

# Essentials

Bringing together headline news and developments\*

Issue No. 45  
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Welcome to the May edition of Essentials – please click on the tabs above to view recent financial, legal and commercial developments.

## New publications and tools

- ▶ [A practical guide for investment funds to IAS 32 amendments](#)  
This publication addresses the questions that are arising in applying the amendment IAS 32 and IAS 1, 'Puttable financial instruments and obligations arising in liquidation'. Although the amendment also applies to certain instruments with obligations arising on liquidation, this 12-page practical guide focuses on puttable instruments. Investment funds that classify amounts attributable to unit holders as liabilities under the previous IAS 32 should look to the amendment in IAS 32 to evaluate whether the fund is required to reclassify such amounts in equity.
- ▶ [IFRS news](#)  
Our 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 features articles on reshaping of the reporting entity, proposals for revenue

recognition and a beginner's guide to debt and equity. The March supplement looks at the future of revenue recognition.

- ▶ [Cash accelerator](#)  
Companies often look to generate cash through cutting dividends, deferring suppliers and reducing headcount. These actions can often have a negative impact on stakeholders and may not be sustainable.
- ▶ [UK Economic Outlook](#)  
In addition to the usual review of UK and global economic prospects, this issue includes a special article looking at which UK industry sectors are most vulnerable to the economic downturn.
- ▶ [The future of UK manufacturing: Reports of its death are greatly exaggerated](#)  
Through extensive interviews with CEOs and board-level directors of leading manufacturing businesses we have explored the challenges and opportunities facing the sector.

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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 on-line [registration form](#).

### IASB and FASB issue a discussion paper on leasing

The IASB and FASB have issued a discussion paper *Leases: Preliminary Views* in response to concerns raised by investors and other users of financial statements regarding the current accounting treatment of leases under both IFRS and US GAAP. The discussion paper proposes a new approach to lease accounting which removes the distinction between finance and operating leases and instead requires all leases to be recognised as an asset representing a right to use the leased item for the lease term (the 'right-of-use' asset) and a liability for an obligation to pay rentals. Following a decision in July 2008 to defer consideration of lessor accounting, the discussion paper deals mainly with lessee accounting. However, it also describes some of the issues that need to be addressed in a future proposed standard on lessor accounting. The discussion paper is open for comment until 17 July 2009. There is further guidance on this discussion paper in Global technical alert FI.09.01.

### IASB takes next steps in 'IFRS for SMEs' project

The IASB today voted in favour of releasing the final standard of the IFRS for SMEs without re-exposing the draft proposals. The final standard is expected in early quarter 3.

### Future of revenue recognition: a preliminary peek

This Global technical alert RLO 09.04 summarises the details and PwC observations of the key elements of the IASB/FASB proposed revenue recognition model included in the discussion paper that was recently released by the IASB. The March edition of [IFRS news](#) and its supplement also discusses details of the proposed requirements.

### Embedded derivatives – Amendments to IFRIC 9 and IAS 39

On 12 March 2009, the IASB clarified the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment issued by the IASB in October 2008. The reclassification amendment allows entities to reclassify particular financial instruments out to of the fair value through profit or loss or available sale categories in specific circumstances. The [amendments](#) to IFRIC 9 and IAS 39 clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category all embedded derivatives should be re-assessed and, if necessary, separately accounted for. The amendments apply retrospectively and are required to be applied for annual periods ending on or after 30 June 2009.

### IASB enhances financial instruments disclosures

On 5 March 2009, the IASB published an amendment to IFRS 7, '*Financial instruments: Disclosures*'. The amendment forms part of the IASB's response to the financial crisis and addresses the G20 conclusions aimed at improving transparency and enhance accounting guidance. The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level in the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. This amendment is effective for accounting period starting on or after 01 January 2009 with no comparatives for the first year of application. There is further guidance on this amendment in the [Financial instruments; presentation and disclosure topic summary](#).

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

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## HMRC allows the resubmission of VAT claims rejected on grounds of unjust enrichment

Following the House of Lords judgment in *Marks and Spencer* HM Revenue & Customs (HMRC) has published its revised policy on unjust enrichment.

HMRC accepts that claims made before 26 May 2005 that were refused by HMRC on unjust enrichment grounds and which have not yet been settled will be repaid, subject to verification. Claims made before that date, where the unjust enrichment defence was not challenged or was decided in HMRC's favour by the Tribunal or courts, may be resubmitted for consideration subject to the relevant time limits.

### Key implications

Businesses who have live claims for overpaid VAT submitted before 26 May 2005, are now able to rebut any unjust enrichment defence raised by HMRC.

Thus businesses that have submitted such claims which have not yet been repaid should not be subject to any requirement on the part of HMRC to pass on the benefit of any claim to their customers as a pre-condition for receiving repayment.

For businesses that submitted claims prior to 26 May 2005 and were subject to the unjust enrichment defence, this judgment raises the potential opportunity to re-open such claims outside of the usual appeal time-limits.

For businesses that did not submit a claim because they believed the defence would be applied and thus they would obtain no direct commercial benefit from making such a claim should also reconsider their position.

HMRC currently takes the position that the unjust enrichment defence is still available in respect of businesses that made a claim after 26 May 2005, but which relates to output tax declared in the preceding



period. In the light of the judgment of the House of Lords, this distinction between pre and post 26 May 2005 claimants is likely to be subject to further challenge.

### What should you do now?

You should reassess your position if you have claims in the categories outlined above.

For further details please contact your usual PwC VAT advisor or Mike Bailey on 020 7804 3254

### Indirect tax forum

We are delighted to invite you to our next series of indirect tax forum events. We now have a choice of venues and a choice of break-out sessions;

6 May 2009: 2pm – 6pm PricewaterhouseCoopers, 101 Barbirolli Square, Lower Mosley Street, Manchester

11 May 2009: 2pm – 6pm PricewaterhouseCoopers, Erskine House, 68-73 Queen Street, Edinburgh

We are changing the format slightly, to give you the opportunity to attend two break-out sessions during the

afternoon. Our plenary sessions will include our guest speaker, tax counsel Andrew Hitchmough and a short update on the Chancellor's Budget with some case law developments which are of general interest.

Choose two from the 6 break-out sessions below:

Workshop 1 – Export Controls & Customs update

Workshop 2 – Indirect Tax Appeals post 1 April 09

Workshop 3 – New penalty regime & HMRC risk assessment reviews

Workshop 4 – Effective use of technology in an indirect tax function

Workshop 5 – Local Authorities (Manchester only)

Workshop 6 – Financial Services (Edinburgh only)

Should you have any queries or require any additional information regarding registration please contact Lisa Burbidge by phone on 0207 804 6756 or by email on [lisa.burbidge@uk.pwc.com](mailto:lisa.burbidge@uk.pwc.com)

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## Filling the holes in the Budget bucket

*By John Whiting, PricewaterhouseCoopers*

It may be sunny weather outside but it's looking gloomy in Alistair Darling's Budget box. Like Pandora, when he opened it, a plethora of dismal figures escaped; but just as Pandora found Hope still in her box, the Chancellor saw some positives in the middle distance and had a number of goodies to encourage individuals and business.

We all knew that the figures on the economy would be bad and that the position on the budget deficit and the public sector borrowing figures would have worsened considerably since the November 2008 Pre-Budget Report (PBR). This year GDP will shrink by 3.5% but growth should resume at the end of the year – the Chancellor thinks GDP growth will be 1.25% for 2010, with 3.5% in 2011. The public sector borrowing requirement will be £175bn this year; it will reduce to £97bn in 2013/14.

But what was the Chancellor's strategy for filling the holes in the bucket? This was not time for a Mr Micawber\* Budget, just hoping something will turn up.

Mr Darling was realistic in his assessment and his message that the fiscal holes would have to be filled by a combination of cutting spending and tax rises. These will not happen immediately but will come from next year onwards – building on the tight spending figures already announced and the PBR 2008 tax rises for 2010/11 and 2011/12. Whether the spending cuts can be delivered is the big question, in the same way as whether the inevitable attack on avoidance will deliver the extra £1bn over the next three years outlined.

On the tax front, the Chancellor tightened the previously-announced higher taxes for the wealthier, phasing out of personal allowances in full for incomes of £100,000+ from next year. The planned 45% tax rate on incomes of

£150,000+ will be 50%, and will come in from April 2010. The general rise in national insurance (0.5% on all rates from 2011) remains in place. The temporary VAT cut to 15% will reverse as scheduled on 1 January 2010 to 17.5%; there was no sign of a higher rate later.

As widely predicted, higher rate tax relief on pension contributions is being targeted; it will be tapered to basic rate for those on incomes over £150,000 from April 2011. Coupled with the general moves on higher rates, there is a considerable squeeze on the better-off and the attractiveness of the UK for the internationally-mobile entrepreneur is considerably reduced.

There were various support measures for business. A doubling, for one year, of the main capital allowance rate to 40% helps investment. Various further moves to promote marginal fields in the North Sea, including offshore power generation, make sense. There was no mention in the speech of the taxation of foreign profits but the press releases confirm that the welcome dividend exemption will come in from 1 July and the 'worldwide interest cap' from 1 January 2010. But have HM Revenue & Customs devised a balanced set of rules that will give a fair result and not simply raise a lot of money for the Treasury?

Small business was not forgotten and the extension of the three-year carry back of losses, announced in PBR 2008, for another year will be welcome relief to many. The increase in the small companies' rate of corporation tax to 22% from next April does seem to be going ahead though.

Those suffering with reduced incomes through reduced working weeks were acknowledged – but the help will come via tax credits, not the subsidies that some have called for and which some other countries have established.

Many of the Budget's initiatives had been well trailed and seemed less exciting for that. The cars 'scrappage' scheme will go ahead from next month through to March 2010,

allowing a £2,000 credit for trading in a car of over ten years old. This may well be for a low-emission model. It will not be restricted solely to electric vehicles, though the boost for investment in such technologies (and wind farms, in another green measure) points a possible future way.

The temporary stamp duty holiday for houses up to £175,000 will continue after September through to the end of this year, though a permanent change would have been better. There will also be more support for those struggling with mortgages through job losses, more efforts to get mortgage lending going and help for local authorities with energy-efficient house building.

There are more initiatives on finding work for the under-25s, guaranteeing a job or training for all under-25s from January 2010. This does make sense in many ways – rather than paying jobseekers' allowances and other benefits, it encourages organised, paid work, even if the pay is modest.

Predictably, petrol taxes will rise by 2p a litre from September; less predictably, alcohol and tobacco duties also rise by 2% from today. If after all this people have more to save, then the ISA limit goes up to £10,200 – immediately for those 50+, but younger people have to wait another year. With this and a number of the measures, one does wonder about the administrative complexity that is being brought in.

But perhaps the most significant longer term measure was the unveiling of the UK's first Carbon Budget – pointing towards targets for cutting the UK's emissions by 34% by 2020 and giving business clear commitments for investment. Perhaps the holes in the Budget bucket will, in the long run, have some green patches over them.

\*A character from Charles Dickens' novel David Copperfield

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

[John Whiting](#)

## CFO TV launch

### What's on the mind of the CFO?

This month saw the launch of CFO TV, a joint initiative between PricewaterhouseCoopers, CFO Europe magazine and the Association of Chartered Certified Accountants. This is the first of what will be quarterly business briefings in which we debate with the editors of CFO Europe and CFOs themselves, the big issues facing finance executives. Based on the first quarter results of CFO Europe's Business Outlook Survey, this edition's panel featuring the CFO of Fortis Bank focuses on:

- Why confidence among CFOs is on the rise?
- When will banking relationships return to normal?
- What are CFOs' top concerns?

Presented by:

- Tom Gunson, Partner, PwC
- David Ahmad, CFO, Fortis Bank UK
- Richard Aitken-Davies, President, ACCA
- Janet Kersnar, Editor-in-Chief, CFO Europe
- Jason Karaian, Deputy Editor, CFO Europe



To watch the programme, [click here](#)

## Performance improvement summit invitation

### Managing for profitability and cost transparency in a turbulent world

Few have contributed as significantly to business strategy as Harvard Business School's **Dr Robert Kaplan**, with his ground breaking research on Activity Based Costing (ABC), the Balanced Scorecard and the Execution Premium. PricewaterhouseCoopers are pleased to be able to invite you to join us at an inspiring summit on **June 2nd** for a rare opportunity to hear direct from him about Time-Driven ABC and how this is driving a faster path to cost transparency and increased profits in difficult times. The summit is an opportunity to:

- Catch up with the latest thought leadership on aligning strategy to operations
- Hear from Senior Executives at Tesco, CEMEX and other global companies about the strategies their organisations have successfully executed
- Gain valuable insight from our panel of industry experts from PwC and Microsoft.

Don't miss this chance to learn about the proven best practices for implementing a sustainable corporate performance measurement system that could enable your organisation to grow out of the recession profitably.

To find out more and register for your place click here: [summit registration](#)



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

[Tom Gunson](#)

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# Managing in a downturn

## Understanding the strategic impact

It's easy to think of strategy as a luxury: blue sky thinking about growth and investment for when times are good and cash is flowing.

But in the current economic climate, strategy is both important and more difficult than ever.

We are currently seeing unprecedented rates of change and levels of uncertainty in many industries. Many of our clients are seeing their markets turn down more rapidly than they have ever trended up. The particular combination of the financial crisis, volatile commodity prices and frightened consumers, is shortening the visibility horizon from years to months, or in some cases, weeks.

Good strategic analysis can help push this horizon out further. For example, a detailed and up-to-date understanding of what your customers really value – and what they are prepared to sacrifice – is a critical element in anticipating market change. Similarly, if you understand your cost position relative to that of your competitors, you can anticipate the level of price competition and your respective pain thresholds.

So now is the time to revisit your strategy. Remember that cost cutting is only part of the answer. A successful



strategy will strike a balance between making tough decisions about size, shape and investment programmes, while preserving the ability of your business to pursue longer-term profitable growth. Above all, a downturn is an opportunity for the strongest business to steal a march on weaker or less agile competitors.

In a short video strategy Director Matthew Alabaster considers some of key strategic questions that businesses should be asking themselves when managing in a downturn.

[Click here](#)

## Fraud in a downturn

The impact of the credit crunch and the global economic slowdown is challenging even our most robust institutions. Those charged with the governance of some of our largest private sector companies have had to focus on short term measures to address the risk of corporate failure. Leaders of public sector institutions must confront challenges around maintaining and improving service provision when the resources necessary to deliver services may not be made available. The dilemma public and private organisations face is how best to manage recovery in the short term, while not losing sight of the need to maximise shareholder value and to maintain and develop services over the medium and long term.

## Fraud in a Downturn

A review of how fraud and other integrity risks will affect business in 2009



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

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### Fraud in a downturn (continued)

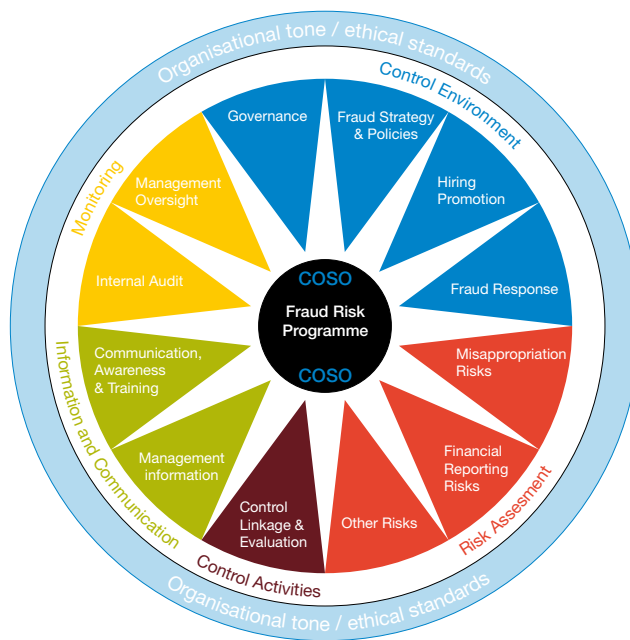
As the economy declines, both in the UK and globally, new threats emerge. The recent collapse of certain investment schemes illustrates how allegations of fraud, previously undetected, emerge from the shadows. Possibly the only positive aspect of the credit crunch is that, as providers of finance retrench and seek return of loan finance or investment capital, fraudulent borrowing or fraudulent investment management is revealed, thereby capping the losses that have occurred.

When economic survival is threatened (either for the organisation or for the individual) the line separating acceptable and unacceptable behaviour can, for some, become blurred. In addition, fraud and other economic crime have become a focus of criminal activity over the past five years; criminal organisations that profit from fraud view the current economic conditions as an opportunity, not a threat.

This report considers whether fraud and integrity threats are changing during this period of economic decline and, if so, how. Looking forward, we consider the issues that boards of directors and audit committees need to beware of in 2009: the frauds that may emerge and the likely regulatory response. Finally, we describe the strategies enlightened organisations are implementing to manage short term risks and to enhance stakeholder value in the longer term.

It is for those charged with governance to take the lead on fraud and integrity issues. Employees look to the Board and senior management to set the tone and unless the senior commitment is there, change will not happen and the benefits of reducing fraud and other integrity risks will not be realised.

The good news is that effective fraud risk management more than pays for itself. Companies across industry sectors are desperate to find ways to reduce cost. Attacking fraud, waste and abuse offers a huge cost savings opportunity. Organisations need to develop a strategy that enables the deployment of appropriate measures to manage this increasing risk. The strategy needs to be owned by those charged with Governance and needs to involve people from across the organisation.



PwC has developed a self-assessment tool for organisations to benchmark their fraud and integrity risk programme. Please do contact any of the authors of the white paper if you would like to know more.



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## May

- ▶ Early Finance Bill expected to be published

## 12 May

- ▶ Deadline for comments on HMRC Charter

## 19 May

- ▶ Deadline for first P14s and P35 forms affected by new penalties regime

## 21 May

- ▶ Second hearing on thin cap GLO to consider further evidence

## 29 May

- ▶ Last date for comments on the final rewrite Bills: the second Corporation Tax Bill and Taxation (International and Other Provisions) Bill

## 31 May

- ▶ Update due for SIP and EMI elements of HMRC Employee Share Schemes manual

## June

### 1 June

- ▶ Introduction of a common method of calculating alcohol duty

### 30 June

- ▶ End of dual running period for new EORI identification system for international traders and the TURN system



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