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## Year-end Brexit disclosure considerations

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KPMG reports on risk factors that companies should consider as they evaluate the effects of the UK's scheduled March 29, 2019 departure from the EU.

### Applicability

SEC registrants with operations in the UK or the European Union (EU), or with operations that rely on links with the UK.

### Key facts and impacts

The UK is scheduled to leave the EU on March 29, 2019 (Brexit). It is uncertain what the departure terms will be, and whether transition arrangements or other factors may affect the timing of any issues related to departure. Various scenarios, including a no-deal exit or an extended period of negotiations, are possible. The uncertainty from Brexit is significant, and its effects, especially on companies and auditors, may be felt far beyond the UK and the EU.

Financial statement users and regulators are expected to pay particular attention to disclosures about Brexit in 2018 year-end reporting. In recent speeches, the SEC highlighted Brexit as an area that it will focus on.

The SEC cited the potential adverse effects of Brexit not being well understood and being underestimated. The SEC also said that Brexit is already affecting issuers.

The SEC expects that an issuer's 2018 year-end reporting should provide more robust disclosures about how management is considering Brexit and its effect on issuers and their operations.

### Disclosure considerations

In addition to risk factor disclosures in Form 10-K or Form 10-Q, an issuer should consider whether economic uncertainties and market volatility will affect accounting conclusions related to forward looking estimates and judgments. Any effect should be assessed based on the significance of an issuer's UK or EU operations. Considerations include:

- **key assumptions and sensitivities** – have these been reevaluated and updated as necessary to reflect current economic conditions and Brexit uncertainties;
- **strategies and policies to manage risk**, including credit, liquidity, market risk – have these been adequately disclosed and updated if there have been changes;
- **adequacy of disclosures** for:
  - potential inventory write-downs and impairment losses;
  - changes in the business or economic circumstances that affect the fair value of the issuer's financial and nonfinancial assets and liabilities;
  - loan defaults or covenant breaches;
  - transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments; and
  - changes in the classification of financial assets due to a change in their purpose.

Possible risk factors	Disclosure considerations for issuers
<b>Customer demand</b>	<ul style="list-style-type: none"> <li>— Is the issuer experiencing (or expecting) any changes in demand from UK-based or EU-based customers?</li> <li>— How sensitive is demand and pricing to exchange rates and possible changes in tariffs?</li> <li>— Longer term, what are the implications for growth expectations of a potentially changing customer base – e.g. customers prefer UK or EU suppliers, or potentially changing terms?</li> <li>— Will the existing growth plans be feasible? If the issuer has arrangements that extend beyond the expected date of Brexit, do those arrangements allow flexibility to take into account changing rules or tariffs?</li> </ul>
<b>Supply chain and customs</b>	<ul style="list-style-type: none"> <li>— Is the issuer adequately discussing supply chain risks, implications of potential changes in tariffs, customs administration and delays?</li> </ul>
<b>Regulation and corporate structure</b>	<ul style="list-style-type: none"> <li>— Are there risks over market access in the various Brexit scenarios, including a no-deal scenario? Are there additional risks related to changing licensing or contracting and settlement terms from Brexit?</li> </ul>
<b>Products and services</b>	<ul style="list-style-type: none"> <li>— Are there risks that certain products will not be able to be sold in specific EU markets without in-country (not just EU-wide) registration?</li> </ul>
<b>Data</b>	<ul style="list-style-type: none"> <li>— Are there risks over restriction to processing of customer data across EU countries post-Brexit?</li> </ul>
<b>People</b>	<ul style="list-style-type: none"> <li>— Are there risks over staffing availability, and the cost and effect of restrictions in cross-border movement of people?</li> </ul>
<b>Contracts and legal</b>	<ul style="list-style-type: none"> <li>— Are there risks that existing contracts lack sufficient specificity for potential Brexit effects, and if so, what effort is required to enable issuers to meet contract terms in different Brexit scenarios?</li> </ul>

The potential outcome of Brexit continues to evolve. Issuers should monitor the status of Brexit as changes in circumstances may require revisions to risk factors in Form 10-Q filings in Q1 2019 and potentially beyond.

Additional resources are available at [Navigating Brexit](#), which is published by KPMG UK.

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**KPMG’s Financial Reporting View**

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