Ihre Ansprechpartner

Sehr geehrte Damen und Herren,

für Rückfragen zu der beigefügten Publikation „In brief“ zur Thematik
„Impact of UK referendum result on financial reports“
stehen Ihnen folgende Ansprechpartner gerne zur Verfügung:

Andreas Bödecker
Tel.: +49 511 5357-3230
E-Mail: andreas.boedecker@de.pwc.com

Guido Fladt
Tel.: +49 69 9585-1455
E-Mail: g.fladt@de.pwc.com

Karsten Ganssauge
Tel.: +49 40 6378-8164
E-Mail: karsten.ganssauge@de.pwc.com

Wolfgang Weigel
Tel.: +49 69 9585-2574
E-Mail: wolfgang.weigel@de.pwc.com

In brief
A look at current financial reporting issues

24 June 2016

Impact of UK referendum result on financial reports

Issue

Now that the UK has voted to leave the EU, there will be a protracted period of negotiation, and many months of uncertainty as the detailed political and legal issues are worked out and the real impact of leaving unfolds. It will be at least two years, and probably longer, until the UK actually leaves the EU. This uncertainty will likely impact all UK businesses and those that do business/ invest in the UK. There has been an immediate impact on the financial markets, both in the UK and overseas, with the pound significantly weakening against other currencies and share prices fluctuating as the market reacts to the decision.

For entities that are reporting either full year or interim results at 30 June, there is a need to consider a number of accounting and reporting issues. This In brief provides an overview of some potential issues and the relevant guidance under IFRS.

Impact

Risk and uncertainty

Whilst it is impossible to predict the impact on the economy in the coming years, there could be significant impairment, going concern and/or capital issues to consider. An immediate impact of volatile currency markets is that import costs into the UK could increase, which could be relevant for impairment and going concern judgements. Entities in the UK or those who trade with the UK will likely have to reassess their trading outlook once there is more clarity on the impact of the decision, as the impact could be substantial.

Risk disclosures (operational and financial) will undoubtedly need to take account of the volatility in financial markets. IFRS 7 requires a company to disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the reporting date. [IFRS 7 para 31]. This includes both quantitative and qualitative disclosure of market, credit and liquidity risks, with the market risk disclosure being broken down into interest rate risk, currency risk and other price risk.

Sensitivity calculations and related disclosures will also be affected. IAS 1 requires disclosure about ‘sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity’, along with, ‘Explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved’. [IAS 1 para 129]. Both of these requirements are clear that any assumptions and related sensitivity calculations should be clearly disclosed.

IAS 34 has additional disclosure requirements for interim financial reporting which should be considered. An entity is required to disclose “changes in the business or economic circumstances that affect the fair value of the entity’s financial assets and financial liabilities.” [IAS 34 para 15B(h)].

Impairment testing

One of IAS 36’s indicators of impairment is “significant changes with an adverse effect ... in the technological, market, economic or legal environment”. [IAS 36 para 12(b)]. While it might be too early to conclude whether the impact is ‘adverse’, in the short term many entities will need to consider whether the vote does increase the risk of impairment.

For the purposes of impairment testing for non-financial assets, there are a number of areas to consider. Firstly, for value in use calculations, the present value of future cash flows denominated in a foreign currency must be translated to the entity’s functional currency at the spot rate of exchange at the date of the calculation. Over time, any significant swings in the foreign exchange rate could lead to impairment indicators in future accounting periods which would lead to additional forecasts being prepared to support current asset values. Secondly, companies may need to reconsider cash flows that are included in the forecast. Although there will be a period of time before the impact of the leave vote is known, the sales and cost projections may well need to be updated to reflect any initial impact on demand and supply of the products or services underlying the cash flows. Further, companies should also consider any impact on determining the discount rate used for impairment testing.

IAS 39 similarly notes that “objective evidence of impairment for an investment in an equity instrument includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates”. [IAS 39 para 61]. Companies should therefore also consider impairment of financial assets and whether there has been a significant decline in the fair value of an investment in an equity instrument below cost.