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Food for thought; CEO's Message

A new year typically translates to new promises and possibilities however the dawn of 2023 carried a pall of gloom as economic forecasts were shrouded with fears of recession, inflation, higher interest rates, tightening monetary policies and more. It is only recently at the World Economic Forum's Annual Event in Davos that a flicker of optimism was ignited across the business landscape as China reopened its economy, India stays robustly resilient and the World Bank's Global Economic Prospects report estimates UAE's GDP to expand 5.9% in 2022 and 4.1% in 2023 backed by an expanding non-oil sector.

As a pragmatic optimist I believe navigating challenges builds intrinsic tenacity within businesses. While globally the real estate sector is recording falling prices in UK and US, the UAE closed a successful year in 2022 with Dubai recording 90,881 residential transactions in 2022, exceeding the historic high of 81,182 in 2009. Sustained oil prices and non-oil sector growth combined with agile measures initiated by the UAE leadership have helped the country maintain its foothold despite the challenging global economic climate.

As we wait and watch how things play out for UAE and the World economy in general, I'm confident evolving trends backed by a sense of collective responsibility will help stakeholders tide through the difficult times and swim over to the brighter side of business.

"Is it safe to say the economic challenges of the post pandemic landscape are over?"

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The Future of ESG Investing

There was a time when environmental, social and governance (ESG) issues were limited to a small group of ethical and socially responsible investors. The growing demand from investors for sustainable investment funds that incorporate ESG issues coupled with the emergence of responsible investment proponents, like the Principal For Responsible Investment (PRI) by United Nations, encouraged a fundamental change in investment practices - whereby investors explicitly integrate the ESG factor within the investment decision making process.

The above factors ensure ESG investing is widely embraced as a way of “sustainable investing”—where investments are made taking into consideration the well-being of the environment and humans, corporate governance & the economy. There is rampant discussion and rising assumption that the financial performance of organizations is increasingly affected by environmental and social factors.

It would be interesting to note that hundreds of years ago, religious, and ethical beliefs influenced investment decisions. Muslims established investments that complied with Sharia law, which included prohibitions on weapons, drugs, and adult entertainment. The first ethical unit trusts in the US and UK were developed by Quakers and Methodists. Hence the concept of ESG investing is not new to the world, it is ingrained in the DNA of business centuries ago.

In the past few years there has been considerable momentum in ESG investing around the world, and COVID-19 pandemic catalysed this trend considerably. The uncertainty created by the pandemic in 2020 encouraged many investors to turn to ESG funds for increased resiliency.

Key Drivers for ESG investing are:

- A shift in global focus where global regulatory environment are changing rapidly as many countries adopt ESG requirements within their regulations. Newer legislations are coming up, making climate risk disclosures mandatory. New Zealand was the first country to announce mandatory TCFD-aligned climate related financial disclosures in September 2020 followed by Switzerland, UK and China.
- ESG wields potential for immense business and is going mainstream, as investors recognize the importance of ESG information to better understand corporate strategy, management, and purpose.
- A rise in ESG data and analytics has triggered the growth of data providers who emphasise on tracking ESG by providing quantitative analytics based on qualitative data set. This is an essential move towards curating a better understanding of the ESG investment landscape.

UAE Government Initiative:

The UAE Government stresses upon the need to adopt and promote responsible business practices. An increased focus on ESG would allow more companies in the region to be ESG-compliant, heading towards sustainable growth for future generations and contributing towards value creation for the companies as well as their stakeholders.

The future of ESG investing

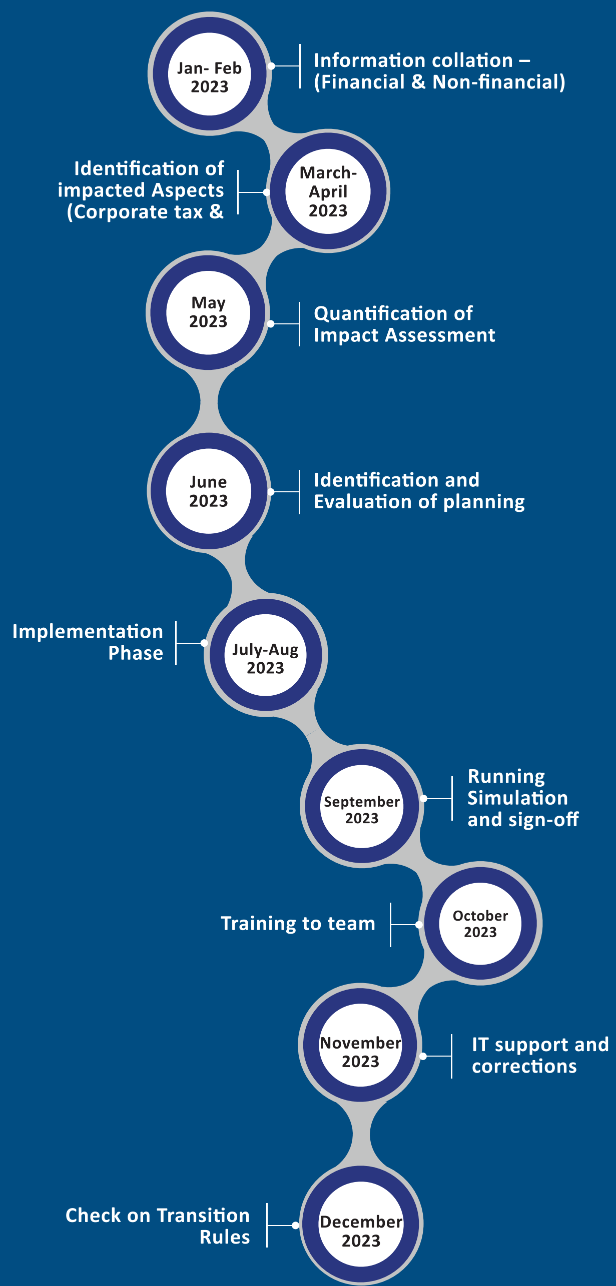
Most business leaders surveyed jointly by Oxford University and Protiviti in 2022 believe that customer demands, and regulatory requirements will expand ESG strategy over the next 10 years - driving sustainable growth for future generations and contributing towards value creation for companies as well as their stakeholders. Further a growing number of investors are deploying their capital in pursuit of not only better returns, but a better world.

How UHY can help you

At UHY our team of highly experienced ESG advisors have detailed knowledge of ESG standards, frameworks, and best practices in the industry. We offer a comprehensive service to our clients to ensure that their business becomes ESG compliant and remains at the forefront of future ESG megatrends in the region.

Sangeeta Basu
Senior Director
Risk, Compliance & ESG

Corporate Tax: Prudent Activities to be undertaken by the businesses in 2023 (for the entities with the FY starting from January)



Everything you need to know about IFRS 16 – the new leases standard

The International Accounting Standards Board (IASB) published IFRS 16 – the new leases standard - which has replaced IAS 17 accounting standard and came into effect on 1st January 2019. As almost every company uses rentals or leasing as an option to gain assets, the change in standard will impact the business community at large.

Key changes under IFRS 16

The new requirements under IFRS 16 eliminates almost all off balance sheet accounting lessees creating a pervasive impact on lessees' business processes, systems, and controls. The new standard requires lessees to provide more data around their leases on their balance sheet accounting for almost all leases. This translates to no longer being allowed to keep significant financial liabilities off- balance sheet, as was the case for certain types of leases (operating leases) under the previous rule. The primary objective of the new standard is to ensure companies reveal all information pertaining to all their leased assets in a standardised way, thereby strengthening transparency levels of the companies' lease assets and liabilities.

Impact of IFRS 16 on balance sheet and profit and loss accounts

- **Balance Sheets –** In balance sheets lessees are required to show their right-of-use asset and their obligation to make lease payments a liability.

- **P&L Account –** In profit & loss accounts lessees must reflect depreciation of the asset and interest on the lease liability. Typically, depreciation would be on a straight-line basis and with interest charges standing high in the early years of the lease because of the higher lease liability, total impact on the P&L account in initial years is higher in new standard compared to the old standard despite of rentals staying constant throughout the term of the lease.

It must be mentioned that the introduction of IFRS 16 does not in any way affect lessor accounting while accounting for lessees becomes further complicated as costs for maintenance, cleaning etc. must separated from the main lease payments and reported separately as non-lease components.

Impact of IFRS 16 on industries

Every industry relies on leasing to obtain access to assets, however, the type and volume of assets leased, terms and structures of leasing agreements differ significantly from one industry to the other. The real estate, manufacturing, aircraft, transportation, and technology sectors are likely to be impacted by changes brought forth in the new lease standard – IFRS 16.

Here is an overview of how IFRS 16 will impact the following sectors:

Retailers: In the retail sector real estate leases are heavily used for brick & mortar stores. Implementing new standards will cause a huge impact on account of renewal options, variable payments and separating lease and non-lease elements.

Telecommunication: Telecommunication relies heavily on big-ticket lease items including network equipment, cell towers, satellite transponders and fibre optic cables. Under the canopy of new lease

standards judgement involve identification of lease contracts and separation of lease and non-lease elements.

Transportation & Logistics: The Transport & Logistics sector leases aircraft, trains, ships, real estate, trucks and other vehicles which involve judgements pertaining to renewal options, identification of leases, and separating lease and non-leases elements.

Real Estate & Equipment lessors: The real estate and equipment lessor industry may not be directly impacted, by the new standards, in their accounting as lessors yet they may see shift in their business model owing to changes in lessees' behaviours.

Comparison between old standards and new standards

Here are prominent differences between IAS 17 and IFRS 16.

IAS 17	IFRS 16
Finance leases are recognized as assets and ***operating leases*** are recognized as expenses	***All leases*** are recognized as right of use assets and lease liabilities
The focus is on who bears the ***risks and the rewards*** of the lease	The focus is on who has the ***right to use*** the asset.
No exemptions to apply	Short - term lease (lessee) Lease term ≤ 12 months (provided there is no purchase option) Low - value assets (lessee) Value ≤ USD5,000
Variable lease payments Not part of the lease liability	Part of the lease liability if they depend on index/rate
Sale and leaseback Distinction based on classification of leaseback	Distinction based on whether transfer is sale

To further clarify the impact on net income and EBITDA, based on, whether IAS 17 or IFRS 16 is used to account for the lease here is an illustrated example.
Assume Entity C has a -5year lease for the floor of an office building. It pays USD 75,000 a year and has an incremental borrowing rate of %5. Let us assume the entity has no other transactions other than USD 100,000 of sales in each year. The below table reflects how net income and EBITDA will play out based on the standard used to account for the lease.

	IAS 17				IFRS 16			
	Amortisation	Interest	Operating Cost	Net Income	Amortisation	Interest	Operating Cost	Net Income
Year 1	-	-	75,000	25,000	64, 942	16,235	-	18,823
Year 2	-	-	75,000	25,000	64, 942	13,297	-	21,761
Year 3	-	-	75,000	25,000	64, 942	10,212	-	24,846
Year 4	-	-	75,000	25,000	64, 942	6,972	-	28,086
Year 5	-	-	75,000	25,000	64, 942	3,571	-	31,487
Total	-	-	375,000	125,000	324,711	50,289	-	125,000

As reflected above the net income for the entire -5year period does not change, but the timing of expense recognition is faster in IFRS 16 as the financing element (interest) is higher at the beginning of the lease and reduces over time.

Impact of IFRS 16 on financial reporting

IFRS 16 will have an inclusive impact on all commonly used financial ratios and performance metrics including gearing, current ratio, asset turnover, interest cover, EBITDA, EBIT, operating profit, net income, EPS, ROCE, ROE, and operating cash flows. These changes further impact loan covenants, credit ratings and borrowing costs which in turn could lead to other changes.

Conclusion

To put it succinctly adherence to IFRS 16 requires key changes to be introduced in the financial reporting.

- Required to identify and showcase the right to use an item as an asset and the obligation to make payments for it as a liability on the balance sheet.
- It is required to collate all the information on the leases - term, payments, end-of-term options etc. and highlight separately any part of the payments which are not applicable to IFRS 16.

Backed by more than +30 years of solid audit and advisory experience combined with expert level insights into accounting standards we at UHY James can help you achieve the highest levels of compliance through our audit and assurance services. To provide cost effective solutions that mitigate accounting complications, our team of financial experts will be more than happy to step in and guide your business forward.

Tushar Jesrani
Partner
Audit & Assurance

The Significance of Valuation of Goodwill

What is Goodwill?

Goodwill is any future economic benefit arising from a business, an interest in a business or from the use of a group of assets which has not been separately recognised in another asset. The value of goodwill is typically measured as the residual amount remaining after the values of all identifiable tangible, intangible and monetary assets, adjusted for actual or potential liabilities, have been deducted from the value of a business. It is often represented as the excess of the price paid in acquisition of a company over the value of the company's other identified assets and liabilities.

In simpler terms, goodwill is the established reputation of a business regarded as a quantifiable asset and calculated as part of its value when it is sold. Goodwill is considered as an intangible asset. The International Valuation Standard IVS 210 covers valuation of Intangible Assets. An intangible asset is a non-monetary asset that manifests itself by its economic properties. It does not have physical substance but grants rights and/or economic benefits to its owner. Specific intangible assets are defined and described by characteristics such as their ownership, function, market position and image. These characteristics differentiate intangible assets from one another.

The amount of goodwill is dependent on which other tangible and intangible assets are recognised and its value can be different when calculated for different purposes. For example, in a business combination accounted for under IFRS or US GAAP, an intangible asset is only recognised to the extent that it:

- is separable, i.e., capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so, or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

What constitutes goodwill?

While the aspects of goodwill can vary depending on the purpose of the valuation, goodwill frequently includes elements such as:

- company-specific synergies arising from a combination of two or more businesses (eg, reductions in operating costs, economies of scale or product mix dynamics),
- opportunities to expand the business into new and different markets,
- the benefit of an assembled workforce,
- the benefit to be derived from future assets, such as new customers and future technologies, and
- assemblage and going concern value.

What is the Significance of Goodwill Valuation

Intangible asset valuations are performed for a variety of purposes. Examples of circumstances that commonly include an intangible asset valuation component are as under:

- For financial reporting purposes, valuations of intangible assets are often required in connection with accounting for business combinations, asset acquisitions and sales, and impairment analysis.
- For tax reporting purposes, intangible asset valuations are frequently needed for transfer pricing analyses, estate and gift tax planning and reporting, and taxation analyses.
- Intangible assets may be the subject of litigation, requiring valuation analysis in circumstances such as shareholder disputes, damage calculations and marital dissolutions.
- Statutory or legal events may require the valuation of intangible assets.
- Valuers are often asked to value intangible assets as part of general consulting, collateral lending, and transactional support engagements.

Our advisory services team wields vast experience in valuation of intangible assets and purchase price allocations. If you need any assistance to value goodwill or intangible assets, reach out to us and we will be happy to provide required support and assistance.

Priyesh Kapadia

Partner

Advisory Services

Legal reforms to watch out for in 2023

Emiratisation targets set for private companies:

By 2026, the MoHRE in the UAE has set a goal of increasing the percentage of citizens employed in the private sector to 10%. Under the Emiratisation rule, private companies in the UAE need to sustain a certain level of target based on the number of employees. The target for companies to hire citizens was set at 2% in 2022 and has been raised to 4% in 2023. Failure to meet this target will result in companies facing financial penalties imposed by MoHRE.

Unemployment insurance scheme now mandatory for all UAE employees:

By 2026, the MoHRE in the UAE has set a goal of increasing the percentage of citizens employed in the private sector to 10%. Under the Emiratisation rule, private companies in the UAE need to sustain a certain level of target Excluding investors and UAE freezone employees, the unemployment insurance scheme is a mandatory requirement for all participants of the UAE workforce. The scheme came into effect from 1st January 2023 and requires employee enrolment to be undertaken by 30 June 2023. The scheme will compensate employees on a monthly basis, calculated at 60% of the insured's basic salary and subject to a maximum of AED 10,000 per month for Category 1 contributions, and AED 20,000 per month for Category 2 contributions, for a period of no more than three months from the date of the insured's unemployment, per claim subject to a maximum of 12 months' compensation in aggregate during the insured period of service in the UAE.based on the number of employees. The target for companies to hire citizens was set at 2% in 2022 and has been raised to 4% in 2023. Failure to meet this target will result in companies facing financial penalties imposed by MoHRE.

Corporate Tax will be effective for the financial year starting on June 1st 2023

Aligning its economic ecosystem with global compliance practices, UAE introduced the corporate tax regime which will be effective for financial year starting on June 1st, 2023. Companies in the UAE are required to pay 9% corporate tax on earnings above AED 375000. The law mentions that companies will have 9 months from the end of each financial year to meet corporate tax related obligations. It is recommended businesses across the UAE start focusing on their readiness journey by gaining necessary insights through impact assessment.

Overview of services

Audit & Assurance
- Financial Statement Audits
- Information System Audits
- RERA Regulatory & Compliance Audits
- Retail Sales Audit

Internal Audit
- Risk Assurance
- Forensic Audits
- Standard Operating procedures
- Business Efficiency Reviews

Corporate Finance
- Financial Due Diligence
- Valuation and Pricing
- Purchase Price Allocation
- Business Modelling
- Fund Raising

Technology & Cybersecurity
- Information Security Audit
- Cybersecurity Assessment
- Data Protection
- Automation
- ERP Consulting

Strategy & Transformation
- Strategic Consulting
- Profitability Enhancement
- Organizational Transformation

Company Incorporation
- Business Setup
- Company Liquidations
- Tax Residency Certificate
- Trademark Registration
- Visa Assistance

Direct Tax
- Corporate Tax Advisory and Compliances
- Transfer Pricing Advisory and Compliances
- ESR Advisory

Indirect Tax
- VAT Advisory and Compliances
- Tax Audit Assistance
- Excise Tax Advisory and Compliances

Accounting & Bookkeeping
- IFRS Review & Implementation
- Payroll Processing
- Virtual CFO Services
- Independent Director & Secretarial Services

ESG Advisory
- ESG reporting
- Implementation of ESG framework/program
- Financial due diligence with ESG aspect (ESG integration)

Anti-Money Laundering Services
- Establishment of AML program/framework
- Annual AML compliance review
- AML Compliance Training

Our Leadership team brings forth 200+ years of global experience & industry expertise for your business!

30+ yrs exp.

One of the most recognized financial practitioners in the audit, accounting & advisory space in the UAE James is known for sustaining excellent client relationships, and exhibiting a strong adversity quotient. James has built immense credibility & has played key roles at various professional organizations and international forums.

James Mathew
FCA, CPA
CEO & Managing Partner

35+ yrs exp.

- Internal Auditing
- Corporate Governance
- Risk Management
- SOP Development
- Operational Due Diligence
- Quality Assessment Reviews
- Forensic Audits & Investigation

Adil Buhariwalla
Senior Partner

Internal Audit & Risk Consulting

35+ yrs exp.

- Business Advisory
- Independent Director
- CFO Services
- Business Process Re-engineering
- Enterprise Resource Planning
- Outsourcing
- Accounting, Bookkeeping & Payroll management

S. Unnikrishnan
Senior Partner

Business Consulting & Advisory

17+ yrs exp.

- Expert in Audit & Assurance services
- International Financial Reporting Standards Implementation
- Highly experienced in FMCG, Real Estate & Hospitality sectors
- Internal Financial Controls

Tushar Jesrani
Partner

Audit & Assurance

24+ yrs exp.

- Expert in corporate finance/valuation/-financial feasibility studies/financial due diligence/PPA
- Strategic insight in cross border transactions/engagements across India, Middle East and abroad
- Experienced in advising on setup of business entities globally

Priyesh Kapadia
Partner

Advisory Services

13+ yrs exp.

- Diverse experience in direct and indirect taxation services covering Corporate Tax and VAT across wide range of industries
- ICV Certification and improvement plan advisory
- Adept at strategic planning, operational management and on the technical advisory front

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