



Brexit and financial reporting – Telling your story

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Impacts to consider in 2020 financial reports

When the UK and the EU agreed the terms of a free trade deal on Christmas Eve, many may have felt a sense of relief and were eager to remove Brexit uncertainty from their 2020 financial reporting agenda.

I wouldn't rush to do this.

The new trade deal does not mean 'business as usual': companies on both sides of the Channel – in the EU and in the UK – may need to implement changes and may experience disruption as the new rules are being ironed out. Nor does the trade deal cover every aspect of the future relationship between the UK and the EU – for example, financial services and data are subject to further discussions.

I would keep Brexit on the list of impacts to consider in preparing your 2020 financial reports and would focus on:

- understanding what the change in the relationship between the UK and the EU means for your company and if there is any remaining uncertainty about this;
- determining if there are any potential impacts to reflect in your 2020 financial report; and
- telling a meaningful story in your financial statements.

Understanding the change

The extent of the impact on your company (or group) will vary, depending on an EU company's direct and indirect connections with the UK and similarly a UK company's connections with the EU. Don't jump to a conclusion that you are not impacted because all of your customers and suppliers are on the same side of the Channel – your suppliers' suppliers may not be.

It is important to understand what the 'new normal' will mean for your company and whether the change in the relationship between the UK and the EU will impact your customer demand and profitability, as well as supply chains, taxes and regulation, financing, movement of people, contracts and market access, among other things. This will not be an easy task – any of these might require you to talk to experts in some detail.

Although the areas of change may be known – such as new 'rules of origin', supplier declarations and customs paperwork, a new immigration system and the end of free movement – some specific details may still be uncertain at present. But don't use uncertainty as an excuse for doing less in preparing your 2020 annual report. It is quite the opposite – you may need more time and effort to determine the impact

of change on your company and to arrive at estimates you can use in preparing your financial statements.

Determining any impacts

You may be wondering why we need to bother reflecting the impact of Brexit in 2020 financial reports, when the new relationship only began on 1 January 2021 and the UK was still subject to the EU rules until 31 December 2020?

This is a question I'm asked quite often. The reason is that a number of assumptions and estimates in the financial statements are based on forecasted future cash flows – such as your assessment of going concern and the recoverability of assets. Unless you have determined that your company is not exposed to any potential impacts from Brexit – directly or indirectly – your forward-looking assumptions and estimates should consider the effects of this new relationship.

Admittedly 2020 financial reporting is likely to be dominated by the COVID-19 pandemic and its impacts. But in forecasting future cash flows and making its assessments, a company needs to consider all factors, including any potential impacts of Brexit.

One area to watch out for is income tax – both current and deferred. It is often overlooked. Although taxation in the EU is based on common principles, it is largely driven by complex local tax laws and regulations, which may be unclear and open to interpretation. For example, it may be unclear whether any previously tax-exempt gains on transactions between UK and EU companies – such as past reorganisations or transfers of assets – would trigger a tax liability once the transition period ended on 31 December 2020, and it may be challenging to determine which existing tax rules will apply to future transactions such as dividend distributions.

Telling your story

During periods of heightened uncertainty, users will look for information in the financial statements as well as broader corporate reporting to better understand the effects of this uncertainty and to understand how your company is responding to potential risks. So, communicating effectively has never been more important – you need to tell a meaningful story in the financial statements, explaining how Brexit impacted your company and what judgements and estimates you made. And don't forget – regulators are also watching!

For them and for you, Brexit remains on the 2020 financial reporting agenda. Brexit may be done but we are not done with it – not just yet!

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