

16 September 2019

Dear Audit Committee Chairs and Finance Directors,

The Financial Reporting Council is the UK's independent regulator for audit and corporate reporting, and custodian of the UK's Corporate Governance Code for listed companies. Given our responsibilities, we feel it is vital that businesses across the UK are as aware of and prepared as possible for the risks that may arise from UK's exit from the European Union and are communicating as necessary to their stakeholders including investors. This letter is in support of Government's wide-ranging efforts to raise the profile of the extensive material that has been developed to help companies ensure that they are as prepared for EU exit as possible, at a time of heightened media interest.

Many of you will be well prepared already and will have undertaken significant contingency planning initiatives. That may not be the case for all businesses, nor will it be the case for all of your suppliers, customers and employees. Even businesses which have invested much time in preparing to leave the European Union are well advised to keep their plans under close review.

This letter suggests a small number of the most critical generic actions companies should consider in advance of the UK's exit from the European Union. It is by no means an exhaustive list of actions necessary and I encourage you, your employees, customers and suppliers to visit <https://www.gov.uk/get-ready-brex-it-check> to check what specific preparations you need to make.

1) Ask your employees to check if they need to apply to the EU Settlement Scheme

The Government wants EU citizens resident in the UK before 31 October to stay and continue working in the UK. Resident EU citizens have until at least 31 December 2020 to apply to the EU Settlement Scheme in the event that the UK leaves the EU without a deal. Until then, they can continue to take up employment and their rights to access services and claim benefits will remain unchanged.

Further information about the Settlement Scheme, including how to apply, can be accessed here: <https://www.gov.uk/eusetledstatus>

2) Check whether your business may face additional legal, regulatory and/or administrative barriers as a result of the UK becoming a 'third country' in the event of a 'no deal' EU exit.

Without a deal, the UK will no longer operate under the EEA regulations for the cross-border trade in services.

UK businesses will no longer be treated as if they were local businesses; services provided by UK businesses and professionals will be regarded as originating from a 'third country'.

UK firms and service providers may face additional legal, regulatory and administrative barriers as a result.

Further information: <https://www.gov.uk/guidance/providing-services-to-any-country-in-the-eu-iceland-liechtenstein-norway-or-switzerland-after-eu-exit>

3) Ensure your suppliers and customers have considered the impact of and are prepared for the UK's exit from the EU

Some suppliers and customers may not have undertaken rigorous stress testing and scenario planning. Larger firms should ensure that all aspects of their supply chain will operate as expected in the event of a no deal EU exit. This includes taking SMEs through 'no deal' planning, engaging with their responses to such a scenario and providing support and help where possible.

Further information: <https://www.gov.uk/find-eu-exit-guidance-business>

4) Engage with your local chambers of commerce or business advisor and attend a Brexit Business Readiness event

Chambers of Commerce have been provided with extensive central Government support to aid local businesses, your own business advisors will also have extensive information. I would encourage you to engage with this support and encourage your suppliers and customers to do likewise.

Further information: <https://www.britishchambers.org.uk/page/brexit-hub>

The Government has also launched a series of free Brexit Business Readiness Events across the UK to find out what actions your business needs to take to prepare for the UK's exit from the European Union. I encourage you to attend one of these events and to inform your customers and suppliers about the events programme.

Further information: <https://registration.livgroup.co.uk/brexitbusinessreadinessevents/>

5) Corporate reporting in preparation for exiting the European Union

Turning to the FRC's area of regulatory oversight, in October 2018 we wrote to Finance Directors and Audit Committee Chairs to remind them of what they should consider when reporting on the risks associated with EU exit.

We encourage companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may be a consequence of the UK's exit from the EU, and which may apply when companies report. Where there are particular challenges posed, we expect these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the balance sheet.

The broad uncertainties that may still attach to exiting the EU 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. We expect that many companies will want to consider a wider range of reasonably possible outcomes



when performing sensitivity analysis on their cash flow projections and which should be disclosed and explained. Not all companies will require extensive disclosure, but where sensitivity or scenario testing indicates significant issues, relevant information and explanation should be reflected in the appropriate parts of the annual report and accounts, for example in the impairment disclosures. It will be for companies to decide whether exiting the EU uncertainties impact their statements on viability and even their ability to continue as a going concern. Guidance on this is set out in the Financial Reporting Lab's 2017 report on Risk and Viability reporting.

Further information: <https://www.frc.org.uk/news/october-2018/frc-pushes-companies-for-improved-quality-reportin>

<https://www.frc.org.uk/getattachment/76e21dee-2be2-415f-b326-932e8a3fc1e6/Risk-and-Viability-Reporting.pdf>

<https://www.frc.org.uk/getattachment/43c07348-e175-45c4-a6e0-49f7ecabdf36/Business-Models-Lab-Implementation-Study-2018.pdf>

As mentioned, there is a significant amount of information about preparing your business for EU exit available on the dedicated website www.gov.uk/brexit. I encourage you to visit the site and consider the information available. The site includes step-by-step guides, guidance, and a tool to access tailored advice on what you or your business will need to do to get ready for Brexit.

Yours sincerely

Stephen Haddrill
Chief Executive Officer