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100% foreign ownership for specific onshore business

Foreign investors in the UAE are looking forward to 2019 with much optimism as an important revision on investment policies has been recently announced by the UAE government. UAE will now allow 100% foreign ownership to foreign investors for specific onshore businesses, aiming to boost major global corporations to invest in the UAE's market.

It is known to many that investors who wish to establish their businesses in UAE may only hold 49% stake of the total investment while the other 51% must be co-shared with a local national shareholder. This is of course with the exclusion of companies which are under the free zone authorities (offshore). Further detailed in part 2.

In September 2017, the UAE government amended the UAE Commercial Companies Law to allow the UAE Cabinet the flexibility to permit increased levels of foreign ownership in certain companies and sectors of the economy. This means it will not damage the interests of UAE citizens who currently benefit from acting as silent partners in foreign-invested businesses. In fact, the new law will create opportunities for UAE citizens because "they have a lot to offer in terms of knowledge of local markets, the networks and the connectivity."

The objective of the government is not to target sleeping partners' businesses, because they are small businesses, but to target businesses which will create more jobs, technology advancement and boosts imports and exports.

The new FDI (Foreign Direct Investment) law consist of the framework in which the government will exercise its powers in respect of allowing increased levels of foreign ownership and sets out details of

the process which foreign investors will be required to follow in order to apply to own more than 49% of the shares in the capital of companies in some sectors of the economy. They have introduced negative and positive list. Foreign direct investment commitments to Dubai rose 26 per cent from a year earlier to \$4.84bn in the first half of 2018.

The sectors of these included on the negative list are as below:

- Oil exploration and production
- Investigation, security, military (including manufacturing of military weapons, explosives, dress, and equipment)
- Banking and financing activities
- Insurance
- Pilgrimage and umrah services
- Certain recruitment activities
- Water and electricity provision
- Fishing and related services
- Post, telecommunication and other audio, visual services
- Road and air transport
- Printing and publishing
- Commercial agency
- Medical retail (including pharmacies)
- Blood banks, quarantines and venom/poison banks

On the other hand, the Law does not contain any details as to which sectors of the economy will appear in the 'positive list' at the moment but when a sector of the economy is added to the 'positive list', the UAE Cabinet may seek that certain requirements are satisfied by a company or its shareholders before

greater levels of foreign investment will be permitted than is currently the case. The law also sets out, at a high level, the procedure which foreign investors will be needing to follow in order to apply for permission to take advantage of the same. Any application which is rejected may be appealed under a procedure set out in line with this law.

Although only limited details are being released for this new law as of now, this news has already gained interest among investors and residents. It is believed that this change will attract more business and will once again prove how investor-friendly UAE market is.

It is an important change which must be anticipated as it encourages businesses and allow investors to have more flexibility to trade and will for sure give benefits to foreign investors and to the UAE economy in the long run. To elaborate further on this vital development, you may read the part 2 of topic covered by my colleague Markus.



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Business Re-engineering

Rethinking the business models in tough times

'When the going gets tough, the tough gets going' is one of the most popular proverbs, often heard in management and self-help talks. Another narration that we often hear these days is about business being challenging and market conditions being tough. Some may argue that motivational talks are good but hold very less significance when it comes to handling routine business challenges. The fact remains that our thought process and the way we react to situations do affect our business and professional life.

One such insightful experience was during my recent Hyderabad trip where I happened to stay at the Lemon Tree Hotel. I learned that Lemon Tree is India's largest hotel chain in the mid-priced segment; ranked 12th amongst the best large workplaces in Asia in the 'Great place to work' Survey 2018. Almost 20% of their workforce are people with disabilities whom they call ODIs or Opportunity Deprived Indians. They employ people who are speech & hearing impaired, or deaf, people with physical handicap, down-syndrome & autism, also acid survivors.

Many of these ODIs do not have any kind of formal education or training; they engage with NGOs and subject matter experts to make them job ready. Their working hours and salaries are same as other employees. Lemon Tree adopted this business model in 2007 and it was observed over the years that their output, speed and productivity is 15% more in terms of efficiency. With this model, they have tapped a new talent pool and brought opportunity deprived people to the mainstream.

I would submit that there are important learnings from the Lemon Tree example. Operating a business is an evolving process wherein we have to accommodate and adjust according to the market conditions and new advancements. We need to rethink our existing business models, think of new viable and sustainable alternatives. We, the finance professionals have an eminent role to play as advisors to our clients. One of the most important exercises that we can engage in is analysing the present business models industry-wise, examine the processes and think of innovations that can be brought in; in other words – business re-engineering, an extremely potential area of practice and business function.

On a lighter vein, the other three important learnings from the Lemon Tree story is – Firstly, we do not control the market conditions, what others do or any other external factors but we do control is our own 'conduct', irrespective of the situations we are in. What matters is analysing the situations, thinking positively and acting diligently. Secondly, there is an opportunity in every adversity, it's a matter of perspective. Lastly, most of us need regular skills training and everyone needs motivation.

Let me close, with another popular quote by the American motivational speaker, Robert H. Schuller – tough times never last, but tough people do.



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100% foreign ownership for specific onshore business: Part 2

One of the major concerns for most multinational companies in expanding their presence in the UAE has been their inability to hold a majority of the share in their UAE subsidiary. The UAE government has eased such concerns by establishing a vast number of free zones across the country. However, companies within a free zone area have limitations in dealing with UAE customers located outside the free zone, or in what we would call Onshore UAE. With Decree Law No. 19 of 2018, according to H.E. Sultan bin Saeed Al Mansoori, UAE Minister of Economy, the growth in the amount of investments in the UAE is expected to be 15-20% in 2019. He further stated that one of the main objectives of the law is to motivate major global corporations to invest in the UAE's markets, especially in the fields of innovation, technology, space, renewable energy and artificial intelligence, thus supporting the goals and objectives of UAE Vision 2021.

The Foreign District Investment Committee (FDIC) consists of government representatives/competent authorities from

each Emirate, including the licensing authorities, and its main task will be to study as well as to submit recommendations to the UAE Council of Ministers in regard to, among others:

- The Positive List including the economic sectors and activities and associated parts which are permitted to be carried out through a Foreign Direct Investment Project in the UAE;
- Adding some sectors and activities to the Negative List;
- Approving licensing applications for Foreign Direct Investment Projects in sectors not included in the Positive List;
- Incentives granted to Foreign Direct Investment Projects.

As the administrative and implementation unit of this law, the main tasks of FDIU will be, among others:

- Establishing a comprehensive database of investment data and information in the UAE;
- Creating an attractive environment for foreign direct investment and seeking to consolidate and facilitate the procedures for registering and

licensing Foreign Direct Investment Projects;

- Monitoring, following-up and evaluating the performance of foreign direct investments in the UAE;
- Promoting the investment environment by all means of advertising and promotion;
- Preparing periodic reports on the investment environment in the UAE, monitor and evaluate the volume of foreign direct investment and the annual flow of foreign direct investment;
- Attracting foreign direct investment for vital and strategic sectors.



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Being on the receiving end... for a change!

As part of their work, Internal Auditors audit various aspects of a client's business, identify what is working and what is not, and make recommendations for improvement.

The question that is often asked is, "But who audits Internal Audit?". A fair question indeed. The quality of Internal Audit itself should also be reviewed from time to time. The Institute of Internal Auditors has recognised that need for such a review of the internal audit function, and the

guidelines for this are covered by the International Professional Practices Framework issued by the Institute of Internal Auditors globally.

This includes mandatory guidance for Internal Audit:

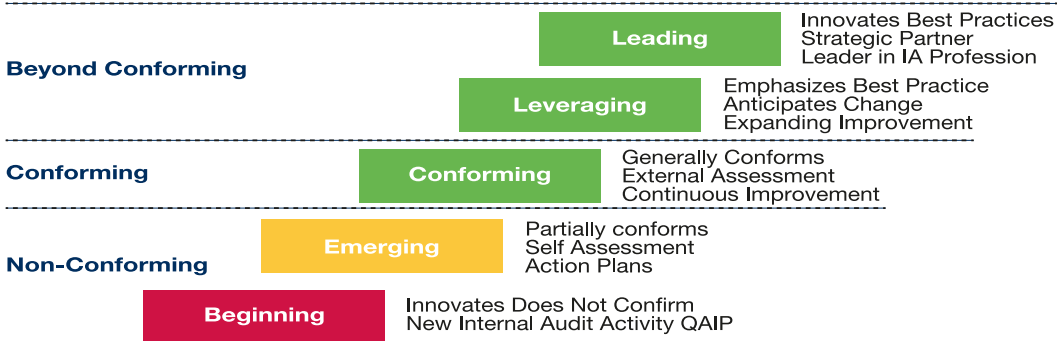
- Definition of internal auditing
- Code of Ethics
- The International Standards for the Professional Practice of Internal Auditing (Standards)

What is Quality? Quality is a relative term. The quality of a product or service is the

degree to which the product or service meets the customer's expectations — the degree to which it is fit for purpose.

Internal Audit needs to be fit for purpose to provide the service expected by the Audit Committee, the Chief Executive Officer and top management. Delivery of a quality product or service does not just happen – it needs to be managed. Quality management involves an ongoing effort to identify what good quality looks like, and to ensure it is being achieved consistently. Periodic review by an independent assessment team can assist Internal Audit on the path to quality:

Path to Quality (Maturity Model) Scale



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Data Breaches and Auditing Internal Controls – The need for a closer Audit partnership

Data breaches are unfortunately rather common and statistics from Gemalto show that more than 4.5 billion data records were breached in the first half of 2018. The recent data breach of Marriott is an indication that the trend is a steep upward curve.

Whilst it would be unwise to expect any organisation to eliminate the risk of a data breach, it is reasonable to expect that an organisation continuously updates its control over the data it holds. Not just because of the recent GDPR (General Data Protection Regulations) but also because, data is now increasingly stored in a variety of locations. Cloud servers and Blockchain have made data sharing and accessibility easier than ever, but so has it increased the vulnerability of data breaches.

External auditors are guided by ISA (International Standard on Auditing) 610 about how they rely and use the work of internal auditors. With rapidly evolving risks, it is important for external auditors to work closely, not only with internal auditors but also, the compliance team.

Organisations are increasingly focused on compliance, not only as it is a requirement in regulated environments, but in my experience, I have found that strong compliance is the cornerstone of a strong internal control environment.

Economists predict that a recession is around the corner, albeit no one can say with certainty what that this. However, what that will mean is that organisations will need to use existing resources as efficiently as possible.

Audit Committees and Finance Directors need to ensure their external auditors work

closely with the compliance team. This will help your external auditor better understand the work being performed by internal auditors. Does that mean, a data breach can be completely avoided? The simple answer is, no. However, it will go a long way in helping an organisation strengthen its internal controls.



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Tax Agency

Why Business Need Tax Agency and a Tax Agent?

- Tax agency is appointed by Federal Tax Authority (FTA) after scrutinizing their eligibility and performance.
- Tax agency has right to appoint tax agent(s) to guide businesses to comply with UAE tax law and manage their tax activity to be compliant with the FTA.
- Tax agent is the approved and certified by the FTA to do practice and assist business in tax compliance are always updated with new tax regulations.
- FTA recommends businesses to not disclose any confidential information to unauthorized person who is not

nominated by FTA. List of registered tax agents are available on the FTA website.

How Tax agent can help in Business?

- Conduct the assessment of business and guide client to comply with FTA law.
- Resolve FTA related queries and tax audit.
- File the VAT return behalf of client.
- VAT and Excise relate query will be assist by the Tax Agent and get clarification from FTA for client.
- Resolve of any dispute, refund or recovery related to taxes.
- New business setup or adding activity or product in business,

- Provide appropriate advice to manage tax with each activity.
- Assists in filing reconsideration and voluntary discloser of client for VAT.
- He will help client to update about new regulation and amendment by FTA



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Impairment of Financial Assets

IFRS 9, Financial Instruments, requires an entity to recognise the impairment loss on financial assets that are measured at amortised cost or fair value through other comprehensive income.

Standard provides two options, General approach or simplified approach, which is an accounting policy choice of the entity, to recognise a loss allowance for expected credit losses on financial assets, lease receivables or contract assets.

Impairment assessment for trade receivables using Simplified approach:

Trade receivables being one of the key financial assets which can be effectively assessed for impairment based on the Simplified approach. Standard provides that as a practical expedient, the calculation of the expected credit losses on trade receivables can be computed using a provision matrix. A provision matrix can be built considering historical credit losses, ageing period and appropriate groupings if historical credit loss is different for each group of customers.

Accordingly, if customer grouping carries different loss patterns, different provision matrices can be created for each such group in arriving at the appropriate credit loss rate.

One of the ways of building a provision matrix can be as follows:

Analysis 1: Historical ageing of trade receivables (age bucket)

	Total receivables	Not due	0-30 days	30-90 days	90-180 days	180-365 days	> 365 days
Cur. Period	x	a	b	c	d	e	f
Prev. Period	xx	aa	bb	cc	dd	ee	ff

Analysis 2: Computation of % of receivables moving to the next age bucket

	Not due	0-30 days	30-90 days	90-180 days	180-365 days	> 365 days
Cur. Period	a/x%	b/a%	c/b%	d/c%	e/d%	f/e%
Prev. Period	Aa/xx%	bb/aa%	cc/bb%	dd/cc%	ee/dd%	ff/ee%
	Average	Average	Average	Average	Average	Average

Average rates computed above can be used for arriving at credit loss rate (which is a product of average of the above age buckets) to be applied on the trade receivables and then adjusted to forward-looking information to reflect the probability of default in realisation of receivables.

Note: This is the proforma provisional matrix designed only as illustrative in arriving at one of the ways of determining credit loss rate considering the guidance of IFRS 9. Management needs to consider various other provisions and principles of IFRS 9 in building the Impairment assessment model as per IFRS 9.



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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 us 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.

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*Source: the ranking is based as per the International Accounting Bulletin's publication, April 2018, Issue 584.

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