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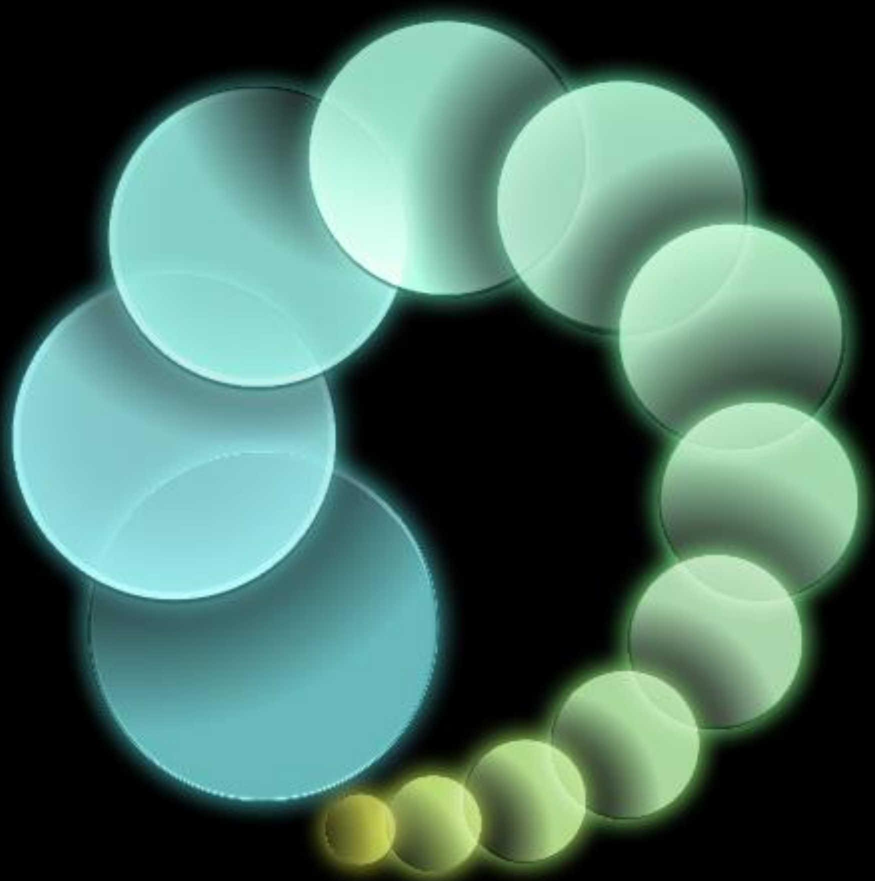

Deloitte Finance Club

Winter Technical Update 2019

26 November 2019

Deloitte Finance Club

Agenda

Opening remarks	**Tom Murray**
Narrative reporting and climate	**Amanda Swaffield**
Corporate Governance	**Corinne Sheriff**
Tax update	**Alexandra Warren**
Remuneration	**David Cullington**
Financial reporting update	**Peter Westaway**
Controls and SOX introduction	**Sonya Butters**
Q&A and close	**Tom Murray**

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Opening remarks

Tom Murray | Director

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Narrative reporting and climate

Amanda Swaffield | Director

The changing corporate reporting landscape

Company purpose

Responsible business trying to restore trust, reflected in **new reporting requirements**

Observing a boom in ethical investment portfolios/impact investing

Impact of today's risks on the resilience and viability of business

Strategic report – an area of focus for the FRC

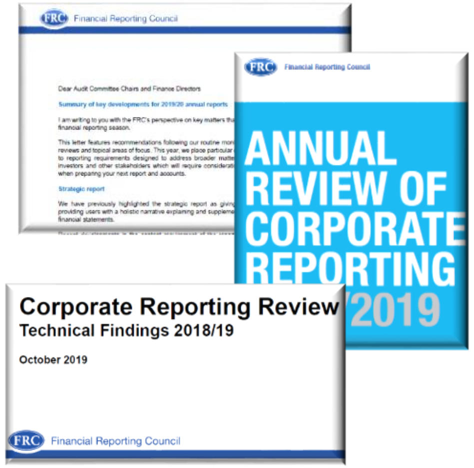
Climate change risk

State of the Nation

Financial Reporting Council

- Open Letter to Audit Committee Chairs and Finance Directors
- Annual Review of Corporate Reporting 2018/2019
- Corporate Reporting Review Technical Findings 2018/2019

https://www.frc.org.uk/



Deloitte Annual Report Insights 2019

- Survey of 100 UK listed companies, examining trends in narrative reporting, corporate governance and financial statements

www.deloitte.co.uk/annualreportinsights

State of the Nation

Open Letter to AC Chairs and FDs

Strategic report:

- Non-financial information statement
- Section 172 report
- Environmental disclosures including reporting on climate risk

2019 year-end reporting environment

Findings from monitoring work:

- Critical judgements and estimates
- Reporting of cash
- Alternative performance measures
- Thematic reviews

Corporate governance reporting

FRC's 'Top 10' topics for improvement

1	Judgements and estimates
2	Strategic report
3	Alternative performance measures
4	Impairment of assets
5	Cash flow statements
6	Income taxes
7	Provisions and contingencies
8=	Financial instruments: recognition and measurement
8=	Fair value measurement
10	Revenue

ESMA Common Enforcement Priorities

- IFRS 16 Leases
- Follow-up of application of IFRS 9 and IFRS 15
- Specific aspects of application of IS 12 Income Taxes
- Non-financial information
- Alternative performance measures (APMs)

FRC high level messages

“The FRC expects companies to improve the quality reporting of forward-looking information, the potential impact of emerging risks on future business strategy, the carrying value of assets and the recognition of liabilities. Failure to report on these crucial areas undermines trust in business and can lead to the conclusion that management is either unaware of their potential impact, is being opaque, or is not managing them effectively.”

“In times of uncertainty, investors and other stakeholders expect greater transparency of the risks to which companies are exposed and the actions they are taking to mitigate the impact of those uncertainties. The FRC expects companies to think beyond the period covered by their viability statement and identify those keys risks that challenge their business models in the medium to longer term and have a particular focus on environmental issues.”

(FRC press notice 30/10/19)

Strategic reports

Areas most often included in substantive letters:

- Identification, description and mitigating actions taken to manage principal risks and uncertainties
- Comprehensiveness of business reviews
- Alternative performance measures

Purpose of the company

- Companies **depend** on a range of resources that come from people and the planet and in turn, business **impacts** on the wellbeing of people and planet – both positively and negatively.
- Given this interdependence between value creation and wider impact, many companies are seeking to pursue a broader objective: to create positive social and environmental outcomes while delivering long-term value for their stakeholders and society as a whole.
- *‘Without a sense of purpose, no company, either public or private, can achieve its full potential. It will ultimately lose the license to operate from key stakeholders.’* [Larry Fink, Letter to CEOs, 2018]

- *46% gave a clear, prominent description of their purpose beyond making profit for shareholders*
- *85% of companies discussed value creation for stakeholders other than shareholders in their annual report*

Today's risks

- Affect long-term strategy
- Can lead to major events that can arise more regularly, without warning
- Can have a significant and immediate impact on the business and its financial stability.

In other words, they can affect a company's resilience and viability in the short and long terms.

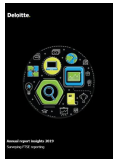
'**Environmental, social and governance considerations**, as they relate to companies, are **increasingly significant factors underpinning investment processes and investor behaviour**. Recent regulatory changes in narrative reporting requirements reflect this development and present companies with the opportunity of extending their reporting on such matters…More focus is required on the reporting of the impact of the company's business on the environment, as well as the risks environmental matters may pose to the company.' [UK FRC, 2019]

New requirements for the strategic and directors' reports

Companies (Miscellaneous Reporting) Regulations 2018

Effective periods beginning on/after 1 Jan 2019

- ALL large companies:
  - The **Strategic Report** (and website) must include a separate statement describing how the directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006. [CA06 s414CZA(1)]
  - A statement in the **Directors' Report** summarising how the directors have had regard to the need to foster the company's business relationships with suppliers, customers & others, and the effect of that regard, including on the principal decisions taken by the company during the year.
- All UK companies with more than 250 employees will have to include:
  - A statement in the **Directors' Report** summarising how their directors have engaged with employees, how they have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the year.



31 companies referred to their s172 duty to have to promote the long term success of the company taking into account the impact on a broad range of stakeholders.

Preparing the section 172(1) statement

Periods commencing on or after 1 January 2019

Section 172

- Must be a separate statement that either includes all relevant information or else x-refs to where the information can be found
- BEIS FAQs state that this should cover:
  - the issues, factors and stakeholders relevant in complying with s172 and why;
  - engagement methods; and
  - impact on decisions and strategies during the year

Scope

- All companies qualifying as **large** under the Companies Act, which means meeting **at least two** of the following:
  - Turnover of more than £36m
  - Balance sheet total of more than £18m
  - More than 250 employees
- Also applies to medium-sized companies that are ineligible under s467(1) of the Act
- Subsidiaries of listed groups are captured by these requirements if they meet the size criteria and are UK incorporated
- Note – scopes of the various narrative reporting requirements are different so check carefully!

FRC Guidance on the Strategic Report

- ***Stakeholders*** – disclose dependence on key stakeholder relationships (not necessarily just those listed in s172, e.g. pension schemes & pensioners are referenced)
- ***Principal decisions*** – there should be consistency with the business review
- ***Capital allocation and dividend policy*** – for many this will be a principal decision and relevant for the long term
- ***Culture*** - this will be relevant to maintaining high standards of business conduct
- ***Materiality*** – the statement should focus on matters that are of strategic importance to the company

Board decision-making – the new section 172(1) statement
Action

There is much in the annual report which will be relevant in terms of explaining the board's decision making processes and stakeholder engagement activities – this is an opportunity to review, refresh and possibly enhance those disclosures.

Pulling the various elements together via effective cross-referencing and/or re-organising will allow boards to:

Describe the board's approach to Section 172

Explain how the board maintains the licence to operate

Provide examples of Section 172 in action

What to watch out for:

- Intended to provide visibility of the considerations by the directors in the performance of their duties which have been part of the Companies Act since 2006.
- Explain "how" the board has formed its opinion on which of the s. 172 factors are relevant and how the activities described link not only to the business and its strategy but also to the board's decision-making.
- Boards should demonstrate their role in engagement compared to organisational engagement mechanisms and how the information on key issues has been brought into the boardroom.
- Make clear how s. 172 has operated in practice through the provision of a number of examples of key events and activities which took place during the year and an explanation of the board's considerations in deciding to undertake those events and activities.
- It is a report on the COMPANY – think about materiality
- Think about structure - is your report published on a website already?
- The new directors' report disclosures must be made regardless of materiality.

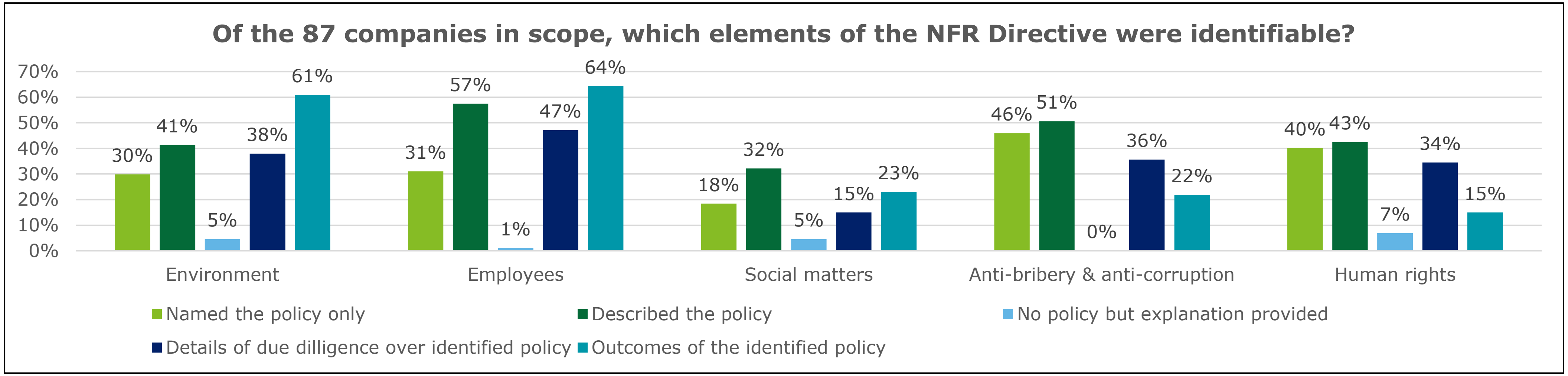
Capital allocation

- Investors expect greater transparency around dividend policy and capital allocation.
- Investment Association - guidance is expected in Autumn 2019.
- FRC promoting improved disclosure:
    - series of FRC Lab reports
    - addressing the issue specifically in its Strategic Report Guidance in the context of the new s172(1) reporting statement
    - Challenging where interim dividends are in excess of distributable profits in last published accounts
- Government intends to legislate if it does not see sufficient progress in voluntary disclosure and explanation of capital allocation decisions. It is also exploring requiring disclosure of an audited distributable reserves figure.

- ***26** companies disclosed a single figure for distributable profits*
- *Further **14** described which reserves were distributable*
- ***48** of the **70** companies disclosing dividend policy made it clear what it means in practice*

The Non-financial reporting statement

- “The statutory requirement for a non-financial information statement from relevant companies met a mixed response” [FRC letter October 2019]
- Must be a separate statement in the strategic report and must include the business model (only 64% of companies did this)
- Policies must be described: if no policies must state a clear and reasoned explanation why
- NFR statement includes the business model



Non-financial information statement

EVRAZ plc included their non-financial information statement in tabular format, summarising its approach to each element and cross-referencing to the description of the policy, related KPIs and principal risks.

NON-FINANCIAL REPORTING

EVRAZ aims to comply with the non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006.

The table below outlines to stakeholders the Group's position, principal policies, main risks and KPIs on key non-financial areas.

Requirement	The Group's approach and policies	Documents	Related KPIs	Related principal risks
Environment Further information: Environment, see pages 77–82 Energy efficiency, see page 83	Steel and mining production carry a high risk of environmental impact and incidents related to its production processes. That is why EVRAZ pays the closest attention to environmental matters in order to prevent or minimise any adverse impacts.	EVRAZ HSE Policy Code of Business Conduct	The HSE Committee adopted new five-year environmental targets: ▪ Decreasing fresh water consumption by 10% ▪ Recycling 95% of non-mining waste per year ▪ Maintaining the greenhouse gas intensity ratio below 2 tonnes of carbon dioxide (CO_2) equivalent (tCO_2e) per tonne of steel cast	HSE: environmental see page 37
Employees Further information: Our people, see pages 84–89 Health and safety, see pages 72–76	EVRAZ strictly complies with national labour laws and best practices of business ethics concerning employee management. Discrimination related to a person's race, ethnic origin, gender, religion, political views, nationality, age, sexual orientation, etc is totally unacceptable throughout the Group, as well as at its subcontractors and suppliers. Due to industry-specific issues, EVRAZ employees and contractors face safety and health risks. Providing a safe work environment is one of the Group's main core values.	EVRAZ HSE Policy Code of Business Conduct	LTIFR (per 1 million hours) Labour productivity, steel (tonnes per person)	HSE: health and safety see page 37
Social policy Further information: Community relations, see pages 90–95	EVRAZ strives to make a meaningful contribution to local economies and to support communities wherever it operates. The Group supports infrastructural, sport, educational and cultural programmes with an aim to improve the quality of life in local communities.	Social Investments Guidelines	Fulfilment of the Group's social obligations towards its employees, which were fixed in the collective agreements. Interaction with local communities in the regions of the Group's presence during the implementation of various CSR related projects.	Global economic factors, industry conditions and cyclicality Business interruption see pages 36–37
Respect for human rights Further information: Our approach, see pages 72–73	EVRAZ commitments are based on internationally recognised standards and respect for all human rights. Child labour, bonded labour, human trafficking and other forms of slavery are strictly prohibited at all Group subsidiaries and their suppliers. EVRAZ rules also prohibit abusive, harassing, discriminatory, degrading or aggressive speech or conduct.	Code of Business Conduct Modern Slavery Transparency Statement	Zero tolerance to violation.	None of EVRAZ current principal risks relates to the aspects of human rights
Anti-corruption and anti-bribery Further information: Anti-corruption and anti-bribery, see pages 96–97 A short summary of relevant anti-corruption policies, see page 264	In accordance with the Group's policies and procedures, compliance managers scrutinise tender procedures, check potential and existing business partners, vet prospective new candidates, and ensure that the principles set forth in the EVRAZ Anti-corruption Policy and Code of Business Conduct are adhered to throughout its operations.	Code of Business Conduct EVRAZ Anti-Corruption Policy: ▪ Anti-corruption training policy ▪ Sponsorship and charity policy ▪ Gifts and business entertainment policy ▪ Candidate background and criminal record checks ▪ Conflict of interest policy ▪ Contractor/supplier due diligence checks EVRAZ Rules on Securities Dealings	Zero tolerance to violation.	None of EVRAZ current principal risks relate to the aspects of anti-corruption.

For EVRAZ business model, relationships and products, see pages 14–15, 42–69.

For the Group's related risks and how they are managed, see the Principal risks section on pages 24–27.

EVRAZ Strategic Report, as set out on pages 6–39 inclusive, has been reviewed and was approved by the Board of Directors on 27 February 2019.

By the order of the Board

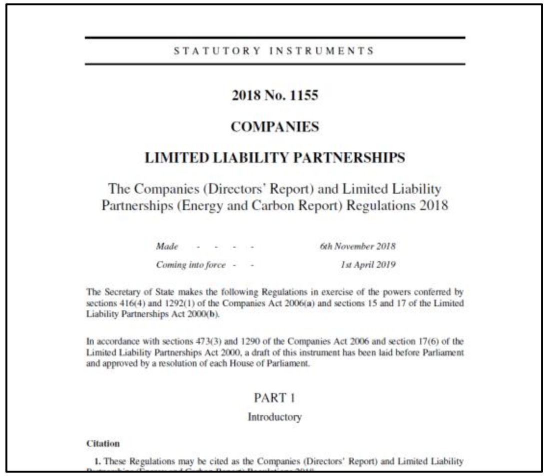
Alexander Frolov
Chief Executive Officer
EVRAZ plc

27 February 2019

Energy and Carbon Regulations

- Quoted companies to make a statement in their directors' report:
  - Global GHG emissions
  - Global energy use
  - Action taken to increase energy efficiency
- Large unquoted companies and LLPs:
  - UK GHG emissions
  - UK energy use
  - Action taken to increase energy efficiency in the UK
- Subsidiaries are exempt if included in a group directors' report
- Other exemptions:
  - consume less than 40,000kWh of energy during the period (must state this)
  - Would be seriously prejudicial
- Governments' *Environmental Reporting Guidelines* updated in March 2019 to reflect new requirements; available at www.gov.uk

Effective periods beginning on/after 1 April 2019



STATUTORY INSTRUMENTS

2018 No. 1155

COMPANIES

LIMITED LIABILITY PARTNERSHIPS

The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018

Made - - - - 6th November 2018

Coming into force - - 1st April 2019

The Secretary of State makes the following Regulations in exercise of the powers conferred by sections 416(4) and 1292(1) of the Companies Act 2006(a) and sections 15 and 17 of the Limited Liability Partnerships Act 2000(b).

In accordance with sections 473(3) and 1290 of the Companies Act 2006 and section 17(6) of the Limited Liability Partnerships Act 2000, a draft of this instrument has been laid before Parliament and approved by a resolution of each House of Parliament.

PART 1

Introductory

Citation

1. These Regulations may be cited as the Companies (Directors' Report) and Limited Liability

***Need to Know* available on www.ukaccountingplus.co.uk**

Government's Green Finance Strategy

Joint statement from UK financial regulators: FRC, PRA, FCA and TPR

Investors are challenging companies that are not factoring the effects of the Paris Climate Agreement into their critical accounting judgements and are not disclosing comprehensively these judgements, assumptions, sensitivities and uncertainties.

The FRC's expectations for boards in relation to climate change are set out very clearly:

Consider the company's impact on the environment

Address and, where relevant, report on the effects of climate change (direct & indirect)

Reporting should cover:
- Resilience of the business model
- Risks & uncertainties
- Viability & financial position in immediate and longer-term

Monitoring will be undertaken via the **Corporate Reporting Review** Team and the **Audit Quality Review** Team.

FRC Lab report – what investors want

Taskforce on Climate-related Financial Disclosures

EC guidelines

WEF governance principles for boards

The Government expects all listed companies and large asset owners to be disclosing in line with the Task Force on Climate-related Financial Disclosures recommendations by 2022.

Taskforce on Climate-related Financial Disclosures

Gaining momentum - over 580 current signatories

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.

"Given the uncertainties around climate, not everyone will agree on the timing or scale of the adjustments required. And different people will have different views about the effectiveness of timelines of government climate policies. The right information allows sceptics and evangelists alike to back their convictions with their capital."
(Mark Carney, 2018)

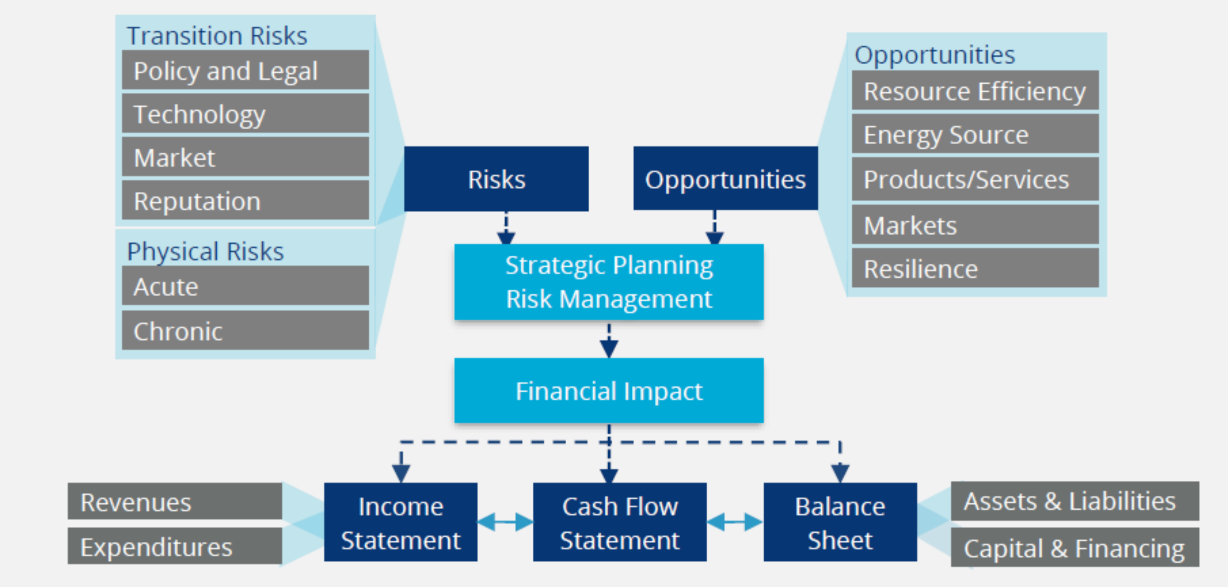
Table 1

Examples of Climate-Related Risks and Potential Financial Impacts

Type	Climate-Related Risks[32]	Potential Financial Impacts
...sition Risks	Policy and Legal	
	– Increased pricing of GHG emissions – Enhanced emissions-reporting obligations – Mandates on and regulation of existing products and services – Exposure to litigation	– Increased operating costs (e.g., higher compliance costs, increased insurance premiums) – Write-offs, asset impairment, and early retirement of existing assets due to policy changes – Increased costs and/or reduced demand for products and services resulting from fines and judgments
	Technology	
	– Substitution of existing products and services with lower emissions options – Unsuccessful investment in new technologies – Costs to transition to lower emissions technology	– Write-offs and early retirement of existing assets – Reduced demand for products and services – Research and development (R&D) expenditures in new and alternative technologies – Capital investments in technology development – Costs to adopt/deploy new practices and processes
	Market	
	– Changing customer behavior	– Reduced demand for goods and services due to shift in

Figure 1

Climate-Related Risks, Opportunities, and Financial Impact



FRC expectations

‘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.’

What should you be doing?

- Start making disclosures in line with the four areas recommended by TCFD
- Board issue – explain how climate change has been considered under s172 reporting obligations
- Articulate whether climate change represents a principal risk and how it is being managed
- If targets or metrics are disclosed explain how those targets or metrics fit into strategic approach
- The annual report should state clearly the underlying assumptions used in cash flow projections that underpin measurement and recognition in the financial statements:
    - what climate scenario are these based on;
    - whether this is consistent with commitments made to investors, the Paris Climate Agreement and the UK goal to achieve net zero GHG emissions by 2050; and
    - sensitivities behind these assumptions

- ***4*** *provided fulsome TCFD disclosures in their annual report*
- ***More than half*** *explicitly referred to 'climate change' in their annual report*
- ***7*** *referenced climate change within their principal risks*

Climate change: an issue for all

- The past is no longer a reliable predictor of the future

Climate website – learning, interviews and resources

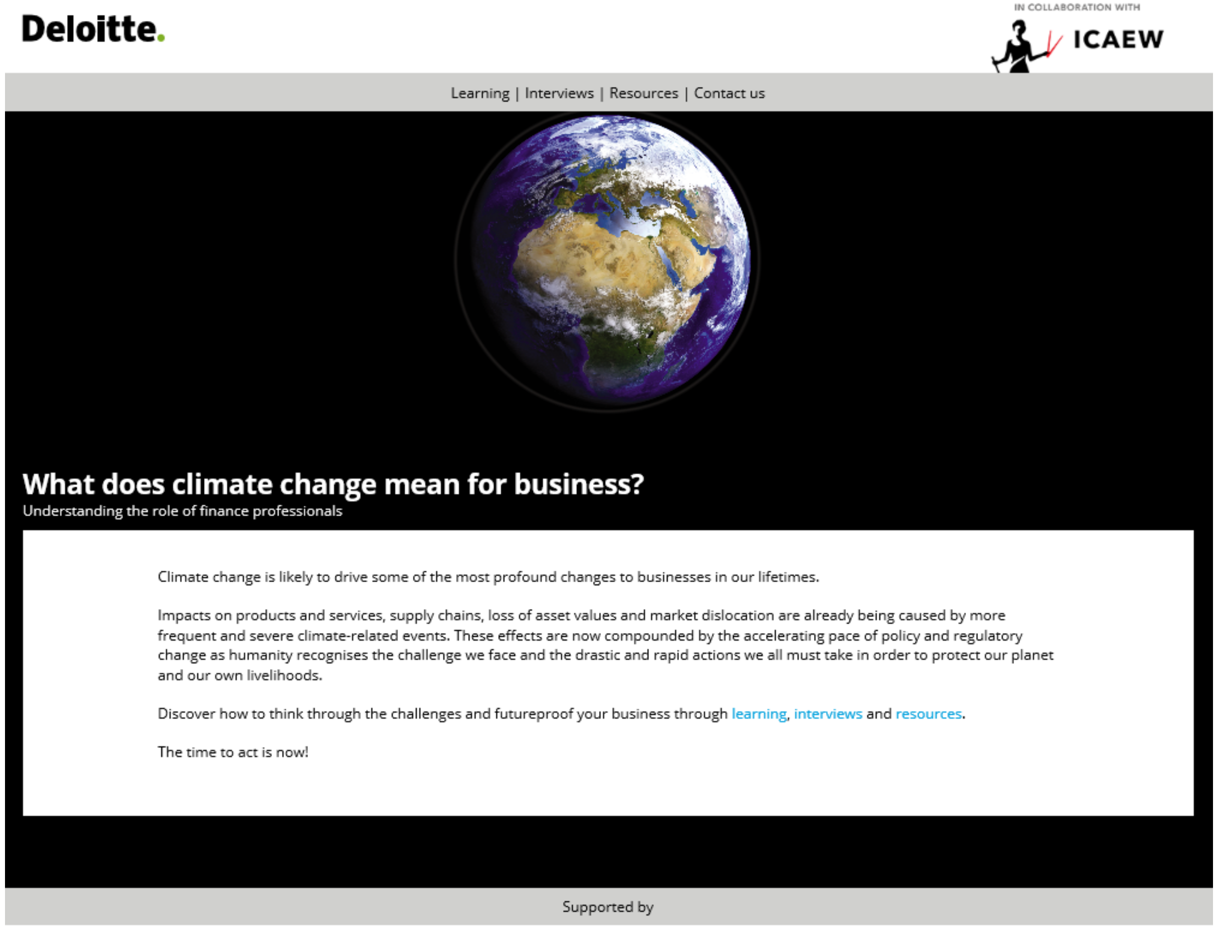
Climate change is likely to drive some of the most profound changes to businesses in our lifetimes.

Impacts on products and services, supply chains, loss of asset values and market dislocation are already being caused by more frequent and severe climate-related events.

Discover how to think through the challenges and futureproof your business.

The time to act is now!

Visit www.deloitte.co.uk/climatechange



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Corporate governance

Corinne Sheriff | Senior Manager

The new UK Corporate Governance Code

The new UK Corporate Governance Code

A quick reminder about the UK Listing Rules, Principles and Provisions

LR9.8.6 – <u>two</u> elements on the UK Corporate Governance Code:

1. A statement of how the listed company has **<u>applied the principles</u>** set out in the UK Corporate Governance Code, in a manner that would enable shareholders to evaluate how the principles have been applied.

2. A statement as to whether the listed company has **<u>complied throughout the accounting period with all relevant provisions</u>** set out in the UK Corporate Governance Code.

To help investors with their evaluation of company practices:

- Provide context of company circumstances
- Avoid boilerplate – what action has been taken and what was the outcome?
- Clear signposting and, where necessary, cross-referencing
- Supported by high-quality reporting on the provisions

The FRC has high expectations for reporting on the new Code – and will be monitoring the quality of disclosure.

The new UK Corporate Governance Code

New disclosure elements you should be watching out for (excl. remuneration!)

- Contribution to wider society
- Alignment of purpose, values, strategy & culture
- Assessing & monitoring culture
- How governance contributes to strategy
- Workforce engagement mechanisms and output
- Follow-up where votes against greater than 20%
- Whistleblowing – full board responsibility
- Board composition & independence
- Policy for external board appointments
- Succession planning
- Policy on diversity & inclusion (incl. Hampton Alexander disclosure)
- Internal assurance (where no internal audit)
- Emerging risks

Annual reporting survey - key findings

Corporate governance

Board Stewardship

- **73%** included a statement indicating how they applied the Main Principles of the Code
- **49%** included informative disclosures regarding their board evaluation
- **33%** included some explanation of how the company's governance contributes to the delivery of its strategy

Succession planning & diversity

- **39%** disclosed their gender diversity in the executive committee and their direct reports, in line with the Hampton-Alexander review's expectations
- **30%** indicated they had diversity targets for the board
- The proportion of women on boards reached **25%** this year, up from **22%** in 2018

Accountability and internal control

- **93%** of audit committee chairs either penned an introduction to or signed the audit committee report
- **84%** disclosed how they had assessed the effectiveness of the external audit process
- **43%** of companies who experienced a control breakdown provided good disclosure regarding remedial actions

Preparing for the 2018 Code

- **40%** included specific detail of changes they have made or plan to make in order to apply or comply with the 2018 Code
- **43** companies reported on a particular workforce engagement mechanism, with most (22) designating a non-executive director

The statement of corporate governance arrangements

NEW Corporate Governance Reporting Regulations

New voluntary principles – "apply and explain"

Governance in large privately-held businesses

- Confirmation, in the Directors' Report, of which corporate governance code, if any, has been applied and how.
- If the company has departed from any aspect of the code, it must explain which aspects and the reasons.
- If no code is followed the company must explain why and what corporate governance arrangements were applied.
- All UK registered companies with either:
  - 2,000 or more employees; **OR**
  - Turnover over £200 million and a balance sheet total of more than £2bn
- Companies already required to report on their corporate governance are not within scope.

	The Wates Corporate Governance Principles
Purpose & Leadership	An effective board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.
Board Composition	Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.
Director Responsibilities	The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.
Opportunity & risk	A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.
Remuneration	A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.
Stakeholder Relationships & Engagement	Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Reporting on payment practices

BEIS Committee report on small businesses and productivity

Key commitments from Government

Government and public sector

- Require companies bidding for government and public sector contracts to be able to demonstrate prompt payment to their suppliers
- Became effective September 2019

Prompt payment code

- “New, tough and transparent compliance regime” – second round of suspensions
- Administration moving to the Small Business Commissioner
- October call from BEIS Committee to give the Commissioner powers to deal with late payment – and introduce regulatory 30 day terms

Further action

- Looking into best way to ensure company boards put in place responsible payment practices throughout their supply chain
- Spring 2019 announcement that audit committees to be required to review payment practices & report in annual report – implementation between Government and FRC – will this be taken forward?
- FRC pulled out supplier payment as the only specific s172 matter mentioned in annual advice letter to preparers of annual reports

Government focus on payment practices

Remember: data publicly available in six-monthly reporting

Rules for Government suppliers

From September 2019

Contracts > £5m per year

Demonstrate they pay > 95% of invoices within 60 days

PPPR reporting

Every 6 months

Government portal

Easy to access

% invoices paid within time frames

% invoices paid within payment terms

Prompt Payment Code

Ambition of 95% within 60 days & move towards 30

New quarterly scrutiny

April 2019: 17 companies removed or suspended

New round of suspensions expected

Latest on Kingman, Brydon and the CMA recommendations

Reforming the FRC and the UK audit market

A rapidly evolving landscape

Issued on 18th December	Developments since then	PLUS other relevant developments
Kingman Independent Review of the Financial Reporting Council; **Kingman** Separate letter on auditor appointment & fee setting	BEIS initial consultation on the Kingman recommendations closed on 11 June	ARGA leadership appointments – Simon Dingemans as Chair Sir John Thompson as CEO
CMA Statutory audit services market study – Update paper	BEIS consultation on the CMA's recommendations closed on 13 September	BEIS Committee report on collapse of Thomas Cook expresses frustration at lack of real change to date
Brydon Launch of a review into UK audit standards (incl. the expectation gap)	Call for views issued with a deadline of 7 June	

Reforming the FRC and the UK audit market

Next steps – our best guess

December 2019

By the end of the year – Sir Donald Brydon to present his recommendations to BEIS.

N.B. this does not necessarily mean that they will be published at that time

Q1 2020

We expect to BEIS to issue a follow-up consultation on matters such as:

- UK SarbOx
- Definition of public interest entities
- Enforcement regime for holding relevant directors to account
- CMA proposals

By end 2020

We expect a consultation on revisions to the Companies Act to deliver the reforms


Sir Donald Brydon
@BrydonDonald

I will be publishing my report from #BrydonReview on effectiveness and quality of #audit in week of 13th January. I have received over 2500 pages of views and held well over 100 meetings to date. Lot's of interest.

8:57 AM · Nov 1, 2019 · Twitter for iPhone

Tax update

Alexandra Warren | Partner

Employment Tax

Employment Taxes and Internationally Mobile Employees

Hot topics

National minimum wage and working time
- HMRC is responsible for enforcing NMW compliance
- Increasing activity and HMRC reviews
- Need to ensure remuneration structure is compliant
- Risk of being included in HMRC's 'Naming and Shaming' scheme

SAO / BRR / KYC / CCO
- SAO: Legislation to promote robust tax processes in large business
- BRR: HMRC to roll out "BRR Plus" from Oct 2019. Risk rating for each tax regime
- KYC: HMRC initiative to focus on employment tax compliance
- CCO: Offences for failure to prevent facilitation of tax evasion

Posted Worker Directive
- EU directive revised in June 2018
- Directive ensures posted workers have same level of protection as domestic employees
- Country by country reporting obligations and potential penalties

Brexit
- Current uncertainties surrounding impact on businesses, particularly social security and immigration.
- Consider progressing contingency plans for mobility and reward strategies

IR35 in the private sector
- Extension of the public sector off payroll working rules into the private sector in April 2020
- Obligation on private sector entities to assess employment status of all PSC workers, and potentially operate PAYE
- IR35 – Journey to 2020 https://www2.deloitte.com/uk/en/pages/tax/articles/ir35-journey-to-april-2020.html

Global hot topics
- France – income tax withholding for tax residents (including equity) from 1 Jan 2019
- Belgium – New withholding and reporting obligations with respect to offshore remuneration from 1 March 2019
- Ireland – PAYE modernisation introduced real time payroll reporting from 1 Jan 2019

Stock awards and mobile employees
- Continuing focus on taxation of stock awards
- Added complexity of tracking and appropriately sourcing stock for mobile employees
- Filing of annual online share plan returns enabling HMRC to cross reference against payroll records

Termination payments
- Changes took effect from April 2018
- Tightening of scope of £30k exemption and higher NIC costs
- Complex calculation required to calculate taxable/NICable "Post Employment Notice Pay" – basic effect is that all PILONs are taxable

Short Term Business Visitors and Non-Resident Directors
- High level of scrutiny from HMRC, especially as part of KYC
- Tracking, compliance and reporting
- Extension of day count limit to 60 days for the annual PAYE scheme arrangement for STBVs

Corporation Tax

Corporation Tax Hot Topics

New CT Rate

- 17% mainstream CT rate from 1 April 2020

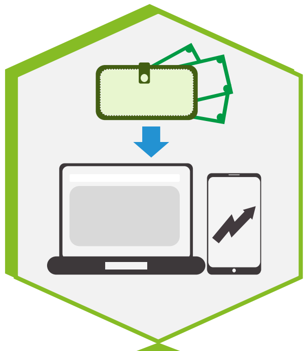
Brexit

- Additional withholding tax obligations?
- Impact on forecasts – implications for deferred tax asset recognition in accounts?

Indirect Tax

Making Tax Digital – what does it mean?

Three key areas



Making Tax Digital for VAT

HMRC Priority

- Digital submission by April 2019
- Digital records
- Digital links by April 2020

Making Tax Digital for Individuals

Deferred

- Individual information in one online place
- Access from a digital device
- Register for new services, update information and see how much tax you need to pay

Making Tax Digital for Business

Progressing

- Quarterly summaries of gross income and expenses to HMRC via software
- VAT only until system has been shown to work well, and not before April 2020 at the earliest

Brexit - Key indirect tax actions

1. **Review supply chains for goods and services**
2. **Identify indirect tax implications**
3. **Can changes be made to the supply chain/counterparty?**
4. **What are the systems and administrative impacts?**
5. **And can changes be implemented in time?**
6. **What are the mitigations?**

HMRC’s New Business Risk Review “BRR+”

New Business Risk Review "BRR+"

1 October 2019
Launch date

All within Large Business Directorate

4 new risk ratings

Defined benefits of being 'low risk'

More granular approach

Deloitte.

Remuneration

David Cullington| Director

Key reporting changes in DRRs

Financial years beginning on or after 1 January 2019

Financial years beginning on or after 10 June 2019

THE UK CORPORATE GOVERNANCE CODE

2019 DRRs to include description of:

- Strategic rationale for policies, structures and metrics
- Why remuneration is appropriate (including pay ratios and pay gaps)
- Whether policy operated as intended
- Engagement with shareholders and impact on policy and outcomes
- Engagement with workforce to explain how executive pay aligns with wider company pay policy
- Use of discretion and reasons why

Description & examples - Provision 40

- **Clarity**
- **Risk**
- **Simplicity**
- **Predictability**
- **Proportionality**
- **Alignment to culture**

Department for Business, Energy & Industrial Strategy

- CEO to employee pay ratios
- Notes to single figure table (e.g. amount attributable to share price growth, discretion)
- RemCo chair statement – summary of discretion used

New policy – scenario charts with 50% share price growth applied to LTIP

2020 DRRs to include:

- Split of fixed and variable pay for each director ('Single Figure' table)
- Any deviation from the procedure for the implementation of approved policy
- Annual change in each director's pay to average employee pay building up to 5 year period
- The average employee data must be for all employees of the parent company (excluding directors) - flexibility to use a subset has been removed.

New remuneration policy after 10 June 2019

A new policy must explain the decision-making process used for its determination, review and implementation including measures to avoid conflicts of interest.

It also must contain an indication of the duration of directors' service contracts

Details of vesting and holding periods for share awards must be included in the remuneration policy.

The remuneration policy voting result must be published on a company's website. DRRs must also be made available on the website for at least 10 years.

Approval of a 'outside remuneration policy' payment can only be made via approval of a revised remuneration policy.

If a remuneration policy vote is lost then a further vote must be held within a year.

Examples of good disclosure

CEO pay ratio

Saga: 2018 Annual Report- CEO pay ratio

Pay comparisons continued

Employee and Executive Committee ratios

The table below sets out the total remuneration delivered to the Group Chief Executive Officer using the methodology applied to the single total figure of remuneration. The Remuneration Committee believes that the remuneration payable in its earlier years as a private company to the Executive Chairman does not bear comparative value to that which has been and will be paid to the Group Chief Executive Officer, and has therefore chosen only to disclose remuneration for the Group Chief Executive Officer:

Group Chief Executive Officer		2018/19	2017/18	2016/17	2015/16	2014/15
Total single figure		£1,191,743	£1,025,146[1]	£2,490,617	£1,600,287	£5,328,702[2]
Annual bonus payment level achieved (percentage of maximum opportunity)		35.1%	0%	67.5%	78.6%	80.7%
LTIP vesting level achieved (percentage of maximum opportunity)		0%[3]	26.0%	65.6%	n/a[8]	n/a[8]
Ratio of CEO single total remuneration figure to all employees[4,5,6]	25th percentile	59:1	8:1	n/a	n/a	n/a
	Median[7]	48:1	40.1	116.1	78.1	258.1
	75th percentile	36:1	33.1	n/a	n/a	n/a
Ratio of single total remuneration figure shown to Executive Committee members		3:1	3:1	4:1	2:1	3:1

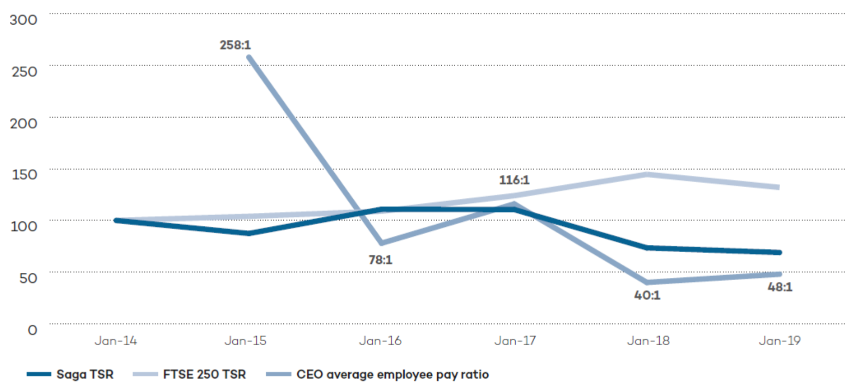
		25th percentile	Median	75th percentile
2018/19	Salary	£18,360	£22,448	£29,655
	Total pay	£20,253	£24,919	£33,235
2017/18	Salary	£17,144	£22,065	£25,220
	Total pay	£21,496	£25,427	£30,950

Pay comparisons

CEO ratio

We have set out:

Our CEO to average employee pay ratio for 2018/19 is 48:1. To give context to this ratio, we have set out below a chart tracking the CEO to average employee pay ratio since 2014/15 alongside Saga's TSR performance since IPO.



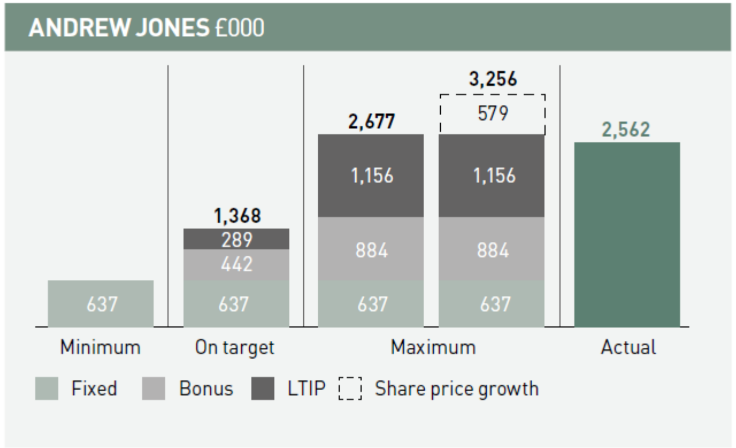
In summary there is significant volatility in Group Chief Executive Officer pay, and we believe that this is caused by the following:

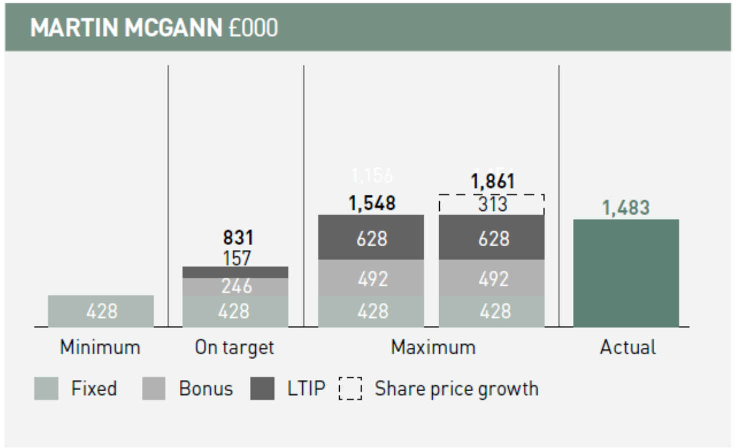
- Our Group Chief Executive Officer pay is made up of a higher proportion of incentive pay than that of our employees, in line with the expectations of our shareholders. This introduces a higher degree of variability in his pay each year which affects the ratio.
- The value of long-term incentives which measure performance over three years is disclosed in pay in the year it vests, which increases the Group Chief Executive Officer pay in that year, again impacting the ratio for that year.
- Long-term incentives are provided in shares, and therefore an increase in share price over the three years magnifies the impact of a long-term incentive award vesting in a year.
- We recognise that the ratio is driven by the different structure of the pay of our Group Chief Executive Officer versus that of our employees, as well as the make-up of our workforce. This ratio varies between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure, and not by divergence in fixed pay between the Group Chief Executive Officer and wider workforce.
- Where the structure of remuneration is similar, as for the Executive Committee and the Group Chief Executive Officer, the ratio is much more stable over time.

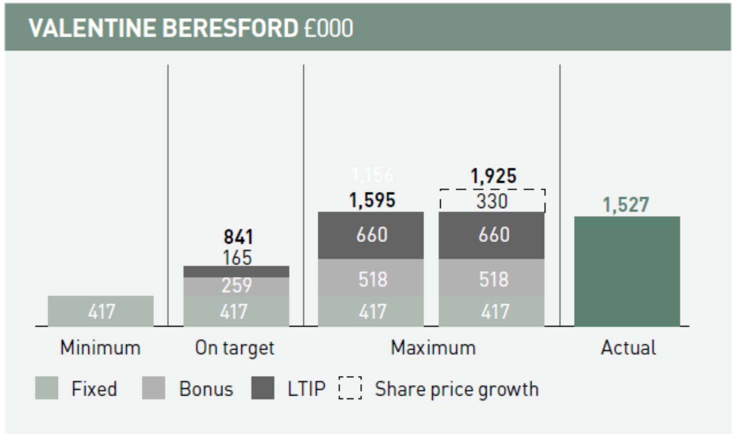
Examples of good disclosure

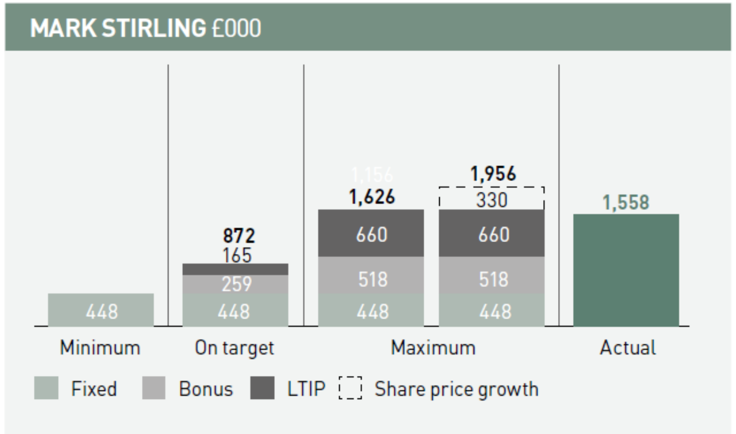
Scenario chart

London Metric Property: 2018 Annual Report- scenario charts with +50% share price growth









Looking ahead

Target setting?

Impact of currency volatility

Uncertain times…

Talent attraction?

Political change?

Reduced pensions, governance features, pay ratios

Alternative incentive structures?

Royal Dutch Shell ties executive pay to carbon reduction
BBC News, Dec 2018

Sustainability and ESG

Deloitte.

Financial reporting update

Peter Westaway| Director

FRC hot topics

Top 10 areas with findings per Oct 2019 Corporate Reporting Review report:

- Judgements and estimates
- Strategic report
- Alternative performance measures
- Impairment of assets
- Cash flow statement
- Income taxes
- Provisions and contingencies
- Financial instruments
- Fair value measurement
- Revenue

Open letter to CFOs and AC Chairs - Oct 2019:

- Judgements and estimates
- NFR and S172 reporting
- Climate
- Alternative performance measures
- Cash and supplier finance
- IFRSs 9, 15, 16

Deloitte's Closing Out newsletter to address all this and more – see UK Accounting Plus or DART

FRC hot topics
Judgements and estimates

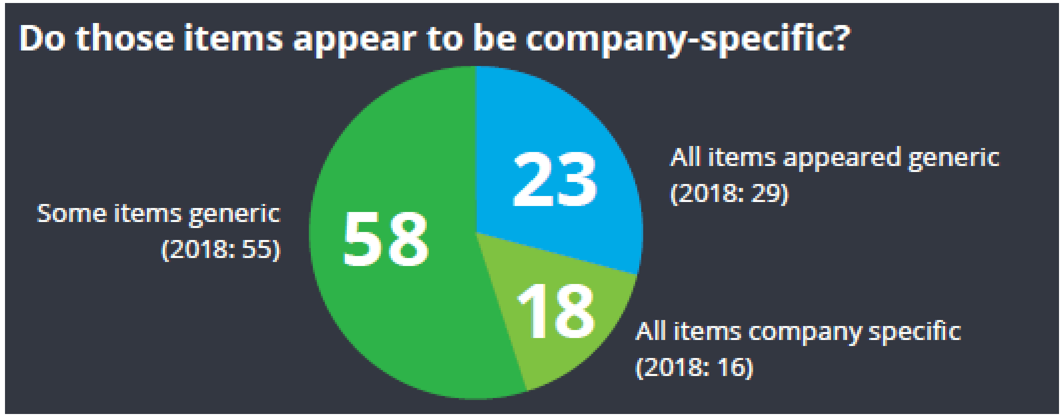
Be specific about judgements made in applying accounting policies and their impact

Quantify key estimation uncertainties: sensitivities or ranges

Be clear about underlying assumptions and how things might change

What FRC wants to see (based on IAS 1):

- ✓ Separate disclosure of significant judgements and estimates
- ✓ **Entity specific** and **concise**, looking for connectivity with other sections
- ✓ **Explanation** of **what** the significant judgement was and **why**
- ✓ For key sources of estimation uncertainty, disclose quantitative information about assumptions made, i.e. **sensitivity** or **range** of possible outcomes

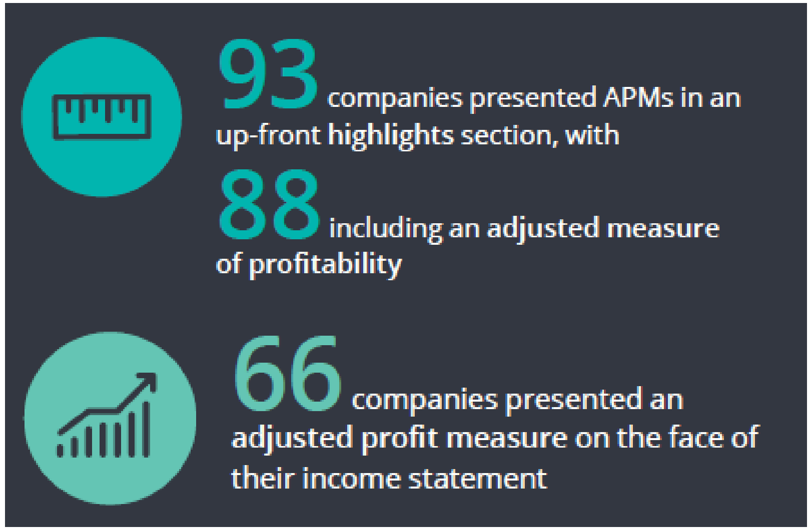


FRC hot topics (continued)

Alternative performance measures

- Fair, balanced and comprehensive
- Identify IFRS numbers from which APMs are derived
- Equal prominence is about more than just the measures themselves
- How are things presented, e.g. font size, pull-outs, graphs, diagrams?
- Are the APMs used in fair and balanced way or tilted towards the 'good news'?
- FRC looks at APMs within financial statements as well as narrative

FRC Lab Report:
Performance Metrics – Principles and Practice



FRC hot topics (continued)
Supplier financing

FRC Lab Report:
Sources and use of cash

Significant area of concern for FRC and investors. Is it borrowing?

- Accounting policy
- Whether liability to suppliers is derecognised
- Whether liability is included in KPIs, e.g. net debt
- Cash flows generated by such arrangements
- Existence of any concentrations of liquidity risk which could arise from losing access to the facility

FRC thematic review

Impairment of non-financial assets

- Identification of cash-generating units
- When is an impairment test required?
- What cash flows to include?
- Growth rates beyond budget/forecast period
- Appropriate discount rate
- Parent’s investment in subsidiaries

FRC thematic review

Impairment of non-financial assets

- Required if reasonably possible change in key assumption or input could reduce headroom to nil
- Amount of change in single key assumption that would reduce headroom to nil
- Values for key assumptions where sensitivity analysis given
- Disclose headroom when reasonably possible change in input could reduce it to nil
- Interaction with IAS 1 key estimates disclosures

FRC thematic review

IFRS 9 Financial Instruments - disclosures

- Business model needs to be explained
- Eliminate irrelevant accounting policies
- Eliminate old IAS 39 terminology
- Make clear when simplified impairment approach is used for trade receivables
- Methodology must incorporate forward-looking information
- Not permitted to apply low-credit risk expedient for investment-grade instruments to trade receivables
- Do not overlook impairment of loans to subsidiaries
- IFRS 7 requires disclosure of gross carrying amount of financial assets by credit risk rating grades
- Impairment requirements apply to material contract balances
- If ECL is identified as key estimation uncertainty, provide key assumptions and sensitivity analysis

FRC thematic review

IFRS 15 Revenue from Contracts with Customers - Disclosures

- Specifics on performance obligations and when satisfied; agent v principal
- Link between policies and segmental reporting
- Judgements and estimates – clarity and focus, quantified sensitivities or ranges if uncertainty
- Balance sheet – costs to obtain or fulfil contract

IFRS 16 Leases

FRC thematic review of interim disclosures

- Describe specific judgements and quantify key estimation uncertainties where relevant
- Be clear on balance sheet and P&L impact of transition
- Modified retrospective: explain key reconciling items
- Be clear on practical expedients taken: transition v ongoing choices
- Care re APMs and management commentary if using modified retrospective approach

IFRS 16 Leases
Reminders

- Current and non-current lease liabilities but **typically just non-current ROU assets**

- For modified retrospective approach 2B – “asset equals liability” - the asset should also be **adjusted for prepayments or accruals, including for example lease incentives**. Overall, would not expect significant balances ‘released’ to retained earnings under 2B.

- Expect landlord **reimbursement of lessees’ leasehold improvements** to be reflected as adjustment to right of use assets not deducted from leasehold improvement assets

- **Dilapidations provisions** – there are broadly two types – you don’t necessarily always book a provision up front – think about the obligating event

- **IBR for different parts of a group** can’t necessarily all assume the same rate – is there a group guarantee of lease payments in place?

- IFRS 16 lessee **disclosures in a single note** or section or use cross-references

IFRS 16 Leases

Interaction with IAS 36 impairment testing

- ❖ Typically testing right of use assets as part of a cash generating unit under IAS 36
- ❖ CGU carrying values include right of use assets and typically exclude lease liability
- ❖ Cash outflows excluded to the extent rentals already on balance sheet as a lease liability
- ❖ IAS 36 discount rate should incorporate the effect of treating leasing debt as financing
- ❖ Wouldn’t typically expect significant impairments at the point of transition

New IFRSs and amendments

Effective for periods commencing 1 January 2019

Amendments to IFRS 9 – Prepayment Features with Negative Compensation

Amendment to IFRS 9 – Interest Rate Benchmark Reform (early adoption)

Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

Annual Improvements 2015-17 Cycle

IFRIC 23 Uncertainty over Income Tax Treatments

New IFRSs and amendments (continued)
IFRIC 23

- FRC looking for clearer disclosure on measurement of uncertain tax provisions

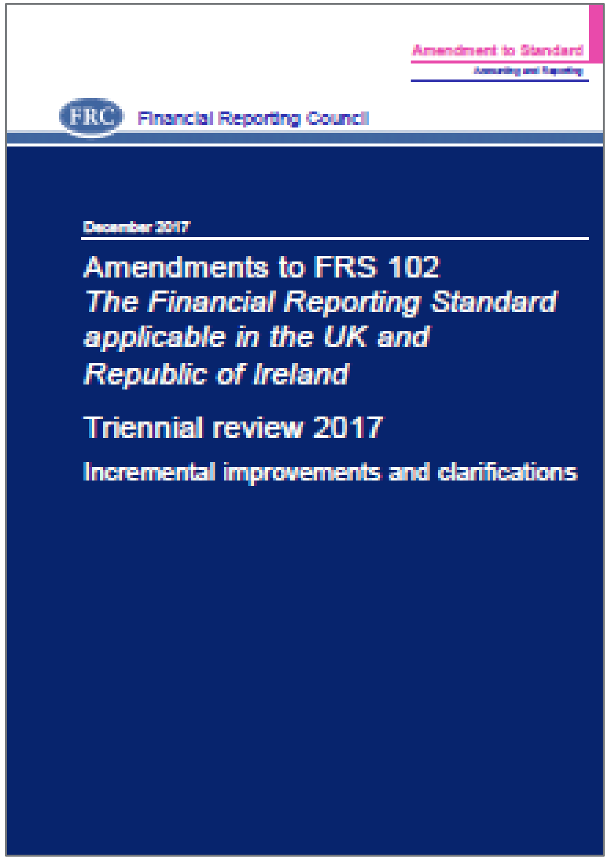
IFRIC 23 Uncertainty over income tax treatments

- Clarifies how to recognise and measure income tax when uncertainty over tax treatment
- Items should be considered separately or together depending on which best predicts the resolution
- Interpretation states:
  - if probable tax authority will accept an uncertain tax treatment, then determine tax consistently with treatment used or planned to be used in filings;
  - if not probable tax authority will accept uncertain tax treatment, the uncertainty is reflected by using either of the following methods, depending on which better predicts resolution of the uncertainty:
    - the single most likely amount in a range of possible outcomes, or
    - the expected value (i.e. probability-weighted)

FRS 102 triennial review

Effective for periods commencing 1 January 2019

Deloitte Need to know newsletter available


Amendment to Standard

FRC Financial Reporting Council

December 2017

Amendments to FRS 102
The Financial Reporting Standard applicable in the UK and Republic of Ireland

Triennial review 2017

Incremental improvements and clarifications

Applicable for periods on or after 1 January 2019
Option to adopt early

- Directors' loans
- Intangible assets acquired in a business combination
- Investment property rented to another group entity
- Undue cost or effort exemptions

FRS 102 triennial review (continued)

Effective for periods commencing 1 January 2019

Fair value measurement
- Further practical guidance
- Can look to transaction price of a similar asset (previously required reference to an identical asset)

Income statement
- Clarification that **'operating profit'** should include stock write downs, gains/losses on sale of fixed assets and restructuring or relocation expenses

Net debt reconciliation brought back into UK GAAP (different to IFRS reconciliation)

Revenue recognition
- New requirements for contract costs
- Further guidance on agent versus principal

Group reconstruction definition widened to include
- Transferring a business from one group entity to another
- Transferring a business from one entity to a new entity with the same ultimate equity holders

On the horizon

IFRS changes in 2020:

- Amendments to IFRS 3 – Definition of a Business
- Amendment to IFRS 9 – Interest Rate Benchmark Reform (mandatory adoption)
- Disclosure Initiative– Definition of Material

Next UK GAAP review:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 - Leases

Resources

Deloitte annual report insights 2019
www.deloitte.co.uk/annualreportinsights

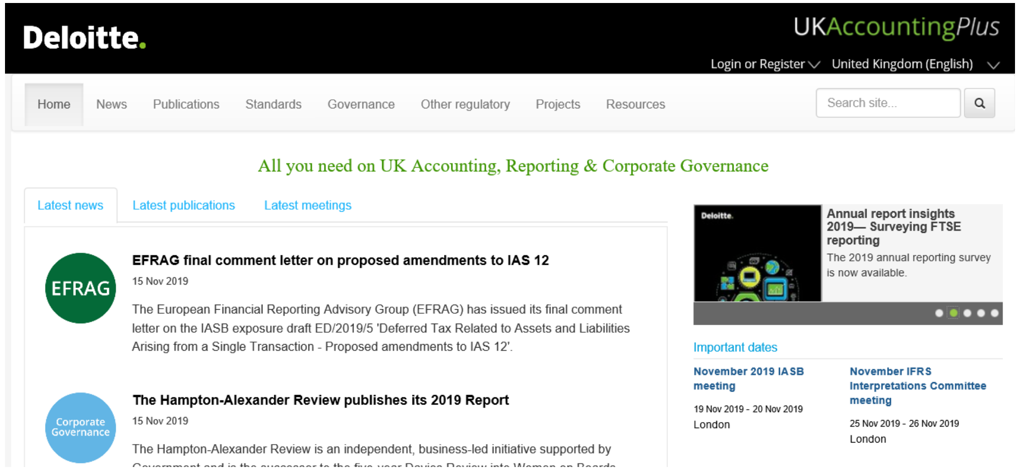
www.ukaccountingplus.co.uk
Includes Deloitte newsletters/publications

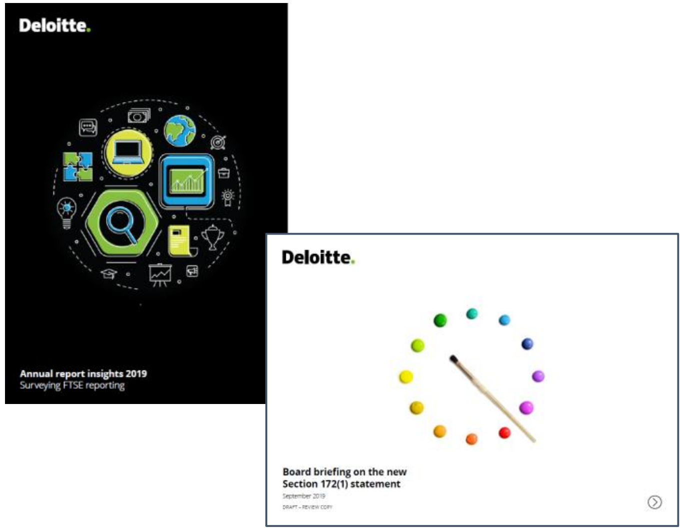
Coming soon!

Closing out - one stop guide covering the issues relevant for December 2019 reports

Governance in focus: On the board agenda 2020 – a review of hot topics for boards and committees for the 2020 reporting season

A Closer look - Climate





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Save the date - Controls and UK SOX event – Thursday 16 January

Sonya Butters | Partner

“Minimum” controls: how much is enough?

Thursday 16 January 2020 - 8.30 Registration

- Government and regulators are considering, in light of recent audit failures, a requirement for Boards to periodically confirm the effectiveness of internal controls on a similar basis to Sarbanes-Oxley in the US and auditors are contemplating publicly calling out control failures.
- It is more important than ever for companies to be forward thinking in the value they place on controls and proactive in how they explain that investment to their stakeholders.
- During this session we will share insights and discuss how implementing a strong financial controls framework will aid business confidence and future success.

To register interest please contact financeclub@deloitte.co.uk

Deloitte.

Q&A and closing remarks

Tom Murray | Director

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