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Executive summary

Welcome to the third edition of our Channel Islands Listed Funds annual report survey, where we have reviewed the 2017 annual reports of a broad spectrum of Guernsey and Jersey incorporated companies listed on the London markets to assess compliance with corporate reporting requirements.

Whilst there have been relatively few changes in underlying corporate reporting requirements over the last 12 months, there is still a continued drive for ever increasing quality in reporting as companies become more familiar with existing requirements.

Indeed, as noted below, the Financial Reporting Council ("FRC") stated in its Annual Review of Corporate Reporting 2016/17 that a good annual report should go beyond basic compliance with the fundamental requirements of the law and accounting standards and quoted a number of characteristics of good corporate reporting.

Below is an extract from that report by the FRC setting out the key themes of their annual review:

1. **A Single Story**
   - The narrative in the front end is consistent with the back end accounting information; significant points in the financial statements are explained in the narrative reports so that there are no surprises hidden in the accounts.

2. **How the Money is Made**
   - The strategic report gives a clear and balanced account which includes an explanation of the company's business model and the salient features of the company's performance and position, good and bad.

3. **What Worries the Board**
   - The risks and uncertainties described in the strategic report are genuinely the principal risks and uncertainties that concern the Board. The descriptions are sufficiently specific that the reader can understand why they are important to the company. The report also describes the mitigating actions taken by the Board to manage the impact of its principal risks and uncertainties. The links to accounting estimates and judgements are clear.

4. **Consistency**
   - Highlighted or adjusted figures, key performance indicators (KPIs) and non-GAAP measures referred to in the strategic report are clearly reconciled to the relevant amounts in the accounts and any adjustments are clearly explained, together with the reasons why they are being made.

5. **Cut the Clutter**
   - Important messages, policies and transactions are highlighted and supported with relevant context and are not obscured by immaterial detail. Cross-referencing and signposting is used effectively; repetition is avoided.

6. **Clarity**
   - The language used is precise and explains complex accounting and reporting issues clearly; jargon and boiler-plate text are avoided.

7. **Summarise**
   - Items are reported at an appropriate level of aggregation and tables of reconciliation are supported by, and consistent with, the accompanying narrative.

8. **Explain Change**
   - Significant changes from the prior period, whether matters of policy or presentation, are properly explained.

9. **True and Fair**
   - The spirit as well as the letter of accounting standards is followed. A true and fair view is a requirement of both UK and EU law and applies equally to accounts prepared in accordance with UK GAAP and IFRS.

(Source: FRC Annual Review of Corporate Reporting 2016/17)
As explained more fully in the Scope Section of this report, our approach has been to select a broad sample of Guernsey and Jersey incorporated investment companies across different assets classes which are listed across the London markets (AIM, main market and Specialist Fund Segment (‘SFS’)). We have then reviewed the annual reports of these entities to identify any areas of interest.

In doing so, we have sought to focus on any new or developing areas of practice or areas of focus highlighted by the FRC. These areas include:

• the structure of the annual report and how this has continued to evolve;

• the use of Alternative Performance Measures (‘APMs’) and the use of Key Performance Indicators (‘KPIs’). This is an area which has had a lot of attention following the issue by the European Securities and Markets Association (‘ESMA’) of its guidelines on APMs in October 2015 and the publication of the FRC’s second thematic review on APMs in November 2016;

• the disclosure of principal risks and uncertainties and the need for proper tailoring of these risks;

• viability statements and how these have evolved since the introduction of the requirements;

• the Audit Committee report and how this connects to the rest of the annual report;

• the disclosures of critical accounting judgements and estimates. This is again an area where the FRC has undertaken a thematic review in November 2017 and where it expects improvements in disclosures made;

• disclosures relating to the adoption of standards issued but not yet effective. Given the impending implementation of three key new standards in IFRS 9 – Financial Instruments, IFRS 15 – Revenue Recognition, IFRS 16 – Leases, the FRC expects companies to provide much more information covering the expected impact of these standards in the financial statements over the coming year and wrote to listed companies to make this point. A copy of this letter is available at this link; and

• the auditor landscape and the impact of mandatory tendering and rotation rules.

Overall, we found that the companies surveyed displayed a high level of compliance with the extensive accounting and corporate reporting requirements and a continued improvement in quality of reporting. It is however important that they take note of emerging issues and the FRC’s areas of focus as market practice develops.

Whilst more companies, particularly those investing in Real Estate, now disclose a broader set of APMs, some fall short of the ESMA APM guidelines, where those measures are either given more prominence than IFRS numbers, or where these are not properly reconciled to IFRS numbers. Also, there is often a lack of explanation as to why these guidelines are being used.

Similarly, in respect of the disclosures of critical accounting judgements and estimation uncertainty, whilst these disclosures are becoming more tailored, there is often either no separation between what constitutes a critical judgement in applying an accounting policy and areas of estimation uncertainty or confusion between what falls into which category.

Overall, we found that the companies surveyed displayed a high level of compliance with the extensive accounting and corporate reporting requirements and a continued improvement in quality of reporting.
There is an expectation that companies will disclose more information relating to the impact of new standards in issue but not yet effective in this year’s annual report. In the financial statements we surveyed, we found mixed compliance with some companies making very limited “boilerplate” disclosures and others providing better analysis. However, no company disclosed any quantitative information (other than stating the impact was expected to be immaterial or had not yet fully assessed) on the likely impact of those standards which is the expectation of the FRC and hence enhanced disclosures will be required in their reporting period especially in relation to IFRS 9, IFRS 15 and IFRS 16.

We noted that the majority of Boards still opted for a lookout period of 3 years in their viability statements. The FRC has indicated that this will be a key focus area in FY2017/18, specifically looking at investment and planning periods, the board's stewardship responsibilities, nature of the business and its stage of development in assessing the lookout period.

As part of our survey, we have collated a significant amount of data and other information across a range of entities. This has given us a unique insight into the broader market. This enables us to perform tailored, cost effective reviews of annual reports for companies against existing requirements and industry peers. We would be delighted to discuss this with any Boards or Audit Committees if that would be of interest.
Scope

This publication presents the findings of a survey of 99 annual reports of Channel Islands investment companies that have their equity listed on the Main market, AIM and SFS segments of the London Stock Exchange.

Annual reports have been analysed with financial years ended between 31 March 2016 and 30 June 2017.

Each section addresses a different aspect of typical Channel Island listed company’s annual reports generally distinguishing between:

- Areas where compliance has been relatively good;
- Areas where companies have struggled to comply with the requirements; and
- Areas where companies have gone above and beyond mere compliance and are innovating or voluntarily providing information.

Although our survey data uses only companies from our sample, when selecting examples of good practice, included at the end of each other similar section, we have used material from the reports of companies that, in our view, best illustrate a particular requirement or innovation.

Each section also includes a short list of items to watch out for in the reporting season ahead, again reflecting areas of changing requirements or practice and areas of regulatory focus.
Report structure

Average report length has grown by nearly 30% over the last 4 years

- Front half: 42%
- Back half: 59%

Speed of reporting is largely unchanged

The narrative reporting parts of the Annual Report are now significantly longer than the financial statements

December continues to be the favoured year-end, however more funds are being created with other year-ends
Length and balance of annual report

The average length of annual reports has continued to grow over the last year, with growth of nearly 30% over the last 4 years, and a 7% increase in the last year alone. Whilst annual reports are getting longer the average of 78 pages is still some way short of the average of 155 pages for the wider population of UK listed companies in the Deloitte survey (source: Annual Reporting Insights 2017).

Most of the increase has come from companies with more complex business models, primarily investing in Real Estate, Infrastructure and Private Equity where the narrative reporting parts increasingly include a number of asset specific case studies and more lengthy descriptions of the entity’s business model.

This is illustrated in the table below which shows the 5 longest annual reports in our sample, where a significant part of these annual reports relate to the strategic report and portfolio review.

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Highlights and overview</th>
<th>Audit report</th>
<th>Chairman statement</th>
<th>Strategic report and portfolio review</th>
<th>Corporate governance</th>
<th>ME and Nominations committee report</th>
<th>Directors report</th>
<th>Remuneration report</th>
<th>Audit Committee report</th>
<th>Financial statements</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harbouvest Global Private Equity Limited – Fund of Funds</td>
<td>13</td>
<td>65</td>
<td>51</td>
<td>52</td>
<td>23</td>
<td>10</td>
<td>2</td>
<td>7</td>
<td>50</td>
<td>39</td>
<td>26</td>
</tr>
<tr>
<td>Bluefield Solar Income Fund Limited – Infrastructure and Renewables</td>
<td>5</td>
<td>47</td>
<td>56</td>
<td>12</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td>7</td>
<td>50</td>
<td>38</td>
<td>28</td>
</tr>
<tr>
<td>Kennedy Wilson Europe Real Estate plc – Real Estate</td>
<td>5</td>
<td>7</td>
<td>47</td>
<td>12</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td>7</td>
<td>50</td>
<td>38</td>
<td>28</td>
</tr>
<tr>
<td>HICL Infrastructure Company Limited – Infrastructure and Renewables</td>
<td>5</td>
<td>7</td>
<td>47</td>
<td>12</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td>7</td>
<td>50</td>
<td>38</td>
<td>28</td>
</tr>
<tr>
<td>Globalworth Real Estate Investments Limited – Real Estate</td>
<td>5</td>
<td>7</td>
<td>47</td>
<td>12</td>
<td>4</td>
<td>9</td>
<td>2</td>
<td>7</td>
<td>50</td>
<td>38</td>
<td>28</td>
</tr>
</tbody>
</table>

Given the continued growth in the length of annual reports, it is important to remind ourselves that materiality should be considered in the context of narrative reporting as well as financial reporting. For example, while the annual report must be “fair, balanced and understandable”, the FRC’s guidance is that it should only contain information which is material to stakeholders. In our sample, no company explicitly asserted it has considered materiality in the context of narrative reporting.

The balance in the annual report continues to shift to narrative reporting, primary driven by changing and new corporate governance requirements but also driven by disclosure of more asset specific case studies as highlighted above.

The front end of the annual report now makes up nearly 60% of the annual report which is consistent with the wider UK listed market, and represents an increase of almost 10% over the last 4 years.
Speed of reporting

Overall, there has been little change in the reporting timetable for the companies in our sample, despite the significant increase in the level of information disclosed, as companies have been able to deal with the incremental changes gradually over time.

Quickest reporters

As highlighted in the chart above, infrastructure companies are typically the fastest reporters, most of which report within 2 months of the year-end. As these entities tend to have the more comprehensive annual reports to prepare, this may be surprising, although tends to be driven by market expectations.
Alternative Performance Measures ("APMs") and Key Performance Indicators ("KPIs")

In June 2015, the European Securities and Markets Authority ("ESMA") published Guidelines on Alternative Performance Measures (the “Guidelines”) with the aim to improve the usefulness and transparency of APMs presented to investors. Under the Guidelines an APM is “a financial measure of historical or future financial performance or cash flows of an entity which is not a financial measure defined or specified in the financial reporting framework (e.g. EU-adopted IFRS) applied by the entity”.

Some Key Performance Indicators ("KPIs") will meet this definition and fall within the scope of the Guidelines, however other non-financial measures such as customer numbers or retail floor space will not.

The use of APMs is not mandatory and a matter of judgement however where they are clearly presented and articulated can provide useful insights to users beyond the ordinary financial measures under the relevant financial reporting framework or where there are standard industry measures of benchmarking.

Under the Guidelines certain disclosures are required for each APM including:

• Definition of the APM in a clear and readable way, including its method of calculation and details of any material assumptions;

• Indication of whether the APM or any of its components relate to the performance of the past or expected performance of a future reporting period;

• Explanation for the use of an APM to allow users to understand its relevance and reliability and why the APM provides useful information;

• Reconciliation identifying and explaining the material adjustments between the APM and a financial statement line item;

• APMs of comparative previous periods or explanation why an APM was revised or is no longer presented; and

• APMs should not be displayed with more prominence, emphasis or authority than measures directly stemming from financial statements.

In November 2017, the FRC issued a second thematic review of APMs as a follow up to their review published in 2016. This review covered a sample of 20 entities across the FTSE 100, FTSE 250 and AIM. They noted a good improvement, they also identified a number of areas in their report where companies could improve their reporting around APMs.

On 30 October 2017, ESMA published a further Q&A paper dealing with common questions received from the general public and authorities on the ESMA Guidelines on APMs.

“There are still a significant number of improvements that Companies need to make to bring themselves into line with the guidelines on APMs.”

Note 1:

Whilst we would expect all companies to have non-accounting performance measures and key performance indicators that are identified and monitored as key metrics within their business, those identified in this analysis are those companies whose financial statements clearly and explicitly set out what those APMs and KPIs actually are, for example in a separate section of the annual report.

Companies that make use of Alternative Performance Measures

It is clear from these findings that very few, if any, companies can be considered to be in full compliance within the letter of these Guidelines. Whilst many companies have clearly made significant efforts, this only represents 28% of the population.

Just over half (16) of the companies using APMs are in the Real Estate Sector based on EPRA guidelines, which represents 72% of the population identified as being in the Real Estate sector. The remaining companies identifying APMs were spread across a range of sectors.

Within that sub-population of 28%, only 4 companies’ financial statements clearly highlighted definitions, met the equal prominence best practice and noted clearly why APMs had been used. We have identified Raven Russia Limited, Picton Property Income Limited and Schroder Real Estate Investment Trust Limited as good examples of the guidance in practice.

Most common APMs used are EPRA-based NAV and earnings, i.e. for those in the Real Estate Sector, as well as adjusted non-IFRS NAV and earnings.

Ongoing charges were consistently identified as an APM on the basis that it is strictly a non-IFRS measure. Companies disclosing this measure fell across a range of sectors, but were all listed on the Main Market.

In addition other companies noted APMs relevant to the individual operations of the entity.

Key Performance Indicators

Under the FRC Guidance on the Strategic Report – June 2014 and Disclosure and Transparency Rules (‘DTR’), the Strategic Report should include an analysis of financial and non-financial key performance indicators. The KPIs used should be those that the directors judge to be most effective in assessing progress against objectives or strategy and monitoring principal risks to measure progress of the business position and would be material to shareholders.

Non-financial KPIs can be indicators of future financial prospects and progress in managing risks and opportunities. They may include, for example, measures related to product quality or customer complaints.

Similar to APMs, KPIs should be disclosed with appropriate information to allow the users of the financial statements to understand each KPI, this would include information such as definitions, calculation methods, purpose, source of underlying data and significant assumptions.

Companies that clearly identified KPIs

Note 1: Whilst we would expect all companies to have non-accounting performance measures and key performance indicators that are identified and monitored as key metrics within their business, those identified in this analysis are those companies whose financial statements clearly and explicitly set out what those APMs and KPIs actually are, for example in a separate section of the annual report.

Note:
Only 1 in 3 companies explicitly identified what metrics they consider to be their KPIs. Whilst some companies may have discussed their performance in the front half, it was not clear what their KPIs were.

Of those that did report KPIs, there was a great deal of consistency in the nature of the KPIs. Companies noted a mix of financial and non-financial KPIs, with financial KPIs being Net Asset Value, Absolute/Total Return, Distributions, NAV versus share price, ongoing charges, NAV return versus benchmark and finally share price. Companies may have identified minor variations on these metrics, but broadly there was consistency in terms of the types of KPIs companies identified.

Surprisingly, for a population of investment companies, not all companies identified NAV on its own as a KPI, however in all these cases the companies identified a KPI derived from NAV, for example NAV return versus an appropriate benchmark.

2 companies noted as many as 10 KPIs, and only 4 companies out of 37 noting more than 7 KPIs. In these cases these were Real Estate, Debt and Infrastructure funds where KPIs included investment inputs such as vacancy rates, weighted average loan/lease periods and yields.

KPIs identified by companies broadly fall within 7 categories:

- **NAV**: 27%
- **Absolute/Total return**: 23%
- **Dividends/Distributions**: 19%
- **Discount/Premium to share price**: 18%
- **Ongoing charges**: 17%
- **NAV return v Benchmark**: 9%
- **Share Price**: 10%

1 in 4 companies have identified APMs
1 in 3 companies have clearly highlighted their KPIs.

### Key points to take away

**APMs:**
- Only 1 in 4 companies have identified clear APMs within their business.
- Of companies that use APMs:
  - 82% made use of appropriate definitions and reconciliations;
  - 60% showed those with equal prominence alongside the standard IFRS equivalent measure; and
  - Only 42% clearly articulated why they had used APMs at all.

**KPIs:**
- Companies need to make more effort to ensure their KPIs are clearly identified for users of the financial statements; only 1 in 3 companies did this.
- There is a great deal of consistency in the financial KPIs identified by companies.
- Fewer than 10% of companies identified non-financial metrics as KPIs.
**Good examples**

*Raven Russia Limited* – this is a good example of applying equal prominence to alternative performance measures. In this case the company has used underlying earnings (a non-IFRS measure) as an alternative to IFRS profits, however they have disclosed both of these measures together with identical font and size.

### RESULTS HIGHLIGHTS

- **IFRS Profit After Tax**: $7.7 million
- **Underlying Earnings After Tax**: $47.1 million
- **Basic Underlying Earnings Per Share**: 7.17 cents
- **IFRS Basic Earnings Per Share**: 1.17 cents
- **Year End Cash Balance**: $198.6 million
- **Diluted Net Asset Value Per Share**: 71 cents
- **Distribution of**: 2.0 pence
Schroder Real Estate Investment Trust Limited – this is a good example of application of reconciliation between IFRS numbers disclosed on the face of the primary statements and APMs derived from these metrics.

Financial Statements
EPRA Performance Measures (unaudited)

As recommended by EPRA (European Public Real Estate Association), EPRA performance measures are disclosed in the section below.

EPRA performance measures: Summary Table

<table>
<thead>
<tr>
<th></th>
<th>31/03/2017</th>
<th>31/03/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total £000</td>
<td>Total £000</td>
</tr>
<tr>
<td>EPRA earnings</td>
<td>13,751</td>
<td>13,130</td>
</tr>
<tr>
<td>EPRA earnings per share</td>
<td>2.7</td>
<td>2.5</td>
</tr>
<tr>
<td>EPRA NAV</td>
<td>322,590</td>
<td>322,606</td>
</tr>
<tr>
<td>EPRA NAV per share</td>
<td>64.1</td>
<td>62.2</td>
</tr>
<tr>
<td>EPRA NNNAV</td>
<td>316,486</td>
<td>313,600</td>
</tr>
<tr>
<td>EPRA NNNAV per share</td>
<td>61.0</td>
<td>60.5</td>
</tr>
<tr>
<td>EPRA Net Initial Yield</td>
<td>5.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>EPRA topped-up Net Initial Yield</td>
<td>5.3%</td>
<td>5.3%</td>
</tr>
<tr>
<td>EPRA Vacancy Rate</td>
<td>6.2%</td>
<td>8.9%</td>
</tr>
<tr>
<td>EPRA Cost Ratios – including direct vacancy costs</td>
<td>31.3%</td>
<td>31.9%</td>
</tr>
<tr>
<td>EPRA Cost Ratios – excluding direct vacancy costs</td>
<td>25.6%</td>
<td>25.9%</td>
</tr>
</tbody>
</table>

a. EPRA earnings and EPS

Total comprehensive income excluding realised and unrealised gains/losses on investment property, share of profit on joint venture investments and changes in fair value of financial instruments, divided by the weighted average number of shares.

<table>
<thead>
<tr>
<th></th>
<th>31/03/2017</th>
<th>31/03/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>IFRS profit after tax</td>
<td>22,844</td>
<td>36,252</td>
</tr>
</tbody>
</table>

Adjustments to calculate EPRA Earnings:

Profit on disposal of investment property | (3,709) | (1,295)
Net valuation gain on investment property | (6,987) | (17,375)
Finance costs: interest rate cap         | -        | 325        
Share of valuation (loss)/gain in associates and joint ventures | 1,603 | (4,777) 

EPRA earnings | 13,751 | 13,130 |

Weighted average number of Ordinary shares | 518,513,409 | 518,513,409 |

IFRS earnings per share (pence per share) | 4.4 | 7.0 |

EPRA earnings per share (pence per share) | 2.7 | 2.5 |
Picton Property Income Limited – this is an excellent example of a company providing definitions and explanations for why they consider APMs to be necessary and useful. In this case, Picton Property enables the users of the financial statements to have greater insights into the business performance.
Principal risks and uncertainties

Under the Disclosure and Transparency Rules Handbook issued by the FCA (DTR 4.1.8), the annual report should include a fair review of the development and performance of the company’s business and the position of the company together with a description of the principal risks and uncertainties it faces. Only premium listed and specialist fund segment companies are subject to the DTR rules, while AIM listed companies can apply these rules voluntarily.

Whilst there is not an explicit requirement to do so, it is widely accepted that a key part of these disclosures will include a discussion of the mitigating control activities undertaken by the company. Indeed, in their latest consultation on updates to the UK Corporate Governance Code, the FRC has also proposed introducing a specific requirement for companies to explain how the risks are managed and mitigated.

UK company law also requires all companies (except smaller companies) to present a description of principal risks and uncertainties they face in the strategic report, however this is not applicable to Channel Islands entities.

This chapter examines the extent to which companies have been disclosing principal risks and uncertainties in their annual reports.

Most companies have disclosed principal risks

The 8 companies which did not include AIM companies which had not fully adopted the UK Code. However, the remaining 2 companies (main market and SFS) are subject to the DTR and have only cross-referenced to generic financial risk notes which falls short of the requirements.

Investment risk was the most common risk which we would expect given the nature of companies sampled. Only 13 companies mentioned Brexit as part of their principal risks. 7 companies included a risk heat map to explain the potential likelihood and impact of risks.

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Whilst the nature of risks will depend on the asset class considered, investment risk was the most common risk which we would expect given the nature of companies sampled. Only 13 companies mentioned Brexit as part of their principal risks. 7 companies included a risk heat map to explain the potential likelihood and impact of risks.

The charts following provide more detail per asset class.
Investment risk has been quoted for all Debt funds and Private Equity entities surveyed and also features strongly for Real Estate companies.

Market/economic risk features for all types of entities.

**Key points to take away:**

- A key part of the disclosures surrounding principal risks and uncertainties will include a discussion of the mitigating control activities undertaken by the company, with further UK Corporate Governance Code requirements in the pipeline.
- There still appear to be a significant amount of standard or boilerplate principal risks and uncertainties disclosed in the Strategic Reports or equivalent amongst the companies surveyed, and will be an area of focus by the FRC in the near future.
- There appear to be limited disclosures surrounding the evolution of principal risks and uncertainties from one reporting period to another.
The Company has put a risk management framework in place covering all aspects of the Group’s business, including the formation of a Risk Committee. The Risk Committee, which reports its findings to the Board, is tasked with the identification, assessment and management of risk for the Group.

The Risk Committee reviews the key risks affecting the Company at each regular quarterly meeting, by reference to a risk dashboard developed and monitored in conjunction with the Investment Adviser. This review includes consideration of any new circumstances which could arise creating additional risks for the Group. For each identified risk, a mitigation strategy is, where appropriate, developed and implemented, together with appropriate monitoring by the Investment Adviser and other key service providers (as appropriate).

The Company outsources key services to the Investment Adviser and other service providers. It therefore places reliance on these service providers’ own systems and controls, details of which the Board has received and reviews annually.

The Board’s Management Engagement Committee reviews the performance of the Investment Adviser (as well as all key service providers) at least annually and this review includes a consideration of the Investment Adviser’s internal controls and their effectiveness. No issues were identified in the latest review. The Investment Adviser’s risk and compliance team has developed a detailed self-assessment internal control report, and this is reviewed and debated on a quarterly basis by the Board.

The Directors set out the principal risks relating to the Group’s portfolio and to shareholdings in the Company in the Company’s February 2017 Prospectus, which is available from the Company’s website.

The principal risks, which remained substantially unchanged during the year, and their possible mitigants are summarised below in seven Primary Risk Classes which the Risk Committee reviews each quarter. The Dashboard below shows the results of the stress testing for each Risk Class, being Inherent (before any mitigation at all and this can include poor contractual structures), and Residual (after risk mitigations, as described in the tables which follow).

### HICL Risk Dashboard: Position at 31 March 2017

<table>
<thead>
<tr>
<th>Primary Risk Class</th>
<th>Residual Risk Rating</th>
<th>Valuation Impact (Nav/share) Residual vs Inherent</th>
<th>12 mths Cash flow Impact (Dividend/share) Residual vs Inherent</th>
</tr>
</thead>
<tbody>
<tr>
<td>01 Political risk</td>
<td>Medium</td>
<td></td>
<td></td>
</tr>
<tr>
<td>02 Financial/market risk</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>03 Portfolio performance risk</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>04 Operational risk – execution</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>05 Operational risk – portfolio, administration, asset management</td>
<td>Very Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>06 HICL central management risk</td>
<td>Very Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>07 Operational risk – regulation and compliance</td>
<td>Very Low</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**01 Political Risk**

<table>
<thead>
<tr>
<th>Risk Description</th>
<th>Risk Mitigation</th>
</tr>
</thead>
</table>
| **ACQUISITION PIPELINE**  
Investor appetite for infrastructure assets remains at an all-time high. As a consequence, the sourcing of new investments for the Group is increasingly difficult given the levels of competitive demand. | The Board is confident that the Investment Adviser, via its network of established relationships, is able to continue enjoying access to opportunities both in the UK and abroad. In any event, a failure to make further investments would not impact the performance and returns from the existing portfolio. |
| **CHANGE IN POLICY**  
A change in policy or sentiment towards private financing is likely to affect the levels of procurement of new privately-financed infrastructure projects. This would in due course impact the availability of new transactions in the secondary market in which the Company is most active.  
More unlikely, but not impossible, would be a PPP client reneging on the terms of an existing project agreement and failing to make the contracted availability-based payments. Although the Company would mount a legal challenge, the legal processes and means for redress would involve expending time and money. This would impact the value of the Group’s investment portfolio and affect the Company’s ability to meet its target distributions. | Studies show that the need for new infrastructure and the repair of existing is a huge spend requirement globally, requiring sums of money that governments will find difficult to raise. It is therefore likely that private sector capital will continue to be used to fund infrastructure investment and that there will continue to be suitable projects for the Group to invest in.  
Each of the Group’s PPP projects and concessions is structured with a legally binding contract. Most social and transportation infrastructure concessions provide some or total protection, through their contractual structures, in relation to changes in legislation which affect either the project asset or the way the services are provided. Finally, such a development would have wide-ranging, adverse implications for all private sector investors and supply chain stakeholders and therefore acts as a natural deterrent against such an approach. |
| **INDIRECT LEGAL OR REGULATORY CHANGES**  
Various legal and regulatory changes may adversely impact the Group and the portfolio companies in which the Group invests. This could take the form of legislation impacting the supply chain or contractual costs or obligations to which portfolio companies (and therefore the equity investor) are exposed. | The Company, the Investment Adviser and their advisers continually monitor any potential or actual changes to regulations to ensure both the Group and its service providers remain compliant. Where appropriate, the Investment Adviser will participate in consultation processes, to ensure that the legislature hears the concerns and views of the Company, in its capacity as a private sector investor. |
| **CORPORATE TAX RATES**  
Reductions in corporation tax rates have positively impacted the portfolio’s valuation; however, there is no assurance that the lower rates will remain in place in the future. Subsequent changes in policy might lead to an increase in corporate tax rates and a corresponding reduction in the portfolio’s value. | Changes in corporation tax rates cannot be prevented or mitigated. The Company aims to be realistic in its tax rate assumptions.  
Investors are provided with an illustration of the portfolio’s sensitivity to changes in tax rates in Section 3.2 (Valuation of the Portfolio). |
Viability statements

More than half of companies are still including the viability statement in their Directors’ report

A 3 year look out period has been adopted in most cases, which is in line with the UK Survey for 2017.

10 companies combined the going concern and viability statement into one.

48% of companies disclosed using a form of stress testing in assessing the longer term viability.

88% of companies surveyed clearly linked the viability statement back to the principal risks and satisfactorily substantiated the look out period.

65 companies disclosed the qualifications or assumptions underlying their statement.

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

The board considers a number of decisions when preparing the statement:

1. The look out period;
2. The principal risks to be factored into the analysis in terms of impact and saving;
3. The nature and extent of supporting analysis the board will want to see;
4. The qualifications and assumptions to disclose within the statement; and
5. The location of the statement within the annual report.

Lookout period

Viability statement lookout period

In September 2014, the FRC issued an updated version of the UK Corporate Governance Code (the “Code”) which significantly enhanced the quality of information investors receive about the long-term health and strategy of listed companies. This new version included the requirement for a ‘viability statement’ in the strategic report to investors to provide an improved and broader assessment of long-term solvency and liquidity looking forward at the period beyond the next 12 months. The overriding driver of this new statement is to provide shareholders with a clear understanding of the way the board is managing the principal risks to their invested capital.
Channel Islands companies followed the trend of the UK with most companies setting a look-out period of 3 years, with a smaller number of companies opting for 5 years.

Of the 19 companies adopting 5 years, these are predominantly Real Estate funds (6), Infrastructure Funds (4), Equity Funds (4) and other funds (5).

The outliers at 7 years are Doric Nimrod Air Two Limited and Doric Nimrod Air Three Limited, aircraft asset leasing funds, due to the nature of the asset type and the lease periods underlying these assets.

Companies adopting 2 years are Chenavari Capital Solutions Limited which is in effective run-off and DW Catalyst Ltd where there are specific reasons for having a shorter time frame.

10 companies combined the going concern and viability statements. This is not a requirement and a matter of choice.

On 10 October 2017 the FRC released its ‘Summary of key developments for 2017/18 annual reports’, in which it noted that a certain amount of focus will be placed of the lookout periods used by companies. It had noted that the majority of Boards had chosen a lookout period of three years, reflective of the company’s medium term business plan.

Overall compliance with the Code
There are still a number of companies that have deficient disclosures.

Over half the companies surveyed did not refer to any stress testing having been carried out.

Only two thirds of companies fully disclosed key assumptions made in arriving at their statement. Out of 65 companies, 14 quoted a continuation vote as the key qualification, and 39 assumed financial/market conditions would not materially change.

Good example
The example below illustrates the combination of the going concern and viability statements, links the viability statement to the principal risks and confirms that the financial modelling was subject to appropriate stress testing.

**GCP Asset Backed Income Fund Limited**

**Going concern and viability statement**
In accordance with the requirements of the UK Code, the Directors have assessed the financial prospects of the Company for the foreseeable future and made an assessment of the Company’s ability to continue as a going concern. The Directors are satisfied that the Company has the resources to continue in business for the foreseeable future and furthermore are not aware of any material uncertainties that may cast significant doubt upon the Company’s ability to continue as a going concern.

Twice a year, the Board carries out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. The Board also assesses the Company’s policies and procedures for monitoring, managing and mitigating its exposure to these risks. The Directors have considered each of the Company’s principal risks and uncertainties detailed on pages 39 to 46, in particular the risk of impact of changes in the external environment including macroeconomic, political, social, technological and regulatory changes that could materially affect the cash flows of the underlying investments. The Directors have also assessed the prospects of the Company over a longer period than the twelve months required by the going concern provision of the UK Code. The Board has determined that a five-year period to 31 December 2021 constitutes an appropriate period to provide its viability statement. Whilst the weighted average term of the loans within the investment portfolio is twelve years, the Company’s experience is such that the financial forecasts to support the strategy will be subject to further capital raises for which the impact beyond a five-year term is difficult to assess. In addition, the extent to which macroeconomic, political, social, technological and regulatory changes beyond a five-year term may have a plausible impact on the Company are difficult to envisage. The assessment involved an evaluation of the potential impact on the Company of these risks occurring.

Where appropriate, the Company’s financial model was subject to sensitivity analysis that involved testing a number of key assumptions in the underlying financial forecasts for the current capital base in order to analyse the effect on the Company’s net cash flows and other key financial ratios. This analysis included modelling the aggregated impact of significant reductions in interest income received, capital management levels achieved and significant increases in the Company’s operating expenses and debt financing costs that would be impacted by severe but plausible downside scenarios that incorporate the principal risks.

Based on this assessment of the principal risks facing the Company and the aggregated stress testing performed on the Company’s prospects, the Directors confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment to 31 December 2021.

By order of the Board

Alex O’dessa
Chairman
12 April 2017

Key points to take away:
- The FRC will be focusing on the outlook period used by Boards in assessing the company’s viability statements for 2017/18. They will be focusing on smaller AIM Company disclosure.
- The following factors should be taken into account in assessing the viability outlook period:
  - investment and planning periods;
  - the board’s stewardship responsibilities;
  - the nature of the business; and
  - its stage of development and previous statements made.
Board Committee Reporting

Audit Committee Reporting

Stand-alone Audit Committee Report presented?

- With Audit Committee Report: 88%
- Without Audit Committee Report: 12%

All companies included an acknowledgement to the Audit Committee responsibilities, but 12% did so within the body of the Directors’ report with less detail than expected when compared to a traditional Audit Committee Report.

Audit Committee Report signed by AC Chairman

- Signed by Audit Committee Chairman: 95%
- Not signed: 5%

Companies with a Premium listing of equity shares in the UK are required under the listing rules to comply with the relevant provisions of the UK Corporate Governance Code or to explain to shareholders why they have not done so. Companies with equity shares listed on AIM or SFM may voluntary adopt the Code either partially or in full.

The Code provides that a separate section of the annual report describe the work of the audit committee and to give it the relevant authority to perform its duties.

Amongst other things, the Code requires Audit Committees to:

- Describe the significant issues considered in relation to the financial statements and how these were addressed;
- Review the company’s internal financial controls and the company’s internal control and risk systems, unless this has been delegated to a separate board risk committee;
- Monitor and review the effectiveness of the company’s internal audit function;
- Review and monitor the external auditor’s independence, objectivity and the effectiveness of the audit process;
- Develop and implement policy on the engagement of the external auditor to supply non-audit services; and
- Report to the board on how it has discharged its responsibilities.

Length of Audit Committee Report

The average length of the AC reports was 3 pages.

Financial Reporting issues noted

Most Audit Committee reports identified the valuation of investments as a key risk considered, which is consistent with risks disclosed in the audit reports and those identified as areas of key estimation uncertainty in the financial statements.

Revenue recognition is the second most common area noted. Whilst this is not always a significant issue, the disclosure seems to be driven by the auditor having to assume a risk of fraud in revenue recognition under auditing standards. We are now seeing auditors rebut this assumption and expect this to become more common going forward where companies can justify this.
External Auditor effectiveness explained

100%

Noted

All Audit Committee Reports documented the assessment of the effectiveness of the external audit process with varying degrees of detail on how this was carried out.

Internal Auditor effectiveness

85%

15%

Noted  Not noted

Whilst no companies reviewed had internal audit functions, 85% of Audit Committee reports articulated why there was no such function and documented their consideration of the company’s internal control framework.

Remuneration Committee reporting

Under the UK Corporate Governance Code 2016, Director Remuneration should be designed to promote the long-term success of the company. It is the role of the Remuneration Committee to judge where to position their company relative to other companies based on the time commitments and responsibilities of the role.

Just over 50 companies provided sufficient detail within their remuneration reports to identify remuneration for specific roles on the Board and Board committees. 55% each identified the respective fees of the Chairman of the Board and Directors, whilst slightly fewer (50%) identified the remuneration of the Audit Committee Chairman.

In our survey we also noted the highest and lowest fees for these specific roles and the average across the population observed. Whilst there is clearly a large range there was a strong correlation between the level of remuneration and the size of the operations of the entity.

Directors’ fees

<table>
<thead>
<tr>
<th></th>
<th>Chairman</th>
<th>Audit Committee Chairman</th>
<th>Non Executive Director</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>£198,000</td>
<td>£66,000</td>
<td>£138,000</td>
</tr>
<tr>
<td>Average*</td>
<td>£51,000</td>
<td>£37,000</td>
<td>£33,000</td>
</tr>
<tr>
<td>Low</td>
<td>£12,000</td>
<td>£10,000</td>
<td>£12,000</td>
</tr>
</tbody>
</table>

* after removing outliers (lowest and highest 5)
Good example
This provides a good example of setting out the tenure of the incumbent auditor and rotation plans and broadly how the auditor effectiveness has been assessed.

Acencia Debt Strategies Limited

ACENCIA DEBT STRATEGIES LIMITED
REPORT OF THE AUDIT COMMITTEE, continued

Auditor
The Audit Committee is responsible for overseeing the Company’s relationship with the external auditor, including making recommendations to the Board on their appointment of the external auditor and their remuneration. BDO Limited has been the Company’s external auditor since the Company’s inception. The lead audit director, Mr Justin Hallett was initially appointed for the year end 31 December 2012 audit. In accordance with normal audit director rotation arrangements, Mr Hallett will rotate off the audit of the Company at the conclusion of these Financial Statements. The Board has noted the revisions to the AIC Code issued in February 2013, in particular the recommendation to put the external audit out to tender at least every ten years. The Audit Committee has assessed the performance of the current auditor, as detailed below, and is satisfied with its effectiveness and as such no change in auditor is proposed.

To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- The external auditor’s fulfilment of the agreed audit plan and variations from it;
- The Audit Committee Report from the auditor highlighting the major issues that arose during the course of the audit; and
- Feedback from the Sub-Manager and Administrator evaluating the performance of the audit team.

Where non-audit services are to be provided to the Company by the auditor, full consideration of the financial and other implications on the independence of the auditor arising from any such engagement will be considered before proceeding. All non-audit services are pre-approved by the Audit Committee after it is satisfied that relevant safeguards are in place to protect the auditor’s objectivity and independence. No non-audit services were provided to the Company by the auditor during the year ended 31 December 2016.

To fulfill its responsibility regarding the independence of the external auditor, the Audit Committee considered:

- changes in audit personnel in the audit plan for the current year;
- a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the external auditor.

For the year ended 31 December 2016, the Audit Committee were satisfied that there were no factors which had any bearing on the independence of the external auditor during the course of the audit or the year under review.
Critical judgements and estimates

Most companies do not properly separate critical judgements in applying accounting policies and areas of estimation uncertainty

![Circle chart showing separate disclosures, combined disclosures, and none disclosed]

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Separate disclosures</td>
<td>33%</td>
</tr>
<tr>
<td>Combined disclosures</td>
<td>1%</td>
</tr>
<tr>
<td>None disclosed</td>
<td>66%</td>
</tr>
</tbody>
</table>

Companies typically disclose one or two areas of estimation uncertainty

<table>
<thead>
<tr>
<th>Area</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Selection of functional currency</td>
<td>33%</td>
</tr>
<tr>
<td>Application of IFRS 10</td>
<td>40%</td>
</tr>
<tr>
<td>Going concern</td>
<td>12%</td>
</tr>
<tr>
<td>Classification of leases</td>
<td>15%</td>
</tr>
<tr>
<td>Business combinations vs asset acquisition</td>
<td>7%</td>
</tr>
<tr>
<td>Operating segments</td>
<td>7%</td>
</tr>
<tr>
<td>Classification in the IFRS hierarchy</td>
<td>5%</td>
</tr>
</tbody>
</table>

The selection of the functional currency and the application of IFRS 10 are the most widely disclosed judgements

Companies typically disclose one to two areas of judgement in applying accounting policies

<table>
<thead>
<tr>
<th>Area</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuation of investments</td>
<td>63%</td>
</tr>
<tr>
<td>Valuation of investment property</td>
<td>23%</td>
</tr>
<tr>
<td>Taxation provisions</td>
<td>10%</td>
</tr>
<tr>
<td>Impairment</td>
<td>16%</td>
</tr>
<tr>
<td>Residual life of assets (leasing)</td>
<td>6%</td>
</tr>
</tbody>
</table>

The valuation of investments and investment property are the most common areas of estimation uncertainty

The majority of companies did include tailored disclosures rather than boilerplate wording

<table>
<thead>
<tr>
<th>Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tailored disclosures</td>
<td>28%</td>
</tr>
<tr>
<td>Boilerplate</td>
<td>72%</td>
</tr>
</tbody>
</table>
The FRC have announced that they are undertaking focused thematic reviews of financial statements covering critical judgements and key sources of estimation uncertainty. As part of our survey, we have therefore looked at the quality of disclosures in these areas.

Critical accounting judgements and key sources of estimation uncertainty are two distinctive disclosures and are often mistakenly merged together, despite IAS 1 requiring separate and different disclosures for each. Disclosure of accounting judgements under IAS 1 specifically excludes those involving estimation which are covered by the estimation uncertainty disclosures.

In our sample, only a third of companies actually separated the two disclosure requirements and hence this is an area where clear progress needs to be made. Even where companies had separated the two disclosures, there was sometimes confusion with accounting judgements being disclosed as areas of estimation uncertainty and vice versa.

One of the FRC’s main concerns is that disclosures provided are too generic and it was encouraging to see, however, that nearly three quarter of companies did provide tailored disclosures rather than template wording, which provides far more valuable insight to investors.

This is important as the FRC has stated that, when looking at areas of uncertainty, it expects to see descriptions of the relevant assets’ and liabilities’ nature and amount and quantified explanations of assumptions made. Where material it also expects information about the sensitivity of estimates to changes in assumptions, the range of possible outcomes and changes made to past assumptions during the year. This is clearly an area where companies can improve.

It is also important for companies to refresh their disclosures annually as we saw evidence of historical disclosures which had been rolled forward and did not seem to either reflect a critical judgement in applying an accounting policy or an area of material judgement. As an example, some companies disclosed the accounting for transactions as a critical judgement where no acquisitions had occurred in that particular year.

In terms of our sample, the most common areas of judgement in applying accounting policies were the choice of functional currency where entities transacted in a range of underlying currencies and the application of IFRS 10, specifically whether companies met the definition of an Investment Entity or whether an investment met the definition of a subsidiary.

Areas of estimation uncertainty focused on valuations of investments and investment property as would be expected given the types of companies included in our sample.

Key points to take away:

• Distinguish between judgements (other than those relating to estimates) and estimates.

• Make judgements and estimates company specific and provide all required detail including any sensitivity analysis.

• Refresh disclosures on an annual basis to ensure these are still relevant and appropriate.
John Laing Environmental Assets Group Limited

3. Critical accounting judgements, estimates and assumptions

In the application of the Company’s accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the fair value of assets and liabilities that affect reported amounts. Actual results may differ from these estimates.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Investments at fair value through profit or loss

Fair value of intermediate holdings companies

The Directors consider that the carrying value of the financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair value.

Fair value of environmental infrastructure investments

Fair value is calculated by discounting at an appropriate discount rate future cash flows expected to be received by the Company’s intermediate holdings, from investments in both equity (dividends and equity redemptions), subordinated and intercompany loans (interest and repayments). The discount rates used in the valuation exercise represent the Investment Adviser’s and the Board’s assessment of the rate of return in the market for assets with similar characteristics and risk profile. Underlying assumptions and discount rates are disclosed in note 9.

Critical accounting judgements

Equity and debt investment in UK HoldCo

The Directors have satisfied themselves that the equity and debt investments in UK HoldCo share the same investment characteristics and as such constitute a single asset class for IFRS 7 disclosure purposes. Please refer to the accounting policies in note 2 for further detail.

Investment entities

The Directors consider that the Company demonstrates the characteristics and meets the requirements to be considered as an investment entity. Please refer to the accounting policies in note 2 for further detail.
3. Significant accounting judgements, estimates and assumptions

Judgements
In the process of applying the Group’s accounting policies, which are described in note 2, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial information:

Operating lease commitments – Group as lessor
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties and therefore accounts for them as operating leases.

Estimates and assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Valuation of investment properties
The fair value of the Group’s investment properties, excluding those held for sale of €735.3 million (31 March 2016: €695.2 million), was determined by Cushman & Wakefield LLP (2016: Cushman & Wakefield LLP), an independent valuer. After adjusting investment properties for lease incentive accounting and Directors’ discretionary impairments of non-core assets described below, the book value of investment properties is shown as €727.3 million (31 March 2016: €687.5 million).

The Cushman & Wakefield LLP valuation is based upon assumptions including future rental income, anticipated maintenance costs and an appropriate discount rate. The properties are valued on the basis of a ten year discounted cash flow model supported by comparable evidence. The discounted cash flow calculation is a valuation of rental income considering non-recoverable costs and applying a discount rate for the current income risk over a ten year period. After ten years, a determining residual value (exit scenario) is calculated. A capitalisation rate is applied to the more uncertain future income, discounted to a present value.

The Directors also perform a review of the Cushman & Wakefield LLP valuation taking into consideration factors or information which may or may not have been factored into the Cushman & Wakefield LLP valuation. As a result of this review Directors have included an investment property write-down amounting to €4,968,000 relating to non-core assets in the year under review. See note 13 for further details.

As a result of the level of judgement used in arriving at the market valuations, the amounts which may ultimately be realised in respect of any given property may differ from the valuations shown on the statement of financial position.

Service charge
Service charge expenses are based on actual costs incurred and invoiced together with an estimate of costs which have been incurred at 31 March but are yet to be invoiced. The estimates are based on expected consumption rates and historical trends and take into account market conditions at the time of recording.

Service charge income is based on service charge expense and takes into account recovery rates which are largely derived from estimated occupancy levels.

Deferred tax
Deferred tax is measured at rates prevailing at the balance sheet date. Such rates are subject to governmental changes that are outside the control of the entity.

Additionally, management has to assess the recoverability of deferred tax assets and certain assets are not recognised due to uncertainties over the timing and nature of future events that will lead to their realisation. Accordingly, these unrecognised assets may have an impact on future corporate tax changes in certain circumstances.

Impairment of goodwill
The Group is required to test on an annual basis whether goodwill has suffered any impairment. The assessment and quantification of any such impairment charges are determined by key management judgements in terms of:

» detailed short-term budgeting on which the recoverable amounts calculated are based;
» determining the medium and long-term growth rates that are used in extrapolating these budgets over the goodwill’s indefinite useful economic life; and
» the discount rate applied to these extrapolated forecasts to calculate the present value of the cash flows.
There are a number of new standards which have been issued and IFRS 9 and IFRS 15 are effective for period beginning or after 1 January 2018 and IFRS 16 will be effective from 1 January 2019 onwards.

Given the significance of these standards, there is an expectation from the FRC that adequate disclosures will be made in the financial statements to explain how these new standards are likely to impact the company's results and financial position going forward. Indeed, the FRC wrote to companies in October 2017 to re-iterate the point. It explained it expected to see detailed quantitative disclosures regarding the effect of the new standards, including informative and detailed explanations of the company's analysis, which should be tailored to the company's specific circumstances and transactions, describe any key judgements which will need to be made in applying the new standards. The FRC was clear it expected a step change in the quality of these disclosures particularly in respect of IFRS 9 and 15.

In respect of our sample, it was disappointing to see that only 39 companies made reference to all 3 standards, whilst 5 companies made no reference to these new standards at all.

Out of the companies which provided some disclosures, the quality was generally poor with mainly boilerplate disclosure provided. Over half the companies explained that they did not expect any material impact but failed to explain how this conclusion was reached and nearly 20% of companies failed to provide any clarity as to the expected impact. In fact only 17% of companies provided adequate support for the statements made.

Key points to take away:

- Improve the quality of disclosures relating to new standards not effective by providing tailored and specific disclosures setting out the company's quantitative and qualitative analysis and describing any key judgements which will need to be made in applying the standard.
2.5.2 New and revised IFRSs in issue but not yet effective (continued)

<table>
<thead>
<tr>
<th>New or amended pronouncement</th>
<th>Nature and scope of new or amended pronouncement</th>
<th>Effect on the consolidated report</th>
</tr>
</thead>
<tbody>
<tr>
<td>IFRS 9: Financial Instruments</td>
<td>IFRS 9 replaces IAS 39: Financial Instruments: Recognition and Measurement. IFRS 9 introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as “fair value through other comprehensive income” in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. • The new model introduces a single impairment model being applied to all financial instruments, as well as an “expected credit loss” model for the measurement of financial assets. • IFRS 9 contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the consolidated financial statements. • IFRS 9 carries forward the derecognition requirements of financial assets and liabilities from IAS 39.</td>
<td>The standard is effective on or after 1 January 2018. Although early adoption is permitted Phaunos has established that the impact will be minimal. The Company’s financial instruments consist of equity instruments. Due to the cash flow characteristics of such financial instruments, on application of IFRS 9, they will continue to be classified as fair value through the profit or loss. In addition, the Company does not have debt instruments or apply hedge accounting and the valuation model is consistent with the Company’s current methodology. It is anticipated that this application of IFRS 9 will not change the measurement and presentation of the current financial instruments.</td>
</tr>
</tbody>
</table>

Good examples

This is a good example of a Company that has considered the requirements of IFRS 9, articulating why this new standard has no implications for them.

Phaunos Timber Limited
Auditor landscape

Out of 99 companies, only 14 (14%) are audited by non-Big Four firms

December continues to be the preferred year-end (45% compared to 50% 4 years ago), although March year-end now account for almost a quarter of year-ends, as new entities are more flexible in their choice of year end

Nearly half did not identify auditor tenure

38% of companies surveyed did not identify an auditor rotation plan
Audit tendering and rotation
The EU Statutory Audit Directive of 2014 requires mandatory rotation for auditors of public interest entities (PIEs) at least every 10 years. In the UK this is extended to 20 years where a tender is conducted at the 10 year mark. If the PIE has not conducted a competitive tender process in the past 10 years, the tender must be conducted for the year commencing on or after 17 June 2016, other than where the transitional arrangements apply.

A four year cooling-off period applies to the audit firm and any members of the audit firm’s network prior to re-appointment as the statutory auditor.

Audit partner rotation for PIEs and listed entities is 5 years on, 5 years off – this may be new for unlisted PIEs and those listed outside the UK and Ireland.

Although the above rules are not applicable to companies in the Channel Islands, we have noted various Boards embracing the above rules voluntarily.

The key dates that PIEs use to assess whether transitional arrangements apply is whether the auditor was first appointed for a financial year beginning before 17 June 1994 or on or after 17 June 1994 but before 17 June 2003 and whether they continue to hold office on 17 June 2016. There are three possibilities which depend on these dates.

Part of the intention of audit tendering and rotation rules was to reduce the Big Four audit firm’s footprint with listed entities. Out of 99 companies, only 14 (14%) are audited by non-Big Four firms. This compares to 20% 4 years ago and hence despite unprecedented tendering activity, the share of non-Big four firms has reduced.

Key points to take away:
- Companies should be considering rotation as part of the auditors effectiveness assessment. The lack of disclosure in this regard would suggest that this is not being considered.