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Welcome to the January edition of *Essentials* – please click on the tabs above to view recent financial, legal and commercial developments.

New publications and tools

- IFRS news – November 2009

Monthly newsletter highlighting current developments at the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), focusing on the business implications of the IASB's proposals and new standards.

This edition covers: impairment exposure draft; IAS 24 amendment; IAS 39 replacement; fair value measurement and how to be an audit committee member.

- IFRS in brief

The November brief (covering impairment lessons learnt in the latest reporting cycle) and the October brief (covering changes to accounting for investment property under construction) are now available.

- Updated illustrative financial statements for 2009 year ends

The following illustrative financial statements have been updated for 2009 year ends:

llustrative financial statements for UK companies updated for 2009 year ends – contains three example sets of accounts to assist in the preparation of financial statements by illustrating the required disclosure and presentation for UK groups and companies, whether reporting under IFRS or UK GAAP.

Illustrative IFRS consolidated financial statements 2009 – banks

Illustrative IFRS financial statements 2009 – investment funds

- New publication: *A practical guide to accounting for agricultural assets*

This practical guide seeks to answer some of the frequently asked questions from entities that are new to IFRS and are applying IAS 41, *Agriculture*. These 32 'questions and answers' and illustrative examples help management understand IAS 41 – a small standard with wide scope and a significant impact on entities within its scope.

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To find out more about the issues below and to receive e-mail news alerts on the latest developments in IFRS and UK GAAP as they happen, register for a 60-day free trial of PwC inform by completing this online registration form

IASB issues IFRIC 19, *Extinguishing financial liabilities with equity instruments*

IFRIC 19 clarifies the accounting when an entity renegotiates the terms of its debt, with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (referred to as a 'debt for equity swap'). There is further guidance in Straight away: IFRIC 19 – *Extinguishing financial liabilities with equity instruments*.

IASB issues amendment to IAS 24 – Related party disclosures

The IASB has amended IAS 24 *Related party disclosures*, to simplify the disclosure requirements for government-related entities and to clarify the definition of a related party. The amended standard applies for annual periods beginning on or after 1 January 2011. Earlier application is permitted. There is further guidance on the impact of this amendment in *Straight away 5: Guidance on amendment to IAS 24, Related party disclosures.*

Taxation of foreign profits

Finance Act 2009 introduces new legislation on the taxation of foreign profits, including new rules on exemption from tax for dividends and on interest capping (the 'debt cap'). The tax topic summary has been updated to give some guidance on accounting and disclosure implications. Draft legislative amendments were published in the recent Pre-Budget Report.

Review of narrative reporting in the UK

The Accounting Standards Board (ASB) has published *Rising to the challenge*, the report of its review of the narrative reporting of 50 UK listed companies in 2008 and 2009. The review focused on the following areas:

- How companies are complying with the enhanced business review content requirements from the Companies Act 2006.
- Effective communication and presentation of the required content.
- Areas that are leading to clutter in narrative reporting.

The review found that most companies are providing a good standard of information in their financial reviews, the description of objectives and strategies and the provision of financial key performance indicators (KPIs). However, there are significant opportunities for improvement in the reporting of principal risks, trends and factors, contractual and other arrangements, and non-financial KPIs. The full review is also available.

CESR finds non-compliance with IFRS disclosures

The Committee of European Securities Regulators (CESR) has analysed the 2008 financial statements of 96 European listed banks and insurers, including 22 companies from the FTSE Eurotop 100 index, to assess compliance with the disclosure requirements of IFRS 7, Financial Instruments: Disclosures. CESR found that '*in some areas a significant proportion of European financial companies failed to comply with mandatory disclosure requirements relating to financial instruments*.' Examples of non-compliance included disclosures about the use of valuation techniques and about relationships with special purpose entities (SPEs). CESR's statement notes that it '*would have expected a higher level of compliance with mandatory requirements, particularly in light of the market conditions that existed during the second half of 2008 and the beginning of 2009*.' For further details see the CESR statement and CESR press release.

IASB publishes proposals on impairment of financial assets

The IASB published for public comment an exposure draft on the amortised cost measurement and impairment of financial instruments. The exposure draft proposes that the present 'incurred loss' model for impairment in IAS 39 *Financial instruments: Recognition and measurement* be replaced by an expected loss model that would result in many impairment losses being recognised sooner than under IAS 39. Amounts reported for interest income and impairment losses would also change as compared to IAS 39. The proposals form the second part of a three-part project to replace IAS 39 with a new standard, to be known as IFRS 9 *Financial instruments*. Proposals on the classification and measurement of financial instruments were published in July, with a final standard expected shortly, while proposals on hedge accounting continue to be developed. An IASB press release and PricewaterhouseCoopers *Straight away* guidance are also available.

Continued

IASB has published IFRS 9, *Financial instruments*

The IASB published the first part of IFRS 9, on classification and measurement of financial assets. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise, it is at fair value through profit or loss. The standard applies for annual periods beginning on or after 1 January 2013, with early adoption available; however, this is subject to European Union (EU) endorsement. The European Commission (EC) has decided that more time should be taken to consider the output from the IASB's project to improve the accounting for financial instruments and, hence, is unlikely to endorse this standard until 2010/2011.

There is more detail regarding the endorsement process in this talking point. There is further guidance on the impact of this standard in *Straight away 7: Guidance on IFRS 9, Financial instruments* and a PowerPoint presentation.

IASB and FASB re-affirm commitment to convergence

The IASB and the Financial Accounting Standards Board (FASB) have issued a joint statement re-affirming their commitment to improve IFRSs and US GAAP and to bring about their convergence. The boards also expressed their agreement to intensify their efforts to complete the major joint projects described in their 2006 Memorandum of Understanding (MoU), as updated in 2008. In the interest of timely and continued progress, the two boards also committed to monthly joint meetings and to provide transparency and accountability by providing quarterly updates on their progress on convergence projects. Further details are included in the IASB press release.

Investment community outlines what information they need from annual reports

The Corporate Reporting Users' Forum (CRUF) regularly meets to discuss the hot topics in financial reporting. At the *Meet the Experts* conference in London last month, the CRUF shared with the audience their views on some of their priorities for reporting in today's market environment. This flyer highlights some of the key points raised during their panel session, and represents the first in a series of communications called *Investor view*, which aim to offer insights on the information that investment professionals need to understand the quality and sustainability of a company's numbers. For more information on these issues or the CRUF, please contact alison.thomas@uk.pwc.com.

IFRS 7 amendments – PwC guidance on the fair value hierarchy

This publication provides guidance on the classification of inputs in determining the likely fair value hierarchy for financial instruments commonly held by UK companies, as required by the amendments to IFRS 7, *Financial instruments: Disclosures*. These amendments are also included in FRS 29 for UK GAAP preparers.

ASB issues an exposure draft on amendment to FRS 25 (IAS 32), *Financial instruments: Presentation*

The ASB has published an exposure draft proposing an amendment to FRS 25 (IAS 32) *Financial Instruments: Presentation*, on the classification of rights, warrants and options issued in a currency other than the currency of the user. The proposed amendment specifies that such instruments are classified as equity. The proposed amendment parallels an amendment to IAS 32 *Financial Instruments: Presentation*, published by the IASB in October, which is discussed in the *Financial instruments – Financial liabilities and equity topic* summary. The comment period for the exposure draft is now closed.

FRC challenges for audit committees 2009

On 14 November 2009, the Financial Reporting Council (FRC) published *Challenges for audit committees arising from current economic conditions* providing an update for the current year of the guidance for audit committees issued in November 2008. It does not establish any new requirements; however, the purpose of the document is to assist audit committees by identifying key questions that they may need to consider when preparing for the 2009/10 reporting season. In addition to going concern and liquidity risk issues, the publication addresses year-end planning, reliance on models for year-end cash flow and valuation information and significant accounting and reporting judgments.

Indirect tax opportunities – are you missing out?

With the new year upon us, there are still several opportunities for VAT claims that could prove beneficial for your businesses. Below, we highlight some of the opportunities that you should be considering.

AB SKF case – input VAT may be recoverable on sales of shares in a subsidiary

The European Court of Justice (ECJ) has decided that input VAT incurred on the costs of selling shares in a subsidiary may be recoverable. Any business involved in a sale of shares which incurred significant advisory and other costs, should urgently consider claiming additional input VAT in the light of this decision.

Danfoss case – input VAT incurred on entertaining clients could be recoverable

The ECJ's decision in *Danfoss A/S & AstraZeneca A/S* (C-371/07) means that HM Revenue & Customs (HMRC) has revised its policy of blocking recovery of input VAT incurred on entertaining 'overseas' clients and has invited taxpayers to submit claims. HMRC's interpretation of the implications of *Danfoss* (i.e. that recovery may be restricted to 'business contacts from other countries') looks narrower than its true scope. Businesses should contact their usual PwC VAT adviser to discuss the scope and submission of protective claims.

For further details please contact your usual PwC VAT specialist or Mike Bailey on (0)20 7804 3254 or by email, michael.bailey@uk.pwc.com

VAT Package deadline is here

1 January 2010 heralded some major changes to the VAT system.

The 'VAT Package' changes, which came into effect from 1 January 2010, are a series of measures that have a major impact on the place of taxation of cross-border services. Under the VAT Package changes, the basic place of taxation rule for services has changed from the place where the supplier is established to the place where the customer is established.

One consequence of this change is that certain services imported into the EU (including some outsourced services) that have, previously, been treated as outside the scope of EU VAT, are now liable to EU VAT – such VAT to be accounted for by the customer under a self charge procedure (reverse charge). Where the customer is not entitled to full input VAT credit, for example a financial services company, a portion of this self charged VAT now represents an additional cost.

A further change facing businesses is the requirement to file a European Sales List (ESL) for services. This is likely to result in a substantial additional compliance burden for all businesses, especially those unfamiliar with the ESL regime. There may be difficulty in identifying every supply, and the process of doing so will be time consuming.

There is some good news! Many businesses have reviewed those services where VAT was charged to verify whether, under the VAT Package, such VAT accounting will change and become reverse charge VAT. Indeed it is not uncommon for businesses to find that more VAT is currently being incurred than previously thought, mainly as a result of previous searches for foreign VAT to reclaim being focused on expenses rather than accounts payable.

Therefore, a VAT saving may arise under the VAT Package and finding previously unknown foreign VAT should lead to a claim being made to recover such VAT for at least one year (and in some cases more).

The VAT Package can also reduce the complexity of some VAT structures in the EU. Providers of work on goods such as repairs (both warranty and post warranty), manufacturing and processing services are finding that they can reduce not only the VAT they charge cross-border but, in some cases, can also reduce the number of VAT registrations in place.

The 8th Directive refund procedure, the mechanism under which EU businesses can reclaim VAT incurred in member states where they are not established for VAT purposes, is also being reformed. The new system will include: electronic filing, a detailed timetable for processing refund applications and the right to interest on overdue refunds. Electronic filing should make it administratively easier, refunds should be processed faster and interest will be paid if the refund is not made within the set timescale.

Our experience is that some businesses have invested the required level of resource to ensure compliance from 1 January 2010. Typically, addressing the VAT Package entails a review of the current range of cross-border services being provided and received (both third party and inter-company) and overlaying the new rules and obligations to create a gap analysis. The gap analysis will show the changes which need to be made, the processes which need to be updated and those parts of the business where education or training is required. Various different teams will need to become involved in the process, from finance to IT and tax to account managers. Once the changes have been implemented a series of testing should be undertaken to ensure compliance with the VAT Package.

Act now or pay later

Getting prepared for the UK Bribery Bill

The UK Bribery Bill is one step closer to becoming law, following the Queen's announcement in her annual speech that bribery legislation will be strengthened. The Bill was introduced to the House of Lords on 19 November 2009 with some key revisions, which demonstrates the Government's intent to bring the Bill into effect as soon as possible.

The Bill seeks to enhance the UK's anti-bribery legislation, replacing previous offences with a general bribery offence and a specific offence relating to the bribery of foreign public officials (both of which are applicable to individuals and UK-registered companies). It also introduces a specific corporate offence of failing to prevent bribery.

The specific corporate offence is designed to make companies and other corporate bodies responsible for failing to prevent bribery committed on their behalf by employees, agents or subsidiaries; a familiar concept in the US Foreign Corrupt Practices Act.

Why act now?

A defence to the failure to prevent offence exists if it can be shown '*adequate procedures*' were in place. However, these need to be working '*in practice rather than in theory*' when the Bill becomes law. It is imperative companies take steps now to review their current anti-bribery compliance (ABC) programmes and rectify any gaps.

Failure to act could leave companies exposed to unlimited fines and they may be disbarred from tendering for Government contracts. Individuals, including finance directors, could face a maximum 10 year prison sentence and/or an unlimited fine.

In our view, however, many companies may be ill-prepared. According to a recent PwC survey of senior executives, only one in ten boards and audit committees had considered the implications of the Bribery Bill.

What can you do to prepare?

Since a comprehensive ABC programme will take many months to implement, companies must start to address any gaps immediately. To find out more about setting up and embedding a robust ABC programme, read our *Act now or pay later* white paper and watch our latest video on the revised Bill.

If you have any queries in relation to these issues please contact our team:
Nick Jarman

A Budget for growth, Darling?

The Chancellor's Pre-Budget Report 2009

In a much anticipated and politically charged 2009 Pre-Budget Report (PBR), the Chancellor delivered what he described as '*fiscally neutral*' measures, with the clear focus being the state of the economy, inter-weaving themes around the green agenda, support for business and certain revenue generating measures aimed at those with '*broad shoulders*'.

You can read PwC's full analysis of the announcements made on 9 December 2009 by clicking here.

You can also view a recording of our PBR webcast, with on-the-spot comment from PwC's team of experts, by clicking here.

What were the announcements that will really affect UK business? We outline some of the main points below:

Banking payroll tax

Tax allowances and thresholds for the 2010/11 tax year will remain the same as for 2009/10, but, in a move which was widely predicted, the Chancellor came down heavily on the City. He introduced a one-off new bank payroll tax of 50% of the excess of the aggregate amount over £25,000 on various bonuses (cash or otherwise) awarded by banks, building societies and financial businesses to their employees. This measure is effective from 9 December 2009 until 5 April 2010.

National insurance contributions

Possibly the most wide-reaching move was the announcement of a further increase of 0.5% on employers' and employees' national insurance contributions (NICs) which will apply from 6 April 2011. This increase is in addition to the 0.5% increase to employers' and employees' NICs announced in the 2008 Pre-Budget Report.

Pensions restrictions

It was announced at Budget 2009 that, from 6 April 2011, tax relief on all pension contributions, including employers' contributions, would be restricted on a tapered basis for those with annual total incomes of £150,000 and over with full loss of higher rate relief for those with income of £180,000 or more.

It is now proposed that 'income' will include the value of employer contributions; i.e. pension benefits funded by, or eventually funded by, the individual's employer.

Additional anti-forestalling provisions have been added to those already in force from 22 April 2009 and are in immediate effect.

For further information on any of the above issues, please speak to our reward specialists:

Carol Dempsey on 020 7212 4641

Jon Terry on 020 7212 4370

Indirect taxes

As previously announced, the standard rate for VAT has returned to 17.5% from 1 January 2010 with special transitional rules. No announcements have been made about any further increases to the VAT rate in future.

Indirect taxes have also been used to drive the Government's 'green' agenda further with, for example, the reduced rate of climate change levy being increased from 20% to 35% from 1 April 2011.

Other changes introduced by the PBR included a landline duty from 1 October 2010 at a rate of 50p per month for each line, and bingo duty being reduced from 22% to 20% from April 2010.

For further information on any of the above indirect tax issues, please contact:

Michael Bailey on 020 7804 3254

For more details of all of the above issues, please visit our PBR website at www.pwcbudget.co.uk

If you have any queries in relation to these issues please contact:
Barry Murphy

Things change. Stay ahead

In the second of our monthly ‘Stay ahead’ insights, PwC specialists share their views on the outlook for capital and debt markets, the changing nature of the consumer and the need to take a fresh look at business strategy.

To find out more on other key issues facing businesses in 2010 visit pwc.co.uk/stayahead.

IPO or IOU? Can you strike a balance between capital and debt?

Whilst credit markets have improved since the beginning of the year, our clients continue to find raising or extending credit lines challenging.

In 2009, rights issues and corporate bonds stole the headlines as banks remained cautious and often reluctant to advance loans to new customers. As we enter into 2010, and with big refinancing obligations looming, PwC expects to see a return for initial public stock offerings (IPOs) and borrowers continuing the 2009 trend of looking beyond traditional bank debt.

In the second in the series of stay ahead insights, our specialists recommend that you plan for your refinancing activity early and certainly well in advance of maturity. They are also cautiously optimistic that the market will see some innovation next year as institutional money continues to search for a premium to cash yield which, in the process, should help UK borrowers diversify their funding sources.

For more information, please contact:

Jason Green on 020 7212 2535

Tom Troubridge on 020 7804 4723

Beyond the crunch how will consumer respond?

We have all seen the evidence: consumers are responding to the recession by reining back on their spending. Value operators have seized the opportunity, positioning their offer as a way for consumers to maintain the same standard of living for a lower cost. During 2009 we interviewed over 1,000 consumers, and some of the worlds leading CEOs in retail, consumer goods and the leisure sector.

In a short video, our specialists consider the findings from this survey and discuss the continued polarisation between value and premium and the need for businesses to adapt and remodel their businesses for the new consumer.

For more information contact:

Mark Hudson 020 7804 5141

Andrew Garbutt 020 7804 2070

What’s in your strategic blind spot?

The focus on strategy and business planning has been reborn through crisis. Many of today’s management have little or no experience of trading during a downturn, so a ‘back to basics’ approach to business planning is making a resurgence. Management teams are dusting down old strategic tools, such as real options and macro-economic scenarios, and are keenly focusing on the competitor landscape and the opportunity and threats that this presents.

In the final insight for the month, our specialists consider the key strategic challenges facing UK businesses and the steps that they believe they should be taking to stay ahead in an increasingly competitive market place.

For more information contact:

Alastair Rimmer 020 7213 2041

Richard Kibble 020 7212 6644

If you have any queries in relation to these issues please contact our team:

Patrick Figgis

January

- 1 VAT standard rate returns to 17.5%VAT Package becomes effective for relevant businesses

  The foreign profits 'debt cap' rules take effect

  New Financial Services Authority (FSA) banking regulations take effect.

  Supplies of solid fuel valued at no more than £15 per tonne become subject to climate change levy

  Rollout of identity cards for new Tier 2 skilled migrants or those extending their immigration permission/changing employment
- 9 Closing date for comments on the OECD's proposed revisions to the *Transfer Pricing Guidelines*
- 15 Indirect tax forum: The Institute of Directors, 116 Pall Mall, London
- 12 Indirect tax forum: PricewaterhouseCoopers, 101 Barbirolli Square, Lower Mosley Street, Manchester
- 20 Indirect tax forum: PricewaterhouseCoopers, Erskine House, 68 – 70 Queen Street, Edinburgh
- 22 Deadline for comments on simplification of associated companies rules for small companies rate of corporation tax
- 25 Indirect tax forum: PricewaterhouseCoopers, Cornwall Court, 19 Cornwall Street, Birmingham
- 31 Deadline for meeting income tax and capital gains tax 'balancing payment' liability

  Deadline for making disclosure on paper under New Disclosure Opportunity of income from offshore assets

February

- 1 The future of UK GAAP: Accounting Standards Board consultation period ends
- 14 Double taxation agreements and double contribution agreements negotiating priorities 2010/11 – HMRC consultation period ends
- 19 Disclosure of tax avoidance schemes (DOTAS/TAD) – HMRC consultation period ends

For full details of the Indirect tax forum seminars, please follow the link below:

Indirect tax forum, click here

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