant shareholder opposition to pay?

Extend remit of RemCo?

Guidance on design of share plans including LTIP holding period?

Minimum RemCo Chair service?

Expected timeline

- Consultation document - imminent
- Publish revised Code – mid 2018
- Code to apply – 2019 (estimated)

Industry-led solution

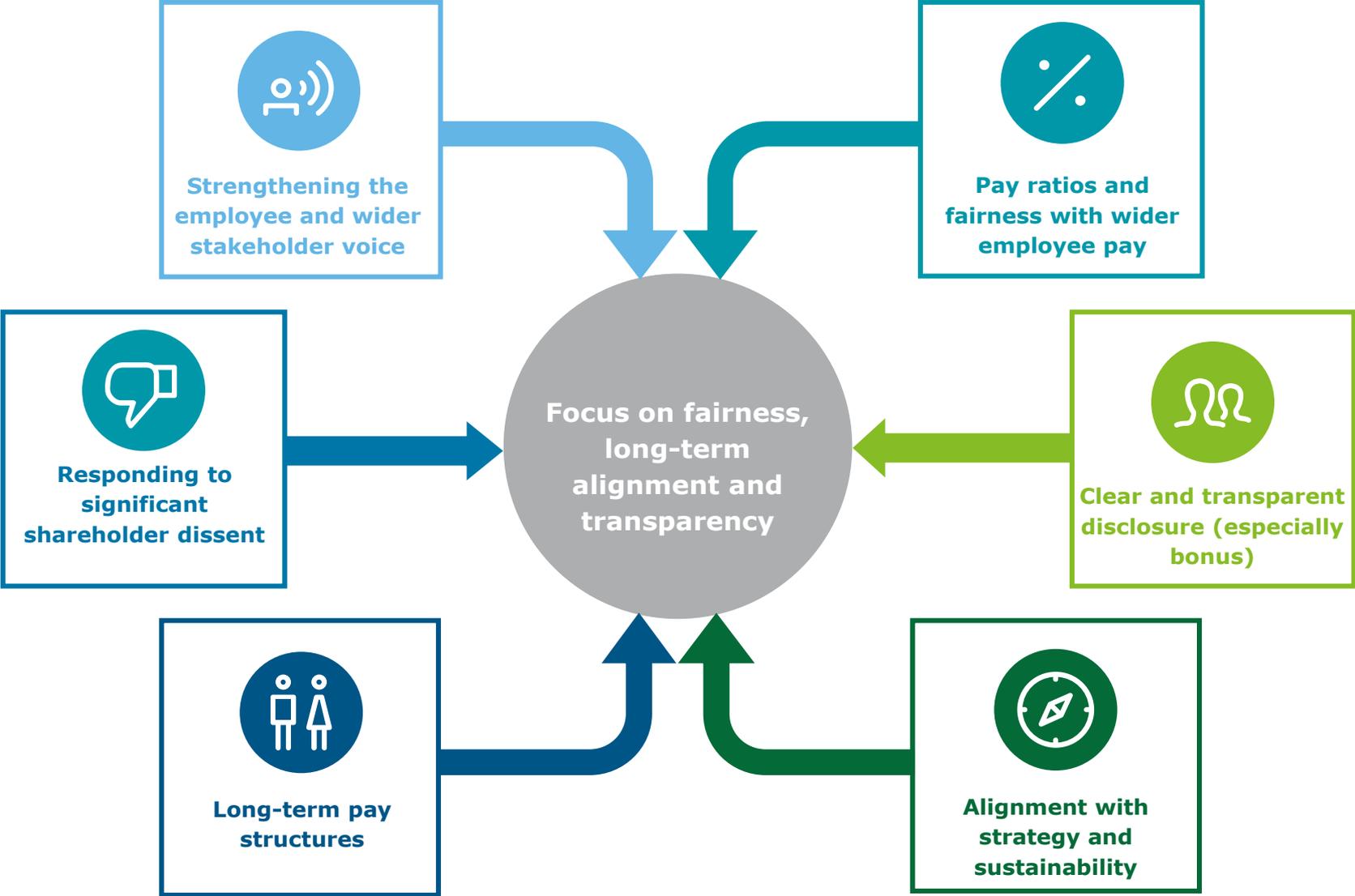
Investment Association - public register

- It will relate to all resolutions
- Includes withdrawn resolutions
- Link to any public announcement made by the company as to how it intends to respond or has responded to the dissent

The Government has committed to examining the use of **share buybacks**

Remuneration update

Key themes for 2018



Questions?

Corporate Audit Analytics and Modelling

Spreadsheet reliance

Spreadsheet reliance

Our four points

01

Excel's widespread use

03

What is the potential impact?

02

Why are there such widespread issues?

04

How to address these issues

Spreadsheet reliance

Workshop 28th February

- Running a work-shop regarding why spreadsheet errors are so prevalent
- Over lunch, limited to 15 spaces, understand more of why it happens.

Contact Dan Welch (dwelch@deloitte.co.uk) who is organising the event, or the following if you are interested in attending:

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Deloitte Finance Club

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Resources:

- Deloitte Finance Club home page: www.deloitte.co.uk/financeclub
- UK Accounting Plus (formerly IAS Plus): www.ukaccountingplus.co.uk
- Annual Reporting Insights 2017: www.deloitte.co.uk/annualreportinsights
- Deloitte Monday Briefing: www.deloitte.co.uk/mondaybriefing



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