FOCUS

Quarterly Newsletter
Volume 91 Spring 2019

Mergers & Acquisition (M&A)

UAE's banking sector is overbanked

In general term M&A refers to the consolidation of companies or assets through various types of financial transactions. M&A can include several different transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. In all cases, two companies are involved.

Lately, there has been a lot of M&A in the region mainly in the banking sector. UAE's banking sector is overbanked as a small country with a population of 9.5 million is served by 51 local and foreign banks. Two major banks in UAE completed their merger last year, creating the region's largest bank with total asset in excess of Dh670 billion.

Banking sector in UAE is liquid and strong as the credit growth to private sector increased 6.5 per cent during the first 9 months while Islamic bank is growing at 9 per cent.

Banks remain adequately capitalised with a 16.6 per cent Tier 1 ratio in June 2018, while nonperforming loans to total loans edged up to around 7 per cent. The 12-month increase in credit was 3.7 per cent, thanks to improvement in lending to the corporate sector.

Abu Dhabi has been revamping its economy and pressing ahead with consolidating state-owned entities after two years of low oil prices weighed heavily on its revenues.

The option of a merger in GCC has become more acceptable, thanks to the recent successful mergers of major lenders that brought with its significant cost savings and operating synergies, leading to better profitability.

For example, Bahrain's Ahli United Bank is in merger talks with Kuwait Finance House, which could be the first cross-border tie-up between Gulf banks in recent years.

Meanwhile, Saudi British Bank and Alawwal Bank have also agreed a merger to create Saudi Arabia's third-biggest lender, in a $5 billion deal that marks the first major banking tie-up in the kingdom in two decades.

The benefits of M&A are far more than the cost associated with these transactions. **Crowe** in the recent Audit Firms ranking in 2018, ranked Top 8 and we noticed a huge gap in revenues between us and the Top 15 audit firm. Special thanks to our Partners in China for becoming exclusive members of Crowe. This was only possible through Acquisition.

Advantages of M&A:

1. Merge Power and increase Market share
2. Increase efficiency, cost savings through synergy
3. Achieve economies of scale as fixed cost can be shared
4. Knowledge and experience sharing

Ramifications of M&A:

1. Merging 2 firms that are performing similar activities may mean duplication and over capability within the company that may need retrenchment, hence may result in losing experienced staff.
2. Increase in short term cost might result if the right management of modification and the implementation of the merger and acquisition dealing are delayed.

"Increasing compliance cost, rapidly changing technology, and innovation to be at the top of the game, are forcing banks and other corporations to look for options to survive in the competitive world"

Dr. Khalid Maniar
Founder & Managing Partner
khalid.maniar@crowe.ae

A Post-truth Budget

Reflections on India Interim Budget 2019

As India gears up for the biggest democratic exercise of general elections after a few weeks, it is obvious that every actions, announcements and affirmation made by the incumbent government will be subject to public scrutiny and will attract multiple responses. As a Chartered Accountant, I am extremely proud to see a fellow Chartered Accountant for the first time presenting the Indian Union Budget. Though it would not be wrong to say that it was a Political Budget Speech, instead of Vote for Accounts by an Interim Finance Minister for an interim period in the election year.

Increased government expenditures for the farmers, defence, middle class, SCST community and unorganized workers will definitely increase the spending appetite which is good news for the MSMEs & SMEs. Presenting a wholesome and inclusive 10-dimensional vision for the nation - irrespective of the political affiliations - having a vision document for the nation is a welcome move. Pragmatism Vs Populism is always talking point post budget, but not a single word with regards to job creations is worrisome.

Pragmatism Vs Populism

PM Narendra Modi and his Government has twin challenges. 1) Ever increasing unemployment in the country. If the leaked-out report of the National Sample Survey Organization's Report is to be believed, India passed through the highest unemployment rate of nearly 6.1 per cent which is the highest in the last 45 years. PM Modi should work on the matter especially his manifesto in 2014 Election promised to create 20 million jobs every year and prepare India as the country will become home for the largest labour force in 7 years' time. 2) The Agrarian Crises, agriculture today is the largest employment sector in India. However, the sector is losing the capacity to build jobs as the earnings of the farmers are less and less day by day.

Having not been able to deliver what was promised in 2014 would become a major political battle for NDA in the upcoming election. As long as the political parties walk their talk with utmost sincerity and commitment to uplift India, there is a bright future for India.

The need for another wave

The year 2014 witnessed the entire nation swept away with the vigorous and charismatic Modi-wave but this year the incumbent NDA is under the clouds of doubts and unfulfilled expectations. In the recent turn of events, some may opine that the opposition has gained momentum while the Modi-Shah forging juggernaut has slowed down. Of course, there are many agendas in 2014 manifesto which needs to be revisited and revitalized.

In the midst of the ongoing politicking and narratives, I am often perplexed that why even after seven decades of independence we still need to educate people and promote sanitation, cleanliness, electrification, women empowerment, road and infra development which somehow supercedes any other agendas in the report card of the present day government. It's ironical that we should be happy about the availability of packaged drinking mineral water in interior villages of India or be sad about the governments till date not being efficient enough to provide safe drinking water to its people.

They say though elections are all about winning the prerequisite numbers, herein no economic growth charts or financial tables drive the voter's mind but the prevailing emotions. Let's see which emotions overpower the election air this season and which party benefits from the same, as long as it promises a better future for all of us.

James Mathew
Senior Partner and Group CEO
Board Member, Crowe Global
james.mathew@crowe.ae

FinTech and its impact on supervisory framework

In recent years, the financial industry has seen fast-growing adoption of financial technology, or FinTech and advanced technologies to deliver innovative financial products and services. Moreover, Financial services today operate in a complex environment characterized by multiple lines of business, new digital technologies and growing regional and global footprints.

This evolution has changed the structure of the financial environment, which was dominated by a central supervisor and main financial institutions (FIs), to the current structure , whereby there are set of players including different bodies playing a supervisory roles, and a cluster of different institutions with different sizes including start-ups, tech companies, SMEs, and financial and non-financial companies promoting, distributing different FinTech and innovative products.

The supervisor should make necessary developments in its strategies, supervisory framework and operations ensuring that it is well prepared and well adapted to supervise and monitor the impact of such developments on financial environment, embrace innovation and promote business growth.

Safety, soundness and financial stability can be enhanced by implementation of supervisory programs and processes to ensure that financial institutions have effective governance structures and risk management processes that appropriately identify, manage and monitor risks arising from the use of FinTech including associated new business models' applications, processes or products.

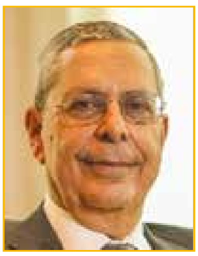
These supervisory programs and processes should include:

- Robust strategic and business planning processes.
- Staff development processes that ensure that supervisor personnel have the appropriate awareness and capability to monitor FinTech risks, market developments, and emerging trends.
- Sound new product approval and change management processes to appropriately address changes not only in technology, but also in business activities.
- Risk management processes related to FinTech developments
- Processes for monitoring and reviewing new products, services or delivery channels for compliance with applicable regulatory requirements, including, as appropriate, those related to consumer protection, data protection and anti-money laundering and countering the financing of terrorism (AML/CFT).

The nature and scope of FIs risks and challenges as traditionally understood may significantly change over the time with the growing adoption of FinTech and other innovative technologies, in the form of new technologies.

Key risks associated with the emergence of FinTech include strategic risk, operational risk, cyber-risk and compliance risk. These risks and other emerging risks were identified for both existing FIs and new FinTech entrants into the financial industry.

The supervisor needs to have necessary rules and regulations, expertise and monitoring frameworks to ensure that FIs are handling FinTech in a way that optimize its benefits, while controlling its core and emerging risks.



Hassan Nasser
Director Compliance, Risk and Training
hassan.nasser@crowe.ae

Do SMEs need to follow International Accounting Standards?

An article for our friends in the United Arab Emirates #banking industry.

Reading the headline you may be forgiven for thinking this article is aimed at Small and Medium Businesses.

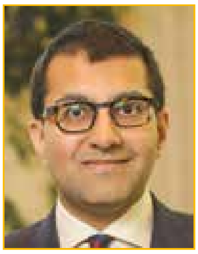
Yes, it is applicable. But more so to #banks. They are an integral part of the support system for growing businesses. Government statistics show that SMEs sector represents more than 94 per cent of the total number of companies operating in the country and provide jobs for more than 86 per cent of the private sector's workforce. In Dubai alone, SMEs make up nearly 95 per cent of all companies, employing 42 per cent of the workforce and contributing around 40 per cent to Dubai's GDP.

I am sure that most of our friends working in the Credit Risk Department have come across Federal Law No. 2 of 2015, which was implemented from 30 June 2017.

That means, financial statements produced must be derived from books of account, which were maintained as per International Accounting Standards.

Specifically paragraph 3 of article 27 states that "The company shall apply the International Accounting Standards and Practices upon preparing its periodical and annual accounts, to give a clear and accurate view of the profits and losses of the company."

So, next time you are reviewing a set of audited Financial Statements, you can take comfort in the fact that following the International Accounting Standards, is part of the Federal Law.



Zayd Maniar
International Liaison Partner
zayd.maniar@crowe.ae

GIPS – Global Investment Performance standards – the way to go.

Performance standards which are measurable in a globally accepted standard can be a powerful tool for attracting new clients for any investment firm.

In the past, the absence of an industry-wide performance standard made the evaluation of the performance of investment and portfolio managers, problematic, both nationwide and globally.

Without a standardized, principled approach to the calculation and presentation of performance history, or when a standard exists and a firm deliberately or inadvertently chooses not to follow the standard, conclusions can be made which cause the presentation and reporting of performance to diverge from a fair, ethical and comparable framework. Some of the potential abuses includes selective use of time periods and portfolios, improper aggregation of portfolios / composite construction, non-standardized calculation methodology, survivorship bias, improper valuations, inappropriate benchmark, misrepresenting model performance.

The Global Investment Performance Standards (GIPS) contains ethical and professional standards for the presentation of investment performance results. The GIPS standards ensure fair representation and full disclosure of firms' investment returns as expressed through consistent past performance information. They also communicate firms' belief in self-regulation according to the ethical best practices. Because of the emphasis on consistency and comparability, and the requirement that policies and procedures be determined in advance, there is integrity in the information being provided with the elimination of selectivity. The data being provided is a non-cherry-picked distillation of the manager's ability. And it demonstrates the firm's commitment to being trustworthy, ethical & professional.

The investment management industry is becoming more global. Many asset managers not only compete for business in their home markets, but in foreign markets as well. Being GIPS compliant can actually make things easier for firms that are trying to compete in multiple markets, because they only have to abide by one set of standards, GIPS fill a need for standardization across a far-flung industry. Firms gain a competitive advantage because compliance fulfills key screening criteria by many institutional investors. Third-party verification brings additional credibility to firm's claim of compliance. The GIPS standards also set forth minimum procedures that verifiers must follow, enhancing the credibility of the process. Verification may also provide an opportunity to increase firm's performance measurement team's knowledge and improve the consistency and quality of the compliant presentations.

GIPS History & future:

- 1991- Requirement recognition
- 1993 - AIMR PPS published
- 1995 - GIPS Committee formed
- 1999 - First edition of GIPS published
- 2005 - Convergence of PPS & GIPS
- 2010 - GIPS 2010 edition published which is effective from 01.01.2011 and is the current GIPS standard
- 2018 - GIPS 2020 Exposure Draft issued for public comment.
- 2019 - GIPS 2020 expected to be published June 30, 2019.
- 2020 - expected effective year of GIPS 2020.

Facts about GIPS:

- Total of 1,568 firms claimed GIPS compliance.
- 84 of the top 100 asset management firms claim GIPS compliance.
- Combined, the top 100 GIPS-compliant firms represent more than US$50 trillion of assets under management.

Some of the GIPS 2020 key developments:

- Two types of entities can claim compliance with the GIPS standards: Investment Manager & Asset Owners.
- The GIPS compliant presentation that is used today is being replaced by the GIPS Composite Report. GIPS Composite Reports are used for prospective clients who are interested in a strategy that is offered to a segregated account client.
- GIPS Compliant Presentation being replaced by 2 distinct reports: GIPS Composite Reports & GIPS Pooled Fund Reports.
- Option to allocate cash to carve-outs.
- Expanded performance measurement options – TWR or MWR (on conditions).
- Annual valuation requirements for private market investments including private equity, real estate, infrastructure & other real assets.

Tosif Sheikh
Senior Consultant
tosif.sheikh@crowe.ae

Tax Audit: Get It Right, The First Time

Introduction of Value Added Tax (VAT) was a significant move that changed the way business is done in the United Arab Emirates.

With the UAE completing its first year of the implementation of VAT, the question that now arises is – will there be a tax audit in the UAE? The answer is Yes. The provisions of the newly issued Federal Law on taxation have mandated the FTA with the legal right to perform a tax audit. The businesses that are required to pay taxes can be audited by the FTA. This kind of audit is conducted by the FTA to ensure that necessary records are kept up to date and every tax due is collected and paid to the government within the given timeframe. In the event of failure to provide the required records or assistance in conducting the tax audit, applicable penalties may be levied on the Company.

All the businesses are therefore required to keep their records organized so that when your company is requested for an audit, you are all set up to face it. In order to prepare businesses for a possible tax audit, the below table summarizes the kinds of review that can be conducted by the businesses.

This practice of review will ensure the accuracy of accounting and filing of VAT Returns.

Review of the system:	• A review of the systems will ensure that there is no inconsistency in the recorded transactions.
Review of compliance and Tax calculation:	• To ensure compliance with the laws, businesses must conduct periodic reviews of the records and check the accuracy of both output and input taxes.
Review of Submitted VAT return and identification of need to submit voluntary disclosure (if any):	• Review of already filed VAT returns to ensure that the same was filed in the correct manner with the values properly recorded in the right boxes and in case of errors or mistakes, identifying a need to submit voluntary disclosure.
Review of Payment of Tax Due:	• To ensure that the businesses are not drawing any negative attention from FTA by missing the timeframe of tax payment and to ensure that the correct amount of tax due is paid on or before the due date.

Ayaz Peerzada
Senior Auditor
ayaz.peerzada@crowe.ae

About Us

Your global partner

Crowe is ranked as the 6th largest accountancy network in the United Arab Emirates with globally more than 35,000 partners and staff in over 130 countries.

We share a common purpose of building value for clients through international business. Still placing great emphasis on establishing long-term relations with each of our clients. This enables to work together in an atmosphere of openness and trust. Simply stated, it is how we live our core values – care, share, invest and grow.

The firm continually demonstrates a commitment to quality while serving clients through our international expertise and talent. Our commitment to the highest technical standards and integrity, ensures that our clients receive the most accurate and relevant advice.

We provide professional services by leveraging through extensive local experience and high level of partner involvement. Our aim to provide due diligence with care has enabled us to serve a diverse range of clients ranging from small family owned businesses to large multinational conglomerates.