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# THRIVING IN THE NEW NORMAL

Findings report

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## THE REGIONAL TRANSFORMATION REACHES A KEY TURNING POINT

Business conditions in the GCC in 2016 were among the most challenging ever seen in the region. The fall in oil prices to about \$50 a barrel from the highs of above \$100 a barrel in 2014, has fundamentally altered the economics of the region.

Governments have gone from strategies to invest their soaring budget and trade surpluses, to consolidation aimed at introducing the fiscal discipline needed to stop deficits spiralling out of control, and the process has been painful.

Cuts to capital investment saw the region's projects market collapse in 2016 with business hit by cash flow concerns as payment delays increased while new revenue generating opportunities failed to materialise, at the same time cuts to energy subsidies increased the cost of living while organisational restructurings saw jobs being cut in both the government and private sectors, knocking consumer spending and real estate prices.

The result is a rethink in the way the region's economies are managed. In the years ahead, we can look forward to journey into uncharted territory with new opportunities emerging as the new economic pillars are established, allowing private investors to own and operate public assets and services; encouraging entrepreneurs to create new businesses and jobs; and 'normalising' the relationship between government and society by cutting the over-subsidisation of energy and diversifying national income streams by broadening the tax base.

As we enter the second half of 2017, we are seeing the first signs that we have reached a turning point in the region's transformation.

Across the region, the institutions needed to deliver the reforms are being put in place and Public Private Partnerships are building traction for delivering public services.

But as this report highlights, the challenges are significant and many internal and external risks remain, ranging from another collapse in oil prices to volatility in the currency markets and poor adoption of new regulations.

That is why the NBF Knowledge Series 2017 is so important. With so much change taking place, it is vital that the UAE's business community comes together with government to discuss the challenges we are facing, and to identify opportunities and strategies to help navigate the journey ahead.

I am delighted that National Bank of Fujairah has invited MEED to be involved in its influential Knowledge Series for a second year, and I hope the findings contained in this report provide valuable insights for you and your business.

Yours sincerely  
**Richard Thompson**  
Editorial Director  
**MEED**

**The NBF Knowledge Series 2017** involved three, one-day briefings held from 1 to 3 May in Abu Dhabi, Dubai and Fujairah, which brought market and legal experts together with UAE's top business decision makers from across sectors to explore ways and exchange ideas on how companies can navigate through current turbulent times. The 'New Normal', underpinned by continued volatility in the global commodities market and

political uncertainties in the broader Middle East and beyond, pose risks and yet offer unique opportunities for businesses in the UAE. The briefing points out the risks stemming from slowing economies and identified strategies and solutions for business to better prepare ahead of the new region-wide tax regime. This report contains a summary of the key themes and findings discussed at the events.

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# ECONOMIC LANDSCAPE

**GCC shifts focus to non-oil grow as global outlook lightens**

## ECONOMIC LANDSCAPE

**Gıyas Gökent,** Senior Economist at the **Institute of International Finance**

### HIGHLIGHTS

- Global growth is expected to accelerate in 2017 to about 2.9 per cent, up from 2.5 per cent in 2016. It is expected to further accelerate to about 3.2 per cent in 2018. There are significant headwinds facing the emerging markets, and even the high growth that these economies have recorded is below the potential. The biggest area of concern is China. It is trying to reshape its economy towards a domestic demand-driven model, but it is facing significant challenges.
- Crude oil prices are unlikely to touch the previous historical highs. With inventories gradually levelling off and Opec indicating to keep production cuts in the second half of this year and possibly beyond, the market is heading for rebalancing. Oil prices are expected to remain in mid-\$50 a barrel range and gradually move up to \$60 a barrel mark over time.
- GCC economic growth is likely to be between 2-3 per cent for several years. Growth among the region's oil importers is set to pick up in 2017. Heavily burdened by debt, the region's oil importers must keep a tight rein on spending at the same time as they have to deal with the risk of political instability
- Monetary stimulus initiatives by central banks around the globe have been an important factor in sustaining growth. But while it has helped liquidity conditions, it has resulted in the expansion of the balance sheets of central banks. Over the coming years, we will see a winding down of stimulus spending.

## ECONOMIC LANDSCAPE



### GLOBAL ECONOMIC OUTLOOK

The dominant factors shaping the global economy over the past two years include the collapse in hydrocarbon prices, a slowdown in demand, and political uncertainty. All of these played a part in restricting growth in 2016. But despite these challenges, the outlook for the global economy is moderately positive.

Global growth is expected to accelerate in 2017 to about 2.9 per cent, up from 2.5 per cent in 2016. It is expected to further accelerate to 3.2 per cent in 2018. The key factors in the improving outlook is the easing of economic recessions in Eastern European and Latin America. There has also been some improvement in output in the US, the largest economy in the world, and growth is expected to accelerate to about 2.2 per cent in 2017, up from 1.6 per cent in 2016, further improving by 2.5 per cent in 2018.

But over the past year, there has been a distinct divergence in the global economy between rapidly expanding emerging markets and slow growing developed economies.

In 2016, the combined growth of the emerging market economies was by about 3.9 per cent compared to growth of about 1.6 per cent in the developed economies. The divergence is set to continue this year with emerging market growth projected at 4.6 per cent while developed market estimated to expand at about 2.1 per cent. This deviation in the pace of growth between the two is expected to continue in 2018 as well.

Despite strong growth however, there are significant headwinds facing the emerging market economies. Both the US and Eurozone economies face economic and political risks, but the biggest area of concern in the global economic picture is China.

The Chinese economy grew 6.7 per cent in 2016 and it is projected to maintain the same pace this year. However, it is likely to moderate to about 6 per cent and may soften further as the boost it received from joining the WTO could come to an end. And as China tries to reshape its economy towards a domestic demand-driven model, it will face significant new challenges.

What works in favour of China, however, is that it has significant buffers of international reserves and policy makers can provide a stimulus to offset a slowdown.

## ECONOMIC LANDSCAPE



### STIMULUS, RATES AND BORROWINGS

Monetary stimulus initiatives by central banks around the globe have been an important factor in sustaining growth. But while it has helped liquidity conditions, it has also resulted in the expansion of the balance sheets of central banks. Over the coming years, we will see a winding down of stimulus spending.

The US Federal Reserve (Fed), has already started increasing its policy rates in phases. Two more rate hikes expected by the Fed this year with more next year. These policy rates are particularly important for the GCC businesses as their currencies are pegged to the US dollar and any change in monetary policy has a direct impact on the cost of borrowing for businesses and sovereigns alike. The Fed is expected to phase out its policy of reinvestment of securities proceeds in 2018, which is likely to result in fewer rate hikes in 2018 than in 2017.

Low interest rates over the past few years have allowed governments in the developed markets to raise funds through borrowing, but financial institutions have remained on the side of caution. The emerging markets also have seen a significant increase in borrowings by non-financial corporations with household, financial sector and government borrowing also rising.

The rise in non-government borrowings will introduce liquidity and cash flow challenges as monetary policies normalise.

## ECONOMIC LANDSCAPE



### COMMODITY MARKET OVERVIEW

From the base-line of 2014, oil is the worst performing commodity after metals and agriculture while gold has outperformed all other commodities, with prices hitting a recent peak in 2016 and softening thereafter.

Oil prices, which dipped below \$30 a barrel mark in the first quarter of 2016, recovered to about \$50 a barrel by the end of that year, largely as a result of Opec and non-Opec oil producers agreeing in October last year to cut oil production for six months, starting 1 January 2017. The current indications are that Opec producers intend to continue with controlled production policy to support oil prices in the second half of 2017 and beyond.

The root of the oil price crash was a glut in global supply driven by the introduction of new oil recovery technologies such as fracking and horizontal drilling, which has increased production from non-Opec producers such as the US. With the rise of unconventional oil source such as the US oil shale, the oil market has taken a different shape where shale oil production has usurped Saudi Arabia as the new swing producer and rise in unconventional oil production will determine how much oil prices can rise globally.

Crude prices are unlikely to touch the previous historical highs. With inventories gradually leveling off and Opec indicating to keep production cuts in the second half of this year and possibly beyond, the market is now heading for rebalancing. If Opec swerve from its path and cuts are abandoned, oil prices will see another crash.

Global oil demand is still driven by the emerging markets economies, especially those in Asia, Africa and the Middle East, thanks largely to their population dynamics and this trend is expected to continue in 2017. Oil prices are expected to remain in mid-\$50 a barrel range and gradually moving up to \$60 a barrel over time, which impacts a lot of policies decision in MENA region.

# ECONOMIC LANDSCAPE



## DEVELOPED MARKETS ECONOMIC REVIEW

### United States

Sentiment is positive about US economy which grew by 1.6 per cent in 2016 and is expected to accelerate over 2 per cent this year. The administration of President Trump has new ideas about how to stimulate economy and increase the pace of growth. These ideas might not be environmentally friendly but the new leadership feels they are growth positive.

Trump's 'America First energy plan' is on the top of the list, which includes stubbing out some of the projects and policies through Climate Action Plan and divert spending from climate change, pollution clean-ups and energy efficiency to more needed areas of the economy. The government plans to further explore untapped shale, oil and natural gas reserves.

Bringing back jobs was one of the campaign themes of President Trump. The administration has set a target of creating 25 million jobs in the next 10 years and return to 4 per cent annual growth. The growth target will be difficult to achieve. The move of oil prices from \$30 a barrel to \$50 a barrel, however, has raised inflation, as a result US unemployment has fallen from 10 per cent in 2009 to about 4.5 per cent in 2016.

Lowering taxes in every bracket, simplifying the tax code and reduce the corporate tax is also part of the economic reform agenda being pursued by US administration. Whether a bigger tax cut, which the administration is proposing can be achieved, remains to be seen but it will certainly look at the tax code which has not been touched in decades. There will be some sort of stimulus provided through tax reforms, degree of that reform is not yet known.

Currently, top level corporate tax in the US is about 40 per cent which is very high, however, exemptions within the system mean that the effective corporate tax is in reality between 20 to 30 per cent, close to what the corporations in the UK are paying.

# ECONOMIC LANDSCAPE



## DEVELOPED MARKETS ECONOMIC REVIEW

### United States

Timing of rate cuts is also unclear and markets will have to wait until July or may till September to know how Fed feels about the health of the economy. The Fed expects its long term policy rate beyond 2019 to be around 3 per cent. The Fed policy rates are currently close to 1929 levels but are rising gradually.

Trade pacts signed by the former administrations are also one of the sticking points for the current leadership, which now wants to renegotiate some of them. If some of these trade deals fell apart, it might have a negative impact on the US from growth perspective.

US also intends to crackdown on nations that are in violations of the trade agreements or are involved in currency manipulations. The latest communication from the US Treasury has not labeled any country as a currency manipulator but it has maintained a watch-list of nations and China is on the top, largely due to its \$350bn trade surplus with the US last year.

Mexico is the most vulnerable to changes in the US trade policies as about 80 per cent of Mexican exports go to the US. Mexico's trade surplus with the US is far smaller than that of China at \$63bn. China may also get affected by how the US shape up its trading policies going forward but the impact is likely be less severe due to the sheer size of its economy.

# ECONOMIC LANDSCAPE



## DEVELOPED MARKETS ECONOMIC REVIEW

### Eurozone

Eurozone growth is solid but unspectacular. Europe's purchasing managers index (PMI) is rising and the job market is also improving with unemployment rates falling, particularly in Spain and Germany. Inflation has picked up slightly but there is no need as yet for European central banks to remove the monetary accommodation that they currently have in place.

The UK's unexpected decision to leave the EU in June last year has had an impact, but even with the Brexit vote, the European economy has performed relatively better and some of the pessimistic post-Brexit projections have been revised upwards as authorities weighed in with stimulus spending.

There are hard negotiations in store for the leadership ahead of the UK's exit from the EU in 2019. UK Prime Minister Theresa May, in another surprise, called a snap general election which was held on 7 June 2017. The unexpected loss of a working majority for May's Conservative Party, has undermined the prime ministers authority and added a new layer of uncertainty to the UK's approach to the Brexit negotiations.

Italy is heading for a referendum next year and polls show that Five Star Movement, an EU-sceptic party is ahead and a win for them might raise concern for the European economic bloc. Austrian Presidential elections are looming in 2017 as well. Set against this however is the victory over far right opposition of French President Macron in French presidential elections, which has eased some of the political fears for the EU.

However, most important electoral battle this year will be the German parliamentary vote in September, in which Angela Merkel's party is ahead, according to the polls.

## ECONOMIC LANDSCAPE



### EMERGING MARKETS ECONOMIC REVIEW

The outlook for emerging market growth is strong, mainly due to improvement in Latin American and Asia. However Europe Middle East Africa (EMEA) region, which includes GCC has been set back by the slump in oil prices and subsequent government spending cuts.

Capital flows are a cause of concern in the emerging markets however with capital outflows increasing since 2013 led by China, which has reduced its international reserves to fall. The outflows were, in part, driven by weakness in the Chinese currency but the government has now put stricter controls on capital flow.

The Middle Eastern and African sovereigns have also seen their international reserves depleted over the last two years, as hydrocarbon dependent economies drew down on reserves in a bid to plug the budget deficits.

If the oil prices predictions stay true, new money will not come to the Middle Eastern sovereign wealth funds to push the level of reserves higher.

# ECONOMIC LANDSCAPE

## EMERGING MARKETS ECONOMIC REVIEW



### Sub Saharan Africa

- Political uncertainty will weigh on investors' confidence in South Africa, until there is more clarity at ruling ANC leadership conference scheduled for December 2017
- Portfolio debt inflows have been boosted by sovereign bond issues
- South African equities have been out of favour
- Recession in Nigeria and de-facto capital controls have kept foreign investors on sidelines
- Foreign currency shortages mean large spread between official and black market exchange rates persists
- Reserves have risen on the back of capital controls, sovereign bond issue, and oil price rise



### China

- China's GDP growth met target for 2016 at 6.7 per cent
- Growth stabilisation was, however, achieved with the help of significant credit easing
- Containing the leverage and financial risk are among the top priorities in 2017
- Capacity cut and demand rebound pulled up Producers Price Index, helping corporate profits.
- Rising CPI and interest rate can be a risk in 2017 given high leverage
- Capital controls will be further strengthened
- State entities reforms stalled

# ECONOMIC LANDSCAPE

## EMERGING MARKETS ECONOMIC REVIEW



### Asia

- Asian currencies have largely revived from Trump election shock
- While risk factors are there, growth in EM Asia is solid, with the usual divergence



### India

- Real GDP growth slipped from 7.9 per cent in 2015-16 to 6.5 per cent in 2016-17
- It should revive to 7.2 per cent in 2017-18 as the economy benefits from ongoing reforms
- Strong performance belies the shock from the withdrawal of 86 per cent of Indian currency in November, followed by delayed rollout of new notes
- Strong consumption, buoyed by two successive good monsoons, along with an increase in public spending and exports were key supportive factors



### Turkey

- Lira continues to be under pressure
- Political uncertainty
- Central Bank manages liquidity via money markets (to tighten without politicians noticing) but it is averse to rate hikes
- A substantial hike of between 200-300 basis points will be necessary eventually

# ECONOMIC LANDSCAPE

## EMERGING MARKETS ECONOMIC REVIEW



### Russia

- Ruble stronger due to rise in oil prices
- Inflation is down and growth is back to 1 per cent



### Ukraine and elsewhere

- Biggest Ukrainian bank was nationalised which was severely undercapitalised
- Reforms are still progressing in the country
- Strong fiscal data for 2016 in, but slower growth elsewhere in the emerging Europe
- Sweet spot in 2017 - fiscal expansion and growth expected to strengthen

## ECONOMIC LANDSCAPE

### MIDDLE EAST AND NORTH AFRICA (MENA)

From 2000 to 2005, the economies of GCC oil exporting countries - Bahrain, Kuwait, Oman, Saudi Arabia and UAE - grew at an average of 8 per cent a year, driven by high oil prices, high levels of oil production and low cost of debt. Annual average economic growth in the GCC over the subsequent five years remained very strong, although, it fell back somewhat to about 5 per cent a year, dampened by the global financial crisis in 2008 and regional real estate crash in 2009.

Since 2010, the GCC growth has slowed further to about 4 per cent a year, largely driven government capital spending and limited by a sluggish private sector still hampered by post-financial crisis lending restrictions. However, more recently, the GCC economies have expanded at a much slower rate and if the outlook for limited rises in oil prices are correct, GCC economic growth is likely to be stuck between 2-3 per cent for several years while oil remains the main source of income and the revenues for the region.

Growth among the region's oil importers such as Egypt, Morocco, Lebanon, Tunisia and Jordan was slower than the GCC in 2016, but is set to pick up in 2017. Heavily burdened by debt, the region's oil importers must keep a tight rein on spending as they have to deal with the risk of political instability resulting from armed conflicts in the region, which has negatively impacted economic activities, eroded confidence and hampered

investment inflows. Until issues in Iraq, Syria, Yemen and Libya are resolved, meaningful recovery in the Mena region's oil importing nations' economies is unlikely.

For non-GCC oil exporters such as Algeria, Iraq, Iran and Libya, stability is the key to growth.

### Twin deficit

The 'new normal' lower oil price conditions creates a twin-deficit problem for the region – an external trade deficit and an internal fiscal deficit.

Supported by huge trade and fiscal surpluses, the net foreign assets of the Mena region's oil exporters rose sharply from 2006 to 2014. The fall in oil prices since, however, has seen budgets move into deficit and forced governments to draw down on foreign assets to fund their budget deficits.

meaningful recovery in the Mena region's oil importing nations' economies is unlikely.

For non GCC oil exporters such as Algeria, Iraq, Iran and Libya, stability is the key to growth.

## ECONOMIC LANDSCAPE

### Breakeven prices

To achieve fiscal breakeven this year - including investment income, MENA exporting nations require oil to trade at certain levels, with Kuwait having the lowest price requirement of \$49 a barrel. UAE budget breakeven can be achieved at \$60 a barrel in 2017, while Saudi Arabia, Oman and Bahrain need crude prices at \$75, \$83 and \$100 a barrel, respectively. Non-GCC exporters such as Iran and Iraq need oil prices at \$60 a barrel, while Algeria requires it to be at \$80 a barrel to achieve a balanced budget.

### Debt

Increased borrowing was used to fund deficit and maintain spending, which has contributed to a rise in public debt for Mena oil exporters over 2016-17.

The public debt in the region will continue pile up. The Gulf States have already borrowed about \$41bn in total last year to meet their funding requirements. Most tapped the debt markets last year to take advantage of lower interest rates, however, the level of funds raising this year is expected to be lower than 2016 as sovereigns have smaller requirements in terms of meeting expenditures.

As governments move to find new ways to balance the books, new revenue raising measures are being introduced, such as

the implementation of 5 per cent VAT across the GCC in 2018. Although VAT is expected to roughly raise 1.5 per cent of the combined GDPs of the GCC, it will add inflationary pressure.

### Fiscal consolidation

The cuts in spending, particularly in the GCC, have been deep and painful and they are not expected to ease off any time soon. The fiscal deficit which were running at the 10 per cent on average in the GCC will gradually improve on the back of economic reforms, subsidy cuts, controlled spending and revenue generation measures.

The region has seen tighter liquidity in most markets and credit growth has also suffered. The slowdown has also affected the reality sector, which is evident from a fall in the prices of apartments in markets such as Dubai.

Equity markets are also a way of raising funds, however, there are concerns on share floats as owners risk losing control of their firms. Growth of equity markets and initial public offerings go hand-in-hand with economic growth and authorities in the region are now trying the change regulations to encourage more listings.



# **CURRENCY MARKETS AND INTEREST RATES**

**Understanding currency risk is important for businesses**

# CURRENCY MARKETS AND INTEREST RATES

**Ian Groome**, Senior Treasury Specialist, **Thomson Reuters**

## HIGHLIGHTS

- Currency risk is always present and UAE businesses should have policies in place to identify and manage the risks they are exposed to, whether in currency exchange, commodity prices or interest rates.
- Reading the market correctly, avoiding assumptions on market moves one way or the other, hedging bets and making right decision at the right time can help the regional businesses avoid worst case scenarios.

The Foreign Exchange (FX) market has the status of being the world's largest. Bigger than the equities trade, thanks largely to ever-increasing globalisation.

However, being on top does not mean that the FX markets are immune to volatility and fluctuations. Anything from a political development to competitive currency devaluation has the potential to move the markets.

The global economic slowdown, question marks the future of the EU, surprise voting results of the UK's Brexit referendum and election in the US heralding Trump era, have all affected the currency markets in one way or another.

In the broader global picture, there are some positives but there is plenty that could make FX traders nervous.

Currency risk is always present and UAE businesses should always have policies in place to identify and manage the risks they are exposed to, whether in currency exchange, commodity prices or interest rates. Reading the market correctly, avoiding assumptions on market moves one way or the other, hedging bets and making right decision at the right time can help the regional businesses avoid worst case scenarios.

## CURRENCY MARKETS AND INTEREST RATES

EUR/USD	2016 Review		2017 Expectations	
	1 January 2016	1.0875	Median One Year Forecast	1.05
	Average 1 Year forecast January 2016	1.0300*	Maximum Forecast	1.15
	2016 Range	1.0345 – 1.1615	Minimum Forecast	0.95
	30 December 2016 close	1.0513		

### KEY CONSIDERATIONS EUR

- In the EUR/USD, analysts have been bearish on EUR
- Political influences are important for EUR/USD trades. Pollsters got Brexit and US election results wrong when markets were quite reliant on polls
- Polls rightly predicted the first and second round victories for French President which has mitigated risk of French exit from the EU, one of the main campaign point of Far Right candidate Le Penn
- Upcoming German elections polls show Angela Merkel's party has the lead
- ECB kept up its dovish tone as it awaits results of elections. If results go as expected it gives ECB reasons to be hawkish
- Lower unemployment in Euro area will be seen a positive for Euro
- ECB target for inflation is 2 per cent. It is moving closer
- Economic growth picking up – a fairly positive picture

### KEY CONSIDERATIONS USD

- Dollar had a big rally post Trump win but it has been slipping
- Trump success – administration yet to pass major laws
- President Trump has combative style but does not have enough majority in Senate to push through legislation at will
- Wall with Mexico project has yet to take off
- Risk of government shut down over budget
- Fiscal stimulus and tax reforms but there are no details as yet
- Expectation for US GDP is about 2.3 per cent.
- Dollar will be driven by what administration achieves
- Tax reforms will be good for dollar but what will they be?
- US debt rising since 2000 and because of this, no party can increase debt by cutting taxes or increasing spending without cutting elsewhere
- Dollar trading range to continue 1.04 – 1.16 with 1.10 as pivot

### OUTLOOK

The ECB is not set to end quantitative easing yet. Positive elections results in Europe could change this, which will be Euro supportive. On the US side, two further rate hikes by the Fed are fully discounted by the market. For dollar to move significantly higher US growth acceleration is imperative. Eurozone risks - Greek, Italian and Spanish debt worries are not expected to surface this year.

## CURRENCY MARKETS AND INTEREST RATES

GBP/USD		2017 Expectations	
2016 Review			
1 January 2016	1.47351	Median One Year Forecast	1.23
Average 1 Year forecast January 2016	1.5*	Maximum Forecast	1.38
2016 Range	1.1450 – 1.5018	Minimum Forecast	1.05
30 December 2016 close	1.2336		

### KEY CONSIDERATIONS

- Market is discounting the worst case scenario for the UK such as possibility of permanent weaker economic growth because of EU exit
- Prime Minister May held snap elections in June
- Theresa May's Conservative Party lost majority
- Lack of majority for the Conservatives weakens the authority of UK Government to pursue a 'hard Brexit'
- The UK and EU are very much intertwined and they rely on each other as trade partners
- A compromise between the UK and EU on Brexit is more likely to happen, especially following the election
- Pound shot up once the election announcement was made

### INFLUENCING FACTORS

- Bank of England policy stance post Brexit result: immediately cut rates and increased quantitative easing
- Move has given safety net to UK's economy in case of a slowdown
- Pound is likely to stay lower for longer or at least until the Brexit negotiations are done and shape of what the deal is going to be is clear
- The bank of England still has GDP growth and inflation targets – inflation has been growing since Brexit
- UK's broad effective exchange rate has been lowest since 2008 financial crisis – on trade weighted basis, GBP is great value
- Central banks in recent months have been adding GBP to their reserves
- From trade perspective, economy has been benefiting from a weaker GBP
- The UK has strong foreign currency reserves to cover any big slide
- Budget balance in the UK is improving and the inflation is rising
- Net IMM Short GBP/Long USD positions are at record highs - speculators are very short on pound and this is one reason why GBP has not gone down

### OUTLOOK

Volatility will remain there but GBP at 1.20 is a good buy. Below that however and all bets are off.

## CURRENCY MARKETS AND INTEREST RATES

### USD/JPY

2016 Review		2017 Expectations	
1 January 2016	120.27	Median One Year Forecast	118
Average 1 Year forecast January 2016	125*	Maximum Forecast	128
2016 Range	99.08– 121.68	Minimum Forecast	103
30 December 2016 close	116.87		

### KEY CONSIDERATIONS

- Since last three years Bank of Japan has been engaged in quantitative easing to push the value of JPY down
- Most of the last year, dollar went down against JPY due to Trump effect

### INFLUENCING FACTORS

- US/Japan trade relations – President Trump has made a big issue but no details so far
- Major fiscal stimulus was introduced by the Japanese government which expires this year – Japan will have to make a move otherwise, the economy can contract dramatically
- Potential of snap elections this year in Japan
- North Korea tensions – Japan is traditionally a safe haven but its physical proximity to North Korea raises security concerns and as a result JPY is weakening
- Government debt at 200 per cent of GDP, is a potential negative for the JPY
- The buying of high yield bonds and emerging market bonds by Japanese pension funds will weaken the Yen
- Short-term JPY can weaken against dollar
- Japanese trade surplus is growing and Japanese economy is benefiting from weaker Yen

## CURRENCY MARKETS AND INTEREST RATES

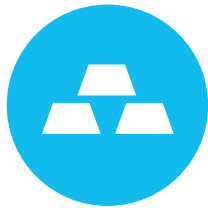
USD/CAD	2016 Review		2017 Expectations	
	1 January 2016	1.3839	Median One Year Forecast	135
	Average 1 Year forecast January 2016	1.3500*	Maximum Forecast	143
	2016 Range	1.2719– 1.4689	Minimum Forecast	125
	30 December 2016 close	1.3430		

### KEY CONSIDERATIONS

- One of the important currencies considering Canada's close proximity with the US and the US trade policies
- Canada has abundant oil resources – in the Q1 of 2016, the Canadian dollar (CAD) fell due to low oil prices but snapped back
- US/Canada trade relations – Trump wanted to tear up the North American Free Trade Agreement (NAFTA) but now he wants to renegotiate it, which could have an impact on the CAD/Lumber prices (US administration imposed 20 per cent tax on Canadian lumber exports)
- US is the largest export market for Canadian lumber which is the country's second biggest export after oil. This is CAD negative
- For CAD to strengthen, crude oil prices need to rise well above \$50 a barrel
- From a technical perspective, CAD has broken the key 136 resistance level against the USD and is bull market territory
- Key CAD support 1.3200 and 1.2845

# CURRENCY MARKETS AND INTEREST RATES

## FORECAST FOR GOLD



### KEY CONSIDERATIONS

- Gold behaves like currency, even though it is a commodity
- It is a safe haven
- The average price for Gold this year is \$1,265 a troy ounce (oz) according to Reuters precious metals poll
- It is currently trading at \$1,255/oz
- The average price expectation in 2018 is \$1,294/oz
- A pick up in Gold is expected but not a significant one
- Gold has not entered the Buy range as yet and it remains to be seen if it will
- Gold support at \$1,249/oz and \$1,218/oz needs to hold

## CURRENCY MARKETS AND INTEREST RATES

### GCC CURRENCY PEGS

At the beginning of 2016, oil was trading below \$30 a barrel and there was some speculation that GCC governments could depeg their currencies from the US dollar. Forward positions in the Saudi riyal.

Speculators, however, got the de-pegging spectacularly wrong and the worries about break away with US dollar have dissipated and the talk of de-pegging is now totally off the table.

These views were based on potential for oil price to drop below \$20 a barrel and stay low. With oil moving back to \$50, forward premiums have corrected most of the de-peg risk premium.

GCC governments have cut spending as was required. The sovereigns in the region have managed to issue debt and they did that quite easily as well. Their debt levels, however, have risen.

One sticking point in the region is Bahrain, which has low foreign reserves but its safety net is Saudi Arabia, which fully back the kingdom.

Before the 2008 credit crisis, when Dubai was booming on the back of property investment, there was speculation of de-pegging the UAE dirham from the US dollar. However there are no prospects of a de-pegging at the moment as Dubai is a much more mature economy now.

Key determinant in the region is oil price and collapse in that could give rise to de-pegging speculation again. However Opec

is smartly managing its affairs and is persisting with the oil production cuts.

One other key factor is the strength of the dollar. A stronger dollar means that imports are cheaper but it makes investments difficult. It will not be a bad thing for the GCC if the dollar came off a bit.

### US INTEREST RATES

The market consensus at the start of 2016 was for three to four US rate hikes, however, during the course of the year, the Fed kept changing position and the first interest rate increase did not come until the very end of the year. The trades who had positioned their bets for rate increase, got it wrong.

The one month USD London interbank offered (Libor) rate since 2015 has moved from zero in 2015 to 35 basis points in 2016 against one Fed hike of 25 basis points. So far in 2017 one month USD Libor is up 22 basis points against Fed hike of 25 basis points.

One year USD Libor rose 50 basis points through 2015 and followed by an increase of 55 basis points in 2016. However 2017 has seen rates move up and then correct back from highs of 1.8275 per cent.

# CURRENCY MARKETS AND INTEREST RATES

## INTEREST RATE EXPECTATIONS FOR THIS YEAR

- The market is expecting three rate increases, based on Reuters market forecasting
- The US dollar interest rate futures market has been a much better predictor of Fed rate hikes
- The futures market is expecting only a 38 basis point hike in interest rates in the remainder of 2017, which is Less than two rate hike
- More guidance is required from Fed on interest rate increase
- Probability yardstick: there is a 68 per cent chance of a rate hike in June
- It will depend on the economic figures in the US – first quarter numbers were softer but people are expecting a rebound

## LONG TERM US YIELDS – OUTLOOK

- The US 10-year yields going back to 1950, since 1975 it has been in a big downtrend
- It has consistently resisted any upward move, long term down trend resistance is at 2.65-2.75 per cent
- A break through resistant would be a significant event



# THE UAE'S NEW COMMERCIAL COMPANIES LAW

Companies in the UAE must understand what the recent change mean to them

# THE UAE'S NEW COMMERCIAL COMPANIES LAW

**Hamad Haider**, Partner at **PwC**

## HIGHLIGHTS

- The Commercial Companies Law (CCL ), which was introduced in 2015, updates the framework of how firms in the UAE conduct business.
- The most salient point in the CCL is the waiver of the minimum capital required to launch a business in the UAE.
- The most immediate impact on businesses is the requirement for companies to amend their Memorandum of Association (MoA), which has now been waived.

The legislative landscape in the UAE has been very thin and there are often complaints that there are not enough laws and where there are laws, they are often not clear enough. However, there are a number of legislative pieces that have recently been promulgated or which are being prepared that will have a significant impact on how companies do business in the UAE.

The Commercial Companies Law (CCL) was introduced in 2015, replacing its predecessor, Federal Law No.8 of 1984 concerning Commercial Companies. Since the new piece of legislation was replacing an old one, expectations were high about significant changes, however, there were many aspects of the CCL, which carried on the legacy of the previous law.

The foreign ownership structure has remained the same with ownership of foreigners outside of a freezone still capped at 49 per cent. This has disappointed people who were lobbying for greater control for foreign investors in the UAE businesses.

CCL, basically, updates the framework of how firms in the UAE conduct business. Its stated objectives are: To contribute to the development of the working environment in the UAE and to the capacity of the UAE; to regulate companies according to international norms; the protection of shareholders; the support of foreign investment; and the promotion of corporate social responsibility.

# THE UAE'S NEW COMMERCIAL COMPANIES LAW

## CAPITAL REQUIREMENTS

The most salient point in the CCL is the waiver of the minimum capital required to launch a business in the UAE. Companies now can have sufficient capital for the purposes of the company. The changes is aimed at growth of smaller and medium-sized businesses, which was bogged down by previous legislation.

The move is consistent with the global standards and earlier restrictions did not adequately allow for the varying capital requirements of different businesses. The authorities have managed to remove the superficial barrier to entry, allowing a company to make a decision on capital, according to the nature of the venture it intends to start.

The second introduction in CCL is the structure of a holding company, which is confusing as before the new legislation, there was nothing that prevented a company from owning shares in another company or different assets. Previously, holding companies were considered as any other commercial company and it is still unclear what the new structure is going to achieve. While there are no capital requirements for an ordinary company, holding companies have AED 50m capital requirement, which is on the higher side.

## MEMORANDUM OF ASSOCIATION UPDATE

The most immediate impact on businesses in the UAE, when the law was introduced in 2015, was the requirement for companies to amend their Memorandum of Association (MoA) before 1 July 2016, failing of which could have resulted in penalties and of dissolution of the business itself.

That date was then deferred by a year to June 2017 for amendments. However, a ministerial order released just a few weeks ago, has waived this requirement for Limited Liability Companies (LLCs).

If a company has not done it already, it does not have to do the amendments under the new ministerial order, however, it is still advisable to do it in order to be fully compliant with the law.

These changes do not apply to registered freezone companies.

## COMPANY MEMORANDUM OF ASSOCIATION CHANGES REQUIRED

- New deadline for companies to amend their Memorandum of Association to comply with the new law is 1 July 2017
- Additional information on shareholders, such as date of birth and mobile phone number to be provided
- Applying international accounting standards
- Existing shareholders right to pre-emption on share sales to a third party
- Mandatory valuation by a registered expert before any sale or transfer of shares
- Defining at least one manager, changed from up to five
- Notice for a general assembly reduced from 25 days to 15 days
- Minimum shareholders to reach a quorum reduced from 100 per cent to 75 per cent

# THE UAE'S NEW COMMERCIAL COMPANIES LAW

## OTHER CHANGES

The role of manager, previously, has remained unclear in terms of what a person could or couldn't do while managing a business and how much personal responsibility he or she carried.

The role of manager has remained unclear in terms of what a person managing a business can or can't do and how much personal responsibility he or she carries. The Commercial Companies Law 2015 prescribes the level of "duty of care" that a manager poses to a company. That duty of care is consistent with international standards and is that of a "prudent person". The manager has to perform and pass the objectivity test, which is based on what a, reasonable person, would do in certain circumstances. If a manager fails the test, he can be held liable.

The new law also requires a company to maintain accounting records and the firms should keep documents and records for five years, either in electronic form or in hard copies.

The CCL is also applicable in the freezones, only to the extent where a freezone does not have a law or its own law does not address a particular subject. If the freezone law is vocal on a certain point, the mainland law will not apply. Although, CCL is a federal legislation applicable in all emirates, Abu Dhabi Global

Market (ADGM) and Dubai International Financial Centre(DIFC) are the two blanket exceptions where it does not apply, even in parts where ADGM and DIFC laws are silent on particular points.

"Employee incentive schemes" have also been introduced in the new law, which means that the employees of a firm could get shareholding in a company as an incentive. However, the provision lacks some legal tools such as share buyback option. It does not address certain issues, for example, how the shares of an employee will be handled once the employee leaves – will that be passed on to another employee or transferred to treasury for safe keeping.

There is a framework now for a single shareholder company as well, which will be subject to 49-51 ownership limitation, meaning that it can only be incorporated by a UAE national. No minimum share capital is required for such establishments and the Department of Economic Development has standard template of Memorandums of Association (MoA) available.

# THE UAE'S NEW COMMERCIAL COMPANIES LAW

## FOREIGN OWNERSHIP STRUCTURE

UAE nationals hold a minimum of 51 per cent ownership of all companies registered outside a freezone and that clause is unchanged in the Commercial Companies Law of 2015. These partnership agreements are usually governed by a Side Agreement or a Nominee Agreement when a UAE national with majority shareholding is a silent partner. More than 70 per cent of the businesses in the mainland are silent partnerships.

Others forms of documentations include power of attorney to foreign partner from the majority shareholder and in often instances, management agreement between the foreign shareholder and Limited Liability Company (LLC), which allows the foreign shareholder to extract funds against the services provided to the LLC.

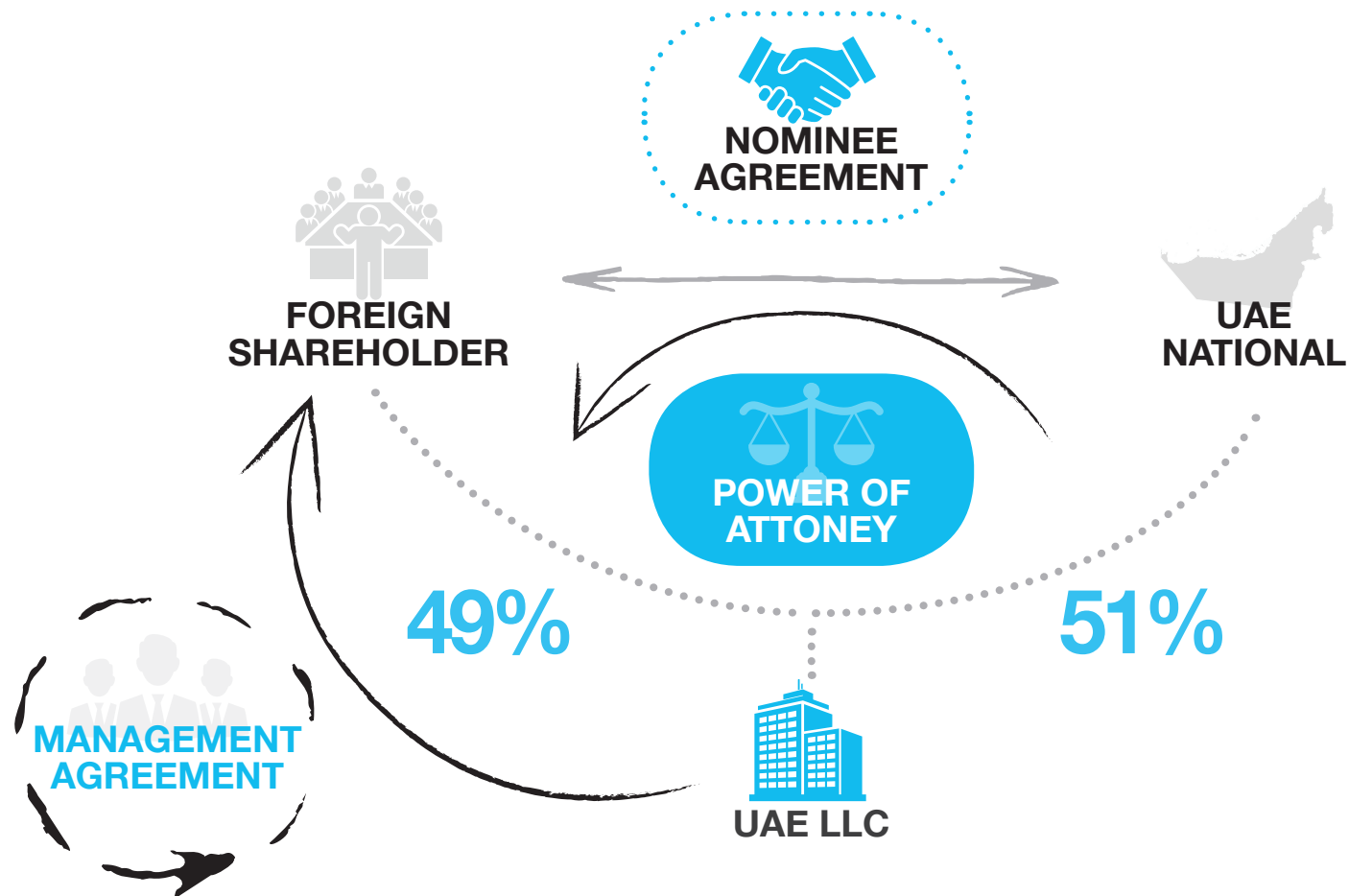
However, if a dispute occurs between the local and foreign partner, the court applies Article 395 Civil Code, which states: "...parties conceal a true contract with an apparent contract, the true contract will be effective...". The courts in majority of instances have upheld the nominee agreement as the 'true' agreement. It takes precedent over the company's MoA, which is held to be an 'apparent' contract.

To date there has been no judgment in the UAE, which specifically addresses the Side Agreement and says the concept of side agreement does not apply, as it is politically sensitive. Instead the court take MoA as a 'not true agreement', and proceeds with liquidation of the company, which in a way protects foreign partner's investments. This has been a common occurrence in the legal system and UAE courts are expected to continue to take this view going forward.

Businesses should also be aware that MoA, which is a notarised document, could not be modified by an un-notarised document, such as a nominee agreement. In theory a non-notarised document should not work in comparison to a notarised document. In one case, involving Coca Cola in 2013, the judge ruled that any amendment in notarised MoA must be done with another notarised document. The criticism in that case was that the Side Agreement, even if partners try to notarise, it could not be notarised but the judge ignored that fact.

## THE UAE'S NEW COMMERCIAL COMPANIES LAW

### COMMON STRUCTURE FOR PROTECTION OF FOREIGN OWNER



# THE UAE'S NEW COMMERCIAL COMPANIES LAW

## NEW BANKRUPTCY LAW

### Overview

Before the promulgation of the new legislation, the UAE did not have a comprehensive bankruptcy law and there were not enough provisions in commercial code to deal with such issues. Bankruptcy proceeding often resulted in personal liability for a shareholder, which was a big deterrent to doing business in the UAE. The new law became effective on 29 December 2016, replacing prior legislations, which sought to deal with and address cases of insolvency.

This law applies to public companies that opt in, mainland businesses and all freezone firms with the blanket exception of those registered in DIFC and ADGM.

The new legislation is a step in the right direction. If the law existed during 2008 financial crisis, issues such as overnight skips due to indebtedness could have been managed through legal channels. This law encourages businesses to stay in the country and provides them a framework to resolve financial issues.

There are three main procedures prescribed under the new law:



### 1. Protective composition procedure

The first procedure applies to the stage at which companies are unable to pay debts but are not actually insolvent. It deals with the businesses that are in operation, but are facing financial difficulties. Approaching the courts before insolvency affords a bit of a protection to firms from creditors who then have to await for court procedures.

To approach the court, the debtor must have been in a state of over indebtedness or cessation of payments of debts for less than 30 consecutive business days. In such condition, the debtor files for proceedings and the court appoints a trustee who proposes a composition plan for the business. The arrangement must be approved in principal by the court before being put to the creditors.

The arrangement is also subject to the approval by the majority of ordinary creditors of the debtor. Once approved, the debtor has three years to implement the plan, however extensions are possible.

# THE UAE'S NEW COMMERCIAL COMPANIES LAW



## 2. Insolvency with restructuring

The requirements for insolvency with restructuring includes the debtor failing to pay debts for 30 or more consecutive business days or the debtor is either unable to pay debts or has become insolvent. The debtor can then initiate insolvency with restructuring.

For a creditor to initiate insolvency proceeds, he must have AED100,000 or more debt outstanding for 30 consecutive business days after formally making a demand to be paid. The debtor and court appointed trustee and prepare a restructuring proposal to repay debt, which could include assets or business sale by putting them and in a separate company. It could also involve continuation of business, where banks may be willing to inject cash into the troubled firm in the hope of a turnaround.

The arrangement is subject to the approval of the ordinary creditors of the debtor. After analysis of the case, the court may deem that the debtor can be rescued or it could proceed with insolvency and liquidation if a rescue is not a possibility.

The agreed plan must be implemented within five years of approval.



## 3. Insolvency and liquidation

Conditions for the third option to be implemented requires the debtor's failure to pay for 30 or more consecutive business days or is unable to pay debts and has become insolvent.

The debtor, as well as creditors, owed AED100,000 or more for a period of 30 days, can initiate insolvency proceedings as well as the courts in matters of public policy.

In the case of liquidation the appointed trustee manages the process and sells the debtor's assets to satisfy any claims from creditors.

# THE UAE'S NEW COMMERCIAL COMPANIES LAW

## KEY CONSIDERATIONS

- While the UAE courts have broad discretion, they do not have much experience in bankruptcy or insolvency cases UAE
- Role of the trustee is vital in the new legislation, however, there is a lack of skilled trustees in the UAE and experts will need to be brought in for training
- Businesses should be aware that if the debtor's assets do not cover at least 20 per cent of debts, the court could order that all or some of the members of the board of directors or its managers, jointly or severally, pay for the company's debts, in whole or in part, in the cases where they are held liable for the loss
- Some behaviours are also punishable by fines and/or imprisonment



# VALUE ADDED TAX (VAT)

**Companies need to put in place mechanism to address impact of new tax**

## VALUE ADDED TAX (VAT)

**Maher ElAawar**, Senior Manager Indirect Tax at **PwC**

### HIGHLIGHTS

- The Gulf Cooperation Council (GCC) member states agreed in November 2016 on a common legal framework to introduce value-added tax (VAT) in a unified manner at the basic rate of 5 per cent with effect in 2018 or 2019.
- Based on this framework, each member state is expected to issue its own national legislation based on commonly agreed principles. The VAT framework, however, does not provide a lot of details in terms of the envisaged VAT system. It is expected that the respective national VAT legislation and regulations will provide more details on the VAT rules in each member state, once issued.
- We believe, the VAT Go-Live date in the United Arab Emirates (UAE) and the Kingdom Saudi Arabia (Saudi) is expected to be 1 January 2018, while other GCC countries are expected to implement within 2018 or at the latest 2019.
- UAE and Saudi companies have until the end of 2017 to design and implement systems and processes to ensure they are able to deal with the requirements of VAT correctly. It is an extremely tight deadline given the magnitude of the task. National VAT legislation and implementing regulations have yet to be issued in final form but there are several steps that companies can take immediately. (Though lately, Saudi have published the VAT law) These include making an assessment of the business impact of the tax, raising awareness, reviewing long term contracts and change management.

The GCC had initiated started discussions -- backed by recommendations from the International Monetary Fund (IMF) -- on what could be the alternative source of revenues for the governments in the region and indirect taxation was one of the key options that came through these deliberations.

The IMF in 2016 said that with the introduction of VAT, even at a low single digit rate, GCC countries could raise up to 2 per cent of their GDP, which will help them offset the impact of squeezed revenues on the back of persistently low oil prices.

The regional governments, in principle, agreed in December 2015 to start preparations for levying VAT in 2018 or 2019. In January 2017, all six member signed the GCC VAT framework agreement and it was published in Saudi Arabia in April 2017.

Subsequently, Saudi Arabia, in May 2017, released the draft VAT legislation and in later in July draft implementation regulation for consultation.



## UAE

The National UAE VAT Law will provide the legal details on how VAT will apply in the UAE, while the implementing regulations will explain the procedures and interpretations of the national law. It is expected that the national VAT law may be delayed until about September, with the implementing regulations being issued soon after that.

In terms of tax structuring, the government in November 2016 issued a decree to set up Federal Tax Authority (FTA) as a subsidiary under the Ministry of Finance. FTA will be the main government resource in terms of all tax-related issues including tax collection, issue rulings and clarifying queries when required.

The Ministry of Finance has indicated that mandatory VAT registration process should open in October 2017 and that businesses should be able to go online, check their requirements for registrations and get VAT registration certificates.

Complying with new VAT rules will require substantial changes in companies' IT systems, internal processes, procedures and controls, together with consideration of their relationships with suppliers/customers. Even before the publication of the UAE's VAT law, companies should be preparing for major changes in how they do business, and training employees.

## VAT IN GCC

Currently, there are over 150 countries globally with VAT/GST systems in place and this number will rise with the imminent introduction of VAT in the GCC.

The GCC VAT system is expected to be a fully-fledged system containing all of the basic principles and characteristics of a standard VAT system. It is similar to the VAT system in the EU and in particular the UK, with minor differences in some sectors. VAT will apply on goods, services and imports. The starting standard rate across the GCC could potentially be increased in the future.

In general, VAT is an indirect tax on consumption, and should be cost neutral for most businesses. Ultimately, the burden of VAT should be borne by the end consumer. In the simplest of terms, a business levies a 5 per cent tax on any goods or services it sells (where liable), transferring this to the relevant tax authorities. Businesses further down the supply chain can then reclaim what they were charged on their purchases (subject to certain conditions), but then would generally charge the 5 per cent tax to their customers (where liable). Retail consumers should be the final payers of the tax. As an indirect form of taxation, government relies on businesses to charge, transfer and reclaim the tax, submitting returns and making payments on

## VALUE ADDED TAX (VAT)

a monthly or quarterly basis. The amount payable can be offset by any refunds due.

In normal circumstances, output, or payable, VAT, would outweigh input, or deductible, VAT. The system relies on businesses invoicing properly, keeping records, and monitoring their supply chains so they have the proper evidence to reclaim the VAT they have paid to other businesses. We understand that the UAE will require businesses to submit quarterly VAT declarations and pay the associated VAT due. It is expected that companies will have a window of 28 days to submit their returns.

Tax authorities generally enforce VAT rules through audits and the application of interest/penalties for lack of documentation, errors and fraud.

Generally within VAT regimes, certain transactions are liable to VAT at the zero-rate (0 per cent) or are exempt from VAT, where zero-rating grants purchase VAT deduction entitlement and exemption does not. The framework allows for the application of zero-rating and exemptions to particular categories of transactions – some of these are obligatory and some are optional – for those which are optional, it is at the discretion of the individual Member States as whether to apply the zero-rating/exemption locally.

For example, generally within VAT regimes certain basic foodstuffs and children's clothing, are zero-rated for social and economic reasons. As allowed within the framework, a number of member states may issue a list of specific food necessity items

that will be zero-rated. However, per the latest communications from the Ministry of Finance, the UAE will not issue this list – all food necessity items in the UAE are suggested to be subject to the standard VAT rate, a move aimed at boosting tax revenues, given the strength of tourism in the region.

Strategic sectors such as energy, financial services, residential real estate, education, healthcare and transportation may be zero-rated or exempt in each member state, per the framework (may not be applied consistently from one member state to another). Exempt activities will create increased costs and put pressure on margins for businesses, due to the inability to recover VAT on purchases.

Free zone companies and transactions with free zones -- particularly fenced -- may also have specific treatments under the law. This is an area, which is still being discussed and finalised within the UAE.

The reverse-charge mechanism or self-assessment of VAT is also set out within the framework and will be applicable within the GCC. This is where, for a particular transaction, the supplier will not charge the VAT due on the transaction and instead the person “accountable” for the VAT liability on the transaction will be the business customer (in effect on behalf of the supplier). This mechanism will be applicable generally for services from outside of the UAE and intra-GCC movements of goods into the UAE, together with a possible similar mechanism for imports of goods from outside of the GCC into the UAE.

## VALUE ADDED TAX (VAT)

To take an example, if a UAE bank acquires a consultancy service from outside the UAE for AED 10,000, generally, the non-UAE supplier would have to register for VAT in the UAE (the place of taxation of the supply). In order to avoid a large volume of non-established VAT registrations and for the effective collection of taxes for the UAE tax authorities, the reverse-charge mechanism would apply here. Under this mechanism, the bank would self-assess for the VAT arising on the consultancy services acquired from abroad and should be able to recover this amount if fully taxable

*Note: similar consultancy services acquired from a UAE company will also incur 5 per cent VAT, charged directly by the supplier. Therefore, the place of taxation rules which deems the bank's location as the place where the tax on the transaction must be accounted for ensures to mitigate any disparity – i.e. this way services acquired at home and abroad will cost the same.*

Companies, which are “related” for VAT purposes (to be defined in law), may be in a position to form a VAT group, which would generally relieve the obligation to charge VAT and issue invoices for transactions between the VAT Group members, and would allow the group as a whole to file one VAT return periodically. All members of the group would be joint and severally liable. Each company may have to first get their individual VAT certificates and later apply for VAT grouping.

The complexities of classification, which may vary between different goods or services sold by the same company, means that businesses need to understand the full implications of VAT for them and their supply chains.

## PREPARATIONS FOR VAT REGIME

The obligatory threshold for a business to be required to VAT register is AED 375,000 of taxable turnover from supplies of goods/services or reverse-charge purchases. This low threshold indicates that the government is casting a wider net than originally envisaged and is not aiming to apply VAT to the larger businesses only.

The challenge in the UAE, or for that matter other GCC countries, is that there are very few prior tax laws and there were little or no requirements in terms of keeping books and records or issuing invoices. Companies will need to make a lot of changes, mainly to their IT systems, process, procedures and controls; set up compliance and ensure sufficient VAT clauses in their contracts.

The immediate steps, which the companies have to take, include making an assessment of the business impact of the tax, raising awareness, reviewing long term contracts and change management.

Once the guidelines are in place, businesses should conduct a detailed analysis of the impact of the new tax and the systems and processes what they need to put in place to be fully ready and compliant. This will not only cover the sales and finance departments, but also marketing, IT and procurement. Customer awareness, for example, will require a coordinated effort. For larger companies, a dedicated VAT expert or even a team may be necessary to coordinate VAT calculation and documentation.

## VALUE ADDED TAX (VAT)

Based on legislation and regulations, companies will need to design a VAT system suitable for their specific needs. It should cover a variety of areas, most importantly invoices, supply chain management, reporting, record keeping and audit readiness. For a company subject to more than one VAT rate, calculations and documentation may be fairly complex, and are generally the responsibility of the supplier.

These systems should be tested before the law comes into force to allow full implementation on the required date. Post-implementation, ongoing compliance, training and documentation will continue to be important.

The VAT legislation and regulations may also be amended over time and as such changes to internal systems and procedures may be needed again in the future.

### KEY CONSIDERATIONS

- It is a self-assessed tax on consumption collected on behalf of the government, and not a tax on profits
- The first key element in compliance is correctly classifying the VAT treatment of goods and services sold. A clear understanding of the VAT system is required by businesses.
- Proper invoicing, documentation and records are essential
- VAT is usually payable upfront, while refunds could take some time, which could create cash flow issues, especially, in cases where refunds are large
- Interest/penalties for underpaying VAT are stringent
- Cost of non-compliance can be greater than upgrading the necessary systems and documentation
- Tax authorities may question during periodic audits, especially, where VAT is not paid or the business is in a large refund position. If businesses fail to produce documentation for auditors, they will be liable for back-dated VAT and penalties

## SPEAKER BIOGRAPHIES

### Giyas Gökkent

Senior Economist at the **Institute of International Finance**

Giyas holds a PhD in Economics from Florida International University and is an experienced economist, covering, insurance, academia, asset management and banking. He is currently working as Senior Economist at the Institute of International Finance in its Middle East & Africa department. He previously worked as Group Chief Economist at now merged National Bank of Abu Dhabi and acted as the Co-Head of Asset Management Group. Before that, Giyas worked at the Strategic Planning Department of Garanti Bank, Turkey and at the Association of Turkish Industrialists and Businessmen, as an economist and member of advisory body. He has held a number of academic positions in the US, Turkey, and in the UAE and served as the acting head of the finance department at Abu Dhabi University. He is a member of the Advisory Board of the Abu Dhabi University College of Business Administration, and authored the annual MENA Asset Management Survey from 2010 to 2013.

### Ian Groome

Senior Treasury Specialist at **Thomson Reuters**

Ian Groome is a Senior Treasury Specialist at Thomson Reuters and has been working within Global Markets for over 25 years in a variety of roles spanning trading, sales, strategy and training. He started his career in London on the trading floor at First Chicago during the period when British Pound was famously ejected from the ERM. He then spent four years at Banque Paribas on the FX structuring desk and then moved to ABN Amro to grow the bank's FX Options business in Europe and beyond, conducting client seminars and training as well as co-ordinating strategy recommendations. For last eight years he has been associated with Thomson Reuters – Africa, with a remit to assist in Treasury market development, including extensive training courses on Treasury products and best practice. Groome moved to Dubai in 2011, covering GCC financial institutions and corporates consulting on pre-trade, trade and post-trade applications and best practices to help achieve forecasting accuracy, hedging and trading best execution, straight through processing and trade compliance. He holds a B.A. in Economics from the University of Leeds.

## SPEAKER BIOGRAPHIES

### Hamad Haider

Partner at **PwC**

Hamad is a Partner at PwC. He joined the PwC Legal's Dubai office in April 2016, after almost five years of experience in the corporate commercial practice at Al Tamimi in Dubai. Prior to moving to Dubai in 2011, Hamad worked at HaidermotaBNR's leading corporate commercial practice for five years in Karachi, Pakistan. Hamad has extensive experience in mergers, acquisitions, structuring, restructuring, commercial advisory, commercial contracts and advising family businesses. He is also an expert on matters relating to free zones, from regulatory advisory to drafting of legislation.

### Tina Hsieh

Senior Manager Indirect Tax at **PwC**

Tina has extensive experience in the provision of Goods and Services Tax (GST) and Value Added Tax (VAT) to private and public sector clients. As qualified solicitor and an indirect tax specialist in Australia, she has successfully assisted her clients with a number of key GST implementation projects for clients in the financial services sector in both Malaysia and China.

### Maher ElAawar

Senior Manager Indirect Tax at **PwC**

Maher is a senior manager who joined the Indirect Tax team at PwC Dubai in January 2017. Prior to that, Maher worked for over nine years at the tax department at PwC Lebanon. Maher specializes in indirect taxes, especially in VAT compliance and advisory services. He developed and delivered internal and external VAT trainings and participated several times in workshops and seminars in Lebanon and abroad. Through the knowledge and expertise gained from the Lebanese market, Maher has been able to provide an efficient source of expertise in drafting the VAT framework law for the GCC countries.

### Joanne Clarke

Senior Manager Indirect Tax at **PwC**

Joanne is a Chartered Accountant and a Tax Associate with over nine years of experience in indirect tax. She joined PwC UAE in December 2016, having transferred from PwC Dublin where her role stretched across all industry sectors. Joanne has advised on a broad range of indirect tax issues, including property transactions, restructuring and M&As, supply chain management, E-Commerce transactions, retail schemes and much more.



## ABOUT NATIONAL BANK OF FUJAIRAH PJSC

Incorporated in 1982, National Bank of Fujairah PJSC (NBF) is a full services corporate bank with strong corporate and commercial banking, treasury and trade finance expertise as well as an expanding suite of personal banking options and Sharia compliant services. Leveraging its deep banking experience and market insight within Fujairah and the UAE, NBF is well-positioned to build lasting relationships with its clients and help them achieve their business goals.

NBF's key shareholders include the Government of Fujairah, Easa Saleh Al Gurg LLC and Investment Corporation of Dubai. Rated Baa1 / Prime-2 for deposits and A3 for counterparty risk assessment by Moody's and BBB+ / A-2 by Standard & Poor's, both with a stable outlook, the bank is listed on the Abu Dhabi Securities Exchange under the symbol "NBF". It has a branch network of 15 across the UAE.

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