

**Deloitte.**



**Deloitte Finance Club**

The community for Financial Controllers  
and senior financial executives

Wednesday 30 November 2016

# Deloitte Finance Club

## Winter finance checklist agenda

- Opening remarks  
Will Smith
- Accounting update  
Phil Barden  
Amanda Swaffield
- Tax reporting update  
Alexandra Warren
- Corporate governance  
Corinne Sheriff
- Executive remuneration and reporting  
David Cullington
- Closing  
Will Smith

# Deloitte Finance Club

## A few facts

- Provides an **annual programme of technical updates and hot topic briefings**
- Connects our members to relevant experts as well as over **2,500 members** across the country

# Deloitte Finance Club

## Upcoming programme

**Our Spring programme is currently in development – send any requests or suggestions to us at [financeclub@deloitte.co.uk](mailto:financeclub@deloitte.co.uk)**

# **Accounting update**

Phil Barden

Amanda Swaffield

# Agenda

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Topic	Presenter
Closing out 2016	Phil Barden and Amanda Swaffield
A Clear Vision: Annual report insights 2016	Amanda Swaffield
Other IFRS developments and reminders	Phil Barden
Round up of other UK corporate reporting news	Amanda Swaffield

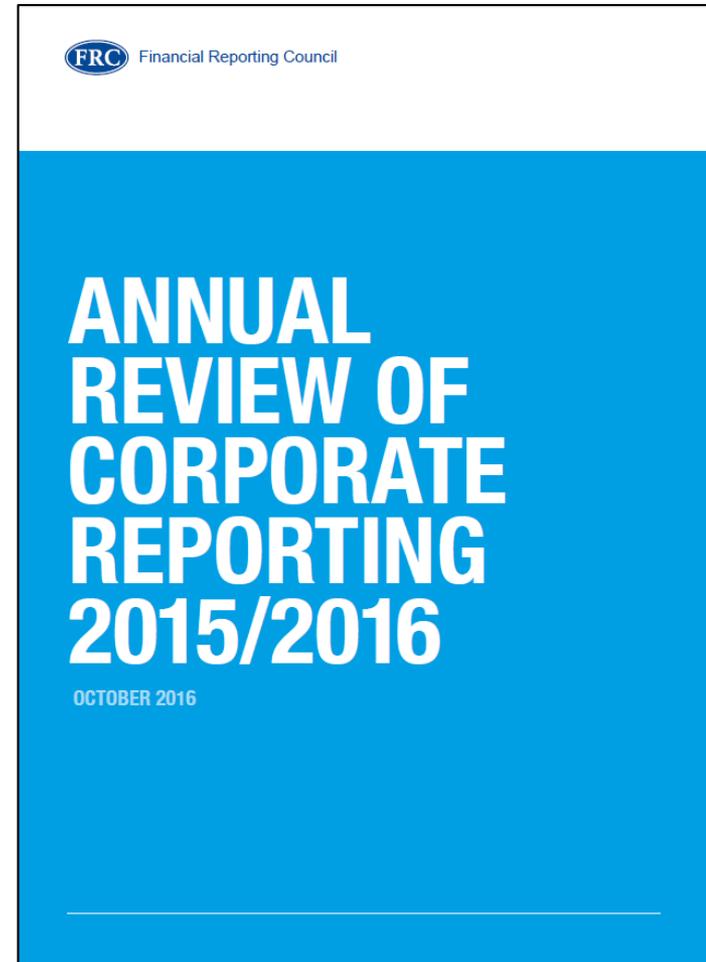
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# Closing out 2016 with annual report insights



# Corporate reporting – Annual Review of Corporate Reporting

- FRC 'state of the nation' report covering:
  - Findings from 2015/16 reviews of financial statements
  - Current areas of focus
  - Future developments in corporate reporting
- Consistent with letter sent to listed companies on 10 October
- Consistent with ESMA priority issues



# Financial reporting issues



# Closing Out 2016 – Regulatory focus

## Judgement, risk and uncertainty

'Brexit'

- Expected to be a principal risk for most UK companies
- More company specific disclosures as picture becomes clearer
- Consider effects on impairment reviews, deferred tax assets etc.
- Significant drop in value of Sterling

Volatile foreign exchange

- Care over use of average rates for retranslation
- Consider parameters of 'reasonably possible' for IFRS 7 purposes
- **Venezuela – Expect use of 'Dicom' rate**
- **Argentina – Hyperinflationary status to be discussed in Q4**

Low interest rates

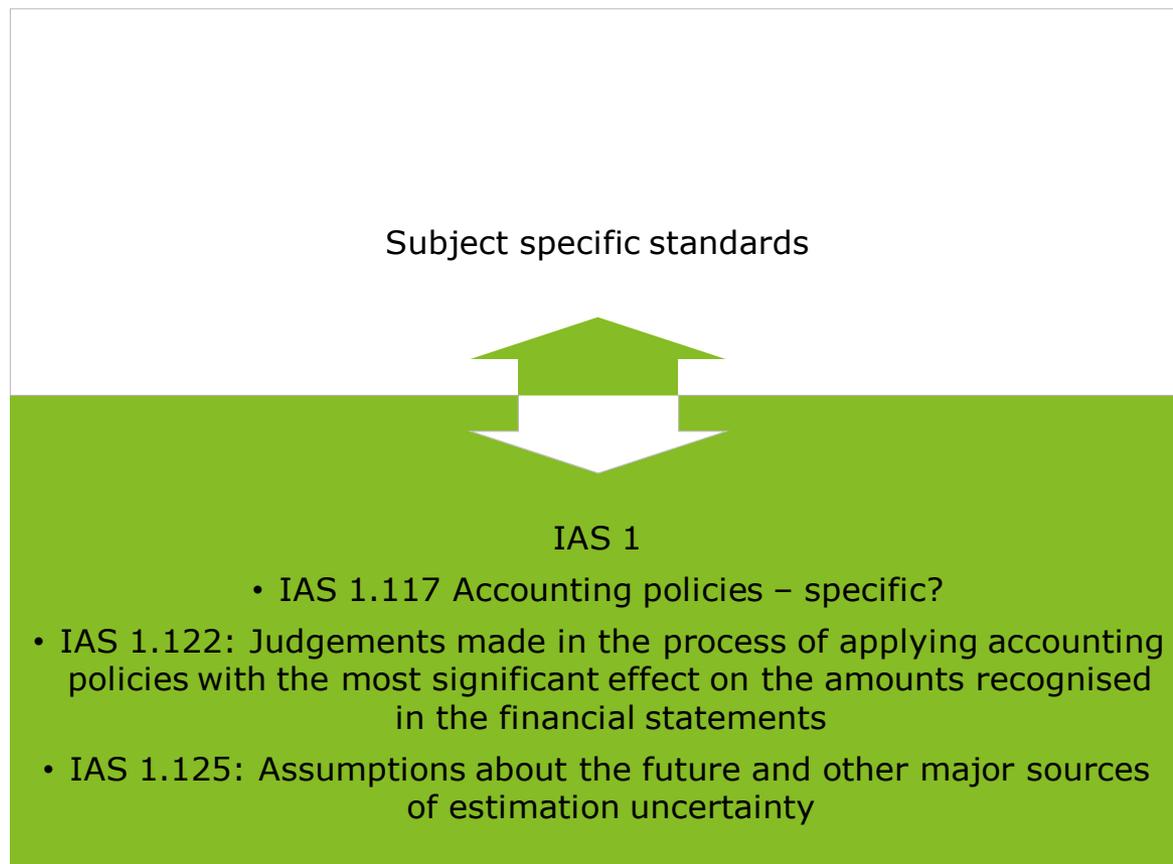
- Increase in defined benefit obligations (lower HQCB yields)
- Increase in provisions (lower risk free rate)
- Higher value in use? (lower cost of borrowing?)

Low commodity prices

- Impairment of mining assets
- Cash flow forecasts for heavy commodity users (e.g. airlines)
- Valuation of commodity derivatives

# FRC Corporate Reporting Review

## A change of approach?



**Don't assume that specific standards have enough to address IAS 1 for their subject matter**

# Closing Out 2016 – Regulatory focus

## Reporting financial performance

### Income statement presentation

- Ensure that additional line items are unbiased
- Remember requirements of IAS 1:
  - Additional lines made up of IFRS items
  - Presentation and labelling clear and understandable
  - Consistent period to period
  - Not more prominent than required line items

### Presentation of exceptional or 'non-recurring' items

- Even handed
- Consistent from year to year
- Clearly explained (including accounting policy)
- Tax and cash flow effects clearly presented
- Care over labelling e.g. impairment or restructuring costs as 'non-recurring'

# Closing Out 2016 – Regulatory focus

## Reporting financial performance - 'Alternative Performance Measures'

### **ESMA Guidelines effective from 3 July 2016**

- APMs not displayed with more prominence, emphasis or authority than, or distract from, measures directly stemming from financial statements
- Each APM has a meaningful, well defined label
- Each APM is reconciled to its most directly reconcilable item in the financial statements
- An explanation provided as to why an APM is considered to provide useful information
- APMs presented consistently from period to period with comparative information provided.
- Recurring items (impairment and reorganisations)

### **Consistent with IOSCO statement on non-GAAP measures**

### **Applies to all documents in scope of the market abuse directive**



### Concerns in FRC FAQs

- Strategic reports almost entirely written in terms of APMs
- Lack of proper definitions or reconciliations
- Lack of detail, or bias, in adjusting items
- Lack of clarity in identifying a measure as 'alternative'

# Closing Out 2016 – Regulatory focus

## The impact of new accounting standards

IAS 8 disclosure on standards in issue but not yet effective

- Particular focus on:
  - IFRS 15 Revenue from Contracts with Customers
  - IFRS 9 Financial Instruments
  - IFRS 16 Leases

ESMA statements on IFRS 15 and IFRS 9

- Expectation of increasing detail as effective date approaches
- Encouraged disclosure for December 2016 annual reports
  - Detailed description and explanation of how key concepts will be implemented and how this differs from current policies
  - Explanation of timeline to implementation
  - Expected use of transitional provisions
  - If known or reasonable estimable, quantification of impact
  - If not, additional qualitative information to understand impact

Don't forget IFRS 16

- Disclosure of lease commitments under IAS 17
  - User's starting point for assessing potential impact
  - Possible requirement to reconcile to opening lease liability

# Closing Out 2016 – Regulatory focus

## Financial instruments: distinction between equity instruments and financial liabilities

### Reminder of key IAS 32 principles

- Unconditional right to avoid delivering cash or another financial instrument
- Settlement in own shares and the 'fixed for fixed' criterion
- Tightly defined exceptions for 'puttable instruments' and foreign currency rights issues.

### ESMA focus on related disclosures

- Clear explanation of accounting policy
- IAS 1 disclosure of judgements applied, including main characteristics of the instrument(s) in question (e.g. conversion options, par value, triggering events for payments....)
- Potential for disaggregation of profit or loss or cash flow effects of capital instruments.

# Closing Out 2016 – Regulatory focus

## Other issues

### Offset and cash pooling

- IFRIC Agenda Decision March 2016
- Regular physical transfer to a 'netting' account not sufficient to demonstrate intention to 'settle net'

### Pension schemes

- FRC expects disclosure of significant judgements in assessing rights of trustees over surplus assets in a defined benefit scheme
- Including extent to which policies are consistent with proposed changes to IFRIC 14 to clarify that:
  - Amounts that trustee can use to enhance benefits without the employer's consent are not available through future refunds.

### Net debt reconciliations

- IAS 7 requirement from 2017 for a 'gross debt reconciliation'
- Illustrates investor demand for high quality information on financing cash flows
- Might add rigour to preparation of net debt disclosures

# Narrative and remuneration reporting

## 1 Business model

- Lab report published in October
- Is it clear how they make their money?
- Is it clear how they differ from their peers?

## 2 Alternative Performance Measures

- See Need to Know practical guide
- Thematic review due in November
- Definition, past vs future, relevance & reliability, reconciliation, comparatives or explanation

## 3 Risk and viability statements

- Broad range of topical risks – Cyber? Climate change?
- Brexit – Expected in most companies' PRUs
- Viability – clear why the right period? Clear what assumptions? How was it done?

## 4 Brexit

- Thematic review of interims shows little detail due to uncertainty
- Expectation of more detail as picture becomes clearer
- Move to company specific disclosure with quantification

## 5 Remuneration reporting

- New GC 100 guidance
- Link between remuneration and strategy, justification for non-disclosure of measures and/or targets, disclosure of policy, clarification of what is in the 'single figure'

## 6 Audit committee reporting

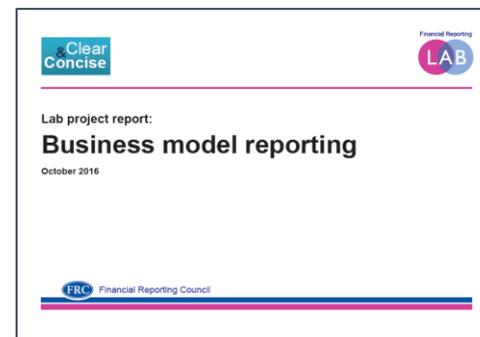
- Investors want more about the actions taken by the audit committee
- Issues in relation to the financial statements and how addressed – responding to auditors
- Company interaction with FRC CRR? Audit reviewed by AQR?

# FRC's Financial Reporting Lab – new report

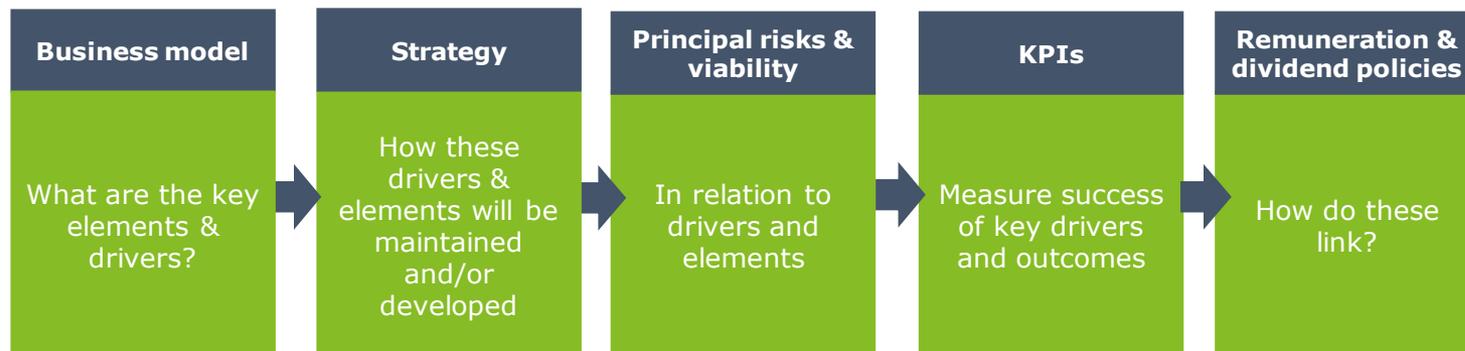
## Attributes of good business model disclosure

Most investors want to see:

- 1) What the company does and where it sits in the value chain;
- 2) Key divisions, their contribution and legal structure;
- 3) Key markets and market segments;
- 4) The competitive advantage;
- 5) Key inputs (assets & liabilities, relationships & resources) and how they are maintained/enhanced;
- 6) Key revenue and profit drivers
- 7) Value created for other stakeholders that supports economic value generation; and
- 8) Statistics to indicate relative importance of the elements of the business model.



**How the business model should drive the disclosures in the front half of the annual report:**



# Closing Out 2016

## Annual publication covering:

- The UK regulatory environment
- December 2016 reporting issues
- New and revised IFRS available for early adoption
- IFRIC agenda decisions in 2016

Available on [www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)



# Annual report insights 2016 – A clear vision

## The suite of publications

Based on our survey of 100 UK listed companies' annual reports

- A quick dip infographic
- **Planning your report** 
- The full details 

How to improve your annual report:

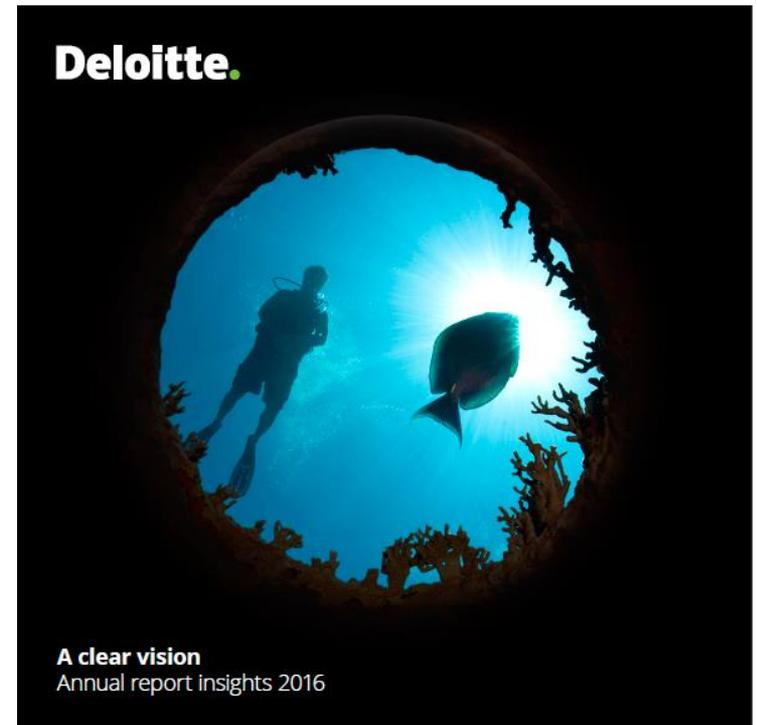
Reporting trends

Regulatory hotspots

New requirements

Better practice examples

Electronic versions of all the above available at [www.deloitte.co.uk/annualreportinsights](http://www.deloitte.co.uk/annualreportinsights)



# Annual report insights 2016

## Benchmarking tool

New! A snapshot on our external site  
[www.deloitte.co.uk/annualreportinsights](http://www.deloitte.co.uk/annualreportinsights)

The screenshot shows the Deloitte benchmarking tool interface. At the top, the Deloitte logo is on the left, a search bar is in the center, and navigation links for 'About Deloitte', 'Location: United Kingdom', 'Services', 'Industries', and 'Careers' are on the right. The main content area is titled 'How do you compare?' and features a 'Discover more' button with a plus sign on the left. The primary question is 'How many pages long is your annual report?', which is answered with a slider set to 113 pages. Below this are two other questions: 'How many principal risks do you disclose?' and 'How many non-financial KPIs do you present in your report?'. A 'Next step' button with a right arrow is located on the right side of the interface.

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How do you compare?

Discover more +

How many pages long is your annual report?

113 pages

0 pages DRAG SLIDER 226 pages

Submit

How many principal risks do you disclose?

How many non-financial KPIs do you present in your report?

Next step >

# Annual report insights 2016

## Highlights

### Level 1 – Getting things ship shape

**85%** remembering new board statement on robust **risk** assessment  
**16%** had Brexit as a principal risk last year



**Clear and concise** still a struggle – reports got **8** pages longer

**76%** using **non-GAAP measures** in their summary pages

**72%** failed to give equal or greater prominence to corresponding GAAP measures

**63%** failed to give clear reconciliations



### Level 2 – Testing the water

**74%** clearly identified **non-financial KPIs**

**49%** cross-referenced to a separate corporate responsibility report



### Level 3 – Making a splash

**43%** set out the Board's involvement in addressing cyber security



**64%** commenting on boardroom diversity beyond gender



**59%** provided some disclosure on their dividend policy in their strategic report



# Annual report insights 2016

## Level 4 – Immersing yourself in your surroundings

**8** companies described their report as “**integrated**”

**13%** demonstrated comprehensive **linkage**



**Marks and Spencer**

**33%** showing how they create **value not just for shareholders**



**International Personal  
Finance plc**

**65%** disclosing resources and relationships used in their business similar to **<IR> capitals**



**Anglo American**

**Find out more at [www.deloitte.co.uk/annualreportinsights](http://www.deloitte.co.uk/annualreportinsights)**

# **IFRS developments and reminders**

# Colour coding for endorsement slides

<b>Name</b>
Already endorsed – can be adopted now
Not yet endorsed – but can be adopted prior to endorsement because no conflict with existing requirements
Not yet endorsed – might be possible to adopt associated accounting early but care needed over some requirements (e.g. typically any transitional reliefs will not be available, consider whether any predecessor requirements must still be applied)
Not yet endorsed – cannot be adopted early because conflict with existing requirements

## New and revised Standards – effective for 2016 year ends

<b>Name</b>	<b>Effective</b>	<b>Application</b>	<b>Endorsement</b>
IFRS 14 Regulatory Deferral Accounts	01/01/16	Only applies to first-time adopters	Will not be endorsed

## Amendments to Standards – effective for 2016 year ends

Name	Effective	Application	Endorsement
IAS 19: Employee contributions	01/07/14 <b>01/02/15</b>	Retrospective	Yes
Annual Improvements 2010–12	01/07/14 <b>01/02/15</b>	Mixture	Yes
IFRS 11: Acquisitions of interests in joint operations	01/01/16	Prospective	Yes
IAS 16 / IAS 38: Acceptable methods of depreciation	01/01/16	Prospective	Yes
IAS 16 / IAS 41: Bearer plants	01/01/16	Retrospective	Yes

## Amendments to Standards – effective for 2016 year ends

Name	Effective	Application	Endorsement
IAS 27 Equity method in separate financial statements	01/01/16	Retrospective	Yes
Annual Improvements 2012-14	01/01/16	Mixture	Yes
IAS 1 Disclosure Initiative	01/01/16	Retrospective	Yes
IFRS 10, IFRS 12, IAS 28 Investment entities: Applying the consolidation exception	01/01/16	Retrospective	Yes

# IFRIC Interpretations – effective for 2016 year ends

Name	Effective	Application	Endorsement
None			

## New and revised Standards – effective for later year ends

Name	Effective	Application	Endorsement *
IFRS 9 Financial Instruments	01/01/18	Specific transitional requirements	Q4 2016?
IFRS 15 Revenue from Contracts with Customers	01/01/18	Options available on transition	Yes
IFRS 16 Leases	01/01/19	Options available on transition	2017?

## Amendments to Standards – effective for later year ends

Name	Effective	Application	Endorsement *
IFRS 10 / IAS 28 Sale or contribution of assets to associate / JV	Deferred indefinitely	Prospective	Postponed
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	01/01/17	Retrospective	Q4 2016?
IAS 7 Disclosure Initiative	01/01/17	Prospective	Q4 2016?
Clarifications to IFRS 15 Revenue from Contracts with Customers	01/01/18	Options available on transition	H1 2017?
IFRS 2 Classification and Measurement of Share-based Payment Transactions	01/01/18	Specific transitional requirements	H2 2017?
IFRS 4 Applying IFRS 9 with IFRS 4	01/01/18	Specific transitional requirements	2017?

# **Round up of other UK corporate reporting news**

# Intercompany loans – non-market interest rates

Draft Tech 05/16 clarifies things..

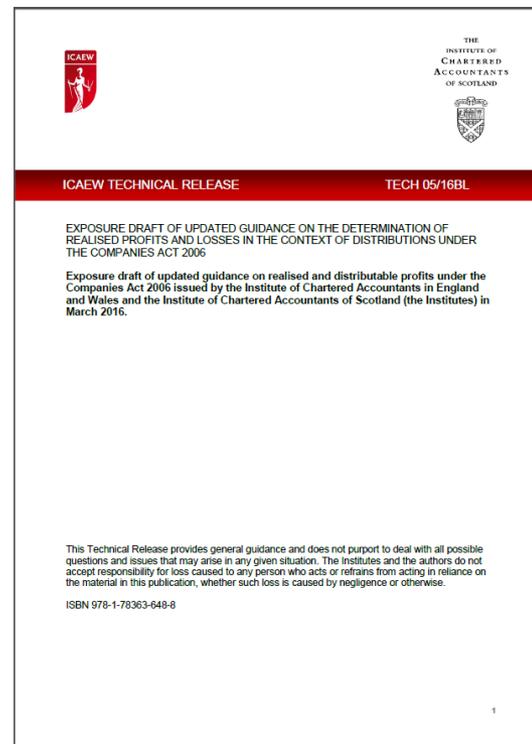
Loans at zero or below  
market interest rates



Such loans will initially be measured at  
the present value of future cash flows  
discounted using the market rate of  
interest for a similar debt instruments



This means that the such loans will be  
recorded at less than their nominal  
amount on initial recognition



# Amended accounting regulations Mandatory for 2016 year-ends

- Accounting Regulations amended to implement new Directive
- Changes to FRSs 100-102
- Come as a package

- Apply for periods beginning on or after 1 January 2016
- Can adopt early for periods beginning on or after 1 January 2015
- But must adopt the whole package of changes
- Registered offices required
- Parent's profit or loss required on face of balance sheet if taking P&L exemption

**Deloitte.** GAAP: Clear vision

A closer look  
UK Implementation of the EU  
Accounting Directive



**Overview**

A new Accounting Directive became law in the European Union (EU) in 2013 and was implemented in the UK by the Companies, Partnership and Groups (Accounts and Reports) Regulations 2015 (SI 2015/665) (the '2015 Regulations'). The 2015 Regulations amend the key components of the UK legal framework for a company's annual report and accounts, namely:

- The Companies Act 2006 (CA 2006);
- The Small Companies and Groups (Accounts and Directors' Reports) Regulations 2008 (SI 2008/1018) (the 'Small Company Accounting Regulations'), and
- The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/1019) (the 'Accounting Regulations').

All companies that are required by law to prepare accounts will be affected by the changes made in 2015.

Many of the changes to the Accounting Regulations and small company Accounting Regulations are reserved only to companies that prepare their accounts under UK GAAP ('Companies Act' accounts). Where a company prepares its accounts in accordance with international financial reporting standards (IFRS) adopted by the UK, the changes to legal requirements on the form and content of accounts will not usually be relevant as the international legal requirements do not apply to such accounts. However, some changes will affect the form and content of accounts, even where they are prepared under IFRS.

Most companies applying UK GAAP other than those companies that apply IFRS 100 (the Annual Accounting Standard applicable in the UK and Republic of Ireland) (small, some companies, for example, subsidiaries of parent (but not parent) UK group accounts), may instead opt to apply IFRS 101 (Reduced Disclosure Framework), which is a standard that permits reduced accounts to be prepared largely in accordance with IFRS as adopted by the EU, but with reduced disclosures. IFRS 101 accounts are essentially UK GAAP accounts and need to comply with the Accounting Regulations as applicable to Companies Act accounts.

Although the most significant changes are likely to affect small companies, it is important to note that the changes will also affect large and medium-sized companies.

- Available at [www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)

# Amendments to FRS 101

## **Changes to do with the law**

- Flexibility in the formats
- Order of the notes



2016

## **Other changes**

- Removal of the third balance sheet on transition
- Other changes driven by IFRS
  - Related party transactions



2015

# Amendments to FRS 102

## As with FRS 101 - changes to do with the law

- Flexibility in the formats
- Default life goodwill – now 10 years

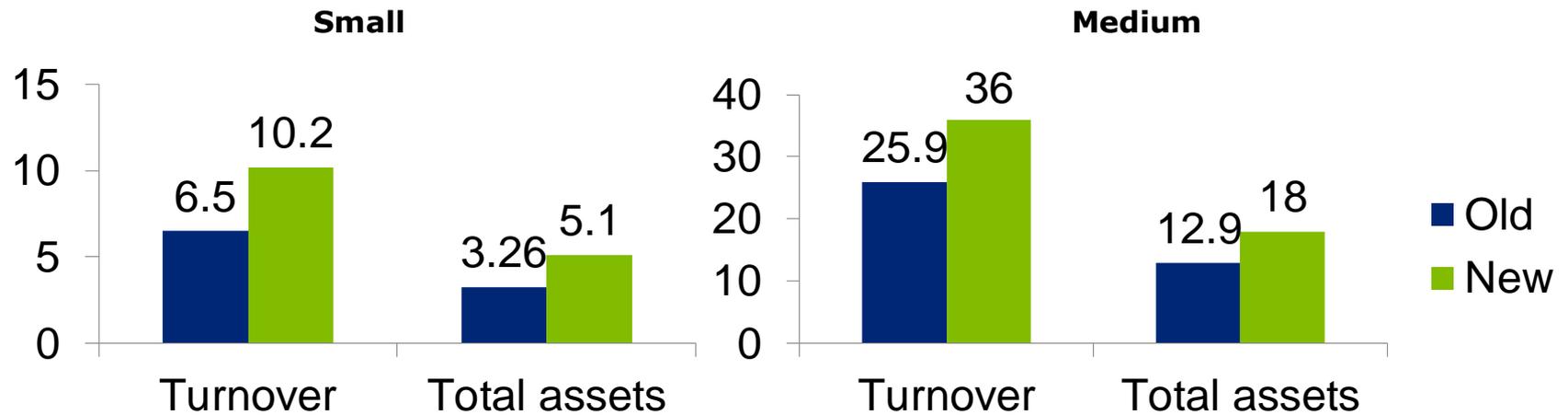


2016

## Section 1A

- FRSSE replacement
- Impact of moving from FRSSE to Section 1A:
  - financial instruments within the scope of section 12 (and some within section 11) of FRS 102 must be fair valued;
  - financial instruments at non-market rates of interest will be accounted for differently
  - deferred tax - recognised on revaluations and business combinations
  - holiday pay
  - equity-based share-based payments - accounted for when goods or services are received

# The size criteria



Average number of employees unchanged (50 and 250)

Previously ineligible if a plc or in a group with a plc

Still ineligible if a plc, but eligible if in a group with a plc unless that plc is traded on an EEA regulated market

# Changes to the Accounting Rules for LLP's

STATUTORY INSTRUMENTS		
<b>2016 No. 575</b>		
<b>LIMITED LIABILITY PARTNERSHIPS</b>		
<b>PARTNERSHIP</b>		
<b>COMPANIES</b>		
The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016		
<i>Made - - - - 10th May 2016</i>		
<i>Coming into force in accordance with regulation 2(1)</i>		
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- Mirror Companies Act changes for companies and qualifying partnerships
- Periods commencing on or after 1 January 2016 – early adoption for 2015 if not yet approved for accounting and narrative changes
- Audit exemption changes – increased small LLP thresholds cannot be early adopted
- Micro-entities regime opened up to LLPs and qualifying partnerships – consequential amendments to FRS 105
- Full list of subsidiaries (as with companies) applies for financial statements approved on or after 17 January 2016
- Need to Know available

# The future of FRS 102

## Other news from the FRC

### Discussion paper – Improving the Statement of Cash Flows

- Ideas to improve usefulness of cash flow statement – to stimulate debate
- In context of IAS 7
- Deadline for comments – 28 February 2017

### Proposals to amend FRS 101 and FRS 102 (FRED 65)

- Proposal to remove the requirement to notify shareholders in writing
- Proposed effective date – periods commencing on/after 1 Jan 16
- Comment deadline passed

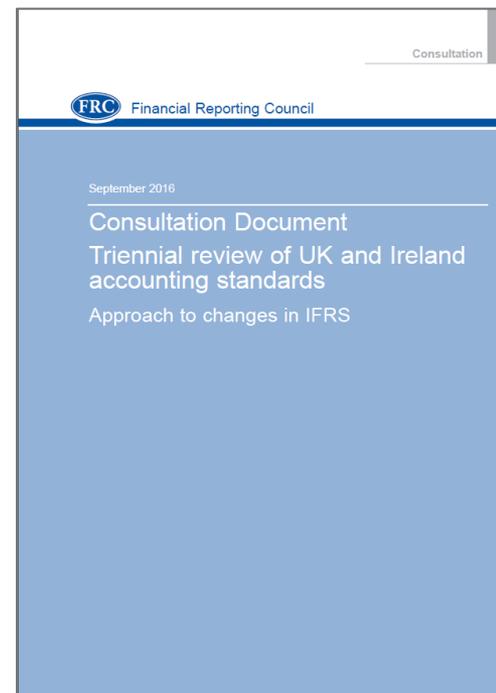
# Triennial review of FRS 102 FRC Consultation

First triennial review

Direction of travel for FRS 102

Two phases

Deadline for comment – 31 Dec 2016



# Triennial review of FRS 102

## Phase I



- Not IFRS 3, IFRS 12
- FRED – Q1 2017
- Proposed effective date – Jan 2019

Issues in practice?

Email [ukfrsreview@frc.org.uk](mailto:ukfrsreview@frc.org.uk)

# Triennial review of FRS 102

## Phase II

IFRS 9  
- impairment  
model

IFRS 15  
- revenue

IFRS 16  
- leases

- Doesn't replace second triennial review
- FRED – late 2017
- Proposed effective date – Jan 2022

**Questions?**

# **Tax reporting update**

Alexandra Warren

# FRC's Thematic Review of Tax Disclosures

## Scope of review

- In December 2015, the Financial Reporting Council (“FRC”) announced that they were calling for transparent disclosure of tax risks in corporate reports, and would be conducting a thematic review of the tax disclosures of a number of groups in the FTSE 350.

- They stated they would be taking particular interest in:

- the transparency of tax reconciliation disclosures and how well the sustainability of the effective tax rate is conveyed

- uncertainties relating to tax liabilities and assets, where the value at risk in the short term is not identified

- Their findings were published in October 2016

# FRC's Thematic Review of Tax Disclosures (cont.)

## Key observations

### Scope of review & general observations

- 33 sets of disclosures reviewed
- Most in the FTSE 250 made proactive improvements
- “Disappointing” that no FTSE 100 company stood out as a role model

### Tax in strategic reports

- Nearly all included some discussion of the ETR, covering variances on prior year, key influences and expected future rate

### Disclosure of material tax matters

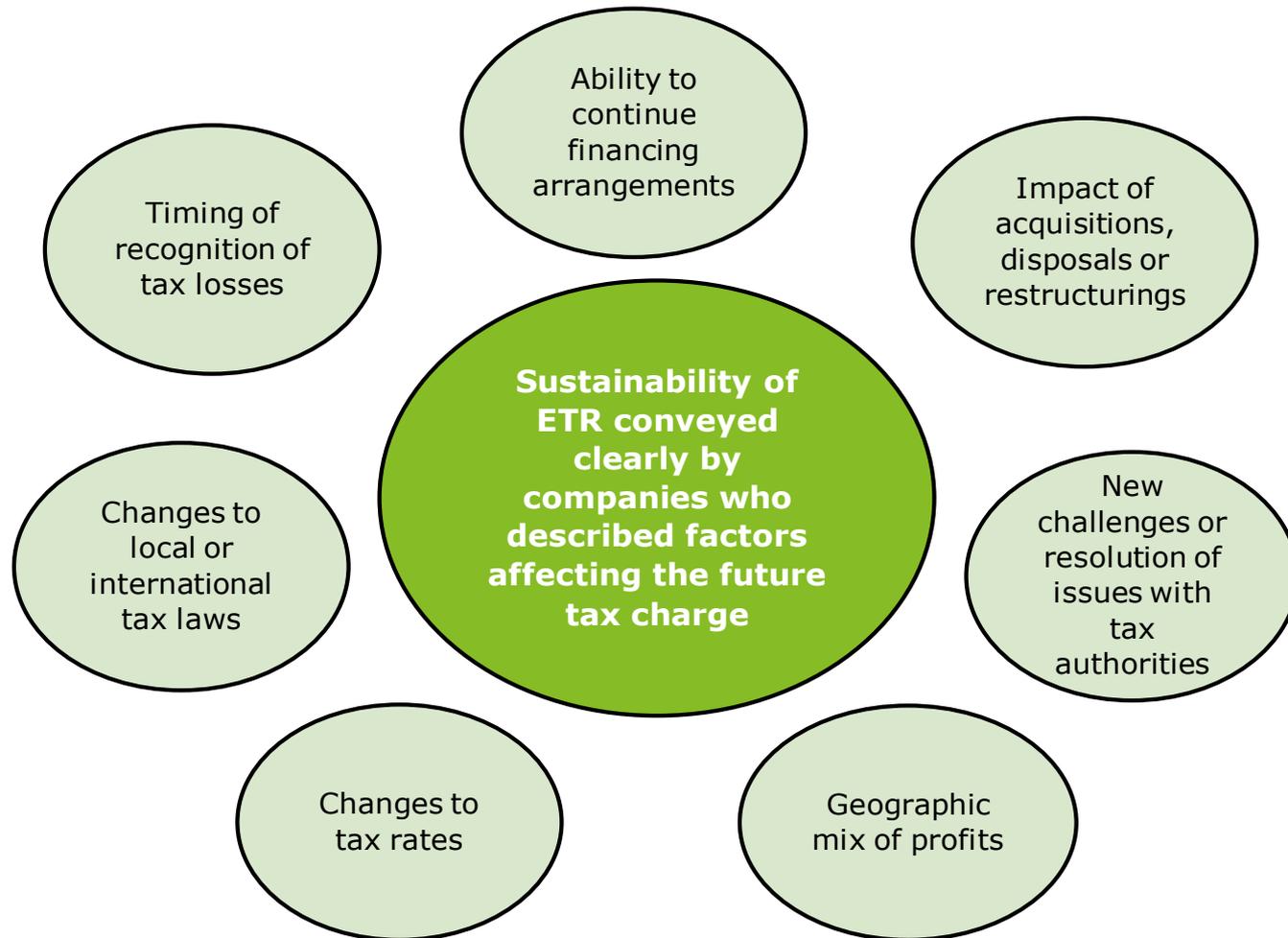
- Good examples of explanation of material tax matters where likely to be important to investors
- Including: tax impact of exceptional/non-recurring items, major tax risks, reassessment of prior year estimates (e.g. resolution of enquiries) and large differences between current tax charge and cash tax paid

### ETR reconciliation

- An overall improvement in quality of information provided – greater level of disaggregation and detailed descriptions of reconciling items

# FRC's Thematic Review of Tax Disclosures

## Sustainability of the ETR



# FRC's Thematic Review of Tax Disclosures

## Explanation of tax uncertainties

- **45% of companies who had identified tax provisions as involving significant judgements/estimates quantified the provision**
- **Clarity about significant risk of short-term adjustment to tax provisions is required by IAS 1 para 125**
- **Justification for non-quantification will continue to be a focus for the FRC in future**
- **IASB clarification to be issued soon**

“The Group’s current tax provision of £37.1m relates to management’s judgement of the amount of tax payable on open tax computations where the liabilities remain to be agreed with HMRC..... Principally the uncertain tax items for which a provision is made, relate to the interpretation of tax legislation regarding financing arrangements that had been entered into in the ordinary course of business.....Due to the uncertainty associated with such tax items, it is possible that at a future date, on conclusion of open tax matters, the final outcome may vary significantly. Whilst a range of outcomes is reasonably possible, the extent of this range is additional liabilities of up to £20m to a reduction in liabilities of up to £52m.”

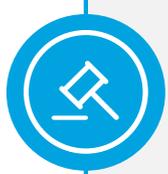
**Pennon Group Plc Annual Report and Accounts 2016**

# UK Tax Strategy Publication

## What is required?



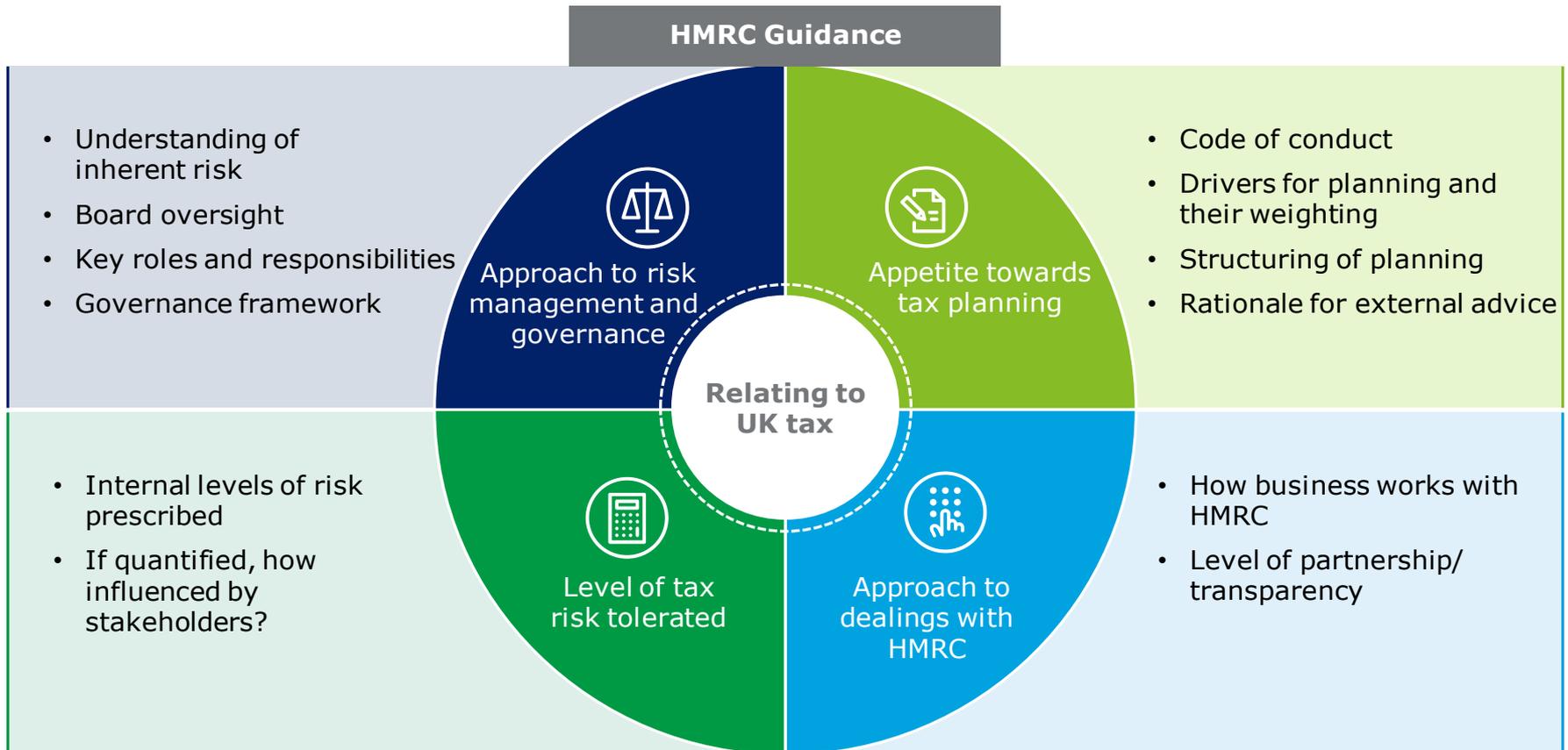
- **Broad scope** – based on those in scope for UK SAO rule but extends to partnerships branches and small UK businesses which are part of a larger multinational group.
- Requirement limited to **UK tax matters**, but comments can be global.
- **All UK taxes in-scope**, including some excluded from SAO (e.g. DPT).
- Strategy has **4 required key content requirements**, but other content can be provided.
- Strategy must be **published** on freely available website.
- Deadline is the **end of the accounting period commencing after the date of Royal Assent**, so 31 December 2017 for calendar year-ends.
- HMRC recommend you **notify** CRM of publication.



- **Penalty of £7,500** levied where the strategy is not published before the end of the financial year. £7,500 penalty charged again if the strategy remains unpublished 6 months after year end and then on a monthly basis thereafter.

# UK Tax Strategy Publication

## What is required?



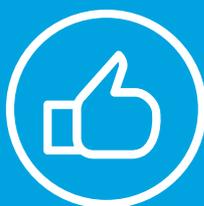
# UK Tax Strategy Publication Implementation challenges



## **Managing the statement – clarity and confidence**

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- The words/meeting the requirement.
- Aligning with broader corporate needs/internal stakeholders.
- Thinking beyond the UK.
- Consistency with broader tax reporting – impact of GTR, FRC interest etc.



## **Getting Board approval – confidence**

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- Proving you live up to your own standards.
- Addressing known gaps in tax governance, risk management and underlying processes.
- Links to other measures, e.g. SAO.
- Monitoring over time.

# UK Tax – Legislative Changes

**17% Corporate tax rate from 1 April 2020**

**Enacted 15  
September 2016**

**Anti-hybrid rules effective from 1 January  
2017**

**Enacted 15  
September 2016**

**Cap on UK net debt interest deductions (30%  
of EBITDA) effective from 1 April 2017**

**Not yet enacted –  
Draft law 5  
December**

**Changes to loss carry-forward utilisation  
rules effective from 1 April 2017**

**Not yet enacted –  
Draft law 5  
December**

**Patent Box – provisions re: cost sharing  
arrangements effective from 1 April 2017**

**Not yet enacted –  
Draft law 5  
December**

# Top Tips for Year-end Reporting

## Revisions needed to disclosures?

- Expectations of stakeholders?

## Model impact of change

- Adjustment to numbers?
- Disclose as post balance sheet event?

## Analyse tax effect of discrete items

**Questions?**

# **Corporate governance**

Corinne Sheriff

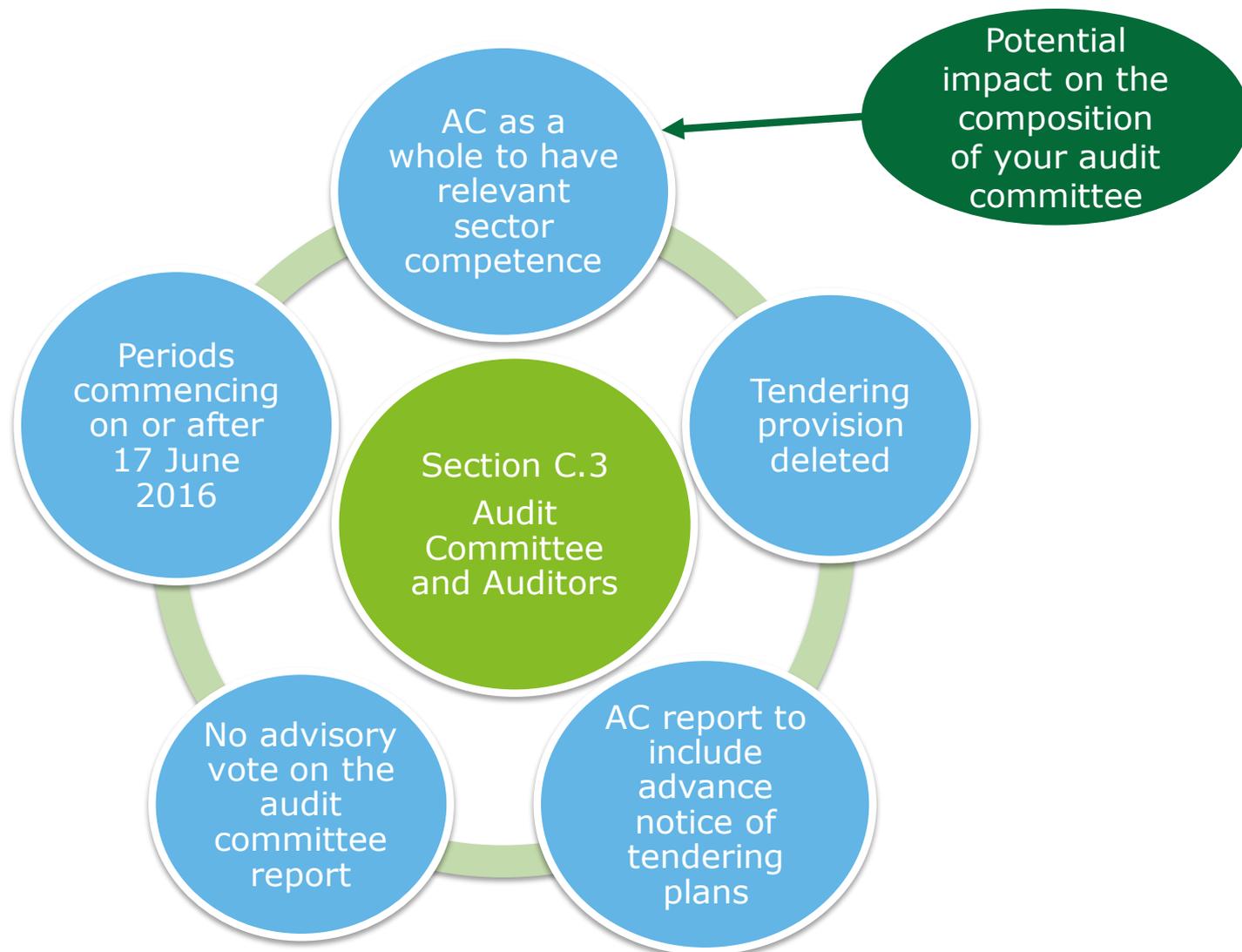
# Corporate Governance Update

## Today's agenda – areas of focus for the rest of 2016

- A reminder of the 2016 changes to the Code and the Guidance on audit committees
- FRC reinforces the importance of corporate culture
- Risk, internal control and viability – lessons for year 2
- A summary of July half year reporting on the impact of Brexit
- The Modern Slavery Act
- Future changes to corporate governance
- Investor hot topics

# 2016 changes to the Code and the Guidance on Audit Committees

# Implementation of the EU Audit Directive & Regulation 2016 changes to the UK Corporate Governance Code



# Implementation of the EU Audit Directive & Regulation

## Changes to the Guidance on Audit Committees

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

Clarification of AC  
role in risk  
management &  
internal control

AC role protecting  
shareholder  
interests – to be  
prepared to meet  
investors

Internal audit –  
direct access and  
accountability

Do not rely solely  
on work of  
external auditors

Significant  
judgement areas

Risks to audit  
quality

Focus on  
provision of non-  
audit services

Ownership of the  
external auditor  
relationship

Pay should  
reflect  
responsibility

# Implementation of the EU Audit Directive & Regulation

## Changes to the Guidance on Audit Committees

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

Explanation of how assessed audit committee effectiveness

How audit committee composition requirements addressed

Advance notice of tender process

Audit: partner details, audit and non-audit fees, ratio of audit to non-audit work

Policy for approval of non-audit services

Justification for allowing auditors to provide NAS

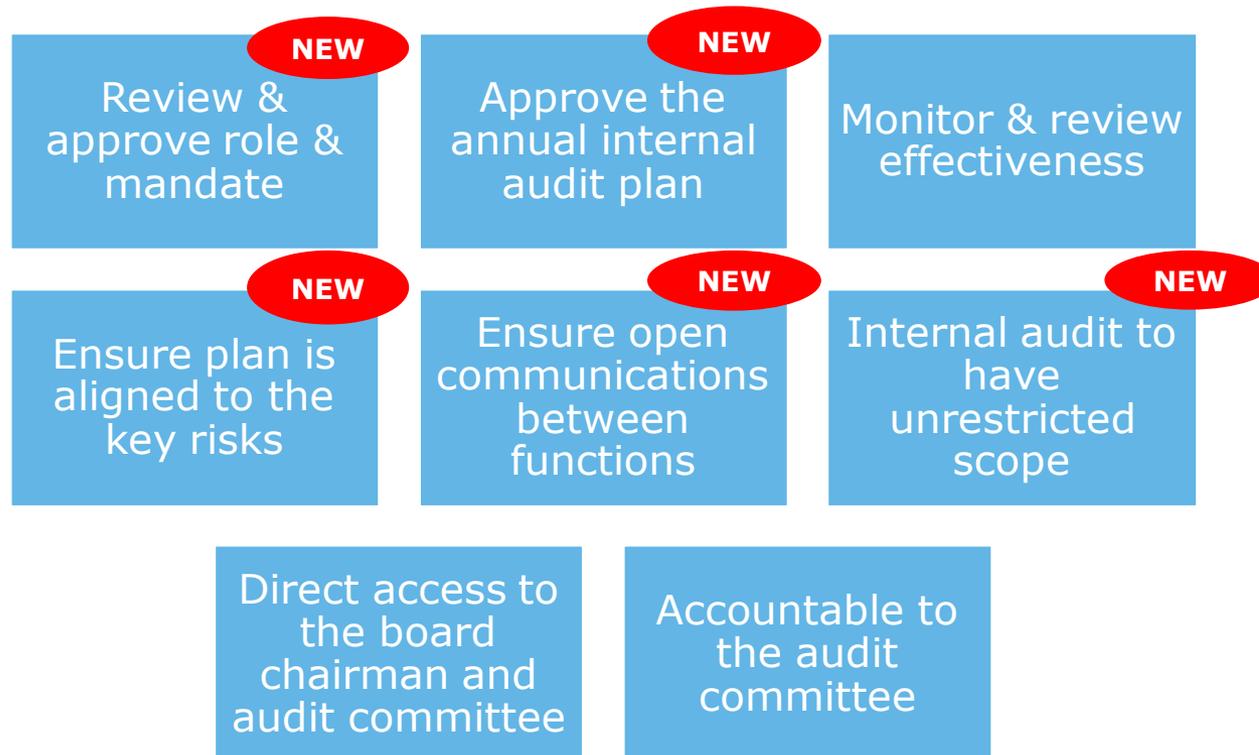
Interactions with the Corporate Reporting Review Team

Actions arising from an Audit Quality Review Team inspection

No option for website cross-reference

# Getting the most out of internal audit

Updates to the Guidance on Audit Committees reflecting current good practice



FRC reinforces the importance of  
corporate culture

# The FRC's Culture project

## Drawing together some good practices

Feedback report issued  
on 20 July 2016

The role of an effective  
board

Aligning culture, values,  
human resources practices &  
performance reward systems

Relationship between culture  
& business models with  
shareholders, customers &  
suppliers and the impact of  
the wider community and  
environment

Measuring and monitoring  
culture, the role of internal  
audit, risk management and  
public reporting of cultural  
indicators

Governance *in brief*: FRC reinforces the importance of corporate culture available from [www.deloitte.co.uk/governancelibrary](http://www.deloitte.co.uk/governancelibrary)

## The FRC's Culture project – feedback statement

“A strong and transparent corporate culture is a valuable asset and can protect and generate value”

Four key areas of focus for boards to address:

Influencing & shaping culture

Bringing values to life

Building trust with  
stakeholders

Assessing, measuring &  
monitoring culture

The FRC paper includes some questions for boards to ask on culture.

Over the coming year the FRC will be monitoring reporting on culture by companies and investors.

# Risk, internal control and viability – lessons for year 2

# Risk, internal control & viability – lessons for year 2

## Challenging the year one approach



**Governance in brief**  
**Risk, internal control and longer term viability – unlocking the value**

**Headlines**

- Most organisations have now completed their first external assessment of principal risks and longer term viability (submitted and reported to shareholders under the 2014 UK Corporate Governance Code).
- When done well and thoughtfully, businesses have found that the work performed to support longer term viability represents about a 10% of value.
- While organisations in their first reporting registers assessed the overall fit meeting the UK requirements with respect to:
  - The fit applies on a now half way through Year Two. Boards and management should challenge the Year One approach to ensure the fit remains fit for the value.
  - The Governance in Brief report has been reported to the UK stock exchange and a jointly written to look at board agendas for the remainder of the year to be published.

**Background**

The first year of reporting under the new UK Corporate Governance Code provisions on risk management has led to a very substantial improvement in the quality of risk reporting to external financial markets. For an overview of the key changes see *Governance in Brief*, internal control and longer term viability – those companies have looked the new Code provisions.

The biggest individual new reporting requirement has been the new longer term viability statement, in which an organisation states that it believes it is a viable business over a period it has selected (typically three to five years) given the risks to being.

The Code defined how the work many organisations had done to support business strategy, going beyond mere compliance with the requirements, falls into a fit or a suitable combination of the UK Corporate Governance Code with organisations – risk, strategy, operations, finance, internal audit, etc.

In this paper we identify and explore some of the benefits we have seen to provide companies with ideas to consider if they have been to define and build on their first viability statement work.

**Observations from Year One**

**Bringing risks to life**

In order to assess the impact on a financial model of one or more of an organisation's risks occurring under the assumed business period, companies have had to consider in some depth the impact of the principal risks identified. For example, to model the impact of a cyber security breach, one has to decide what the particular cyber breach might look like – single or multiple events over a period of years, impact for a period? Or maybe it results in the loss of a particular data set? Only then can an organisation truly start to quantify the impact of the risk.

The Deloitte Academy

Bringing risks to life

Driving better engagement in the risk process

Breaking down silos

Risk aggregation

Understanding risk capacity

Getting more value from key tools (existing or new)

# Risk, internal control & viability – unlocking the value

## Year two – areas to consider



**Risk appetite** – how can we define & develop risk appetite further?

**Risk culture** – what are we doing to assess risk culture?

**Principal risks** – how are we sure we are properly monitoring our principal risks?

**Viability statement** – are we still happy with the chosen scenarios and do we have the right level of detail?

# Half year reporting on the impact of Brexit

# Half year reporting on the impact of Brexit

## A review of some July reporters – key themes

Most commonly referred to in the 'Principal risks & uncertainties' section

Some had dedicated 'Impact of Brexit' section

Majority concluded that just too early to determine the impact

But clear that board discussions taking place

Although two of our sample made no reference to Brexit at all

# The Modern Slavery Act

# The Modern Slavery Act 2015

## New slavery and human trafficking statement required

Applies to all companies with turnover greater than £36m doing business in the UK

Applies for financial periods ending on or after 31 March 2016

No set deadline but the recommendation is "within six months of year end"

The statement should detail the steps taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains or any part of the business (or a make a negative statement that the organisation has taken no such steps)

Needs to be on the website with a link in a "prominent place"

Consider the link to the Human Rights disclosures in the Strategic Report

A Practical Guide has been issued to support companies in producing this new statement

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/471996/Transparency\\_in\\_Supply\\_Chains\\_etc\\_\\_A\\_practical\\_guide\\_\\_final\\_.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/471996/Transparency_in_Supply_Chains_etc__A_practical_guide__final_.pdf)

# Future changes to corporate governance

# BEIS Select Committee Corporate Governance inquiry

## Following PM commitment to overhaul corporate governance

### Directors' Duties

Duty to promote long-term success clear and enforceable?

Balance of interests of shareholders, current and former employees?

Should public company duties be extended to private companies?

### Executive Pay

How should pay take account of long-term performance?

Is executive pay too high?  
How, if at all, should government seek to influence or control pay?

### Composition of Boards

What is diversity? Do more diverse boards perform better?

Should there be worker representation on boards or remuneration committees? If so, what form should that take?

Written submissions to the inquiry were requested by 26 October 2016.

# BEIS Select Committee Corporate Governance Inquiry

## Duties of directors under the Companies Act 2006 – s172



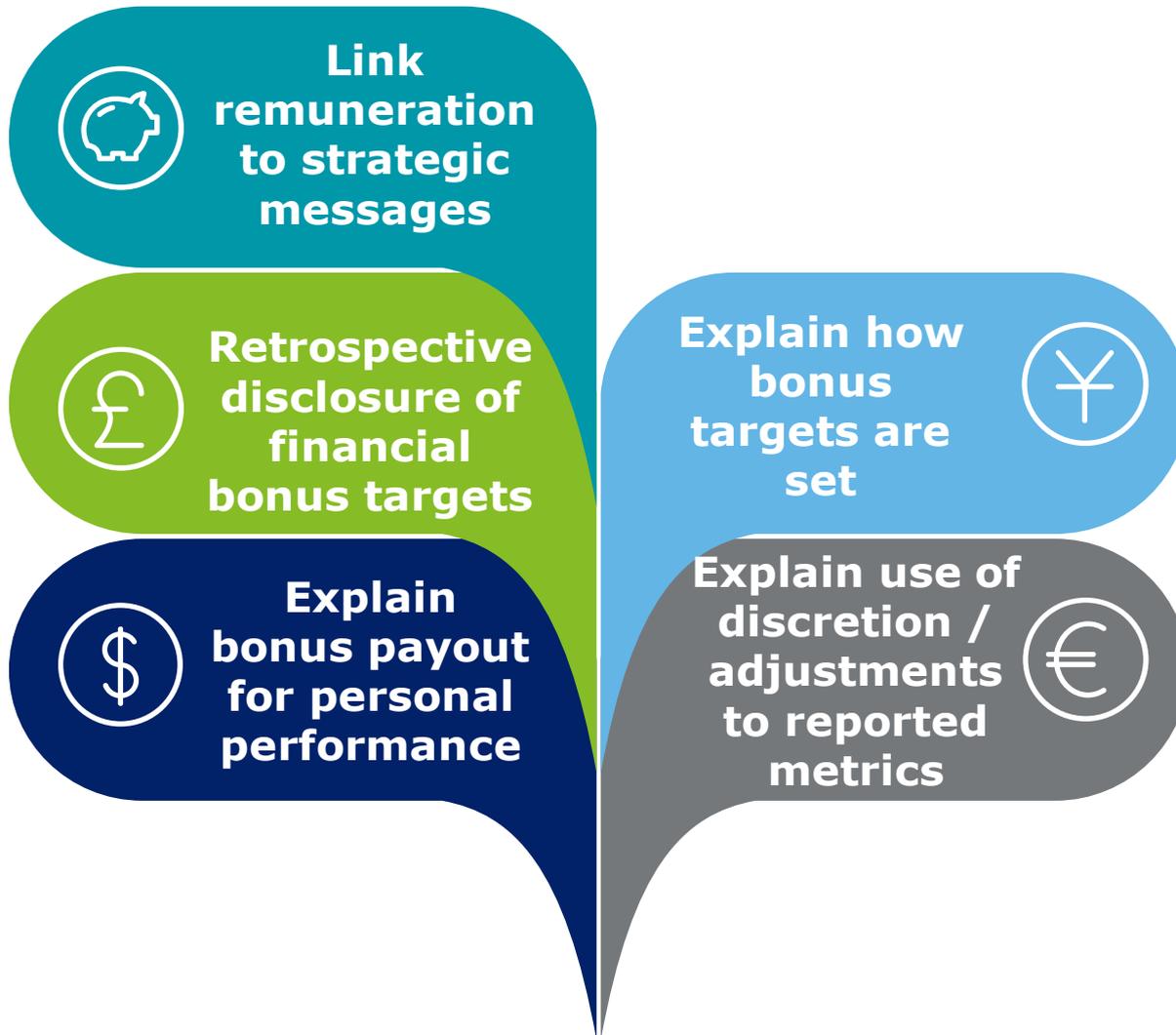
**Questions?**

# **Executive remuneration and reporting**

David Cullington

# Executive remuneration and reporting

## 2016 key reporting issues



# Executive remuneration and reporting

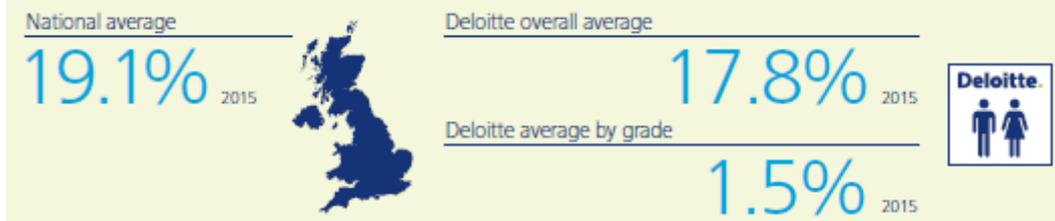
## 2017 / 2018 reporting issues?

### CEO pay ratios

CEO earnings	Average employee earnings <sup>2</sup>	Pay ratio
1,696,000	39,990	42.1

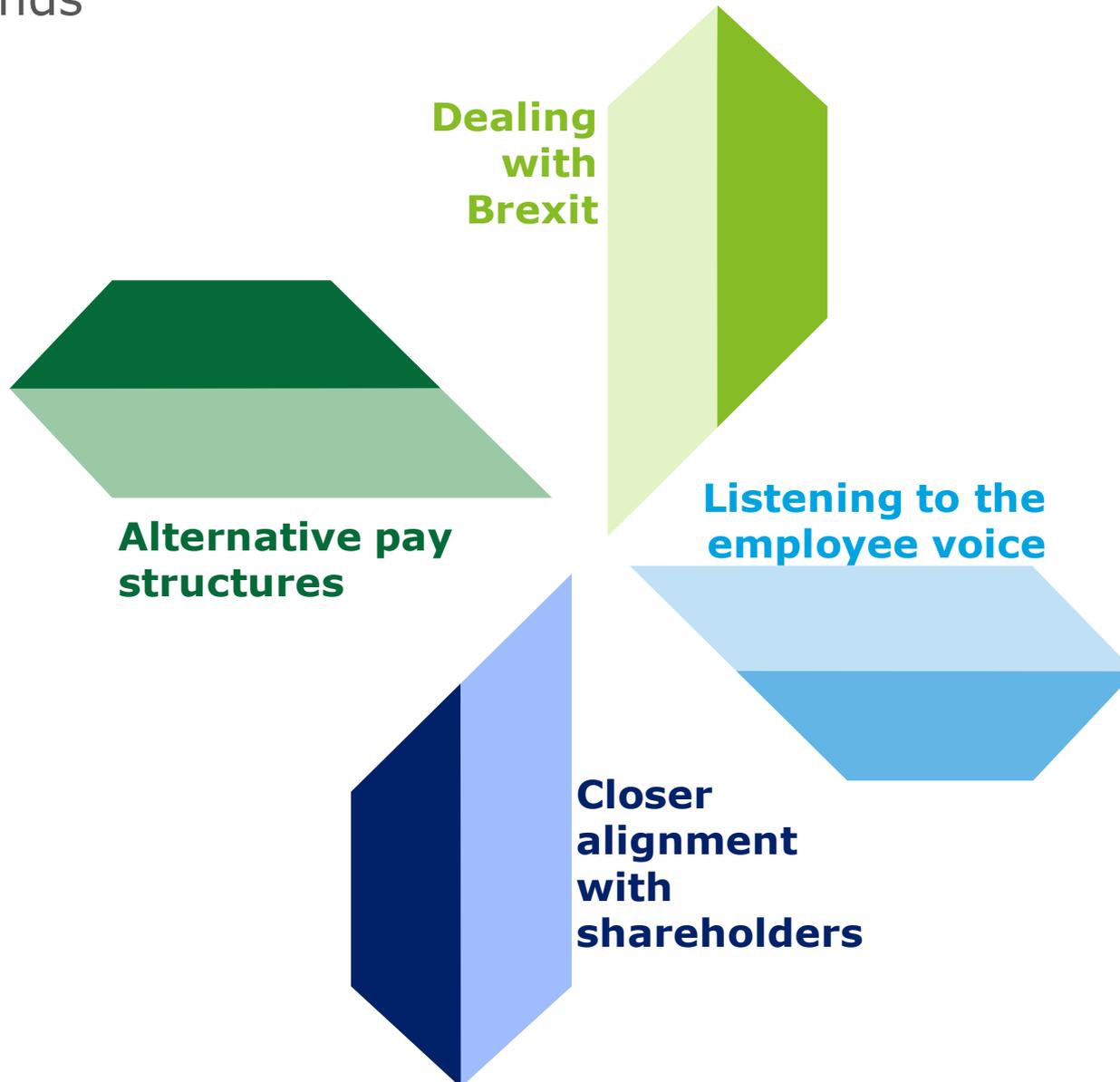
1. The CEO's earnings are calculated on the same basis as the single figure of remuneration table shown on page 104.
2. Average employee earnings are based on staffing costs calculated on the same basis as note 8.1 of the accounts, excluding social security costs.

### Gender pay disclosure



# Executive remuneration and reporting

## Wider trends



**Questions?**

# Deloitte Finance Club

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### Resources:

- Deloitte Finance Club home page: [www.deloitte.co.uk/financeclub](http://www.deloitte.co.uk/financeclub)
- UK Accounting Plus (formerly IAS Plus): [www.ukaccountingplus.co.uk](http://www.ukaccountingplus.co.uk)
- Annual Reporting Insights 2016: [www.deloitte.co.uk/annualreportinsights](http://www.deloitte.co.uk/annualreportinsights)
- Deloitte Monday Briefing: [www.deloitte.co.uk/mondaybriefing](http://www.deloitte.co.uk/mondaybriefing)

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- [Opportunities and challenges for the Finance function of the future](#)  
– 27 April 2016
- [Real Estate strategies: the impact of the new Leases Standard](#)  
– 9 March 2016
- [Holiday finance checklist 2015](#) – 9 December 2015
- [Tax update and Working capital and cash flow management](#)  
– 18 November 2015
- [How technology is disrupting the Finance Function](#) – 14 October 2015
- [Economic update and Football Finance](#) – 16 September 2015
- [Summer finance checklist 2015](#) – 14 May 2015



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