The publication for listed businesses and their advisors.

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PKF

CapitalQuarter

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What to remember in your next report to investors

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Welcome to April's issue of Capital Quarter...

In this edition of Capital Quarter we take a closer look at the key points from the Financial Reporting Council (FRC) open letter that focused on key issues for the 2020/21 financial reporting season.

Nicholas Joel examines what you need to know on ESMA reporting requirements – new digital standards. Chris Riley provides guidance for UK companies that do business with the EU - they need to read the small print on current cross-border regulations. Also take a look at Daniel Kelly's article recapping the new off-payroll legislation now IR35 is finally upon us.

We hope you find this edition useful, and we are always keen to hear your comments and suggestions for future articles.

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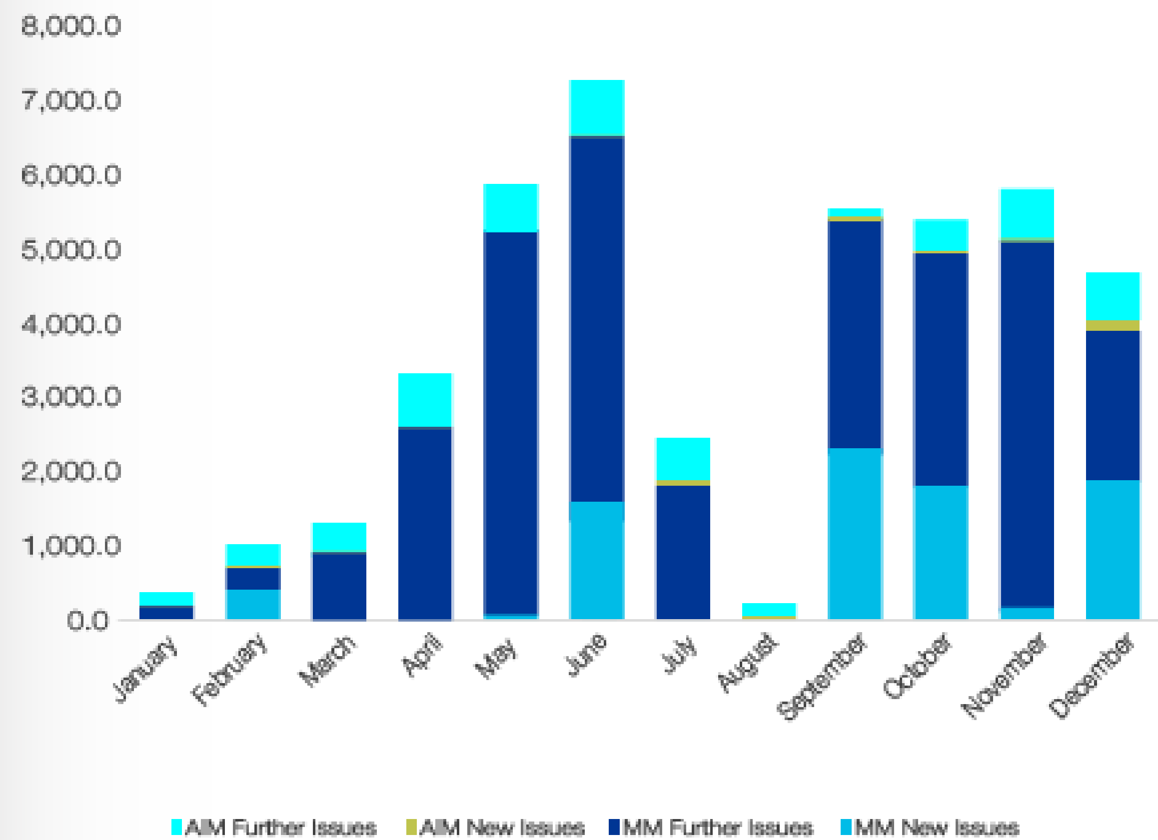
Looking Ahead...

Reporting dates for companies

30 June 2021

Premium and Standard List -
Deadlines for 31 December years ends

Aquis and AIM -
Deadlines for 31 December year ends



Green shoots for 2021

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After the turbulence of 2020, there have been sure signs of recovery in both the Main Market and AIM since Q4.

During 2020, the markets experienced significant volatility, with a slow start to the year and a slow summer caused by Brexit uncertainty and the ongoing impacts of Covid-19. But activity picked up in the final quarter to December, with funds raised in Q4 totalling £13.97bn on the Main Market and £1.81bn on AIM, largely dominated by further issues.

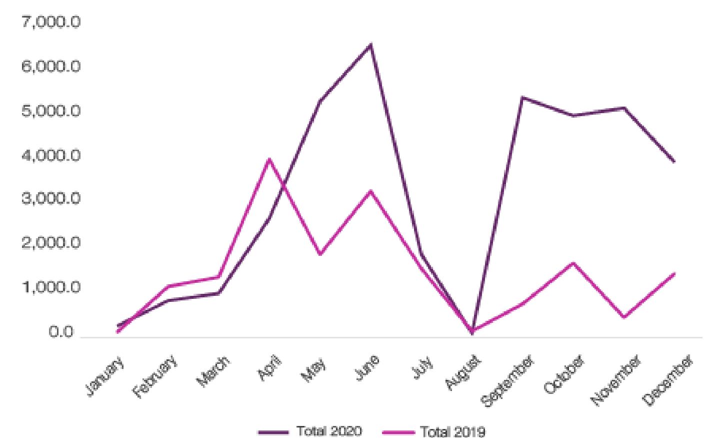
Compared to £7.18bn on the Main Market and £1.06bn on AIM in Q3, activity in Q4 demonstrated companies' anticipation of improvements to the market and an increased willingness to invest later in the year. Companies sought additional funding to support investment opportunities, many of which arose as a result of the pandemic.

Main Market

Total money raised on the Main Market in 2020 was more than twice the total raised in 2019. Further issues dominated the Main Market in Q4, as companies looked to obtain funding to support working capital in the return to a stronger market – and to finance acquisition opportunities provided by the pandemic.

Main Market further issues were particularly high in November. They included a rights issue by software company, Aveva Group Plc, raising a total of £2.83bn. Funds were used to partly finance the acquisition of OSIsoft, LLC, a global leader in real-time industrial data software and services.

New issues soared to a total of £8.36bn for 2020 (2019: £4.06bn), despite the number of companies only increasing from 50 in 2019 to 54 for the year 2020. More than half of these new issues occurred in Q4 and included the Guild eSports Plc IPO and Tirupati Graphite Plc IPO, with PKF acting on the listings of both. Guild successfully became the first global eSports business to be listed, raising £20m through the placing of new shares in October.



AIM

The trend of a falling number of companies listed on AIM continued through to the end of 2020, with just 819 companies at the end of the year. This was the lowest total since 2003.

Despite fewer companies, total market capitalisation continued to rise – and saw a large increase between 2019 and 2020, to a total of £131.13bn (2019: £104.23bn). This may reflect a trend of larger and more established companies looking to AIM as a route to market – and demonstrates the potential for growth on the market.

Technology IPOs accounted for more than 25% of total funds raised in 2020 and a thriving biotech sector is benefitting from increasing opportunities in healthcare.

The strong end to 2020 has continued into 2021 with a record level of Q1 IPOs on the junior market which rose to 10 in the first quarter. This represents the highest Q1 number since 2014, as well as the third consecutive quarter of growth in the number of IPOs on AIM since the pandemic began, and is seven more than in the same period last year.

This is already evident with the listings of MGC Pharmaceuticals Limited and Spinnaker Opportunities Plc (renamed Kanabo Group plc) - both listings on which PKF advised. These two IPOs are particularly exciting as they show the opening up of the UK market to cannabis-based companies. We look forward to supporting these new IPOs in 2021.

What to remember in your next report to investors

In November the Financial Reporting Council (FRC) issued an open letter that focused on key issues for the 2020/21 financial reporting season. Imogen Massey summarises the main points.

Covid-19 reporting

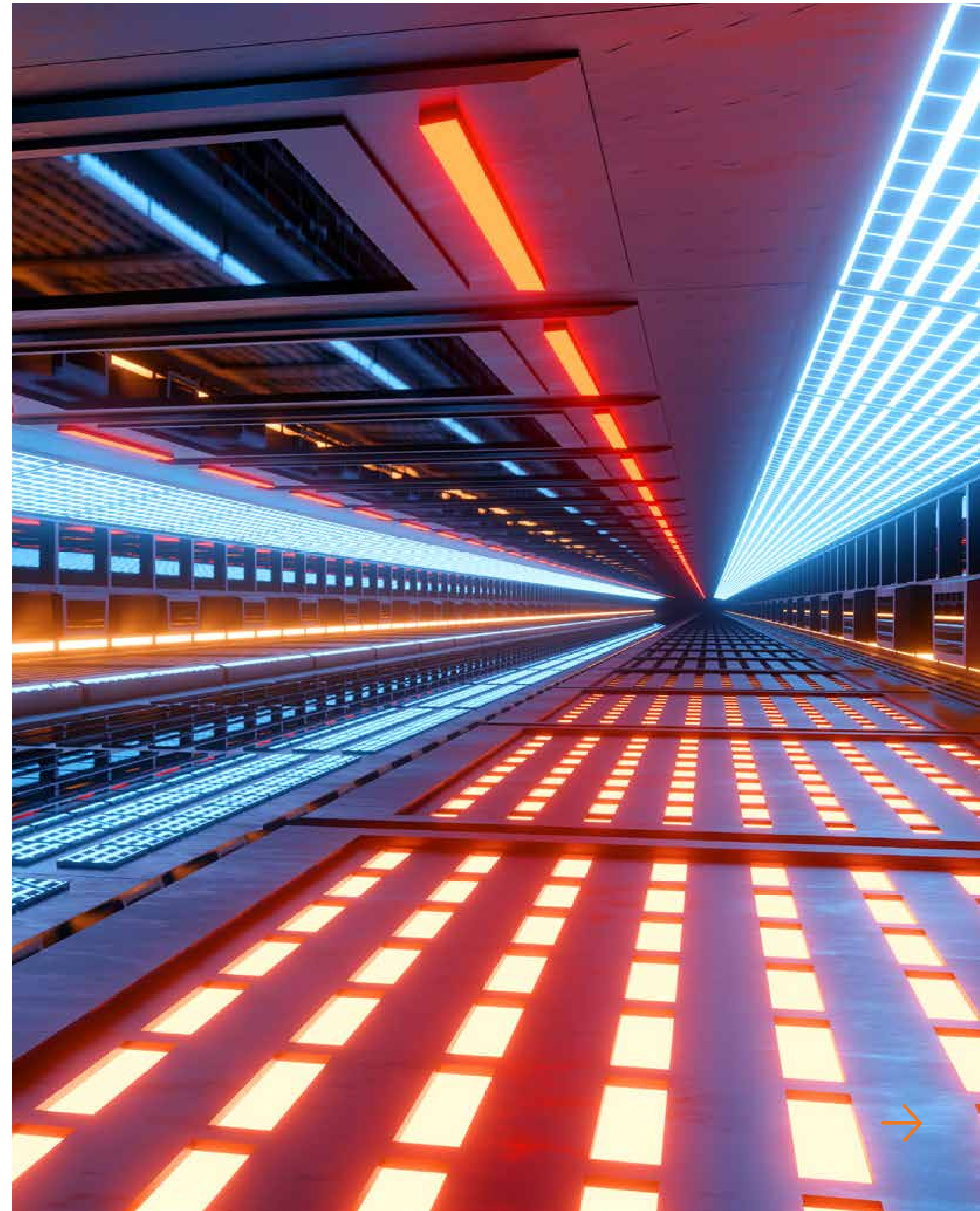
Investors expect reports to include details of:

- currently available cash and other resources;
- key actions management has taken and plans to take;
- longer-term impacts on the business model and strategy;
- the board's assessment of going concern and viability, as well as the methods, judgements and assumptions underlying that assessment.

Companies should consider including quantitative information that relates to impact on performance, position and prospects. They should also disclose information on any judgements involving estimation uncertainty. This might include relevant sensitivities or ranges of outcomes to help users understand the assumptions being made. Significant judgements made in deciding whether impairment indicators exist should also be disclosed and explained.

Brexit impacts

Reports should contain company-specific risks and uncertainties, including impacts on different parts of the business, any major sources of estimation uncertainty, and the range of potential outcomes.



More emphasis on climate change

The FRC says that current disclosures have not been meeting investors' needs. Companies are encouraged to add more – including a clear explanation of environmental policies, a balanced description of how they incorporate these policies and targets into business plans and their expected impact, and the impact of their businesses on the environment, including their supply chains.

Clarity on IFRS 15 compliance

Companies are expected to explain clearly how they have applied IFRS 15 ('Revenue from Contracts with Customers') to their specific circumstances. This includes

- clearly described performance obligations, timing of revenue recognition, and any significant judgements made by management;

- identification of 'contract balances' and explanation of any significant movements;

- consistent reporting of revenue-related information in the strategic report and in the financial statements (e.g. significant customer contracts or disaggregation of revenue).

What if a company has an existing contract for non-audit services?

The FRC has asked companies to improve reporting on IFRS 16 'Leases' arrangements by:

- using entity-specific, rather than boilerplate, accounting policies;

- providing sufficiently detailed explanations to help users understand any significant judgements and their implications (e.g. in relation to lease term or items not within the scope of the standard).

Cash flow and liquidity risk disclosures

The FRC expects to see the following in forthcoming reports:

- a clear explanation of methods, assumptions and judgements, in assessing going concern and viability;

- consistency in the amounts and descriptions of items in the cash flow statements and other areas of the annual report, including the strategic report, other primary statements, and disclosure of changes in financing liabilities;

- disclosure of accounting policies and judgements that relate to the cash flow statement, particularly for large one-off transactions.

Narrative reporting and corporate governance

The FRC highlighted two issues:

- Section 172 statements

Following the first reporting season where s172 statements were compulsory for many companies, it seems a large number failed to explain how directors discharged their duties (under s172 of the Companies Act 2006). In particular they did not always clarify how they took responsibility for the consequences of decisions in the long term, nor adequately demonstrate a two-way dialogue with stakeholders and how feedback from stakeholders influenced their decision making.

Companies are encouraged to improve reporting in the following areas:

- how employee-related issues and concerns are elevated to the board;

- the basis on which views are promoted to board discussion;

- direct actions arising from board discussions;

- how the company relays its decisions on feedback provided by its workforce.

- Chair tenure

In many cases, companies are not doing effective succession planning for the departure of the chair (or other directors). There is a lack of detailed and transparent disclosures in governance reports about succession planning and, in many cases, the chair or other directors are having to stay in post while a successor is found.

Companies must develop effective succession plans which anticipate departures and allow sufficient time in the recruitment process to enable a smooth transition. They should also consider the importance of a diverse leadership team, and disclose details of measures to identify such diverse individuals as part of their succession plan.

For more information about the reporting requirements outlined in the FRC letter, please contact Imogen Massey.

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Subtle post-Brexit tax changes: don't be caught out

UK companies that do business with the EU need to read the small print on current cross-border regulations. Chris Riley provides guidance.

When the transition agreement ended on 31 December and the UK formally left the EU, many news stories focused on the new complexities for businesses with their cross-border transfers of goods. But there are other, less apparent, changes that could challenge UK groups with EU operations.

Interest, royalties and dividends

UK companies may once have relied on EU directives to stop withholding taxes being applied on payments of these items between group companies based in the EU. Since 1 January the directive no longer applies to payments made to UK companies from that date. In the March Budget, it was also confirmed that the Directive will no longer apply to payments made by UK Companies to EU recipients with effect from 1 July 2021.

In many cases, the UK's extensive tax treaty network will still mean withholding taxes do not apply to such payments, or will reduce the rate assessed. The UK doesn't apply withholding taxes on dividends paid, in any case. But groups that previously relied on the EU directive may need to reapply to relevant local tax authorities for treaty-based relief, if the conditions are met.

Globally-mobile employees

Under EU rules, specific provisions apply to ensure that where employees move between, and work in several, EU jurisdictions they only pay social security in one country at a time. This cuts down considerably on administration and potentially reduces costs, as social security rates within the EU vary significantly.

Now outside the EU, these automatic provisions no longer apply to the UK, although arrangements for existing mobile employees will remain until their expiry date. But there has been concern that leaving the regime may cause real complexities in the future.

The good news is that the UK has now agreed bilateral arrangements with all EU jurisdictions confirming the same principles will be followed at least in the near term. But the risk remains that these will not be renewed by all countries as time passes. The tax impacts of cross-border working may be reduced while travel opportunities are limited, but this is a key focus for tax authorities around the world, not only in the EU.

Cross border goods and VAT

One of the key impacts of the end of the transition phase has been VAT from 1 January 2021. UK businesses exporting goods to EU customers can no longer rely on their UK registration to simplify the EU VAT process, either on imports or on sales to the end customer. They must now register in each EU jurisdiction where they have significant sales (typically, over €35,000 per year per country).

This issue should be simpler from 1 July 2021, when UK (and other non-EU businesses) exporting to the EU can use the Import One-Stop-Shop to register as importer of record for all sales into the EU. This will be a single cross-EU registration to account for VAT arising on all EU sales in a single composite EU return.

Cross border services into the EU

The supply of services to non-EU recipients is a complex area. In general, UK VAT should no longer be applied regardless of the recipient's VAT registration status. The exception is where the services are performed and enjoyed in the UK (such as hospitality or travel services).

Intra-group services between VAT registered businesses are therefore unaffected by this change, as UK VAT will not be charged. But the requirement to apply the reverse charge locally will continue, where relevant, and businesses – particularly those which are partially exempt – will need to keep on top of requirements to protect against future challenge.

DAC 6 out, OECD in

DAC 6 is an EU framework to report certain cross-border tax transactions and arrangements to tax authorities, particularly where there is a history of tax motivated transactions or tax imbalances created by the arrangements. In some cases, arrangements can be reported even if there's no tax motive behind the transactions.

Despite Brexit, the UK was a party to these rules, which took effect from 1 January. Perhaps surprisingly, we cancelled the introduction of DAC 6 in the UK, opting instead to adopt the (far more limited) OECD framework from the same date.

It means that for many of the DAC 6 categories there is no UK reporting obligation after all. But where transactions involve EU companies, reporting will still be required in the EU jurisdiction – even where any tax advantage accrues in the UK. Groups with EU companies must therefore be aware of, and apply, these potentially onerous regulations.

Stay up to date

So while the media may have focused on the post-Brexit risk of delays at the border, the associated costs are at least limited to the consignments in question and should be captured at the time.

The more subtle consequences are harder to identify. Where issues arise from a change in circumstances, the value of the associated tax risk could build over many years. Groups with cross-border services, employees and recharges involving EU entities need to keep their arrangements updated, in line with any changes, in some cases on a country by country basis.

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ESMA reporting requirements – new digital standards

Since the start of 2021, EU-regulated listed companies must produce their annual reports using a new structured format. Here's what you need to know.

For financial years beginning on or after 1January 2021 all public companies listed on an EU regulated market must create HTML-based annual reports using iXBRL tagging. This is in order to meet the European Single Electronic Format (ESEF) requirement mandated by the European Securities and Markets Authority (ESMA). The Financial Conduct Authority has added the stipulation to its handbook (DTR 4.1.14).

The aim of ESEF is to align financial reporting across the EU. The format enables documents to provide both human and machine-readable data. This should increase the speed of handling, reduce the chance of error, and permit automatic checking of information. The digital format will allow users such as investors, analysts and auditors to carry out software supported analysis and compare large amounts of financial information. Access to annual financial reports for both professional and retail investors is essential for creating robust capital markets across the EU.

ESMA sets out on its website (www.esma.europa.eu) the digital format which issuers in the EU must use to report their company information from 1 January 2021. It concludes that iXBRL is the most suitable technology to meet the EU requirement because it enables both machine and human readability in one document. In iXBRL formatted documents, XBRL tags are embedded in XHTML code in a single file. The XHTML gives the preparer control of their presentation, determining how the annual report looks. The XBRL allows them to describe the tagged information to a machine, determining how the data is consumed.

Bringing annual financial reports into the digital world through electronic reporting will make it easier for stakeholders to analyse, compare and access an issuer's financial statements. The structured financial information that emerges from this tool is expected to trigger technological innovation which will improve financial reporting across the EU and provide more relevant and specific information to stakeholders.

So what are the main conclusions in the ESMA's statement?

- Annual reports must be prepared in human readable XHTML format, which can be read by standard browsers without the need for specialised tools;
- Where annual reports contain IFRS consolidated financial statements, issuers must label this information using XBRL which is machine-readable. The XBRL data is embedded directly into the XHTML document through the iXBRL format;
- IFRS taxonomy should be used to transfer financial information into structured data for the electronic reporting of IFRS financial statements.

As a listed company following these new rules, you will need to create personal tags for unique entity-specific disclosures and apply 'anchoring' to show where your tags would connect to the core ESEF taxonomy,.

For more information on how we can help your business navigate this important regulatory mandate, please get in touch with Nicholas Joel.

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Green light for off-payroll working changes

IR35 is finally upon us. Our Employment taxes expert Daniel Kelly recaps on the new legislation.

Any hopes for a further delay to the introduction of the off-payroll working (known as IR35) rules were dashed in the Budget. The new rules came into effect for medium and large sized private sector organisations on 6 April 2021.

For consultants engaged via their personal service company (PSC), the obligation to assess the employment status of that engagement moves to the end user organisation (the company receiving the consultant's services).

Where that status is assessed to be 'employment', all payroll obligations and NIC liabilities move from the consultant's PSC to either the end user or the intermediary who pays the PSC.

The new rules significantly increase the compliance burden and potential risks associated with engaging contractors. The work required should not be underestimated.

How to assess employment status

Organisations must assess the employment status of a contractor 'with reasonable care', formally documenting their assessment using accepted employment status indicators in a status determination statement (SDS).

This may mean investing in training for those completing SDSs or seeking support from a third party advisor more familiar with the subjective nature of employment status.

HMRC's CEST online tool is expected to be the most popular way for organisations to complete the assessments. But problems remain with the assessments made by CEST and many organisations are instead using one of the many independent assessment tools on the market.

Why your supply chain matters

The new rules apply regardless of whether you directly contract with a contractor's PSC or via another intermediary. If there's a PSC in the labour supply chain, the end user organisation must complete an SDS.

Where other intermediaries are involved in the supply chain, an end user is only obliged to communicate the SDS to the contractor and the first intermediary in that chain. Payroll and NIC obligations rest with the last intermediary in the chain who pays the PSC.

Where the services of a contractor involve a chain of intermediaries, the end user organisation may not even know a PSC is being used. So, understanding the labour supply chain is going to be vital for compliance.

What if there is disagreement?

End users must complete an SDS and send it to the contractor and any intermediaries in the supply chain before the first payment for services under the engagement is made.

Contractors and/or the intermediary deemed to be the employer (who pays the PSC) can dispute the employment status assessed by the end user.

Organisations must have a process for dealing with disputes within 45 days of receipt. They aren't obliged to change their assessments if disputed, but should re-visit the original SDS in light of any new information or documentation provided.

What does 'small' mean?

It's important to note that small businesses are exempt from the legislation, and won't need to apply the new off-payroll working rules. A business is small if it meets two of the three criteria – considered on a global consolidated basis:

- Annual turnover less than £10.2m
- Gross assets less than £5.1m
- Average number of no more than 50 employees for the company's/group's financial year.

Immediate actions:

Companies should take the following actions to manage the Off-Payroll Working rules that came into effect on 6 April 2021:

Identify current engagements involving PSCs

Assess employment status of these engagements and issue SDS

Design and communicate dispute process to contractors

Plan payrolling requirements for any deemed employment payments post 6 April

Assign responsibilities for maintaining compliance and assess any training requirements

Ensure contractual arrangements with contractors and/or agencies account for Off-Payroll Working obligations

It's the size of the end user organisation that is relevant for the application of the new rules, but not so for any intermediaries.

Small companies continue to be governed by the existing legislation which places all obligations for assessing employment status and operating payroll, where necessary, on the PSC.

Contracting consultants directly

One point which seems to have been lost is that the new rules do not apply to contractors who are engaged directly, not through a PSC.

It has long been the case that the engaging company assesses the employment status of the contractor and operates payroll where appropriate. These rules remain unchanged.

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About PKF
Simplifying complexity for our clients

PKF is one of the UK's largest and most successful accountancy brands.

We have a strong reputation with publicly listed companies, and understanding these highly regulated, technically complex businesses has become a specialism of ours. We focus on delivering consistent quality and making all our clients feel valued.

Our specialist capital markets team has vast experience working with companies listed, or looking to list, on a range of international markets including the London Stock Exchange Main Market (Premium and Standard), AIM, AQUIS, NASDAQ & OTC, ASX and TSX & TSX-V.

PKF in the UK...

Ranked 8th largest Audit practice in the UK in the latest Accountancy Daily rankings

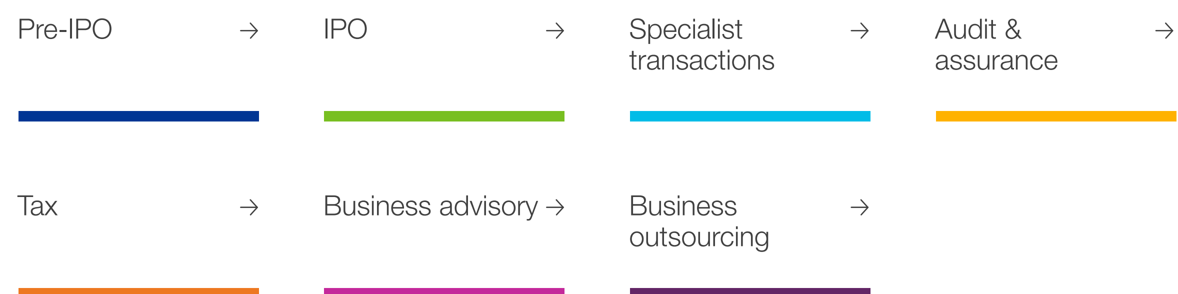
£150 million annual fee income

2,300 staff

7th ranked auditor of listed companies in the UK

Our Capital Markets credentials

How we can help



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30 Offices across the UK	**£2.7bn** Value of transactions advised on in last 10 years	**480** Offices in 150 countries
2,300+ Employees and 158 partners	**100+** Transactions advised on in last 5 years	**$1bn+** In aggregate fee income
£150m Fee income and growing rapidly	**26** International businesses brought to the UK in last 10 years	**20,000** Employees

Get in touch today
to see how we can help...

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