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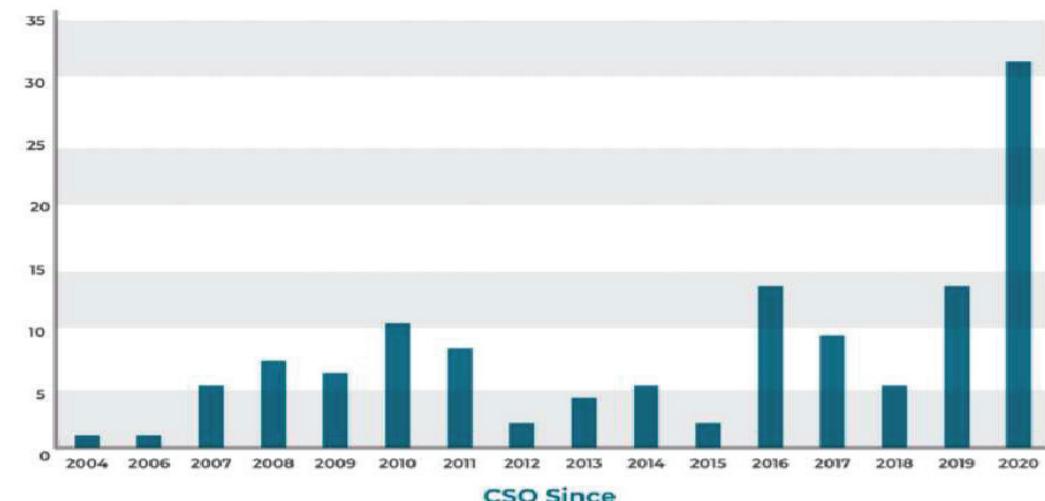
Quarterly Newsletter

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Achieving Sustainable Profitability

The Year 2020-2021 will be remembered as the year of pandemic, mega-wild-fires, and natural disasters – mainly caused and amplified by climate change. Natural disasters alone caused overall loss of \$210 billion last year. However, it will also be known as a year when many corporations moved their sustainability strategy out of their CSR programs and incorporated it as a part of company's core strategy for long term success. In fact, the number of companies where a Chief Sustainability Officer (CSO) has been appointed increased 228% among fortune 500 companies, from just 29 CSOs in 2011 to 95 CSOs in 2021; 31 of whom were hired in 2020 for the first time. We have travelled a long road since 2004, when Du Pont became the world's first publicly traded company to appoint a CSO: Linda Fisher.

Year Company Appointed First CSO2

1st CSO


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Natural catastrophes

	The figures of the year 2020	The figures of the year 2019 (Losses in original values)
Number of events	980	860
Overall losses in US\$ m	210,000	166,000
Insured losses in US\$ m	82,000	57,000
Fatalities	8,200	9,435

But why should you care for sustainability? In short, because your consumers want it (A growing majority of young consumers not just prefer but are also willing to pay a premium for brands that care about the planet) and it makes financial sense (Sustainability focussed companies showed better financial results, even during 2020). Sustainability also attracts investments - ESG investing is now a \$30 trillion market and as per Bloomberg, ESG assets will reach \$53 trillion by 2025, one third of global assets under management (AUM).

You cannot improve what you don't measure, hence the step towards being sustainable is to measure and be open about standard ESR reporting. The next step is look at sustainability as a part of company's vision and core strategy. It cannot operate as a standalone program but rather be part of company's fabric and every step right from planning to supply chain. Finally, ESG reporting should be more about ESG results than just ESG goals.

- 1 https://www.munichre.com/content/dam/munichre/mrwebsiteslaunches/natcat-2021/2020_Jahresuebersicht_Welt_e.pdf._jcr_content/renditions/original/2020_Jahresuebersicht_Welt_e.pdf
- 2 <https://weinrebgroup.com/wp-content/uploads/2021/05/Weinreb-Group-Sustainability-and-ESG-Recruiting-The-Chief-Sustainability-Officer-10-years-Later-The-Rise-of-ESG-in-the-C-Suite-2021-Report.pdf>
- 3 <https://www.barrons.com/articles/sustainable-companies-are-beating-the-market-during-the-crisis-will-it-last-51585241734>
- 4 <https://us.sganalytics.com/blog/the-rise-in-esg-investing-a-30-trillion-market-story/>
- 5 <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>



ICAEW Travel, Tourism & Hospitality, June 2021 Article Ongoing Challenges Present Sporadic Opportunities

Public holidays are a boon for UAE hotel staycations. Local tourists require a sweetener in form of full board or reduced rates. This may be a boon for occupancy rates and perhaps why the UAE recorded the second highest occupancy rates, after China, during 2020. Resulting reduced hotel valuations make trophy assets ripe for picking. The UAE-based company that owns the St Regis resort at Saadiyat Island and the Luxury Collection Desert Resort at Al Wathba has been sold in a deal worth nearly GBP 330 million. Spurring a frenzy of similar M&A transactions.

The slow opening of international borders provide hope for hotel management companies and the IATA, for recovery of airlines. Additional costs need to be factored in by holiday makers as well as a shift in mindset. Travellers may need to factor in additional testing and extended stays owing to mandatory quarantine. Perhaps the reason why, London's luxury stores 'hurting badly' without high-spending Gulf and Chinese tourists. However, I suspect this is also since VAT is no longer refundable.

Travellers today, are increasingly aware of their personal well-being, in addition to environmental sustainability. Wellness Guru Deepak Chopra sees wellbeing as an interconnected web of digital tools, individual soul-searching and interpersonal experiences. It is no surprise then that Saudi Arabia and the World Bank have launched a global fund dedicated to sustainable tourism. Clean solar energy is aiding efficient desalination of sea water. Turning deserts into lush green sanctuaries had been an elusive nirvana. Use of technology, solar power and water conservation has seen many arid deserts in the region bloom with lush vegetation.

Al Barari is one such community (pictured here) where sustainable recycling of water through a river across the community has helped nature thrive. Even during the harsh summers, humidity is noticeably reduced, and temperatures are lower by up to 5 degrees Celsius.



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Family Business Challenges From One Generation to the Next

Being part of a family-owned business can mean many things. Some people consider working with family a safe option when it comes to career choices, while others claim friction and rivalries may arise due to conflicts among family members. Whether one works with family or not, there are bound to be complications. However, when it comes to working with family, these work issues will follow a person home and interfere with their personal life.

The intention of a family business is the ability to easily transfer the business from one generation to the next, or for various members of the family to work together, simultaneously. However, some families face succession challenges when it comes to transferring the family business from the first generation to the second and third generations. In a recent study, it has been approximated that more than 70 percent of family-owned businesses do not survive the transition from the business owner, or founder, to the second generation (Grassi Jr. & Giarmarco, 2008). From the surviving 30%, only 15% of businesses continue to the third generation (Tatoglu, Kula & Glaiste, 2008). One of the most important aspects of a family business is continuing with family leadership and ownership, but this is also where so many family businesses fail. This is because different generations think differently and approach situations in different ways from one

another. Unless family members match in leadership qualities and problem solving skills, the business will suffer.

Creating a succession plan will promote succession and reduce failure. By identifying and discussing the barriers to successful business transitions, one can avoid reaching the point of business failure, which is mainly led by professional management. Other factors, such as motivation, willingness, and knowledge play a significant role when it comes to living up to business expectations. Statistical studies found that a lack of willingness can be harmful to the family business in the long run when the next generation takes over because willingness is the desire to want to take over, and if one lacks this desire, then the business will not run as efficiently as it should. Motivation is finding a reason to take over. Lastly, having the right and appropriate knowledge will allow for a business build up, or continuation, with a strong base.

Recently, Dubai has issued a law regulating family-owned businesses in the emirate to help protect family wealth and grow their contribution to the country's economic and social development. Family-owned businesses are not just common here in the emirate, but also encouraged in order to live on for coming generations to structure the family

assets. This ownership contract preserves the rights and assets of family members involved in the business as well as focuses on building a sustainable and more flexible economic model. In order to avoid conflicts, the law states that all members of the business must be members of the same family and have a single common interest. Also, for those families that wish to maintain the significant proportion of their ownership in the UAE, DIFC and ADGM offers the option to operate family trusts. They had introduced the concept of a trust, which protects and preserves the performance, wealth, and structure of family-owned businesses in Dubai. The trust has become the ideal choice for the holding and preservation of family business interests.



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Adoption of SOX framework can improve Corporate Governance and Financial Reporting

The Sarbanes-Oxley Act, 2002, called SOX ACT, is an US Law to build public confidence in the financial system and protect investors. All US and foreign public companies listed in US markets are required to comply with SOX.

The principal goal of SOX is to ensure the reliability of financial disclosures. This is the responsibility of the Board and Senior Management. SOX Compliance requires the CEO and the CFO to certify, that their financial disclosures are accurate (Sec 302) and the Internal Controls over Financial Reporting (ICOFR) have been assessed for effectiveness (Sec 404). The Statutory Auditor must certify the Management's effectiveness assessment. There is a provision for severe penalties for false certifications.

A Company must undergo a metamorphosis to be able obtain certification under SOX.

Reliable Financial reporting must start with Corporate Governance or Entity Level Controls. Some of the most importa Entity

level controls include Role of Audit Committee, the functioning of independent directors, self-assessment by Board Directors, separation of powers between CEO and CFO, Code of Conduct, and implementation of Whistle-blower protection. The Auditor also cannot offer advisory services. Another important entity level control is the adoption of a Disclosure Policy for immediate disclosure of material events.

Sox Compliance requires adoption of COSO Framework with five elements-Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring Activities. Some important controls include, documentation, safeguarding of assets, segregation of duties, reconciliation, vendors/partners risk assessment, EXCEL worksheet controls, IT General controls, and IT application controls. The main vulnerability in financial reporting occurs when data transfer takes place between subsidiary systems

and core financial system and in making provisions for bad debts and depreciation.

Foreign jurisdictions can adopt Sox provisions to improve the integrity of their financial systems.



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Have you undertaken benchmarking search for intra-group transactions?

What is comparability/ benchmarking search analysis ?

Comparability/ benchmarking search analysis is an important aspect of Transfer Pricing documentation to determine arm's length price of controlled transactions. The objective of analysis is to evaluate that whether pricing of intra-group transactions are in line with market standards (independent third party transactions) or not to ensure no tax evasion.

How to undertake comparability/ benchmarking search analysis ?

Comparability analysis can be undertaken to find either (a) internal comparable; or (2) external comparable, which are broadly similar to controlled transactions.

Under an internal comparability analysis, one needs to compare the transaction of taxpayer with related parties vis-à-vis unrelated parties. Generally, in the absence of internal comparability, one needs to adopt external comparability to find broadly similar external potential comparable (on licensed database) having regard to the nature of business/ transactions of the controlled transactions. A benchmarking search can be performed on licensed database by applying relevant criteria such as financial, jurisdiction, industry/ business, turnover criteria, related party threshold, etc. Subsequently, after screening of these filters, potential comparable companies can be identified. These globally recognised licensed databases has industry/ business data of companies (listed as well as unlisted) of various jurisdictions.

Which inter-company transactions can be benchmarked on licensed database ?

Generally, benchmarking search on licensed database can be performed for most of the inter-company transactions entered amongst multinational group such as:

- Traditional transactions – Purchase/ sale of raw materials or finished goods, provision/ availing of services, management/ technical fees, etc
- Financial service transactions – Intra-group loans/ guarantees (including determination of credit rating of borrower), etc
- Intangible property transactions – Royalty, franchisee, technical know-how, brand/ trademark fees, etc

Way forward:

Transfer Pricing topic has gained significant focus globally (including Middle East and Africa) in last decade wherein many countries have introduced Regulation. Moreover, tax authorities are aggressively undertaking Transfer Pricing audit/ scrutiny with the aim of verifying tax evasion or increase in tax revenue of country. It is recommended to undertake fresh benchmarking search analysis to evaluate if pricing of intra-group transactions are aligned with market conditions. This would help them to justify intra-group transactions and mitigate potential risk of tax in future.



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Non-Exempt SPVs and Foundations in ADGM must have ADGM-based Company Service Provider with effect from July 12, 2021

Abu Dhabi Global Market (ADGM) introduced a framework to regulate Company Service Providers (CSP Framework) which came into force on April 12, 2021 (with a transition period of 3 months). The Framework introduces mandatory requirements for certain 'non-exempt' SPVs and foundations to appoint an ADGM-based CSP and strengthens the regulatory obligations for providing company services in ADGM.

SPVs which is a subsidiary undertaking of following are exempt from appointment of CSPs:

- entity that has been established by law or decree issued by His Highness, the Ruler of the Emirate of Abu Dhabi or any Federal Law;
- financial firm holding any Financial Services Permit issued by ADGM FSRA currently operating in ADGM;
- persons licensed or regulated by the Central Bank of the UAE;
- company whose shares are traded on a regulated market in the UAE;
- company that has substantial assets, turnover and employees in the UAE, and adequate governance policies and procedures.

Foundations that has demonstrated the following requirements to the satisfaction of the ADGM Registrar are exempt from appointment of CSPs:

- substantial resources, experience and personnel in the UAE, and
- adequate governance policies and procedures, in each case as may be specified by rules made by the Board or guidance issued by the Registrar.

Responsibilities of Non-exempt SPVs / Foundations:

- must have CSP at all time.
- must give a notice to registrar within 14 days from appointment or cessation of CSP.
- must make available to its CSP such documents and information as is required to enable the CSP to comply with its obligations under the framework.
- must have CSPs to act as registered office provider.



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While placing great emphasis on establishing professional relations with each of our clients. This enables to work in an atmosphere of openness and trust. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.



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