Continuing uncertainty about the UK’s departure from the EU could impact estimates, judgements, disclosures as well management decisions on changes in the organizational structure of companies. As a result, Brexit can have accounting and reporting implications.

**Introduction**

The United Kingdom (UK) is scheduled to leave the European Union (EU) on 29 March 2019. At present, there is still uncertainty about the terms on which the UK will leave the EU, and whether transition arrangements or other factors may affect the timing and magnitude of any impacts of departure. Various scenarios, including a no-deal exit or an extended period of negotiations, remain possible at this stage. This level of uncertainty associated with the UK’s departure (Brexit) can be significant for companies and could have an immediate impact on the financial statements over the financial year 2018.

During periods of heightened uncertainty and market volatility, users will look for information in the financial statements as well as broader corporate reporting to better understand the effects these conditions may be having on the entity’s historical financial performance and to understand the actions taken by management to respond to potential risks. Recent research of, among others, KPMG has indicated that only a minority of the Dutch companies are well prepared for Brexit.

From a preparer’s perspective, robust and meaningful disclosures in annual reports about the entity’s exposure to the risks associated with Brexit and their impact on the financial statements are key. Users and regulators are expected to pay particular attention to disclosures about Brexit in 2018 reports. Some regulators, including ESMA and the US SEC, have highlighted Brexit disclosures as a specific area of focus.

With the 2018 financial statements due the upcoming months, this publication will provide you with some accounting and reporting considerations.
Reporting considerations
A company should consider whether economic uncertainties and market volatility will affect accounting and reporting conclusions related to forward looking estimates and judgements. Considerations include:

• **Key assumptions and sensitivities**: IFRS standards, but also local regulations require a range of risk, assumptions and sensitivity disclosures to enable users to understand the implications of uncertainties and management’s judgements made in preparing the financial statements. Management should consider to what extent these key assumptions and sensitivities have been reevaluated and updated as necessary to reflect current economic conditions and Brexit uncertainties.

• **Strategies and policies to manage risk**: an user of the financial statements that want insights into strategies and policies how the company manages risk is likely to take an in-depth read of those sections in the annual report where management describes the risks they consider to be relevant and how they intend to respond to those risks. Examples include credit, liquidity, currency and market risks: have these been adequately disclosed and updated if there have been any changes?

• **Financing of working capital and cash flow forecasts**: if your (international) supply chain is impacted, next to your revenues, there can be adverse implications for the financing of your working capital: for instance a need to hold additional inventory and late payments by customers. From a financial reporting perspective this can result in (disclosure on) potential inventory write-downs and impairment losses. Furthermore, cash flow forecasts (in local currencies), are often an important driver to support the valuation of assets. Uncertainty about future cash flows, exchange rate fluctuations and risk premiums taken into account in determining a discount rate can have an impact on the valuation of assets.

• **Relocation implications**: Have you decided to relocate (part of) your business from UK to mainland Europe or restructure your organization? This can trigger accounting and reporting assessments on for instance (i) assets held for sale and discontinued operations, (ii) restructuring provisions and (iii) onerous contracts.

• **Adequacy of other disclosures**: It can include:
  - Changes in the business or economic circumstances that affect the fair value of the company’s financial and non-financial assets and liabilities;
  - Loan defaults and covenant breaches;
  - Transfers between levels of the fair value hierarchy using in measuring the fair value of financial instruments;
  - Changes in the classification of financial assets due to a change in their purposes; and
  - Events after the reporting date can result in both adjusting or non-adjusting events.

The above highlights just a few examples that may have an impact on your accounting, disclosure and/or financial reporting. The list is not exhaustive. You may find some further useful information on KPMG’s Brexit website.

### How KPMG can help
How are you preparing for Brexit during continued market uncertainty? KPMG the Netherlands has set up a Brexit Taskforce and our experts can help you uncover all the possibilities, so you can prepare for what happens next and where possible, even turn risks into opportunities.

From an accounting and reporting perspective, KPMG can help you to assess how the anticipated Brexit will impact your accounting and reporting process. KPMG can support with performing modeling and sensitivity analysis as well advice you on adequate disclosures to your stakeholders on the (potential) impact the Brexit has on your organization.

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