# *In depth*
# A look at current financial reporting issues

*17 December 2018*
*No. INT2018-15*

## *Accounting implications of the UK's Brexit decision for December 2018 period ends – 17 December 2018*

### *At a glance*

The UK is due to leave the European Union on 29 March 2019. As the UK continues to negotiate its exit, UK businesses should be considering how this new political landscape will impact their organisations. Irrespective of the outcome of the negotiations, whether that be with or without a deal, there will likely be significant changes for many UK businesses. But this is not just a concern for UK businesses, Brexit might also impact overseas entities doing business with the UK, as well as groups with substantial UK operations.

For some businesses, the shape of the UK's future relationship with the EU remains too uncertain to take action. However, in our view, by now management should have identified and assessed the Brexit-related risks that apply to their business and should be considering the impact on accounting and reporting. In particular, we believe this would include:

- **Disclosures -** Detailed and entity specific disclosure of the Brexit-related risks should be made in the accounts to explain the judgements taken, assumptions made and the impact on the entity's operations. The FRC has made it clear that it expects entities to disclose information about the specific and direct challenges to their business model and operations, as distinct from information about broader economic uncertainties. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, the FRC expects entities to identify these clearly and for management to describe any actions they are taking, or have taken, to manage the potential impact. The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions.

- **Subsequent events -** Careful analysis is required to identify whether the impact of events that occur between the year end and the date of signing the financial statements would require either an adjustment to the amounts recognised at period end or disclosure only, or whether the ability of the entity to continue as a going concern is called into question.

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- **Impairments and valuations -** Valuations, measurements and recoverable amount calculations that use market inputs should reflect market data at the balance sheet date. If valuation techniques and estimates are applied, cash flow models for impairment testing will likely require a wider range of outcomes than usual to reflect a broad spectrum of possible Brexit scenarios.

- **Restructuring -** Some entities have already or are considering reorganising their business in preparation for a potential Brexit. It is unlikely that contemplated restructuring will have an immediate impact on the financial statements at, say, 31 December 2018. However, plans over time could result in an impairment/disposals of assets, recognition of provisions or changes to segments and disclosure. In addition, the accounting for group restructurings in separate accounts can be complex, in particular, for the individual entity receiving a business in a common control transaction.

- **Directors duties and dividends -** Directors need to consider, apart from statutory duties, their fiduciary duties to safeguard the company's assets and ensure that the company is able to pay its debts as they fall due. This would be relevant when deciding on dividend payments during 2019 as Brexit might affect the company's financial position.

- **Tax -** The withdrawal agreement and any new trade agreement, when finalised, could result in significant changes to the tax law that applies to UK and EU companies. Some of the main areas that could be impacted by Brexit include tax on rolled-over gains from certain previous reorganisations, withholding taxes on certain dividends and measurement of deferred tax assets.

- **Interim reporting -** Entities need to consider the extent to which additional disclosures are necessary in any interim report, to explain changes since the last annual report.

We will continue to update our financial reporting guidance as the full impact of Brexit develops.

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# What's inside?



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# *Events after the balance sheet date*

*Should the financial statements be adjusted to reflect developments subsequent to the balance sheet date, or should the potential impact of those developments be disclosed?*

*Reporting implications*

- Do events and developments subsequent to the year end reflect conditions that existed at the balance sheet date, in which case adjustment should be made to the financial statements, or are they non-adjusting events the nature and impact of which should be disclosed?
- Further discussion of this important consideration is provided in the Appendix.

# *Narrative reporting - strategic and governance reports*

*Is the annual report "fair, balanced and understandable" in showing the potential impact of Brexit?*

*Reporting implications*

- Could potential impacts of Brexit have repercussions for the business model with regard to resources, relationships and capital, that is, the critical inputs on which the business relies?
- Is there an international supply chain or key market that might become more difficult to operate in or enter with future trade barriers or customs checks?
- Are there possible impacts on people/employees both in and outside of the UK? Would this affect distribution networks or ability to work over cross-border territories?
- How do the short and long-term impacts vary? If there is a three or five year strategic timeframe, does this need refreshing or revisiting to take into account potential changes in the future?
- Have the varying outcomes of Brexit ("hard", "soft", "no-deal") been considered as part of the viability and going concern assessments?
- Are the outcomes of Brexit pervasive across previously identified principal risks, or are there new risks to identify, explain and mitigate against?
- What actions have the board undertaken during the year to assess Brexit in relation to their role in governance and setting strategy?
- Some practical example of potential area to be considered include: increased tariffs and duty for both import and export, administrative workload and costs in submitting data on customs and regulatory standards, risks regarding acceptability of product standards, devaluation of Sterling resulting in increased input costs and delays at UK entry ports leading to disruption of production lines.

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# Impairments

*Is there an impairment indicator? Do impairment models change? Have expected credit losses increased?*

## *Accounting implications under IAS 36*

- The consequences of Brexit may have a potential adverse impact on cash flows and trigger an impairment test. Annual tests of goodwill and indefinite lived intangibles carried out earlier in the period might need updating for year-end reporting and cash flow forecasts should reflect the potential impact of Brexit. Volatile share prices might drive market capitalisation below net asset value and trigger an impairment test (IAS 36 paragraph 12(d)).
- Increased risk and uncertainty should be factored into the impairment test. Budgets and forecasts from an earlier date and used to determine the recoverable amount will need to be revised to reflect the economic conditions at the balance sheet date.
- An expected cash flow approach (multiple probability-weighted scenarios) might be more appropriate to estimate the recoverable amount than a traditional approach (single predicted outcome) to capture the increased risk and uncertainty. There might be a range of potential outcomes considering the best and worst case scenarios. For example, a range of scenarios might be needed where entities import or export to or from the UK, to reflect the different potential trade arrangements that might come into existence. Whichever approach management chooses to reflect the expectations about possible variations in the expected future cash flows, the outcome should reflect the expected present value of the future cash flows.
- Where a traditional approach is followed, most of the projection risk is generally included in the discount rate. In a model with multiple scenarios most of the projection risk would however be included in the cash flows via the various scenarios. Therefore, if models change, the discount rate might also need to be updated.
- Discount rates are typically based on the weighted average cost of capital for the entity, the entity's incremental borrowing rate and other market borrowing rates. Typical adjustments might include: the UK country risk, which would have increased due to Brexit, GBP currency risk, which would have increased due to the GBP volatility and whether cash flows are optimistic or stretch targets. However, the discount rate should not reflect or be adjusted for risks for which the estimates of future cash flows have been adjusted for already. This is to avoid double counting.
- Future cash flows are estimated in the currency in which they arise using a discount rate in that currency. The present value is then discounted using a spot rate at the date of the value in use calculation (that is, the spot rate at year end). Therefore, any additional volatility in the exchange rates could change the recoverable amount calculations.

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- Reliable forecasts to calculate value in use or fair value less costs to dispose over the next few years, and in particular the terminal year, will likely be subject to significant uncertainty that might not be resolved until the exit date in March 2019 or in any transition period, for example up to 31 December 2020. Even as the exit day approaches there may be uncertainties about the future relationships in certain scenarios, for example the Brexit day may be delayed if no agreement can be reached. In these cases, we believe that disclosures on assumptions around estimates taken, sensitivities and range of possible outcomes under IAS 1 and IAS 36 would be critical.

*Accounting implications under IFRS 9*

- Entities will need to measure impairment based on expected credit losses. This requires that forward-looking information (including macro-economic information) is considered both when assessing whether there has been a significant increase in credit risk (not applicable for the simplified approach) and when measuring expected credit losses. Forward-looking information might need to include additional downside scenarios related to Brexit, which might be achieved by 'overlay' if not included in the existing expected credit loss model.
- For any financial assets that are in the scope of the IFRS 9 impairment requirements (for example loans and receivables, debt instruments not measured at fair value through profit or loss, contract assets, or lease receivables) an entity should consider whether:
    - the credit risk (risk of default) has increased significantly; and
    - the loss as a result of default has increased due to a decrease in the fair value of a non-financial asset pledged as collateral.

*Operational implications*

- Management need to carefully monitor the impact of Brexit and of decisions that might be taken going forward, on expected cash flows and interest rates. Export and import profiles might change and impact costs and cash flow model. Industry outlooks should be considered.
- Consider using more sophisticated cash flow models to project different outcomes.
- Different Brexit scenarios might cause management to amend or terminate agreements on leases, loans or other third party agreements. Such amendments as well as any restructurings or redundancies may also impact cash flow models.
- Gather relevant data (including forward-looking macro-economic information) to be able to assess whether there is a significant increase in credit risk and to what extent the 12-month, or lifetime expected credit losses, have changed.

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# Valuations

*Is the value of assets impacted?*

## *Accounting implications*

### *General principles*

- If an asset or liability is measured at fair value on the basis of quoted prices in an active market, the relevant prices are those at the balance sheet date. Subsequent movements in these quoted prices are non-adjusting events. The same principle applies where fair values are estimated - the estimates should reflect market data at the balance sheet date and not be adjusted for subsequent market movements. However, events after the balance sheet date might provide evidence of what a market participant might have reasonably assumed at the balance sheet date, and such information should be reflected in the financial statements. There is further discussion of events after the balance sheet date in the Appendix.
- The paragraphs that follow describe the specific valuation considerations for a number of specific assets and liabilities.

### *Inventories*

- It might be necessary to write-down inventories to net realisable value. In particular, entities with property under development classified as inventory could be impacted by a fall in property prices.
- Depending on the type of Brexit and the ensuing customs arrangements, there could be additional directly attributable costs such as import duties that would increase the cost of certain inventory on recognition in the future when acquired for higher costs. A higher cost base could trigger write-downs in the future.

### *Investment properties and property, plant and equipment measured at fair value*

- There might be greater volatility in the fair values of PPE following Brexit. Accounting standards do not necessarily require period end valuation, but they do have to be sufficiently regular to ensure the carrying amount does not materially differ from the period end amount. Therefore, a revaluation should be performed at the balance sheet date if the carrying amount is likely to be materially different from the fair value.
- The fair value of investment properties should be determined at the balance sheet date. An entity should maximise the use of market data, where available, at that date. Inputs and models used to measure fair value of assets falling into level 3 might need to be updated.

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*Subsidiaries, associates and joint ventures measured at fair value*

- The fair values of investment entities, associates and joint ventures measured at fair value might be affected by equity market volatility. The starting point for valuations of listed companies are the market prices as at the reporting date for the number of shares held.
- Entities are required to disclose changes in business or economic circumstances that affect the fair value of investment entities or investments in associates and joint ventures carried at fair value under IFRS 9.

*Financial instruments*

- The volatility of prices on various markets has increased since the Brexit referendum. This affects the fair value measurement either directly - if fair value is determined based on market prices (for example, in case of shares or debt securities traded on an active market) or indirectly - if the valuation technique is based on inputs that are derived from volatile markets.
- Counterparty credit risk and the credit spread that is used to determine fair value might increase if the counterparty is engaged in industries/territories that are potentially affected by Brexit.
- The change in the fair value measurement affects the disclosures required by IFRS 13. The sensitivity analysis required for recurring fair value measurements categorised within level 3 of the fair value hierarchy might be affected.
- An entity has to provide several disclosures on the valuation techniques and the inputs used in the fair value measurement. Most of them are required in annual and interim financial statements. These might need to include the impact of Brexit and the matters noted above.

*Operational implications*

- Additional independent valuations for affected assets might be needed.
- Entities should ensure that their operating systems and staff are able to process the recognition of additional costs, for example additional duties on inventory, appropriately.
- Assess real estate prices and indices to determine if any changes are needed.
- Consider whether the inputs used in the fair value measurement need to be updated.

## *Disclosures including financial risk*

*Are additional disclosures required?*

*Accounting implications*

*General disclosures*

- Critical judgements, sensitivities and risk exposures might be significantly impacted by the potential economic consequences of Brexit.

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- The extent of disclosures regarding estimation uncertainty might need to be increased. For example, the carrying amount of more items might be subject to a material change within the next year.
- Management should consider the potential implications of Brexit when assessing the entity's ability to continue as a going concern. Uncertainties over going concern should be disclosed.

*Financial risks*

- Entities will need to assess whether there is a change in their financial risks such as credit risk, liquidity risk, currency risk and other price risk that needs to be reflected in disclosures. For example, there might be a change in the credit risk on an entity's financial assets, and management's activities as to how they react to these changes should be disclosed. Another example would be where there was a change in liquidity risk including different sources of finance then that should be disclosed. In addition there could be other operational implications that affect financial risks as set out below.

*Operational implications*

- Analyse risk management in the light of the changes in the economic environment and assess to what extent adjustments are necessary.
- Gather the relevant information to meet the disclosure requirements in IFRS 7. This is the case, in particular, if there are investments denominated in GBP or in industries/territories that are economically impacted by Brexit.
- Assess whether the economic developments will impact the entity's ability to obtain funding.
- Review specific contract terms impacted or potentially impacted by Brexit, including possible termination clauses (for example, IFRS 15 contract duration and IFRS 16 lease term).
- Assess covenants' terms to identify any breaches as a result of changes in the value of assets and liabilities.

## Foreign exchange rates

*Which foreign exchange rate should be used?*

*Accounting implications*

- Exchange rates for GBP have been more volatile since the leave vote and are expected to remain so until there is more certainty on Brexit (deal, no deal etc.). An average rate that approximates the actual rate at the date of transaction can be used for practical reasons. However, the use of an average rate is not appropriate if exchange rates fluctuate significantly. The use of an average rate may no longer be appropriate. An entity should also consider the period over which the average rate is calculated.
- The length of the period over which average rates are calculated (monthly, quarterly etc.) depends on the extent to which daily exchange rates fluctuate in the period selected. The more stable a rate is the longer the period can be over which the average rate is calculated.

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- Closing exchange rates must be spot rates at the balance sheet date. Post balance sheet movements in these rates are non-adjusting events.

### *Operational implications*

- Systems and processes might need to be updated to capture exchange rates differently.

## *Hedge accounting*

*Is hedge accounting impacted?*

### *Accounting implications*

- The realisation/timing of forecast transactions might change. For example, the timing and/or amount of future revenues or the timing of a planned bond issue might change as a consequence of current uncertainty.
- An entity that has designated a forecast transaction as a hedged item needs to assess whether the transaction is still highly probable of occurring. If a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss. A change in the timing of a forecast transaction can result in ineffectiveness.
- Where there are differences between the critical terms of the hedging instrument and the hedged item, the volatility following Brexit and the resulting political decisions might result in additional ineffectiveness. Examples include where there are differences in the timings (for example, reset dates on floating rate borrowings and swaps used to hedge) or in the underlying hedged risks.
- Changes in the credit risk of the derivative financial instrument designated as hedging instrument might also result in additional ineffectiveness (or even result in discontinuing hedge accounting if credit risk of one of the counterparties begins to dominates the hedge relationship).

### *Operational implications*

- Assess to what extent the current economic developments change management's intention and/or ability to enter into forecast transactions.
- Assess the impact of any additional ineffectiveness arising from Brexit.
- Understand any proposals to restructure hedging arrangements by the other party.
- Undertake general risk assessment and consider new hedging contracts to minimise additional risk.
- Financial institutions might restructure their derivative offerings or wish to exit the UK market or certain industries. Therefore, some hedging instruments might be discontinued and the entity will need to consider whether it can or wants to continue to hedge the original risk.

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# Restructuring and personnel

*Are additional provisions needed? Are pensions and share-based payments impacted?*

## Accounting implications

- The relevant standards require estimates of provisions to be updated at each balance sheet date based on expectations and market conditions.
- Restructuring provisions are recognised when there is a present obligation. A present obligation exists only when an entity has a detailed formal plan and has raised valid expectations about those plans. This typically follows an announcement of the intention to restructure. It is unlikely that the recognition criteria would be met for any restructuring that is being contemplated as a result of the outcome of the UK referendum prior to the start of the implementation of a detailed plan.
- Existing provisions, including employee benefits and cash-settled share-based payments should be reviewed to:
  - Update discount rates for market movements;
  - Update expected cash flows for changes in assumptions, including the impact of exchange rate volatility and possible changes in inflation expectations.
- Plan assets for defined-benefit pensions should be updated to reflect fair value at the balance sheet date.
- The expectations for the outcome of performance conditions on share-based payments should be updated.
- The fair values of liabilities with respect to cash settled share based payment plans may change as a result of Brexit related scenarios.
- The grant date fair value of new share based payment plans will be affected by share price volatility which in turn is impacted by Brexit related scenarios.
- Care should be taken if management decides to restructure the business by hiving businesses up, down or across within the common control group. The accounting outcome may differ depending on consideration paid (nil, cash, intercompany, share for share exchange) and whether new shell companies are involved or not.

## Operational implications

- Continue to assess the impact of changes on provisioning and monitor any restructuring plans to identify if, and when, a provision should be recognised.
- Review share-based payment contracts to assess any changes to non-market based vesting conditions.
- A revised valuation of plan assets might be required.
- Advice on structuring may need to be sought if group restructurings are planned.

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# Changes to company law

*What changes to the legal framework need to be considered?*

## Reporting implications

- Regardless of the nature of the final Brexit arrangements, there are numerous references in the Companies Act to the EU or to the EEA that will likely need to be revised in order to reflect the UK's status as a 'third country'. Such changes could include:
  - The exemption from preparing individual accounts for dormant subsidiaries (section 394A) would be available only to subsidiaries of UK, not EEA, parents. The exemption from filing dormant accounts (section 448A) would change similarly.
  - An 'ineligible group' for the purpose of determining exclusion from the small companies regime (section 384) would include a UK, rather than EEA, traded company. So this would broaden the exemption (groups including, say, a French listed company will no longer be ineligible).
  - The exemption from preparing a non-financial information statement (section 414CA), which currently applies to subsidiaries of EEA parents, would only be available to subsidiaries where the parent produces a group strategic report that includes a group non-financial information statement.
  - UK businesses with a branch operating in the EU would be required to comply with specific accounting and reporting requirements in the Member State in which they operate. Compliance with the accounting and reporting requirements of the Companies Act 2006 may no longer be sufficient.
- It seems likely that companies listed in the UK will continue to apply IFRS, and that at the point of Brexit the applicable standards will be extant standards endorsed for use within the EU. However, in future UK companies listed on an EU market might be required to provide additional assurance to the relevant listing authority that their accounts comply with IFRS as issued by the IASB, in accordance with current EU third country requirements.
- Companies to which IFRS 17 applies need to monitor the endorsement process as it may diverge between the EU and the UK.

# Profit distributions

*What needs to be considered regarding dividends?*

## Distribution implications

- Statutory rules as well as guidance from the Institute of Chartered Accountants in England and Wales exist regarding distributions under the 2006 Act. However, directors need to also consider that certain aspects of the common law are relevant to distributions as well. It is illegal for a company to make a distribution out of capital. It is a statutory duty that Directors bear in mind the 'relevant accounts' when considering a distribution. But, in reaching a decision on distributions, Directors must also take into account any change in the financial position of the company after the balance sheet date of the relevant

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accounts and the future cash needs of the company. This means that Directors must also bear in mind post balance sheet events and any expectations of future trading losses.

- The obligation on Directors to safeguard the company's assets and take reasonable steps to ensure that the company is in a position to settle its debts as they fall due is a fiduciary duty. If profits have been eroded by subsequent realised losses after the balance sheet date of the 'relevant account', Directors have a fiduciary duty to consider both the immediate cash flow implications of the distribution and the continuing ability of the company to pay its debts as they fall due. When profits are volatile, for example because of uncertainty over implications of Brexit, directors should consider whether it is prudent to distribute those profits, even though they may otherwise be realised profits.

## *Tax accounting implications*

*How should any potential tax implications of Brexit be reflected in the financial statements?*

### *Accounting implications*

- IAS 12 does not address tax uncertainties specifically, but a liability is generally recognised at the amount that is expected to be paid, measured on the basis of tax rates and laws that have been enacted or substantively enacted by the end of the reporting period. The guidance envisages that tax laws are enacted through national parliaments. Brexit is different because enactment of the UK's notice of withdrawal from the EU occurred before any replacement arrangements were known. In effect, giving notice under Article 50 represented the commencement and not the culmination of a legal process.
- There is clearly substantial uncertainty as to what will transpire in relation to specific tax arrangements depending on what deal may or may not be struck.
- A key question is *when* entities should reflect the impact of Brexit in their accounting for income taxes. Our view is that this represents a change in tax status in accordance with SIC 25, 'Income taxes - Changes in the tax status of an entity or its shareholders'. SIC 25 states that a change in tax status may occur upon a controlling shareholders move to a foreign country. We believe that the UK ceasing to be a member of the EU changes the tax status of entities that are subject to EU law. This approach might suggest that the impact of Brexit is recognised on exit day if there is no agreement or transition period, because this is the date on which EU law ceases to apply to certain transactions, or at the end of any transition period if specific changes in tax law are not enacted before that date, or on the date when specific changes in tax law are enacted.
- Irrespective of when the tax consequences are accounted for, for disclosure purposes entities need to assess the potential tax consequences of the withdrawal agreement. That is, after assuming that withdrawal will happen in whatever form, entities then make continual re-assessments of the potential tax impact of the withdrawal agreements and the amounts expected to be paid.
- It is likely that, during the negotiation process, entities might be aware that potential exposures exist, but the outcome will be insufficiently clear to make an estimate of the amounts involved. In this case, as in the case for all uncertain tax positions, good-quality disclosure of the judgements taken by management and of the potential exposures should be given.

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- As noted above, IAS 1 requires disclosure of significant judgements made by management, as well as major sources of estimation uncertainty. IAS 37's disclosure requirements also apply to tax-related contingencies. These disclosures are potentially more onerous than the disclosures on sources of estimation uncertainty under IAS 1. The UK's Financial Reporting Council ("FRC") gave some example disclosures, in these circumstances, in its thematic review of tax disclosures. The FRC has also made clear that it expects better disclosure of tax uncertainties, and this could be a prime example of where Corporate Reporting Review Team ("CRRT") of the FRC might challenge companies that are vague or boilerplate in their disclosure, especially given the FRC's call for companies to make better disclosure generally of the risks and uncertainties associated with Brexit.

## Questions?

PwC clients who have questions about this *In depth* should contact their engagement partner.

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# Appendix

## Events after the balance sheet date

IAS 10 requires an entity to evaluate information available after the balance sheet date to determine if such information constitutes an adjusting event, which would require an adjustment to the financial statements, or a non-adjusting event, which would only require disclosure. IAS 10 defines an adjusting and non-adjusting event as follows:

- **Adjusting event -** Provides evidence of conditions that existed at the end of the reporting period: For example, the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted.

- **Non-adjusting event -** Indicative of conditions that arose after the reporting period: Examples include a decline in fair value of investments between the end of the reporting period and the date when the financial statements are authorised for issue.

It is expected that the Brexit debate will continue into 2019 and potentially beyond, which is likely to create significant uncertainty for December period-end reports. Indeed, there might even be uncertainty regarding what the conditions existing at the balance sheet date actually are. This means that entities will need to consider developments in 2019 as part of their assessment of subsequent events. There will therefore be judgement involved in determining whether post year-end Brexit developments are considered to be adjusting or non-adjusting events.

Where the developments can reasonably be considered to provide additional information about the uncertainties that existed at the reporting date, it would be appropriate to reflect this additional information in the recognition and measurement of assets and liabilities at the balance sheet date as an adjusting event. For example, we believe it would be acceptable for management to make adjustments to estimates where the revised estimate is within a reasonable range of assumptions that would have been appropriate based on circumstances that existed at the balance sheet date. However, continued existence of an uncertainty or continuation of a previously observed trend would not usually warrant further adjustment. This is because the uncertainty and/or trend should have been incorporated into the consideration at the balance sheet date.

Brexit is an ongoing political process and there might be a significant change in the direction of Brexit after the balance sheet date (for example, a decision to hold a second referendum). Such significant changes are likely to be non-adjusting events because they reflect a change to the circumstances that existed at the balance sheet.

The going concern basis of preparation is not applied to financial statements where events after the balance sheet date indicate that the going concern assumption is no longer appropriate. This is the case even if those events would otherwise be considered non-adjusting.

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Non-adjusting events do not result in adjustment to the financial statements but do require disclosure. This disclosure should include the nature of the event and an estimate of its financial effect. If it is not possible to make an estimate of an event's financial effect, an entity must disclose that fact. In our view, entities should ensure that this disclosure is clear, transparent and specific to the circumstances of the entity; broad statements regarding the general economic environment will not provide useful information to users of the financial statements.

It is essential that uncertainties around Brexit are featured in the context of an entity's disclosures about significant estimates. IAS 1 requires that entities disclose information about the assumptions it makes at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Such information might include sensitivity of carrying amounts to such assumptions. Other standards requires specific disclosures for estimates, for example, disclosures where there is a reasonably possible change to a key assumption that would cause a non-financial asset to be impaired.

Determining whether events are adjusting or non-adjusting could also be a significant judgment that requires disclosures under IAS 1. This disclosure would be in addition to any disclosures around significant estimates.

There is specific guidance on how to consider post balance sheet events in the context of taxation, fair value measurement and foreign exchange rates, and these are considered in the relevant sections of this paper.

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