www.pwc.com/cy

Accounting and Reporting

In this issue our experts provide information on the latest business developments

February 2012

pwc

Contents

Foreword	3
General interest	
Update on European Commission (EC) Initiatives	4
The future of audit - EC audit reform proposals	6
Small and Medium Enterprises	9
PwC's 2011 Global Economic Crime Survey Finds Economic Crime Continues to Increase	12
Improved prospects for IPOs in 2012 after lacklustre end to 2011	14
Executing a successful IPO: Is your company ready to face the challenge?	15
The Resilience Advantage	17
Corporate Social Responsibility	
Corporate responsibility reporting	20
New CSR activities by PwC	22
Accounting news	
IFRS news	23
IFRS 13 "Fair value measurement" – Unifying the concept of 'fair value'	24
PUMA environmental accounting sets new pace for integrated reporting	27
Leasing: what are the current proposals?	28
Eurozone and 2011 financial reporting: not just about the banks	32
IASB and FASB issue new revenue recognition exposure	38
PwC Global and Cyprus Publications	40
PwC in Cyprus	42
PwC offices in Cyprus	44

Foreword

Welcome to the winter edition of our Accounting & Reporting newsletter. This publication aims at providing you with useful and practical information about the latest developments relevant to the accounting profession.

Through their interesting articles, our experts discuss current issues in the areas of accounting and IFRS, corporate social responsibility as well as various business topics of general interest.

The first section of our newsletter includes an update on the initiatives of the European Commission providing an overview of the "green paper" issued on April 2011. Current proposals affecting the leasing industry issued by the IASB and US FASB are also discussed.

This section also provides a comprehensive description of the services offered by the Small and Medium Enterprises Unit of PwC and outlines the key benefits gained by our clients. In addition, an interesting article analyses the results of the 2011 Global Economic Crime Survey carried out by PwC, the 2012 prospects for IPOs as well as information on how to execute a successful IPO are discussed in two separate articles.

Finally, the first section analyses the crucial importance of the resilience advantage for organisations.

The Corporate Social Responsibility section includes a very informative article on corporate responsibility reporting and provides a description of the latest CSR activities undertaken by PwC.

The Accounting news section consists of various articles of technical nature including recent information about the long awaited proposals on audit policy by the European Commission, IFRS news, financial reporting as well as information about the new revenue recognition exposure draft issued by IASB and FASB.

We hope that you enjoy reading our latest newsletter. Our experts are always at your disposal for any further information or query.

Liakos M Theodorou
Partner
Head of Assurance & Advisory

Update on European Commission (EC) Initiatives

Petros C Petrakis
Partner
Assurance Services

Corporate Governance for listed Companies

The Green Paper "The EU Corporate Governance Framework" was issued on 5 April 2011. The EC's view is that corporate governance, based largely on self-regulation, could be more effective and that companies should be better run and therefore be more competitive.

The Green Paper consulted on ways to improve the:

- Professional, cultural, national and gender diversity within boards
- Quality of corporate governance statements
- Monitoring and enforcement of existing national corporate governance codes
- Level of stakeholder engagement with companies.

The initial ideas to improve corporate governance included:

- Fostering increased shareholder interest in holding management to account
- Introducing specific requirements for smaller listed companies
- Developing voluntary codes for unlisted companies
- Publishing a board diversity policy
- Limiting the number of non-executive directorships
- Evaluating board effectiveness
- Disclosing individual director's remuneration
- Shareholder voting on the remuneration report and remuneration policy
- Issuing reports to shareholders on "risk appetite", including key societal risks
- Protecting minority shareholders through additional rights
- Explaining in detail departures from applicable corporate governance codes.

In November 2011, the EC published a feedback statement on the responses received to this Green Paper. Business and investors had the view that the "comply – or – explain" principle on corporate governance measuring is an appropriate system and that any additional initiatives or legislation should be left to the Member States.

Next steps

If the EC considers it necessary a proposal for legislation will be published early in 2012.

"Responsible Business"

As part of its ongoing work to create a more sustainable economic model in Europe, the EC proposed a "Responsible Business" package on 25 October 2011. This package comprises proposed amendments to the existing Directive on transparency requirements for listed companies and to the Directives on accounting rules for annual accounts and consolidated accounts, inter alia to introduce country-by-country reporting and a renewed Corporate Social Responsibility (CSR) package.

Transparency requirements

The elements of the proposal to modify the Transparency Directive include:

- In order to close the existing gap in the notification requirements, it is proposed to require disclosure of major shareholdings of all financial instruments that could be used to acquire economic interest in listed companies and which would have the same effect as holding equity.
- The provision for more harmonization concerning the rules of notification of major holdings in particular, by requiring aggregation of holdings of financial instruments with holdings of shares for the purpose of calculation of the thresholds that trigger the notification requirement.
- In order to reduce the administrative burden and to encourage long term investments, the requirement to publish quarterly financial information would be alleviated. Companies could, of course, continue to publish quarterly information on a voluntary basis if they so wished.

Accounting Directives

The Accounting Directives (4th and 7th Directives) deal with the annual and consolidated financial statements of limited liability companies in Europe.

The EC proposes to replace these two Directives with a single Directive that is better adapted to the present and future needs of preparers and users of financial statements.

The EC is proposing to revise the current requirements by thinking "small first". This would lead to a "mini-regime", in which all EC small companies would be able to prepare a simpler profit and loss account, balance sheet and a limited number of accompanying notes which would provide further narrative information on the financial position of the company.

This would significantly reduce the administrative burden for these companies. Thinking "small first" also means that the disclosure requirements for medium-sized and large companies would become more gradual.

Country-by-Country reporting

The EC proposes to amend further the Accounting Directives with the introduction of a new reporting requirement for listed and large non-listed extractive and forestry companies on a country-by-country basis.

The EC proposes to introduce an obligation for listed and large non-listed extractive and forestry companies to report all material payments to governments broken down by country and by project, when these payments have been attributed to a specific project.

Corporate Social Responsibility (CSR)

Also part of the "Responsible Business" package is a renewed EU strategy 2011–14 for CSR. The EC puts forward an action agenda for the period 2011 – 2014 covering eight areas:

- Enhancing the visibility of CSR and disseminating good practices: this includes the creation of a European award, and the establishment of sector-based platforms for enterprises and stakeholders to make commitments and jointly monitor progress.
- Enhancing market reward for CSR: this means leveraging EU policies in the fields of consumptions, investment and public procurement in order to promote market reward for responsible business conduct.
- Emphasising the importance of national and sub-national CSR policies: the EC has invited EU Member States to present or update their own plans for the promotion of CSR by mid 2012.
- Improving and tracking levels of trust in business by citizens.
- Improving self - and co-regulation processes.
- Improving company disclosure of social and environmental information.
- Further integrating CSR into education, training and research.
- Better aligning European and global approaches to CSR. The EC aims to monitor the commitments of large European enterprises to take account of internationally recognized guidelines and principles e.g. The OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

The future of audit - EC audit reform proposal

Petros C Petrakis
Partner
Assurance Services

External Audit Affecting Public Interest Entities (PIEs)

On 30 November 2011, the EC released its long awaited proposals on audit policy. The proposals comprise a Directive, intended to replace the Statutory Audit Directive, and a Regulation on specific requirements regarding statutory audits of PIEs.

The EC considered that a Regulation is more suitable than a Directive. When adopted, the direct applicability of a Regulation at the same date across the EU avoids late transportation of legislation by Member States or somewhat different interpretation – as could be the case for a Directive.

The following are the main proposed changes to the legislation:

- The definition of PIE: The proposal amends the PIE definition to include all listed companies, banks and insurance companies as well as other participants in the financial services market (including for example payment institutions, alternative investment funds, electronic money institutions, investment firms).
- Audit only firms: Any audit firm with more than a third of its audit revenue from large PIEs would be prohibited from providing other services. There are special definitions on how this market and market share are calculated. The Green Paper consultations highlighted considerable oppositions to this approach.

- Related financial audit services: Fees for these permitted services would be capped at 10% of the total audit fee. Related audit services are defined by the EC as:
  - Audits of interim financial statements
  - Assurance on corporate governance statements, Corporate Social Responsibility (CSR) matters, regulatory returns and any other statutory duty imposed by EU legislation
  - Providing certification on tax requirements compliance where requested by national law
  - Any other statutory duty related to the audit imposed by EU legislation on the statutory auditor/audit firm.

  In addition, certain non-audit services would be specifically prohibited to audit clients such as:

  - Expert services unrelated to the audit, tax consultancy, general management and other advisory services
  - Designing and implementing internal control or risk management procedures related to the preparation and/or control of financing information included in the financial statements and advice on risk
  - Participating in the audit client's internal audit and providing services related to the internal audit function.

- ***Mandatory firm rotation:*** PIEs may not engage the same audit firm for longer than six years. The initial mandate should be for a minimum of two years, renewable only once (with a four year cooling off period). Where a PIE has voluntarily appointed two statutory auditors or audit firms (joint auditors), the maximum duration of the engagement is nine years.
- ***Mandatory tendering:*** PIEs would be required to undertake a tendering process involving at least two audit firms, one of which must have no more than 15% of its total audit fees earned from PIEs in the previous year.
- ***The audit report:*** The report would be expanded to cover matters including the methodology used (for example a statement of how much of the balance sheet has been directly verified and how much has been based on system and compliance testing), any variation compared to the previous year in the weighting of substantive and compliance testing, key areas of risk of material misstatement, the extent to which the audit was designed to detect irregularities (for example fraud and details of the level of materiality applied to perform the audit) and should not be longer than four pages or 10,000 characters.
- ***Audit committee report:*** The auditor would provide a longer report to the audit committee detailing information on the results of the audit carried out, including for example a statement relating to "going concern" and the material findings of the audit.

PwC View

PwC supports evidence-based legislative reforms and measures that would enhance financial reporting and audit quality and remove any barriers, real or perceived, that might prevent the operation of a truly competitive audit market while not imposing increased costs or red tape on business.

Such measures include:

- The prohibition of contractual clauses which require the use of certain audit firms,
- Improving communication between regulators and auditors,
- Ensuring Audit Committees as the main representative body of shareholders provide greater transparency, including the disclosure and oversight of any non-audit services supplied by auditors, and
- Allowing small and medium sized firms to compete for large institutions' business.

PwC believes that the focus of the debate should remain on audit quality and building confidence in reported financial information, avoiding any proposals that could, in practice, have no benefit or have the opposite effect.

These include:
- Mandatory rotation of audit firms (which diminishes audit quality while not benefiting small firms)
- Prohibitions or significant further restrictions on non-audit services
- Audit-only firms

This is not just our view. Most respondents to last year's Green Paper found little benefit in these measures. Based on our own analysis of the responses to the paper, over 75% of preparers and over 50% of investors were opposed to such measures. (This is supported by an independent research paper published by the Goethe University in Frankfurt in November 2011 which led the auditors to conclude that "the Commission therefore should at least assess critically, in the light of the rejection by a substantial majority of stakeholders of the proposed changes, whether a far-reaching extension of regulation is really necessary"). The European Parliament (EP), in its own-initiative report, issued in September 2011, did not come out in support of these measures either. It concluded on mandatory rotation: "It is not external rotation but rather regular changes in internal auditors which represents the best regulatory solution….. and that the existing partner rotation arrangements provide the independence necessary for audits to be effective". In addition, the EP's report noted that a more in-depth impact assessment was needed before a final evaluation could be made of the Commission's proposals.

Despite a lack of support, these measures still feature in the proposals released in November. Although the Commission is not required to embark on a further public consultation, it cannot promulgate these proposals alone. The proposals will be subject to consultation, from early 2012, with the member states in the Council and with the EP, as it is these bodies that have the legislative authority. There will be a lengthy period of debate.

At this stage these are only proposals. The process for approval involves substantial dialogue and discussion which it is expected will change significantly the final form of any legislation.

Small and Medium Enterprises Unit

Our aim

Our Small and Medium Enterprises "SME" unit, which employs qualified staff with extensive and specialised knowledge in fiscal compliance services and other business related matters, aims at delivering full support and solutions that combine the required experience with commercial insight thus adding value to the clients' business. Basically we aim to be the Trusted Business Advisors of our clients.

Our Philosophy

Statutory and fiscal compliance support is of utmost importance to clients throughout their business dealings. The serious challenges caused by the economic crisis and the corrective austerity measures taken by the government makes our role even more important. We are able to help enterprises to respond to these challenges and allow them to focus solely on the areas of their business which are key to profitable growth. We aim at understanding our clients' business and the various factors that affect it, as well as keeping ourselves updated with statutory and fiscal developments. In this way, we can help our clients attain an excellent understanding of the implications of such issues on their business. Towards the same end, we constantly seek to develop our connections and knowledge.

What can we do for you?

Our services include:

Accounting and Fiscal Compliance

- Accounting and related services - Compliance / Advice / Supervision / Interim staffing
- Corporate Direct Tax planning / Compliance / Advice
- Personal direct tax planning / compliance / advise / capital statements
- Tax reorganisations / company liquidations
- Indirect Tax & VAT / Compliance
- Payroll & Provident Fund services – Set up / compliance / PAYE / SI
- Drafting of financial statements for audit purposes
- Preventative tax audits
- Diagnostic VAT reviews

Financial & Business Advice

- Financing structure
- Financial planning/modelling
- Budgeting
- Costing exercises
- Reporting
- Industry expertise
- Cash flow management
- Assessment of the business' tax position and implementation of tax planning

Family Business

- Succession – Legal structure / planning
- Efficient running of the business – procedure / systems / controls
- Attending board/management meetings

Corporate Changes

Assistance with the implementation of decisions for changing officers/ directors, registered office, change of accounts reference date or company name. For these purposes we can:

- Assist with the preparation of all necessary resolutions, forms and other documents, taking into account the specific requirements of the company involved
- Assist with filing of necessary returns at the Registrar of Companies.

Share Capital changes	*Business restructuring/ reorganisation*
SME can assist with: • Creation of different classes of shares • Preference and redeemable shares • Increase of capital and/or share allotment, rights and bonus issues • Share transfers • Reduction of share capital	SME can provide comprehensive compliance service to ensure that all statutory obligations are being met in complex plans involving: • Company strike offs • Restoration of dissolved companies • Company re-registrations • Mergers and reorganisations
Statutory Books & Records	*Coordination of all services*
SME can assist with maintaining and safekeeping of statutory records and registers of the company as prescribed by the relevant legislation in Cyprus.	SME will be your single point of contact within PwC and will act as your coordinator for all your requirements ('one stop shop' principle)

What are the key benefits?

- Peace of mind – service is offered by specialists that management is able to rely on.
- Costly penalties and the risk of prosecution of officers for late filing are avoided.
- Tailored service – from a single non-active company to a multi-territorial major group.
- We add value to the organisation. From "overhead" to a cost "saving" function.

Cuntact us:

Nicosia	Paphos
Angelos M Loizou Partner In charge of services to Small and Medium Enterprises *angelos.m.loizou@cy.pwc.com*	***Pantelis G Evangelou*** Partner Direct Tax Services *p.evangelou@cy.pwc.com*
 Antonis Petrou Senior Manager Small and Medium Enterprises *antonis.petrou@cy.pwc.com*	 ***Paris Chrysostomou*** Senior Manager Small and Medium Enterprises *paris.chrysostomou@cy.pwc.com*
Julia House 3 Themistocles Dervis Street CY-1066 Nicosia, Cyprus Tel. +357 22 555 000 Fax +357 22 555 001	City House 58 Griva Dighenis Avenue CY-8047 Paphos, Cyprus Tel + 357 26 555 000 Fax +357 26 555 001

PwC's 2011 Global economic crime survey finds economic crime continues to increase

- *34 percent of respondents were victims to one or more frauds in last 12 months*
- *Cybercrime on the rise as technology use expands*

More than a third of businesses and other organisations around the world were victims of economic crime in the last 12 months, according to respondents to PwC's 2011 Global Economic Crime Survey. And nearly a quarter of victims said they were subject to cybercrime -- the use of technology as the main element in the economic crime.

Overall, 34 percent of respondents said their organisations were victims of economic crime, a 13 percent increase since 2009. Theft or asset misappropriation (cited by 72 percent) was the most common type of economic crime reported, followed by accounting fraud and bribery and corruption (24 percent each) and cybercrime (23 percent). Overall, 11 percent of respondents, nearly half of them C-suite executives, said they did not know if their organisation had suffered a fraud.

Though the direct cost of economic crime to an organisation can be difficult to gauge, nearly 10 percent of victims reported losses of more than US$5 million. Among those who were victims of bribery and corruption, 20 percent said that they lost more than US$5 million on average. Victims of economic crime also reported significant collateral damage due to fraud. This includes damage to employee morale, cited by 28 percent, as well as to brand and reputation, and to business relationships, both 19 percent. Suspicious transaction monitoring has emerged as the most effective fraud detection method, noted by 15 percent of respondents, up from 5 percent in 2009.

The survey of 3,877 respondents from 78 countries is the most comprehensive study of its kind. It found that economic crime remains pervasive among organisations of all sizes, in all countries and all industries. The communications and insurance sectors reported the highest incidence of fraud. Fraud against governments or state owned enterprises rose by 24 percent since 2009, moving it ahead of the hospitality and leisure and financial services sectors as a target for crime.

"Economic crime continues to be pervasive, affecting both large and small organisations worldwide without discrimination. No industry or company in any country is immune from the impact of fraud," said Tony Parton, partner in PwC's forensics practice in London.

"In a world where most enterprises rely on technology, they increasingly open themselves to the risk of criminal activity from virtually anywhere on the planet where there is a computer, a smart phone or any other device able to access the Internet," Mr. Parton said "Rising incidents of data loss and theft, computer viruses and hacking and other forms of electronic crime demonstrate the need for a more cyber-savvy approach to fraud prevention."

Cybercrime

Cybercrime now ranks as one of the top four economic crimes. The perception of cybercrime as a predominantly external threat is changing, and organisations are now recognising the risk of cybercrime coming from inside as well. Respondents said the Information Technology Department was the most likely source of cybercrime internally. IT was cited by 53 percent of respondents, followed by Operations, 39 percent, Sales and Marketing, 34 percent, and Finance, 33 percent.

While half of all respondents noted an increased awareness to the threat of cybercrime, the majority of respondents said they do not have, a cybercrime crisis response plan in place, or are not aware of having one. And 60 percent said their organization doesn't monitor social media sites.

The survey found that the typical profile of an internal cybercrime fraudster was a junior employee or middle manager (cited by 85 percent), under the age of 40 (65 percent), and employed by the organisation for less than five years (50 percent).

Those who said cybercrime was more likely to originate from sources outside their home country listed Hong Kong and China, India, Nigeria, Russia and the U.S. as the countries perceived as the top cybercrime threats.

Other Survey Findings

- Economic crime is most prevalent at large organisations. Fifty-four percent of respondents from organisations with more than 1,000 employees reported incidents in the last 12 months, compared with 29 percent among those with less than 1,000, and 17 percent among those with less than 200.
- Fraud strikes all types of organisations. Forty-five percent of victims were government or state owned, 40 percent were listed on a stock exchange, and 12 percent were in the private sector.
- Accounting fraud has declined steeply since 2009. The percentage of respondents reporting this type of fraud declined by 37 percent from 2009 and returned to 2005 levels.
- Most economic crime of all types -- 56 percent -- is committed by internal fraudsters. 40 percent of respondents reported fraud by an outsider.
- The effectiveness of economic crime detection has been declining since 2007. Internal audit, risk management systems, and whistle-blowing systems all declined as means of discovering fraud. The only detection method to show increased effectiveness was suspicious transaction monitoring.
- Those that seek out economic crime find it. Organisations that have performed fraud risk assessments have detected and reported more frauds.

The Economic Crime Survey is available on the PwC website: *www.pwc.com/cy/economic-crime-survey*

Improved prospects for IPOs in 2012 after lacklustre end to 2011

The European market for company floats has suffered a difficult fourth quarter, rounding off a tough year for initial public offerings (IPOs) across the region. In Q4 2011, 78 IPOs raised just €866m, an 81% decrease in offering values compared to Q3 2011 and 83% down year on year, PwC's latest IPO Watch Europe report has found.

London dominated activity in a muted quarter, raising €800m, 92% of total European IPO value, with the London IPO of Polymetal raising €421m, 49% of all value raised in Europe. Q4 2011 has seen companies undecided on IPO timing because of the troubled market conditions and whilst companies are still looking to raise money, volatility continues to destabilise an already fragile market and unsettle potential investors.

Despite a subdued second half of 2011, annual European IPOs raised €26.5bn, in line with 2010. Volumes increased by 13% to 430 IPOs. London generated €14.6bn, more than half of money raised, despite only hosting a quarter of the IPO deals across Europe. The top 15 deals raised €20bn, 75% of total IPO value across Europe in 2011, with the IPOs of Glencore, Vallares and Justice in London and Bankia and Dia in Spain raising €14.6bn in their own right.

Mark Hughes, capital markets partner, PwC said,

"In 2011, the markets failed to ignite after the summer as people had hoped, due to the continuing economic uncertainty in Europe and especially in the Eurozone.

Looking at the year as a whole, London has continued to lead the European IPO landscape with international and natural resources IPOs making up for the weakness of the domestic IPO market."

Hong Kong saw a 43% decline in money raised, despite having attracted the IPOs of a number of international luxury brand companies during the year, such as Prada. In the US, the return of a number of larger deals in the first half of 2011 saw IPO's raise €25.6bn in 2011, a 13.4% decrease on 2010, which was buoyed by the jumbo IPO of General Motors.

Looking forward, there will be a recovery for European exchanges in 2012 but it may take until the second half of the year before this recovery is seen, PwC predicts. There is also a substantial pipeline of companies 'ready to go' if a window of opportunity were to open with the right market conditions.

Richard Weaver, capital markets partner, PwC said:

"Companies considering an IPO in 2012 should prepare and position themselves to be 'ready to go' when the windows open. Exactly when markets will pick up again is uncertain. The Olympics may be well under way by the time the markets get out of the starting blocks. In order to access the key IPO windows in 2012, companies will have to ensure that the groundwork is completed well in advance."

Nicos Theodoulou, capital markets partner in PwC Cyprus said:

"Some of the largest international IPOs in London and other EU stock exchanges over the last few years have been done through Cyprus. With its beneficial taxation framework and increasing reputation for quality, Cyprus is well placed to capture a significant part of the IPO pipeline coming up for 2012, despite increasing competition from other European jurisdictions. "

The prospects for 2012 will hinge on the market instability and volatility that has plagued 2011 levelling out. These levels of volatility have made it difficult to price deals and attract investors, while potential IPO candidates have been dissuaded by gyrating stock market indices.

Executing a successful IPO: Is your company ready to face the challenge?

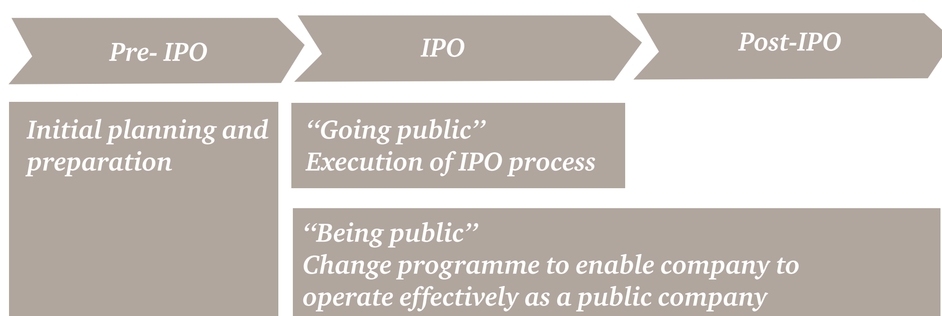
Michalis Christoforou
Manager
Assurance Services

International capital markets have not been an easy place recently. Nevertheless, many companies want to make sure they do their homework, so that when the time is right they can go public successfully.

Going public is a monumental decision and a transfiguretional event for a Company. An IPO consists of separate, elemental processes that are mutually dependent on each other.

The actual process of going public can be time-consuming and challenging at the same time. Therefore, a company should be well prepared to undertake these unique challenges.. Every part of the company plays an important role, and each contribution must be coordinated and staged precisely.

A successful IPO can be split in the following three phases:



An IPO requires management to be prepared to meet shareholder and market expectations from day one as a listed company. A listed company will need to address ongoing compliance and regulatory requirements, operational effectiveness, risk management, periodic reporting, and investor relations that may require new skill sets, additional resources and changes to the business.

As a result there is a significant amount of work needed up front to get the Company into shape for the IPO. Thinking through these requirements in advance and developing an appropriate plan is the key to a successful entry into life as a public company and will reduce unexpected post-IPO issues. Strong leaders, careful planning, and talented performers can make the difference between failure and a winning performance.

Pre IPO Process:

Preparing for a successful IPO

The most successful IPOs are launched by those companies that operate as public companies well in advance of the actual IPO. These companies have a relatively smooth process of going public, and they quickly transition to life as public companies. In an effort to achieve this relative smooth process many companies start preparing for becoming a publicly listed company well before the actual IPO process starts. This allows steps to be taken early to correct any potential organisational gaps or transactional issues that are identified.

IPO Readiness

As part of the pre-IPO phase companies need to objectively assess their readiness for life as a listed company. This readiness assessment will help them to identify unforeseen issues.

PwC IPO readiness toolkit can assist in this effort and assess whether the company is ready to become a successful listed company. IPO readiness is a tailored approach which includes reading documents and plan interviews or workshops. An IPO readiness report will:

- highlight critical areas where current processes and structures fall short of regulatory requirements and/or best practice:
  - Assess compliance with the requirements of the chosen market and/or best practice
  - Identify deal breakers to the planned exit route
  - Identify any deficiencies in ability to operate as a successful public company, if applicable
- prioritise the key gaps to fix; and
- provide a roadmap for implementation and remediation.
  - Plan the remediation
  - Assign responsibility
  - Prioritise work streams
  - Timetable the remediation

Group structure, financial information, corporate governance, financial reporting procedures, risk and compliance issues and selection of the IPO market are some examples of the areas that the IPO Readiness report will examine.

IPO Process

Once the initial ground work is completed, the IPO process can begin through the establishment of the following two parallel work streams:

- *Going public:* Is the process of achieving the listing of Company's securities through the implementation of the following steps:
  - Gathering the necessary information (i.e. financial, marketing, and business);
  - Financial and legal due diligence of the Company;
  - Prospectus drafting/ registration statement and clearing this with the regulators; and
  - Marketing the business and selling the shares in the road show.
- *Being public:* Is the process of transforming the organisation into a public company. Among the many tasks involved are the following:
  - upgrading, sustaining, or enhancing financial reporting capabilities,
  - creating an investor relations function to communicate with the "market" and investors,
  - meeting legal, regulatory and stock exchange standards (i.e. governance, reporting and internal controls) and listing requirements.

It is fundamental to implement an achievable IPO plan for completion, and commence execution while still a private company (i.e. Pre-Post). Doing this will help the Company to achieve the IPO objectives without compromising the smooth operations of the Company.

Post – IPO Process:

The initial months of life as a public company are critical. The consequences of not managing expectations of key stakeholders can be brutal. For example lack of effective communication with analysts and investors can have radical effects on shareholder value and company's credibility.

The need to address ongoing compliance and regulatory requirements, operational effectiveness, risk management, periodic reporting, and investor relations may require new functions and changes to the business. A good IPO plan will identify the critical aspects of the functions that need to be in place before starting the IPO preparation process (i.e. the finance function). Some other functions (i.e. compliance and regulatory) can be built up during the IPO preparation process, initially relying on external resources, migrating to internal functions as the IPO launch date approaches.

The key success factor is getting the appropriate balance of resources in place at the right time without overdoing it before the IPO is certain.

The resilience advantage

Agnieszka Bajer
Manager
Performance
Improvement Consultant

If there is one thing that organizations are learning right now, it is the crucial importance of resilience.

The ability to overcome setbacks, bounce back from adversities and withstand prolonged periods of pressure is becoming increasingly important to succeed in the current business and economic environment.

Resilience is often the critical factor that sets successful organizations and individuals apart from the rest; it creates an advantage really hard to beat.

Why is resilience becoming increasingly important?

According to the economists, 2012 will be yet another year of major struggle for a lot of businesses. As we almost got used to the challenges such as rapid changes and developments in all industries and technologies, uncertainty of the markets and the flux of global mergers and acquisitions, more are on the way.

The current economic situation has already led a lot of Cypriot companies to downsizing and cutting corporate ranks. In order to support the flexibility essential for corporate survival, many employees are required to undertake further responsibilities, with job descriptions becoming less and less clear. In addition to that, client-facing employees will have to deal with increasingly stressed consumers, who struggle to make ends meet and are very often unable to meet their financial obligations or make the necessary purchases.

The new reality will have an increasing number of employees flounder through confusion, lack of work-life balance and even fear of losing their job. An increasing percentage of the Cypriot workforce will

become excessively stressed and very often unable to handle the situation in a constructive way.

But how can we know if our workforce is not coping with pressure? In other words, what are the red flags indicating low resilience?

Well, to name just a few: increased rate of sickness and absenteeism, reduced morale and engagement, unresolved workplace conflict, lack of commitment to achieving company goals and deteriorating customer satisfaction index.

When these symptoms are ignored for a sufficiently long period of time, they are very likely to cause lower performance, shrinking customer base, decreased revenues or profitability. Would anyone be willing to accept that?

My experience from working with various organizations in Cyprus and abroad shows that the answer to the above question is a resounding "NO!" Nobody would ever deny-what more than 50 years of scientific research have demonstrated: that resilience is key to success at work and satisfaction in life.

The problem, however, is not the unwillingness of organizations to support their people in improving their resilience but the fact that they are simply not clear on how it could be done.

What is resilience?

Life isn't exactly a walk in the park. You might feel that it is exciting, beautiful and fascinating, you might have it all going for you right now, but I hate to break it to you: sooner or later it will throw a nasty surprise at you. Just because it always does. It's called Murphy's law.

In that sense we are all equal, we all get our own share of challenges and we all need to create our own strategies to deal with them. And this is when resilience comes in handy.

When things get tough, some people tend to carry on, while others feel overwhelmed and unable to act. This alone can very often amount to the difference between success and failure. Jenny Campbell defines resilience in her paper "Resilience" as: "(...) the ability to overcome setbacks and absorb any learning offered by those setbacks, quickly, and at the minimum cost."

What is particularly interesting in this definition is the fact that it doesn't approach resilience as a mere skill to bounce back from adversities. Instead it encompasses the learning process that takes place while we overcome difficulties.

The truth is that irrespective of whether we are prepared for it or not, when faced with life-disrupting events, we are in for a free lesson. We are also in for a change. Chances that we will somehow remain in the same cosy place, that we were in before things came crushing down on us, are pretty close to nil.

When reality strikes, we have no choice but to fight or... take flight, cope or crumble, win or lose, raise or fall, become better or bitter. Resilience therefore is not about emerging from difficulties intact; it is about emerging from them a changed person. Hopefully for the better.

There are a lot of examples to prove that resilience can reach an even higher level than the one described above, where you not only learn and grow through the process but also transform extreme challenges into opportunities and reach out to others. Think of Hellen Keller (blind and deaf from birth, not only developed her own method to communicate, but lived with passion and helped others overcome similar difficulties), Nelson Mandela (jailed for decades in South Africa during apartheid, then later leader of the country), or Viktor Frankl (Holocaust survivor who developed psychotherapy method of finding meaning in all forms of existence, even the most sordid ones, and thus a reason to continue living). You get the picture.

But it's not necessary to be friends with Nelson Mandela to have our own, private role-model of resilience; we all meet impressively resilient people in our everyday life. Remember the colleague who was able to bring remarkable results and keep his people upbeat and engaged in spite of half of his team being made redundant, the friend who experienced a terrible loss of a loved-one and yet found the strength to devote a big part of their life to creating a fund for cancer research, look at the Filipino lady who maintains her positive outlook, in spite of being away from her family and working extremely hard to support it financially.

All these people have been able to tap into their inner resources and transform a really difficult situation into something positive. The good news is that research has proved we all have these resources and that resilience is not determined by our DNA but rather by our willingness to make some changes to the way we... think.

How can resilience be developed?

Just like we can build a muscle through a consistent training regime, we can strengthen our resilience through building the key skills linked to it. The research by Karen Reivich and Andrew Shatte, described in their book:

"The Resilience Factor: 7 Keys to Finding Your Inner Strength and Overcoming Life's Hurdles" showed that the number one roadblock to resilience is people's cognitive style, in other words how they think. Reivich and Shatte confirmed that our emotions and behaviours are not necessarily triggered by events themselves but by how we interpret those events.

What it means is that, for example, you have become anxious and uncertain about your job and your future not just because your boss didn't greet in the corridor this morning. It is how you explained his behaviour to yourself that caused all the emotional upset:" "I'm sure he cannot look me in the eye because I am next on the redundancy list! Now it all makes sense: the fact that he didn't

have time for my performance review last week and that I wasn't invited to the X client meeting yesterday. God, I wonder how I'm going to pay my mortgage when I get laid off".

There are a number of thinking patterns that we all habitually use and which are not conductive to effectively dealing with stress and pressure. It takes a set of skills to break these habits and replace them with more constructive ones. In response to the rapidly multiplying challenges of the current economic situation and the raising pressure experienced by employees of the Cypriot companies, we have created a workshop entitled "Building Resilience".

It aims at helping employees in our clients' organizations to deal with adversities and life and work pressures and thus increase or maintain high performance and their general well-being.

We work with individuals on resilience skills that can be broadly grouped into two categories: *Self-Awareness Skills and Transformation Skills.* The first category focuses on understanding of our triggers, i.e. the situations that tend to "push our buttons", as well as the beliefs that we hold in relation to these situations and the consequences of these beliefs.

As there are no two people who are exactly alike, these factors are different for each person and require personal work to explore and understand. *The Self Awareness Skills* are the foundation to all the rest of the resilience skills. It would be impossible to develop resilience without gaining a deeper understanding of ourselves first.

The second category, *Transformation Skills* comprise of all the skills that enable us to transform our thinking and thus our emotions and behaviours and achieve higher levels of resilience. These skills include:

- ***Accurate Thinking***
  We all have our habitual reactions when faced with adversity. Depending on our personal "preference", we either focus on a very small aspect of the whole situation and ignore the big picture, jump to conclusions, blame ourselves for the whole situation or assume that we know what others are thinking. Developing accurate thinking is about identifying these shortcomings and developing strategies to avoid them in order to achieve an accurate estimation of reality.

- ***Identifying and Challenging Underlying Beliefs***
  People have deeply held beliefs about how the word should operate. Although very often these beliefs are so deeply seated that we are not fully aware of them, they drive our behaviour, especially when we are under pressure. When theses beliefs are working against us, or lead us to wrong conclusions, we need to challenge them in order to find solutions that work.

- ***Putting Things into Perspective***
  When things don't go as planned, a lot of us go into overdrive and perceive problems as... catastrophes. Putting things into perspective enables us to stop obsessing about imaginary problems and focus on these that really exist, thus utilizing our energy to find the best solution.

- ***Maintaining focus and self-control***
  Stress is not necessarily a bad thing; it is when we get overwhelmed by stress that true problems arise. If you ever spent significant amount of time lost in your thoughts and just staring at your computer screen although you had a pressing deadline to work towards, or if you lost your patience and burst out, although the situation required calmness and a clear mind, you definitely know what we are talking about here. Maintaining focus and self-control is a skill that can be put into practice instantly to help us regain control and minimize the negative consequences of stress.

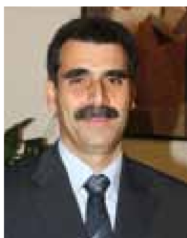
Developing the above skills can really make a difference to the quality of our life. It is also probably one of the best investments we can make in ourselves and the human capital of our organizations- it helps us maximize performance at work, improve key relationships, boost our health and well-being. Being resilient gives us courage and curiosity to explore new ways of thinking and consequently doing things and to face unknown situations with audacity, agility, creativity and decisiveness. And these are the key competencies required by our ever more demanding lives and the economic challenges that we are facing right now.

If you would like further information, please contact:

Hara Granath, Senior Manager
Performance Improvement Consultant
hara.granath@cy.pwc.com
T: +357 22 555 713
F: +357 22 555 024

Agnieszka Bajer, Manager
Performance Improvement Consultant
agnieszka.bajer@cy.pwc.com
T: +357 22 555 745
F: +357 22 555 024

Corporate responsibility reporting



George Ioannou
Director
Performance Improvement
Consulting

'Reporting is one of the most powerful means available for companies that are committed to the sustainability agenda to win over sceptical stakeholders' (PwC).

The main goal of effective sustainability reporting is to manage economic, social, and environmental issues in order to create long-term value for the business and its stakeholders. Leaders in corporate responsibility (CR) invest in environmental and social reporting as a catalyst to drive improvement and change, with the power to deliver far more than an exercise in compliance or public relations.

Effective sustainability reporting provides insight into complex issues, supports strategic objectives, and contributes to business success. On the other hand chief executives understand that their CR performance can have a profound impact on how employees, customers, and investors view their company. Companies that address challenging environmental and social issues with honesty and credibility in external reporting build confidence and trust. In turn, such companies protect and strengthen their reputation, as well as their ability to attract and retain customers, talent, and capital for growth.

Companies that apply best practices consider such reporting as a value creating opportunity in which the organisation achieves financial goals derived from environmentally responsible products and practices. Effective sustainability reporting requires both formal and informal internal mechanisms to create awareness of the company's environmental objectives, and validation of those objectives with a cascading set of performance measures.

To build consistency, credibility, and transparency into sustainability and climate change measures, leading companies adopt internationally recognized frameworks. Uniform standards help reduce the costs of conducting assessments by providing a consistent methodology and straightforward criteria to guide a holistic, strategic approach to tracking and reporting on nonfinancial measures. An essential tool for driving performance improvement, common frameworks and standards increase comparability

to support internal and external benchmarking on nonfinancial reporting measures.

The Global Reporting Initiative (GRI) offers universal guidelines for sustainability reporting. Such guidelines, help companies disclose consistent, straightforward data that they can compare against the performance of industry peers and other organizations. By changing the corporate mind-set toward environmental and social reporting from compliance obligation to business opportunity, companies that apply best practices can gain sustainable cost reduction, new revenue streams, and stronger stakeholder relations.

Since sustainability reporting is far less defined and regulated than financial reporting, companies face tradeoffs and uncertainty when deciding exactly what to report internally and externally, and where to draw the line. At the same time, the list of stakeholder concerns keeps getting longer. Sustainability leaders meet these challenges by analyzing performance gaps, benchmarking, and establishing systematic stakeholder engagement and materiality analysis processes to identify the measures that matter most.

One way of making sure that the sustainability report fully addresses the stakeholder concerns is to base the report on the company's Corporate Social Responsibility Strategy, its different pillars and the corresponding action plans for each pillar. Through this process there is consistency between strategy, actions and performance measurement and companies are able to focus resources on the most important issues for tracking, reporting, and improvement initiatives.

By implementing best sustainability reporting practices companies can potentially gain:

- A more efficient and effective sustainability performance assessment process
- More objective, consistent, and verifiable results from performance assessments
- Higher performance on sustainability issues
- Better reputation for sustainability reporting transparency
- More accurate and reliable information to support decision making

PwC has been at the forefront of efforts to incorporate non-financial information into financial reports. It is uniquely well-positioned to add reporting on sustainability activities to the larger framework of reporting as the sustainability agenda has increasingly become a central strategic focus. As a pioneer in consolidated reporting, PwC has a deep understanding of its importance and extensive experience addressing the challenges it presents. PwC provides a full range of services to companies monitoring and reporting their sustainability practices, including:

- Advice on the design and implementation of the Corporate Social Responsibility (CSR) strategy
- Stakeholder analysis and collection of feedback from stakeholders on sustainability reporting
- Determination of measures for monitoring sustainability performance based on the CSR pillars including Quantification of carbon footprint
- Adherence to standardised reporting practices
- Identification of best practices for communicating sustainability efforts

New CSR activities by PwC

PwC Cyprus, faithful to its commitment for continuous active contribution in the society, has developed a comprehensive corporate social responsibility plan which aims at dealing with various environmental and social issues.

In this context, PwC organised on 27 January an event where Andreas Cariolou, the well known Cypriot Olympic sailing athlete, shared his experiences and visions with the members of the staff and their children. Andreas Cariolou, who is sponsored by PwC, has represented Cyprus in the Olympic Games in Athens and Beijing while now he is preparing for the summer Olympics in London.

The Cypriot sailing athlete said "I very excited to participate in the Olympic Games as this will be a unique experience. I am in good shape and I hope for the best possible outcome".

On the occasion of the Worldwide Safer Internet day which was celebrated on 7 February, the children had the opportunity to participate in a really interesting discussion and receive advice about safe internet usage during the same event.

PwC also completed an innovative on-line campaign with the theme "Helping the Association for the Welfare of People with Mental Handicap" which aimed at raising money for the association based in the number of new likes on the PwC facebook page (www.facebook.com/PwC.Cyprus). After the completion of the campaign PwC offered the amount of €2.000 to the association.

IFRS news

IFRS 9 – effective date: The IASB has published an amendment to IFRS 9, 'Financial instruments', that delays the effective date to annual periods beginning on or after 1 January 2015. The original effective date was for annual periods beginning on or after from 1 January 2013. This amendment is a result of the board extending its timeline for completing the remaining phases of its project to replace IAS 39 (for example, impairment and hedge accounting) beyond June 2011, as well as the delay in the insurance project. The amendment confirms the importance of allowing entities to apply the requirements of all the phases of the project to replace IAS 39 at the same time. The requirement to restate comparatives and the disclosures required on transition have also been modified.

Offsetting financial assets and liabilities

- IAS 32 - The IASB has issued amendments to the application guidance in IAS 32, 'Financial instruments: Presentation', that clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- IFRS 7 - However, the clarified offsetting requirements for amounts presented in the statement of financial position continue to be different from US GAAP. As a result, the IASB has also published an amendment to IFRS 7, 'Financial instruments: Disclosures', reflecting the joint requirements with the FASB to enhance current offsetting disclosures. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

IFRS 10 – transition requirements: The IASB has proposed changes to the transition requirements in IFRS 10, 'Consolidated financial statements', in the exposure draft 'Transition guidance – Proposed amendments to IFRS 10'. The exposure draft provides further guidance on a new term, 'date of initial application'. The date of initial application is the first day of the annual period in which IFRS 10 is adopted. Entities adopting IFRS 10 assess control at the date of initial application and adjust the comparative figures accordingly. It also provides transition guidance for investees that were disposed of during the comparative period.

IAS 29 – Belarus: The economic environment in Belarus has deteriorated significantly since the second quarter of 2011. Cumulative inflation in the last three years now exceeds 100 per cent and Belarus should, therefore, be considered a hyper-inflationary economy. IAS 29, 'Reporting in hyper-inflationary economies', should be applied by entities in Belarus in financial statements for the year ending 31 December 2011. IAS 29 should also be applied to restate the financial statements of subsidiary entities based in Belarus before they are included in the consolidation at 31 December 2011.

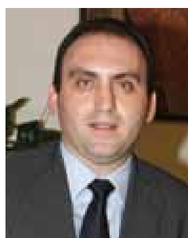
If you would like further information, please contact:

Tasos N Nolas, Partner
Assurance Services
tasos.nolas@cy.pwc.com

Anna G Loizou, Director
Assurance Services
anna.loizou@cy.pwc.com

T: +357 25 555000
F: +357 25 555001

IFRS 13 “Fair value measurement” – Unifying the concept of ‘fair value’



George C Kazamias
Partner
Assurance Services

The International Accounting Standards Board (IASB) released IFRS 13, ‘Fair value measurement’, in May 2011. IFRS 13 consolidates fair value measurement guidance from across various IFRSs into a single standard. IFRS 13 does not change when fair value can or should be used. Many of the requirements codified in IFRS 13 are largely consistent with valuation practices that already operate today. However, IFRS 13 introduces some changes, which include:

- The introduction of a fair value hierarchy for non-financial assets and liabilities, similar to what IFRS 7 currently prescribes for financial instruments;
- A requirement for the fair value of all liabilities, including derivative liabilities, to be determined based on the assumption that the liability will be transferred to another party rather than otherwise settled or extinguished;
- The removal of the requirement to use bid and ask prices for actively-quoted financial assets and financial liabilities respectively. Instead, the most representative price within the bid-ask spread should be used; and
- The introduction of additional disclosures related to fair value.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013; earlier application is permitted, subject to endorsement by the EU.

Definition and scope

IFRS 13 defines fair value as “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” The key principle is that fair value is the exit price from the perspective of market participants who hold the asset or owe the liability at the measurement date. It is based on the perspective of market participants rather than just the entity itself, so fair value is not affected by an entity’s intentions towards the asset, liability or equity item that is being fair valued.

A fair value measurement requires management to determine four aspects: the particular asset or liability that is the subject of the measurement (consistent with its unit of account); the highest and best use for a non-financial asset; the principal (or most advantageous) market; and the valuation technique. IFRS 13 applies to all fair value measurements or disclosures that are either required or permitted by other standards, except: (a) share-based payments under IFRS 2; (b) leases under IAS 17; and (c) measures that are similar to but are not fair value, including the net realisable value measure in IAS 2, ‘Inventories’, and the value-in-use measure in IAS 36, ‘Impairment of assets’. IFRS 13 applies to both initial and subsequent measurements at fair value.

Measurement and the unit of account

A fair value measurement relates to a particular asset or liability. It should therefore incorporate the asset or liability’s specific characteristics if market participants consider these characteristics when pricing the asset

or liability. These characteristics could include condition, location and restrictions, if any, on sale or use as of the measurement date.

Under IFRS 13, fair value measurement may be applied to a stand-alone asset or liability (for example, an equity security, investment property or an intangible asset) or a group of related assets and/ or liabilities (for example, a business), depending on the circumstances. The determination of how fair value measurement applies depends on the unit of account. The unit of account is determined based on the level at which the asset or liability is aggregated or disaggregated in accordance with the IFRS requirements applicable to the particular asset or liability being measured; it is not generally determined by IFRS 13 itself.

The market: principal and most advantageous markets

Under IFRS 13, management determines fair value based on a hypothetical transaction that would take place in the principal market or, in its absence, the most advantageous market.

The principal market is the market with the greatest volume and level of activity for the asset or liability. To determine the principal market, management needs to evaluate the level of activity in various different markets. However, the entity does not have to undertake an exhaustive search of all possible markets in order to indentify the principal or most advantageous market; it should take into account all information that is readily available. In the absence of evidence to the contrary, the market in which an entity normally transacts is presumed to be the principal market or the most advantageous market in the absence of a principal market.

The most advantageous market is the market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs. To determine the most advantageous market, management evaluates all potential markets in which it could reasonably expect to sell the asset or transfer the liability.

Considerations specific to non-financial assets: highest and best use

IFRS 13 requires the fair value of a non-financial asset to be measured based on its highest and best use from a market participant's perspective. This requirement does not apply to financial instruments, liabilities or equity. The concept of 'highest and best use' is not new to IFRS valuations, although it has not explicitly been part of IFRS literature. The specific inclusion of this concept in IFRS therefore aligns IFRS with valuation practices.

Under IFRS 13, the highest and best use takes into account the use of the asset that is:

- physically possible – takes into account the physical characteristics that market participants would consider (for example, property location or size);
- legally permissible – takes into account the legal restrictions on use of the asset that market participants would consider (for example, zoning regulations); or
- financially feasible – takes into account whether a use of the asset generates adequate income or cash flows to produce an investment return that market participants would require. This should incorporate the costs of converting the asset to that use.

Highest and best use is determined from the perspective of market participants. It does not matter whether the entity intends to use the asset differently. For example, the entity could have made a defensive acquisition of a competing brand that it does not intend to use, in order to maintain or promote the competitive position of its own brand. Despite its intentions, the entity measures the fair value of the competing brand assuming its highest and best use by market participants. IFRS 13 allows management to presume that its current use of an asset is the highest and best use unless market or other factors suggest otherwise.

Considerations specific to financial instruments

Bid and ask prices are common within markets for securities, financial instruments and commodities. In these markets, dealers stand ready to buy at the bid price and sell at the ask price. If an input within the fair value hierarchy is based on bid prices and ask prices, the price within the bid-ask spread that is most representative of fair value in the circumstances is used to measure fair value.

This is one of the changes introduced by IFRS 13. Previously, IFRS required the use of bid prices for asset positions and ask prices for liability positions. These prices can still be used if they are most representative of fair value in the circumstances, but they are no longer required. IFRS 13 does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value. Once management has established which convention it is using, it should follow its accounting policy consistently.

IFRS 13 allows an exception whereby if an entity manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or counterparty risks (as defined in IFRS 7), it can opt to measure the fair value of that group on the basis of the net position (that is, the net position is the unit of account that is being measured at fair value, not the individual financial assets and liabilities).

Fair value hierarchy

IFRS 13 contains a fair value hierarchy that is similar to the hierarchy established under IFRS 7. The highest priority is given to Level 1 inputs; Level 3 inputs get the lowest priority. A fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest-level input that is significant to the entire measurement. An input is significant if that input can result in a significantly different fair value measurement. IFRS 13 requires consideration of factors specific to the asset or liability.

The fair value hierarchy ranks fair value measurements based on the type of inputs; it does not depend on the type of valuation techniques used. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

Potential impacts

In many cases, entities should not experience significant measurement changes as a result of IFRS 13, because most of IFRS 13 is a codification of existing valuation practices. However, where an entity is affected, the change to fair value amounts could impact both the recognised amounts in profit and loss, as well as the balance sheet presentation. IFRS 13 introduces significant increases in disclosure requirements. Reporting entities need to examine the additional disclosure requirements and put in place systems and processes to capture the required information for such disclosures.

PUMA environmental accounting sets new pace for integrated reporting

The final environmental profit and loss account (E P&L) recently released by PUMA and PPR HOME could help to accelerate wider industry reassessments of the future of corporate reporting and consumer expectations of businesses' environmental responsibilities.

The PUMA E P&L, valuing their environmental impacts for key areas identified at €145m in 2010, is released ahead of wider EU and global moves to develop environmental accounting at a country-level, which will drive companies to integrate financial and environmental data in annual reports.

Alan McGill, partner, sustainability and climate change, PwC said:

"Business and society are recognising that past financial performance is unlikely to be the only measure used to assess the long term prospects of a business. The PUMA environmental profit and loss account is a great example of the sort of information that will help to present truly integrated reporting.

"They haven't waited for regulations to drive this, instead they've developed the first – ever E P&L to by examining business risk and efficiencies, future resources and markets, and material environmental impacts. Reports like this lift the lid for consumers and business, on the chain reaction of decisions we make day to day, and give businesses the information to prioritise and act. The report represents just one company's share of a much wider business issue - our demand for natural resources in the consumer supply chain – which slips below the radar of financial reporting currently.

"Such developments show that recent calls for a serious reassessment of the reporting system are possible, hard – wiring environmental, social and governance factors into a reframed reporting model."

Conversion of natural ecosystems to make way for agriculture for example, is the main driver of the loss of biodiversity and ecosystem services globally.

"For meaningful business reporting to occur, resource usage and the risks and opportunities associated with business have to be considered, across a business's entire value chain and cannot be limited to the accounting definition of control. This has significant implications for how companies report, but the PUMA E P&L is showing how companies can break the traditional reporting mould for competitive advantage."

The recently released International Integrated Reporting Council's blueprint emphasised that more focus needed to be given to the resources consumed and impacts that arise from business activity, including those which have no monetary value in the way our economic system has evolved to date (for example carbon, water).

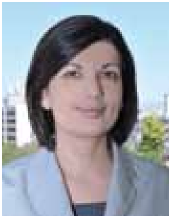
Accounting for resource consumption and environmental impact in financial terms provides such focus by enabling businesses to understand and manage these impacts alongside traditional financial metrics.

Dr Richard Mattison, chief executive officer, Trucost, said:

"Environmental issues are changing business models. The current era of volatile resource prices, growing consumer and investor interest and greater regulatory standards mean that environmental issues are increasingly core to the business strategy.

"By representing its environmental impacts in financial terms, a metric that business managers commonly use and understand, PUMA is providing its management teams with a robust framework to embed sustainability at the heart of business decision making. PUMA has demonstrated that accounting for the environment across the value chain is no longer a 'holy grail' objective, but simply makes good business sense."

Leasing: what are the current proposals?



Anna G Loizou
Director
Assurance Services

Sir David Tweedie delivered an oft-quoted speech in Australia in August 2002, in which he told the attending luminaries that they had never flown on an aircraft that was on anyone's balance sheet. It is somewhat serendipitous that, on the eighth anniversary of that speech (give or take a couple of days for poetic licence), the IASB and US FASB issued an exposure draft of proposals that would put aircrafts on two balance sheets instead.

Leasing is big business. According to the World Leasing Yearbook 2010, the annual value of leases in 2008 was some $640 billion. Look around you; there is a good chance you are sitting in a leased building, having driven to work in a leased car (or been carried there on board a leased train) and are reading this article on a leased computer. Leasing is pervasive, so it is inevitable that the new proposals attract attention from a wide spectrum.

The headline is the removal of the distinction between a finance lease and an operating lease such that all leases will be 'on-balance sheet'. Specifically, the Boards propose a 'right-of-use' model, which will require a lessee to recognise an asset representing its right to use the leased item for the lease term, and a corresponding liability at present value for the obligation to pay rentals. Subsequently, the asset and liability will be measured at amortised cost. Rent expense will be therefore be replaced by a combination of depreciation and interest, which will be front-end loaded compared to the current expense profile, but which will result in an increase in EBITDA.

However, the proposals go further than merely removing operating leases from the accounting glossary. Arrangements currently accounted for as finance leases will change too. Under existing standards, an option to extend a lease is considered part of the lease term only if the lessee is 'reasonably certain' to exercise it. Under the Boards' proposals, however, lessees will be required to include term extensions where 'more likely than not' to be exercised. This is a lower hurdle, so assumed lease terms will increase, as will assets and liabilities as a consequence.

Furthermore, under existing standards, contingent rents – such as those that vary with a property index or levels of sales from a retail store – are recognised as expenses in the period incurred. Under the Boards' proposals, however, lessees will be required to estimate the obligation to pay rentals, including the contingent element.

The new proposals will result in a significant change for almost all lessees, both in terms of what is recognised on the balance sheet and also in terms of how it is measured.

Research completed by PwC and the Rotterdam School of Management has quantified the minimal impact of the proposed model on lessees. Based on the operating lease disclosures in financial statements of some 3,000 companies worldwide, the study concludes that the reported interest-bearing debt of these companies will increase by an average of 58%. In addition, the companies in the sample will see an average increase in EBITDA of 18%, as rent expense will be replaced by depreciation and interest expense. The research also shows that the impact on financial ratios differs significantly by industry. For retail companies, for example, the reported debt balances are expected to increase by an average of 213%.

While it is lessee accounting that attracted the headlines upon the issue of the exposure draft, the Boards have also tackled lessor accounting. They proposed a dual model in the exposure draft, but following widespread criticism, they have now tentatively agreed that all lessors shall account for leases under a "receivable and residual" approach. A lessor would derecognize the underlying asset subject to the lease and instead recognize a lease receivable, measured at the present value of the lease payments, and a residual asset, which would be calculated by estimating the present value of the expected future fair value of the residual asset.

Objective and scope of leasing project

The exposure draft issued jointly in August 2010 by the IASB and FASB as part of their convergence project, proposes a new approach to lease accounting that would significantly change the way entities account for leases. The key objective is to ensure assets and liabilities arising from lease contracts are recognised on the balance sheet. The proposal applies to all entities, but certain types of leases are excluded from its scope. The Boards propose that the scope of the leasing standard includes leases of property, plant and equipment, but does not include leases of intangible assets. The Boards also propose to exclude from the scope leases to explore for or use natural resources (such as minerals, oil and natural gas), leases of biological assets and leases of investment property and inventories. Although the overall definition of a lease is consistent with current IAS 17, the assessment to distinguish a service from a lease that is currently prescribed by IFRIC 4, 'Determining whether an arrangement contains as lease', will change. The current proposal will align the concept of control more closely with the proposed revenue standard. As a result of the proposed changes to the assessment it is expected that entities will need to revisit their lease or service decisions at the transition date.

Lessee accounting

For lessees the proposed model will:

- Eliminate off-balance sheet accounting. All assets currently leased under operating leases will be brought onto the balance sheet, removing the distinction between finance and operating leases.
- Recognise a new asset – representing the right to use the leased item for the lease term – and liability – representing the obligation to pay rentals. Both the asset and liability will be measured at cost, based on the present value of payments to be made over the term of the lease.
- The lease term will include lease extension options only to the extent that there is significant economic incentive for the lessee to extend, such as the inclusion of a bargain purchase option. Although the current standard requires a lessee to look at renewal options, the hurdle to include such options is high being 'reasonable certain' hurdle. The proposal by the Boards is to lower this hurdle to require a lessee to include optional renewal periods such that the lease term is the longest possible term that is more likely than not to occur.
- For many leases that will mean that a longer lease period will be recognised and measured in the lease.

- All factors should be considered when determining the lease term including renewal options that are at market value. This is because business factors may mean that although the renewal is at market, it is still more likely than not the lease will be renewed – take for example a retail store leased in a prime real estate site.
- Lease payments will include variable lease payments based upon a rate or index and those variable payments that are disguised fixed lease payments, although this is an area that the boards are still redeliberating. The boards have tentatively agreed that variable lease payments based on a rate or index would initially be measured at the rate that exists at lease commencement. In practice, this means that, for example, leases with payments based on LIBOR would use a current spot rate; leases with payments based on a CPI index would use the absolute index at lease commencement and not the expected rate of change in that index. So a lease with fixed rental increases of 2% per annum as a surrogate for inflation will not be measured in the same way as a lease with rental increases based on changes to CPI, even if that index is predicted to increase at the same rate of 2% per annum. In addition, management would need to reassess such variable lease payments, as these rates/indices change at each reporting period. The recognition of such changes would be in accordance with the proposals in the exposure draft. For lessees, this is in profit or loss or when they relate to a past or current accounting period; and there would be an adjustment to the right-of-use asset when they relate to a future period. For lessors, all such changes will be recognized in profit or loss.

Lessor accounting

For lessors the boards have now tentatively agreed that all lessors should account for leases using a 'receivable and residual approach' (previously known as the 'derecognition approach'). A lessor would derecognise the underlying asset and replace it with a lease receivable and residual asset.

Measurement issues

Under the model proposed in October 2011, a lessor will derecognize the underlying asset subject to the lease and instead recognize a lease receivable, measured at the present value of lease payments, and a gross residual asset, which will be calculated by estimating the present value of the expected future fair value of the residual asset. The total profit is calculated by comparing the fair value and cost of the underlying asset subject to the lease. The total profit is then allocated between the receivable and the gross residual asset. While the profit related to the lease receivable is recognized in the income statement on day-one, any profit related to the residual asset is deferred throughout the lease term. This deferred profit is only realized at the end of the lease term, either upon the sale or re-lease of the underlying asset.

The receivable and gross residual asset will be subsequently accreted using the rate the lessor charges the lessee. However, the deferred profit relating to the residual asset will not be remeasured. Nevertheless, when the rate the lessor charges the lessee reflects an expectation of variable lease payments (such as usage-based rental of a motor vehicle), the lessor will adjust the residual asset by recognizing a portion of its cost as an expense when the variable lease payments are recognized as income.

Residual value guarantees shall not be recognized by the lessors, but rather taken into consideration when assessing the impairment of the residual asset. The current IAS 36 impairment guidance shall be followed for impairment testing of residual assets and revaluation of the residual asset would be prohibited. Lease receivables will be excluded from the existing financial instruments guidance for both initial and subsequent measurement; however, they would be required to follow financial instruments guidance for impairment and derecognition and the disclosure requirements in IFRS 7 "Financial instruments: Disclosures". The Boards also agreed that fair value measurement of the lease receivable would be prohibited, even if part or all of that receivable is held for purposes of sale.

Simplified approach for short term leases

A simplified accounting approach is available to lessors for leases with a maximum lease term of 12 months or less. Such short-term leases can be accounted for similar to current operating lease accounting. Cancellable lease (when both the lessee and lessor each have the right to cancel the lease at any point) would meet the definition of a short-lease, with the resulting simplified accounting, when the initial non-cancellable period, together with any penalty notice period, is 12 months or less.

Rental income for investment properties

The IASB board members have tentatively agreed that all assets that meet the definition of an investment property in ISA40 "Investment property" will be excluded from the scope of the leasing standard. The lessors of investment property, as currently defined by IAS40 "Investment property", shall recognize rental income on a straight line basis, or another systematic basis if that basis is more representative of the time pattern in which rentals are earned from the investment property.

is then determined to be €4,483, which is the amount derived after four years of hypothetical depreciation.

For lessors applying the modified approach, the discount rate at transition shall be the discount rate charged in the lease, determined at the commencement of the lease.

For leases classified as finance leases under IAS 17, lessees and lessors should use existing carrying amounts at transition, even for complex leases including options and contingent rentals.

Presentation and disclosure

The proposed model will require more extensive disclosures than are currently required under existing standards. The disclosures focus on qualitative and quantitative information and on the significant judgements and assumptions made in measuring and recognising lease assets and obligations.

Lessor presentation

The Boards agreed that under the "receivable and residual" approach, the receivable and residual shall be presented on a disaggregated basis. In determining whether the disaggregation of the receivable and the residual asset shall be made in the statement of financial position or within the notes of the financial statements, lessors shall apply the guidance in IAS1 "Presentation of financial statements".

In the statement of cash flows, lessors shall classify cash received for lease payments as part of operating activities, except those cash flows relating to securitized receivables, where existing guidance would apply.

The presentation of income and expenses from leasing activities can be either in the income statement or disclosed in the notes to the financial statements. Income and expense shall be presented either as separate line items, or net in a single line item based on the lessor's business model. Accretion of the gross residual asset shall be presented as part of interest income.

Lessors excluded from the scope of the "receivable and residual" approach will also be subject to a different set of disclosure requirements.

Transition

Both lessees and lessors have the option of applying either a modified or a full retrospective approach to transition. Under the modified approach, the lessee's incremental borrowing rate on the effective date is used for measuring the lease liability. Acknowledging the expense front-loading issue that many commentators referred to in response to the 2010 exposure draft, the Boards agreed that the right-of-use asset should be calculated as the amount that would have arisen if the lessee had always applied the discount rate used at transition. For example, if a lessee applies the new standard in the fourth year of a 10-year lease, with annual payments of €1,000 and a discount rate at the effective date of 5.7%, it would calculate a lease liability of €4,967. Applying the same discount rate, the lease liability at the beginning of the lease term would have been €7,472. The right-of-use asset

What next?

The boards have agreed to re-expose their proposals for lease accounting in view of the changes they already intend to make to the model proposed in the 2010 exposure draft. The technical discussions still continue with a number of them being brought back to the Boards early in 2012. These include a paper revising the definition of an investment property, following the board's tentative decision at the October 2011 meeting to exclude all investment properties from the "receivable and residual" approach to lessor accounting. They also continue to explore the issue of lessee income statement recognition patterns following feedback from constituents and concerns raised by certain board members. The current expectation is that a new exposure draft is expected in the first half of 2012.

Eurozone and 2011 financial reporting: not just about the banks

There continue to be significant concerns about the economies of some European countries that are members of the single currency (the eurozone) as well as potential uncertainty about the single currency itself. Greece continues to experience economic decline. The economic crisis has spread to Portugal, Italy and Spain – as these countries have experienced slower economic growth and higher debt levels – with Ireland also experiencing some difficulties. Austerity programmes and rescue packages have not eliminated the possibility of default on sovereign debt, and the broader economic news remain gloomy.

All entities doing business in the eurozone need to consider the impact of the current economic climate on their 2011 financial statements. Entities in some industries are directly exposed to the government as a customer. Banks and other financial institutions are the most exposed to sovereign debt. Many entities in a variety of industries are exposed to macro-economic trends, such as reduced consumer spending, downward pricing pressure and constraints on financing.

Financial instruments and related issues including sovereign debt

Impairment issues

European lenders have recently proposed a financial assistance package for Greece. Private holders of Greek Government bonds (GGBs) will be asked to contribute towards the relief of Greece's debt burden. The proposed financial assistance package is expected to require holders of government bonds to accept a reduction in the nominal value of the bonds of at least 50%. The specific terms have not been finalized. However, all investments in GGBs and debt from other government and quasi-governmental bodies should be considered impaired.

GGBs classified as loans and receivables or held to maturity, measured at amortised cost, should reflect at least 50% reduction in contractual cash flows of the bonds, regardless of maturity and whether or not the investor expects to participate in the package. Any GGB classified as available-for-sale should be measured at year-end fair value (see below for fair value considerations).

Other troubled eurozone economies have also experienced significant increases in yields with corresponding drops in their fair values. The increase in sovereign debt yields may also have an impact on the debt of corporate

and individual borrowers from those countries. The increase in yields does not necessarily result in impairment. However, consideration should be given to whether the increase in yield is as a result of a loss event that will have an impact on the expected future cash flows.

Management should provide sufficient disclosures relating to any material exposures to sovereign debt of troubled Eurozone economies whether or not impairment losses have been recorded.

Fair valuing financial instruments

In determining fair value of financial instruments, the valuation hierarchy in IAS39 shall be applied, in that the best evidence of fair value is quoted prices in an active market. If such a price exists, then the entity must use it. Management needs to assess whether the current market events mean that there is no longer an active market for certain financial assets for which a market previously existed. A lower than normal volume of transactions does not necessarily mean that the market is inactive and that the observed transactions are distress/forced sales.

Similarly, a lower than normal volume of transactions does not necessarily mean that the transactions that are occurring are motivated other than by normal business considerations. An imbalance between supply and demand (for example, fewer buyers than sellers, thereby forcing prices down) is not the same as a forced/distress transaction. If transactions are occurring between willing buyers and sellers in a manner that is usual and customary for transactions involving such assets, these are not forced/distress sales. The absence of transactions for short period does not necessarily mean that a market has ceased to be active. If transactions are occurring frequently enough to obtain reliable pricing information, that market would be considered active.

An active market needs regularly occurring arm's length transactions. Therefore, if observed transactions are no longer regularly occurring, or the only observed transactions are distress/forced sales, the market would no longer be considered active. "Regularly occurring" and "distress/forced sales" are matters of judgment. For example, a transaction that results from the seller breaching contractual triggers whose breach requires sales of the assets concerned. However, if there are a number of interested potential buyers and a reasonable period of marketing, even sales resulting from a breach of contract may not be forced or distressed sales.

Financial assets should be assessed separately when determining if there is an active market. The fact that there is no active market in one financial asset should not be taken to imply that there are no active markets in other similar financial assets.

A valuation technique is required if the market for a financial instrument is not active. The determination of fair value therefore requires consideration of current market conditions, including the relative liquidity of the market and current credit spreads.

Reclassification of financial assets

There are certain limited reclassifications permitted under IAS39 , which include reclassification of financial assets at fair value through profit or loss (but not designated under the fair value option) and assets classified as available-for-sale.

A financial asset classified as held for trading may be reclassified to loans and receivables if the financial asset would have met the definition of a loan or receivable and the entity now has the intent and ability to hold it for the foreseeable future or to maturity. Other financial assets may be reclassified in rare circumstances. The current crisis affecting Greece may be considered as a "rare" circumstance; Greek government bonds may therefore be reclassified from held for trading category to loans and receivables.

Tainting of HTM portfolio

A sale or reclassification from Held to Maturity (HTM) to available-for-sale (AFS) due to a significant deterioration in the issuer's creditworthiness does not call into doubt the holder's intention to hold other investments to maturity and does not trigger tainting of the HTM category. Generally, we do not believe that sales of Greek government bonds would be considered a tainting event in the current economic conditions. Further analysis is required for sales of other sovereign debt in order to support that there has been a significant deterioration in creditworthiness since acquisition. This analysis should be on an instrument-by-instrument basis, taking into consideration credit rating downgrades and deterioration in market –implied credit ratings evidenced by current credit default swap prices and bond spreads.

Guarantees and loan commitments

Some entities may have given guarantees or loan commitments (including liquidity lines) to entities that hold assets affected by current market events. If such guarantees and loan commitments are measured at fair value through profit or loss (FVTPL), the considerations under "fair valuing financial instruments" above apply.

For financial guarantees measured at the higher of the best estimate of the obligation under IAS37 and the amount recognized at inception as the fair value of the guarantee less cumulative amortization under IAS18, management shall assess whether it is more likely than not that a payment will be made and if so, determine the best estimate of the cash outflow necessary to settle the obligation. The assessment of probability of payment will depend on the credit standing of the underlying debtor or portfolio that is the subject of the guarantee. For financial guarantees accounted for under IFRS 4 "Insurance contracts", if the liability adequacy test shows that the carrying value of the liability is inadequate, the entire deficiency shall be recognized in profit or loss.

Hedge ineffectiveness

Entities should be alert to the possibility that hedge ineffectiveness may result from current market conditions. For instance, hedges on GGBs entered into prior to June 2011 are unlikely to remain effective, thus requiring a discontinuation of hedge accounting. Also, fair value hedges of fixed rate assets using interest rate swaps may be ineffective due to the pricing of the floating leg of the swap to the next fixing date. Also, significant increases in counterparty risk may result in hedge ineffectiveness. Hedge ineffectiveness resulting from current market conditions may also be so great that the retrospective or prospective effectiveness tests in IAS39 will be failed. Hedge accounting should cease from the last date on which hedge effectiveness was demonstrated, unless it can be demonstrated that the hedge was effective prior to certain event or change in circumstances, in which case, hedge accounting will cease from the date of the event or change in circumstances.

If hedging derivatives which are in asset position are closed due to financial difficulties of the counterparties and new derivatives are entered with new counterparties, new hedging relationships shall be designated. Ineffectiveness may result in these new hedging relationships if the new derivatives are not entered into with a zero fair value. Also, for hedges of forecast transactions, if current market conditions render the forecasted transaction to no longer be highly probable (eg debt issuance), then the hedge accounting shall cease from the date that the forecast transaction is no longer highly probable.

Embedded derivatives

The value of some embedded derivatives may previously have been determined to be immaterial – in particular, if the underlying was linked to an event considered to be remote (such as major changes in sovereign credit spreads or inter-bank rates). Management should be alert to the possibility that the value of such embedded derivatives may have become material as a result of current market events. For example, synthetic collateralized debt obligations contain an embedded credit derivative that in the past was generally considered immaterial; however, current market conditions may have given rise to significant changes in fair value. Another example is perpetual debt instrument classified as AFS where, if the issuer does not call the instrument in say five years, the interest rate is reset to usually a much higher rate. Given the lack of liquidity in the current market, these embedded extension options are likely to have significant fair value.

Entities may seek to amend or change the terms of contracts that contain embedded derivatives in the current economic environment. IFRIC 9 requires a subsequent reassessment of whether an embedded derivative is closely related or not, if there is a change in terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Pervasive issues

Going concern

The current environment might result in reduced availability of credit and declining business performance. Financial institutions might impose stringent requirements over new or existing borrowings. This could cast doubt on the going concern assumption. Conditions or events that might cast doubt on the going concern assumption include:

- squeezed financing and indications of withdrawal of financial support by lenders;
- adverse key financial ratios; and
- significant deterioration in the value of non-financial assets.
- Management should assess the appropriateness of the going concern assumption and disclose any material uncertainties.

Accounts receivable and revenue recognition

Many entities continue to do business with governments in the troubled eurozone countries, despite long delays in payment, mandatory restructuring of older unpaid debtors, significant discounts on factoring receivables where factoring is possible and downward pricing pressure on goods and services. In these circumstances, management should consider what issues might arise around the valuation of accounts receivable and recognising revenue.

Valuation of new and outstanding trade receivables

Management should also consider for impairment all existing and new trade receivables from governmental bodies in troubled eurozone countries. An impairment loss is calculated based on revised expected cash flows, discounted at the receivables' original effective interest rate. Any impairment charge is recorded as a current-period bad-debt expense.

Management should consider discounting, on initial recognition, any receivables that are not expected to be collected immediately. There is no 'grace period' in the revenue standard for receivables that are collected within one year or any other specific period. Accounts receivable should be discounted at initial recognition, with a consequential reduction in revenue, if the effect of discounting is expected to be material.

Discounting requires estimating the date of collection and the actual amounts that will be collected, and determining an appropriate interest rate to use. When estimating the date of collection, the most recent data available on day-sales outstanding should be used, adjusted for any recent developments. The appropriate discount rate is the rate at which the customer could otherwise borrow on similar terms. For a government body, a reasonable starting point for estimation is the most recent rate at which the relevant government body has been able to borrow.

Some receivables may be interest-bearing by statute; however, this does not remove the requirement to consider discounting. The rate of interest that government bodies are paying is unlikely to be the same as the rate at which receivables should be discounted.

Revenue recognition

Management also need to determine whether revenue should be recognised for current sales, and the amount of revenue to be recognised. All five revenue recognition criteria in IAS 18, 'Revenue' have to be met, in order to recognise revenue. The criteria that are most under stress in the current environment are that:

- revenue can be measured reliably; and
- it is probable that economic benefits will flow to the entity.

Management should first determine if it is probable that they will be paid for the goods they have sold. Slow payment does not, on its own, preclude revenue recognition. However, slow payment may well reduce the amount of revenue, because the corresponding receivable will be discounted.

Revenue recognised might be further reduced by an estimate of discounts, clawbacks and future allowances that governments might demand. Managment should not recognise revenue if they don't expect to receive payment, or if they expect discounts and allowances to be material but cannot estimate them.

Non-financial asset impairment

Current economic difficulties will impact the expected future cash flows to be generated by long-term, non-financial assets such as goodwill, PPE and intangible assets. If the business has significant non-financial assets relating to, located in or selling into any of the troubled eurozone economies, management should consider the impact when measuring the recoverable amount of non-financial assets.

The effects of the economic downturn could impact impairment calculations in several different ways, notably: triggering impairment reviews; affecting key assumptions underlying management's cash flow forecasts (growth, discount rates); and requiring more sensitivity disclosures. Management should determine an impairment loss, if any, after calculating the recoverable amount. Management should also need to be alert to the use of over-optimistic assumptions in impairment cash flow models in the current environment.

Employee benefits

Long-term employee benefit liabilities, including defined benefit pension obligations, are discounted using a rate based on market yields at the balance sheet date on high-quality corporate bonds of equivalent currency and term. The bond should be rated at least AA to be considered 'high quality'. Use market yields (at the balance sheet date) on government bonds of equivalent currency and term if there is no deep market in high-quality corporate bonds. Discount rates and other assumptions are coming under more scrutiny in the current environment.
Entities in the eurozone have a policy choice to consider discount rates either at the level of the eurozone or the individual country. You should apply the policy consistently from year to year, and any change is a change in an accounting policy. A change from a eurozone corporate bond rate to a country government bond rate is unlikely to provide more reliable and relevant information.

Many entities use actuaries to help derive appropriate assumptions; actuaries use different approaches to develop their advice. Where an actuary uses a different methodology from that used in prior periods, management should bear in mind consistency and applicability. A change in methodology should lead to a 'better' estimate of the appropriate discount rate, and should reflect available data about market yields and the benefit plan's expected cash flows.

Provisions

IAS 37, 'Provisions', requires provisions to be discounted, typically starting with a risk-free rate. The sovereign debt crisis raises the question of whether a downgraded government credit ratings means that government bond yields no longer provide a risk-free rate.
There are some countries for which all the ratings agencies have acted to downgrade government bonds. The yield on these bonds is unlikely to be a risk-free rate; management will need to make some risk adjustment to establish a risk-free rate. Judgment is needed to determine whether government bonds remain risk free.

Taxes

Management should scrutinise the recoverability of deferred tax assets, particularly when current and expected future profits are adversely affected by market conditions. Deferred tax assets are recognised only to the extent it is probable that future taxable profit will be available against which the assets can be utilised.

Consider future reversals of existing deferred tax liabilities, future taxable profits and tax planning opportunities when evaluating deferred tax assets. Management should give particular attention to the assumptions underlying

expected taxable profits in future periods and to the requirement to have convincing evidence of future profits when the entity has a history of losses.

Disclosures

Additional disclosures may well be required in the current economic environment; several regulators have already issued guidance about their expectations in this area. IFRS 7, 'Financial instruments: Disclosures', is particularly relevant; take care to ensure the objectives set out in the standard are met. Further disclosures are required by IAS 1, 'Presentation of financial statements'. It may be necessary to make broader disclosures about the impact of the European economic environment on the business, financial instruments, concentration of risk and future.

Subsequent events

Events may unfold quickly; management should consider carefully whether they need to reflect events occurring between the balance sheet date and the date of authorisation in the financial statements. Events are either adjusting or non-adjusting; many non-adjusting events will still require disclosure.

Adjusting events provide further evidence of conditions that existed at the balance sheet date – for example, the receipt of information after the balance sheet date, indicating that an asset was impaired at the balance sheet date, or that the amount of a previously recognized impairment loss for that asset should be adjusted. This could be particularly relevant if further details of the Greek package are announced and it would have an effect on the amount of impairment that is to be recognized.

If you would like further information, please contact:

Tasos N Nolas, Partner
Assurance Services
tasos.nolas@cy.pwc.com

Anna G Loizou, Director
Assurance Services
anna.loizou@cy.pwc.com

T: +357 25 555000
F: +357 25 555001

Conclusions

The current market conditions prevailing in Europe have wide ranging accounting and reporting implications which need to be considered for 2011 reporting. Although the impact of these is likely to be most pervasive in the financial sector, the accounting consequences extend to all entities holding government debt or doing business in the troubled Eurozone countries - it is not just about banks!

IASB and FASB issue new revenue recognition exposure

What is the issue?

The IASB and FASB have issued a new exposure draft (ED) on revenue from contracts with customers. The core revenue recognition model and scope have not changed from that proposed in the June 2010 ED. However, the boards have revised various proposals on how to apply that core principle. They therefore agreed that re-exposure would increase transparency and minimise unintended consequences. The comment period ends on 13 March 2012.

The new ED requests feedback on the most significant changes from the previous proposal; these are summarised below.

The proposed model

The proposed model requires a contract-based approach. Management should first identify separate performance obligations and then estimate and allocate the transaction price to each separate performance obligation. Revenue is recognised when an entity satisfies its obligations by transferring control of a good or service to a customer. There are a number of changes from the June 2010 ED. Most of the changes were made in response to concerns raised during the comment letter process and industry consultation.

Performance obligations satisfied over time

The ED provides new guidance on determining when a performance obligation is satisfied 'over time' rather than at a 'point in time'. A performance obligation is satisfied over time if the entity's performance:

- creates or enhances an asset that the customer controls; or
- does not create an asset or creates an asset but the asset has no alternative use to the vendor, and one of the following criteria is met:
  - the customer simultaneously receives and consumes the benefit as the entity performs;
  - another entity would not need to substantially re-perform tasks already performed; or
  - the entity has a right to payment for work performed.

Presentation of the effects of credit risk

Impairment as a result of credit risk is presented as a separate line item adjacent to revenue. Both the initial impairment assessment and any subsequent changes in the estimate are recorded in this line item, such that the cash ultimately received from the customer equals the sum of the two line items if the contract does not have a significant financing component.

'Reasonably assured' constraint

Revenue is only recognised to the extent that the entity is reasonably assured to be entitled to the consideration. An entity is reasonably assured when it has experience with similar types of performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled.

The new ED includes an exception for licences of intellectual property, such that consideration based on the customer's subsequent sales using that intellectual property cannot be recognised as revenue until those subsequent sales occur.
Onerous performance obligations
An entity recognises a loss for a performance obligation that is satisfied over a period greater than one year if the performance obligation is onerous. A performance obligation is onerous if the lower of the cost to settle or fulfil the performance obligation exceeds the transaction price allocated to that performance obligation. The new ED removes the requirement from the previous proposal to assess and measure a liability for a performance obligation satisfied at a point in time or within a year.

Interim disclosures

Several new disclosures will be required not only in an entity's annual financial statements, but also in its interim financial statements.
Application to non-financial assets
The new ED will result in entities recognising the sale of a non-financial asset when control is transferred to the buyer even if the sale is outside of the scope of the ED (that is, not a contract with a customer).

Is convergence achieved?

Convergence is expected for revenue recognition, as the same principles should be applied to similar transactions under both frameworks. Differences might continue to exist to the extent that the guidance requires reference to other standards before applying the guidance in the revenue standard.

Who's affected?

The proposal will affect most entities that apply IFRS or US GAAP. Entities that currently follow industry-specific guidance should expect the greatest impact.

What's the effective date?

The final standard will have an effective date no earlier than 2015. Full retrospective application will be required, with the option to apply some transition relief.

What's next?

The comment period ends on 13 March 2012; we understand the boards anticipate issuing the final standard by the end of 2012.

If you would like further information, please contact:

Tasos N Nolas, Partner
Assurance Services
tasos.nolas@cy.pwc.com

Anna G Loizou, Director
Assurance Services
anna.loizou@cy.pwc.com

T: +357 25 555000
F: +357 25 555001

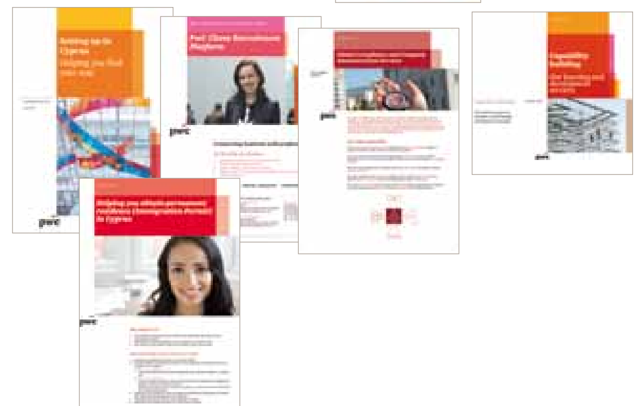
PwC Global and Cyprus publications

- ***Banking Banana Skins 2012***
  The system in peril
- ***Global Gaming Outlook***
  The casino and online gaming market to 2015
- ***Capital markets in 2025***
  The future of equity capital markets
  A PwC IPO Centre publication, assessing the choices ahead for global companies.
- ***Communications Review***
  Exploring telecom market in Latin America
- ***Trading blocs What next for the stock exchanges?***
- ***Riding the storm***
  Global Shipping Benchmarking Analysis 2011

For acquiring a copy of publications prepared by PwC Cyprus, contact the receptions of any office in Cyprus. Acrobat (PDF) files of our publications can be found on our website www.pwc.com/cy

- ***Tax Facts & Figures - 2012 Cyprus*** *(Greek and English language)*
- ***Cyprus – The gateway to global investments***
- ***A guide to a flotation on the Emerging Companies Market***
- ***Cross - border IPOs through Cyprus***
  Apassage to Europe's capital markets
- ***Cyprus hidrocarbon opportunities***
  Energy, Utilities & Mining
- ***Industry Qualification Statement***
  Cyprus Hospitality and Leisure Group

Leaflets



- ***Setting up in Cyprus***
  Helping you find your way
- ***PwC Clients Recruitment Platform***
- ***Global Compliance and Company Administration Services*** Our complete solution
- ***Capabilit building***
  Our learning and development services
- ***Helping you obtain permanent residence (Immigration Permit) in Cyprus***

15th Annual Global CEO Survey 2012

Delivering results
Growth and value in a volatile world

The year 2012 unfolds with wide disparities in potential outcomes in many economies, and little prospect of a coordinated turnaround. PwC's 15th Global CEO Survey was launched at a press conference in Davos on the eve of the World Economic Forum's Annual Meeting.

For PwC's 15th Annual Global CEO Survey, 1,258 interviews were conducted in 60 countries in the last quarter of 2011. 291 interviews were conducted in Western Europe, 440 in Asia Pacific, 150 in Latin America, 236 in North America, 88 in Central and Eastern Europe, and 53 in the Middle East & Africa.

Among the 1,258 CEOs who participated in the quantitative survey, Cypriot CEOs did share their thinking on the issues investigated by the survey. PwC Cyprus presents for the first time a separate report with the results of the survey which includes the views of 31 Cypriot CEOs.

PwC in Cyprus

We are striving to offer our clients the value they are looking for, value that is based on the knowledge that our teams draw from 169.000 experts in 158 countries and based on experience adapted to local needs. PwC Cyprus focuses on two main areas: Assurance & Advisory Services and Tax & Legal Services. We work closely with our clients. We ask questions. We listen. We learn what they want to do, where they want to go. From all our international knowledge we share with them the piece that is more suitable for them and thus we support them on how to achieve their goals.

In the operation of the world's capital markets we play an important role and as business advisors we help our clients solve complex business problems. We aim to improve their ability to manage risk and improve performance. At the same time we take pride in our quality services which help to improve transparency, trust and consistency of business processes.

Our position is strengthened with our almost 1.000 professionals and our offices throughout Cyprus.

Assurance & Advisory Services

Our Financial Assurance services comprise of statutory and regulatory audit services, which include evaluation of information systems, advisory services for capital market transactions, accounting and regulatory issues for all types of businesses through specialist industry divisions:

Financial Services (FS), Consumer and Industrial Products and Services (CIPS) and Technology, Information, Communications, Entertainment and Media (TICE).

Our Risk Assurance Consulting (RAC) offers expertise on internal audit services, internal controls optimisation, corporate governance and reporting, as well as assurance and advisory services related to security and controls of information technology systems including Enterprise Resource Planning (ERP) systems (e.g. SAP, Oracle, Navision), Project Implementation Assurance (PIA), Computer Assisted Audit Techniques (CAATs), Spreadsheet Integrity and IT Risk Diagnostic and Benchmarking. A particular focus of the team is in supporting the financial services industry on matters related to regulatory compliance, licensing and risk management.

Our Performance Improvement Consulting (PIC) is offering specialist advisory services on strategy and operational effectiveness, process improvement, cost reduction, people and change and sustainability issues.

Our Deals & Corporate Finance (DCF) provides consulting on M&A's, valuations, feasibility studies, transactions support and crisis Management.

Tax and Legal Services

Our PwC network's tax and legal services include Global Compliance Services, Direct and Indirect Tax Services, Services to Small and Medium Enterprises and Legal Services.

Global Compliance Services

Comprising the whole spectrum of company administration and corporate statutory compliance services, bookkeeping, accounting and payroll services as well as specialised services such as private client services, advice on establishment and administration of local and international business companies, collective investment schemes, UCITS, investment firms and trusts.

Direct tax services

Corporate: Advisory Services for tax planning, international tax structuring, mergers and buyouts and other business issues, tax returns administration, agreement with Tax Authorities and obtaining tax rulings.

Personal: Tax planning, completion submission and agreement of tax returns, tax services to expatriates, pensioners and other non-Cypriot individuals.

Indirect Tax Services

VAT: Advisory services for VAT, VAT recovery and VAT minimisation and tax compliance (administration of VAT returns, communication with VAT authorities, agreement of disputed assessments, etc).

Services to Small and Medium Enterprises (SME)

The Services to Small and Medium Enterprises are addressed to individuals, small and medium - sized enterprises with local activity and cover the whole spectrum of accounting, tax, VAT, family business and financial structuring and statutory compliance services.

Legal Services

The legal firm, full member of the PwC international network, offers legal services that cover the whole spectrum of corporate and business law, including advising and representing clients in M&A transactions, re-organizations, European Union law and Competition law, setting up and regulating private companies, setting up joint ventures and other forms of businesses and carrying out legal due diligence.

PwC offices in Cyprus

Nicosia

Mailing address:	P O Box 21612, CY-1591 Nicosia, Cyprus
Street address:	Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus
	Tel. +357 - 22555000 , Fax +357 - 22555001

Limassol

Mailing address:	P O Box 53034, CY-3300 Limassol, Cyprus
Street address:	City House, 6 Karaiskakis Street, CY-3032 Limassol, Cyprus
	Tel. +357 - 25555000, Fax +357 - 25555001

Larnaca

Mailing address:	P O Box 40450, CY-6304 Larnaca, Cyprus
Street address:	Artemidos Tower, 7th & 8th Floors, 3 Artemidos Avenue, CY-6020 Larnaca Cyprus
	Tel. +357 - 24555000, Fax +357 - 24555001

Paphos

Mailing address:	P O Box 60479, CY-8103 Paphos, Cyprus
Street address:	City House, 58 Grivas Dighenis Avenue , CY-8047 Paphos, Cyprus
	Tel.+357 - 26555000, Fax +357 - 26555001

ISSN 1450-4316

Designed by: PricewaterhouseCoopers (Marketing & Communications) Ltd

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors
© 2012 PricewaterhouseCoopers Ltd. All rights reserved. PwC refers to the Cyprus member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.