

# Essentials

Bringing together headline news and developments\*

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

## New publications and tools

### ▶ [IFRS news – October 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: Financial instruments – update of recent activity; a profile of the new IASB joiners; IFRS conferences (London and Paris events) and two new IFRS comparisons. The October supplement looks in more detail at IFRS 3R and IAS 27R.

### ▶ [Accounting briefing newsletter – October 2009](#)

[Accounting briefing](#) provides a regular technical update, focusing on the practical implications of recent developments and topical issues in UK GAAP and IFRS from the UK perspective. This issue includes articles on *IFRS for SMEs – the future for UK GAAP?*, latest developments in financial instrument reporting and a new way of accounting for business combinations.

### ▶ [Updated publication: IFRS disclosure checklist 2009](#)

The IFRS disclosure checklist is designed to facilitate the collection and review of disclosures for each component of the IFRS financial statements. It has been updated to outline the disclosures required by all IFRS standards and interpretations issued up to 17 October 2009.

### ▶ [Webcast: The end of UK GAAP – are you prepared?](#)

This webcast addresses the Accounting Standards Board's (ASB) proposals to replace UK GAAP with a new 3-tier system based on public accountability, providing entities with the options to consider before making a decision on their future GAAP.

### ▶ [PricewaterhouseCoopers \(PwC\) publishes illustrative corporate consolidated financial statements for 2009 year-ends](#)

*Illustrative corporate consolidated financial statements 2009* provides a realistic set of financial statements for a corporate entity, based on the

requirements of IFRS standards and interpretations for financial years beginning on or after 1 January 2009. The entity is an existing preparer of IFRS consolidated financial statements.

### ▶ [Manuals of accounting – new editions now available on PwC inform](#)

The electronic versions of the following 2010 manuals of accounting have been published on PwC inform. Hard copies will be available in early December – visit [www.pwc.co.uk/manual](http://www.pwc.co.uk/manual) for ordering information or contact your local team. But don't forget that the electronic version will always be more up-to-date:

- *Manual of accounting – IFRS for the UK 2010*
- *Manual of accounting – Management reports and governance 2010*
- *Manual of accounting – Financial instruments 2010* (previously titled *Understanding financial instruments*)



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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](#)

## Review of narrative reporting in the UK

The 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; and
- 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.

## IASB publishes an amendment to IAS 32 on the classification of rights issues

On 8 October 2009 the IASB published an [amendment to IAS 32 Financial Instruments: Presentation](#) on the classification of rights issues. The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Prior to the amendment, such rights issues were accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to an entity's existing shareholders for a fixed amount of any currency, they should be classified as equity, regardless of

the currency in which the exercise price is denominated. The amendment is effective for annual periods beginning on or after 1 February 2010, with early application permitted. If an entity applies the amendment to an earlier period it shall disclose that fact. There is further guidance on the impact of this amendment in the [Financial liabilities and equity topic summary on PwC inform](#).

## FRRP report on a company not recognising customer-related intangible assets

IFRS 3, *Business combinations*, requires an acquirer to recognise intangible assets separately if they meet the definition of an intangible asset in IAS 38, *Intangible assets*, and their fair value can be measured reliably. The Financial Reporting Review Panel (FRRP) has highlighted that the financial statements for Brewin Dolphin Holdings Plc for year ending September 2007 did not separately recognise customer-related intangible assets in the purchase of an investment management businesses. However, in its pre-closing trading update published today, Brewin Dolphin Holdings has announced that it will implement a change of accounting policy in the financial statements for the year ending September 2009. Intangible assets representing client relationships will now be recognised separately from goodwill.

## FRRP report on a company not complying with FRS 20

Under FRS 20, *Share-based payment*, an expense should be recognised over the vesting period in respect of share-based payment arrangements such as share option schemes. The [FRRP](#) has determined that Robinson Webster (Holdings) Limited failed to recognise such an

expense for the period ended 29 September 2007 and, therefore, did not comply with FRS 20. The FRRP noted that the auditors' opinion had been qualified for disagreement in relation to the non-compliance. The entity's directors have corrected the error in the 2008 financial statements by way of a prior year adjustment.

## IASB chairman updates ECOFIN on IAS 39 reform

Sir David Tweedie gave a [speech](#) to the European finance ministers (ECOFIN) on 20 October 2009. Click the link for [more information](#).

## IASB abandons the exposure draft amending IAS 19 Discount rate for employee benefits

The IASB published an [exposure draft](#) on setting the discount rate for employee benefits in August 2009. This exposure draft was intended to improve comparability in financial statements by using the high-quality corporate bond rate for employee benefits, whether there was a deep market in high-quality corporate bonds or not. It was targeted to be a fast-track amendment which could have been implemented before 31 December 2009. However, the IASB voted not to proceed with the amendment in its meeting on 22 October 2009, as there was no broad support received from the respondents. As a result, the current guidance on discount rates in IAS 19 still applies. For those territories where there is no deep market in high-quality corporate bonds, such as Sweden, Australia, South Africa and Hong Kong, entities should still use the government bonds yield to determine the discounted employee benefit obligations. The entity cannot use an estimated high-quality corporate bond rate where there is no deep market in high quality corporate bonds.

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## VAT and property reviews

Due to the number of recent changes to VAT rules affecting property, now may be the time to undertake a review of your property portfolio. For example, the simplification of the 'automatic permission' to opt to tax was introduced on 1 May 2009. The revised condition was intended by HM Revenue & Customs (HMRC) to enable more taxpayers to opt without the formality of seeking HMRC's prior permission, but contains some anti-avoidance provisions which need to be carefully considered.

*VAT Information Sheet 06/09* sets out the revised automatic permission at Appendix A, and is available on HMRC's website via this [link](#).

The simplification should mean that most opters will qualify for automatic permission as intended. However, the revised condition is complex and it is possible that opters could inadvertently fall foul of the anti-avoidance provisions. Therefore, it is recommended that businesses obtain professional VAT advice, or seek rulings from HMRC in writing, if they are in any doubt.

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## Financial services update

Recently the European Union (EU) issued working papers on the proposals to reform the application of the VAT system to financial services and insurance transactions. The changes proposed in the papers would, if enacted,

severely impact the availability of exemption to a number of businesses which currently enjoy it, and would, therefore, have potentially very significant implications for the amounts of irrecoverable input VAT incurred by insurance and financial services businesses.

On 1 January 2010 the implementation of the VAT package legislation will affect many financial services businesses. For further details of the impact of these changes please see our current *Financial Services Alert*.



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## Don't be caught out by Corporation Tax Act 2009

Find out what the implications are for UK businesses in our recorded webcast.

The Corporation Tax Bill was introduced in Parliament on 4 December 2008 and was enacted on 26 March 2009 as Corporation Tax Act 2009 (CTA 2009), which takes effect for all accounting periods ended on or after 1 April 2009. The Act is a consolidation Act but also rewrites much of the UK's corporation tax legislation and was the fifth Bill to be written by the Tax Law Rewrite project. Whilst the rewrite was not intended to change existing tax law, it is still important that businesses are aware of the implications. To help you avoid the pitfalls, watch our recorded webcast that took place on Wednesday 28 October, in which Barry Murphy and Caroline Turnbull-Hall from PwC's tax practice discuss the following points:

- Why is there a new Corporate Tax Act with two further Acts expected to follow in 2010?
- What are these Acts intended to do?
- What is covered by CTA 2009, and what will be covered by CTA 2010 and the International Tax Act 2010? – the second act is expected to be the Taxation (International and Other Provisions) Act 2010.
- What are some of the key details and changes?
- What are the inevitable unintended substantive changes?

To view the webcast, please [click here](#).



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## A Budget for growth, Darling?

The Chancellor, Alistair Darling, will deliver his Pre-Budget Report (PBR) at 12.30pm on Wednesday 9 December 2009. PwC will be providing commentary on and insight into what the proposed measures will mean for you and your business.

The uphill climb facing the UK economy will be steep and the legacy of debt levels driven by the recession will take time to deal with. In his third PBR, the Chancellor, Alistair Darling, will need to carefully balance the tension between tightening fiscal policy too much before the economy is safely out of recession and preparing a credible plan for getting public finances back in shape.

The Chancellor's vision must be based on the reality of the spending cuts and tax rises needed in the medium term to restore current budget balance and create a platform for long-term growth. While the opportunity to share in that growth must be fair for all, the Chancellor will need to avoid policies that might dis-incentivise many individuals and businesses who can help generate growth for the UK economy.

For further information, including our analysis of the Chancellor's Report and a link to a live webcast that will be broadcast on the day of the speech, please visit [www.pwcbudget.co.uk](http://www.pwcbudget.co.uk)

## A Budget for growth, Darling?

The Chancellor's forthcoming Pre-Budget Report will need to focus on long-term fiscal challenges and the implications for UK business. Let PwC help you consider the impact on your business.

Stay ahead.



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

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## Things change. Stay ahead

After two years of global economic chaos, the outlook for the UK continues to be fraught with uncertainty.

During the initial downturn the majority of businesses retrenched and focused on implementing short-term tactical measures to ensure their immediate survival. Now, as we enter into a protracted period of little (or even no) growth, companies are looking to the future and developing plans that will enable them to react to the opportunities and threats that lie ahead.

Over the course of the coming months PwC will share its insights around the emerging issues and what we believe businesses should be considering for the future.

To find out more visit [pwc.co.uk/stayahead](http://pwc.co.uk/stayahead).

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

The storm that broke with the collapse of Lehman Brothers in 2008, and which went on to wreck some of the world's biggest institutions, now appears to have abated. In its aftermath, we are left with governments making the biggest ever global financial intervention in history.

Markets remain fragile, with uncertainty likely to exist for a while. With some sectors changing significantly and with consumers markedly altering their behaviours, few businesses have escaped the need for change.

Over recent months PwC has interviewed a number of CEOs and chairmen to hear their views on the current situation and to understand what they are doing to stay ahead of the challenges they face.

Our findings suggest that the majority of our clients believe that opportunities for growth will continue to be severely restricted.

Unsurprisingly, the majority of our clients continue to focus on reducing costs, stringently managing their cash flows and

developing lean, flexible business models that will enable them to capitalise upon opportunities as and when they emerge. In addition, we are also seeing a resurgent focus on the customer and the need to innovate collaboratively in order to differentiate.

In a short video featuring PwC partners, Glen Peters, Alistair Rose and Patrick Figgis, we consider these issues and their implications for UK business.

To view the video, [click here](#).

### When will the UK emerge from recession?

PwC *UK Economic Outlook* November 2009

Though the rate of decline is slowing, the UK economy remains in recession with few signs of the green shoots which appear to be sprouting in other key markets. The latest *UK Economic Outlook* from the Economics team at PwC reviews the prospects for the economy, as well as how public debt can be reduced in the medium term and the outlook for unemployment. The report also includes a detailed research article presenting updated global city rankings of gross domestic product (GDP) for 2008 and some illustrative projections of how these city GDP rankings might change by 2025. This highlights the increasing relative importance of emerging market cities such as Shanghai, Beijing and Mumbai.

UK GDP will continue to fall in 2009 by around 4.75% with an expected modest gradual recovery in 2010 averaging 0.75% for the year. Consumer spending will also continue to fall due to the squeeze on household spending from ongoing credit constraints. There is also an expectation that unemployment will rise to a peak of around 3 million in the second half of 2010. All regions will see increased unemployment and the North East and West Midlands, with their larger industrial sectors, have been particularly badly hit. Surprisingly, London, with its exposure to the global financial services sector, has seen a more modest rise in the unemployment rate over this period than the national average.

Looking ahead, the pace of recovery in the UK in 2011 and beyond will still be held back by the need to get public finances under control. Regardless of which political party is in power, a programme of fiscal austerity coupled with significant tax rises will be needed to bring down the budget deficit. This could continue through to 2013-14.

To read the full report [click here](#).

For more information, please contact:

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PwC has run several successful webcasts on a variety of tax issues over the past few months. Below is a round-up of some of the current hot issues.

### Is your business eligible for refunds of withholding tax?

Since 2004, PwC has been helping investment funds, pension funds and life assurance companies reclaim EU dividend withholding taxes. The exciting news is that a number of important developments in the past 12 months have reopened this opportunity to those who made claims and those considering doing so.

To find out if your business might be eligible to make a reclaim you can watch a recorded webcast in which Teresa Owusu-Adeji, leader of PwC's Tax Asset Management team, and a panel of experts discussed the opportunities. The webcast, which is aimed at managers of investment and pension funds, fund trustees and administrators, took place on Tuesday 3 November 2009. During the webcast the team covered:

- the claims process;
- the new opportunities; and
- how they have successfully recovered EU withholding taxes in 13 European jurisdictions, including Norway.

To view the webcast please [click here](#).

### There's a new climate for offshore funds distributing into the UK

HM Treasury and HMRC have issued a set of regulations and guidance which detail the UK reporting funds regime for offshore funds. The regime, which is effective from 1 December 2009, contains some complex transitional provisions. If you have a fund that distributes, or wishes to distribute, into the UK you should now assess the impact of the new regime and consider if you want to obtain qualifying fund status as detailed planning is required right away so that you can:

- calculate reportable income; and
- manage the impact on your accounting systems and investor communications.

To help you avoid the pitfalls, you can watch our recorded webcast in which Elizabeth Stone, leader of PwC's UK offshore funds team, and Lachlan Roos, leader of PwC's UK hedge fund team, give a 30 minute overview of the offshore funds reporting regime, including the following points:

- Why you need to obtain reporting fund status.
- The offshore vehicles that the new regime applies to, including:

- mainstream funds;
- fund of funds;
- hedge funds;
- private equity/real estate/infrastructure; and
- opportunities for transparent funds (e.g. FCPs, unit trusts).

- The transitional provisions: when you can access reporting status.
- Overview of the annual ongoing process: during and after the accounting period.
- What this all means for investors.
- Planning that will need to be done now.
- How PwC can help.

This webcast is suitable for: fund managers of any offshore funds (i.e. non-UK funds), either regulated or unregulated, that distribute into the UK market; investment management principals tax resident in the UK who invest in offshore funds; fund managers of UK funds and investment trust companies which invest into offshore funds; and fund administrators who need to assist in the annual provision of information. The webcast took place on Thursday 5 November 2009.

To view the webcast please [click here](#).

## December

- ▶ 1 New offshore funds tax regime to take effect  
  
Warning letters to those employers with 50 or more employees who are still not filing their starter and leaver forms online  
  
More occupational pension scheme payments can be treated (and taxed) as trivial commutation lump sums
- ▶ 9 The Chancellor delivers his Pre-Budget Report
- ▶ 17 Closing date for Department for Work & Pensions consultation on draft guidance on the use of Group Self Invested Personal Pensions (SIPPs) for auto-enrolment
- ▶ 31 Temporary VAT standard rate of 15% comes to an end  
  
Controlled foreign companies (CFC) reform policy expected

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