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Setting the Scene:
Irish Business in 2011
Kevin Egan

Irish Financial Services Businesses

The major thematic challenges!

- Outlook for global growth/prosperity?
- Does the Euro have a future?
- Shortage of market sourced capital and liquidity
- Uncertain asset values
- Substantially increased regulatory demands
- Impact of Budget 2011 and fear of Budget 2012
- Competitiveness and the return of inflation

What are CEOs saying about Irish & Global business?

Annual PwC survey

2011 Irish survey:

182 survey participants from **11** industry sectors

56% Irish headquartered; **44%** inward investors

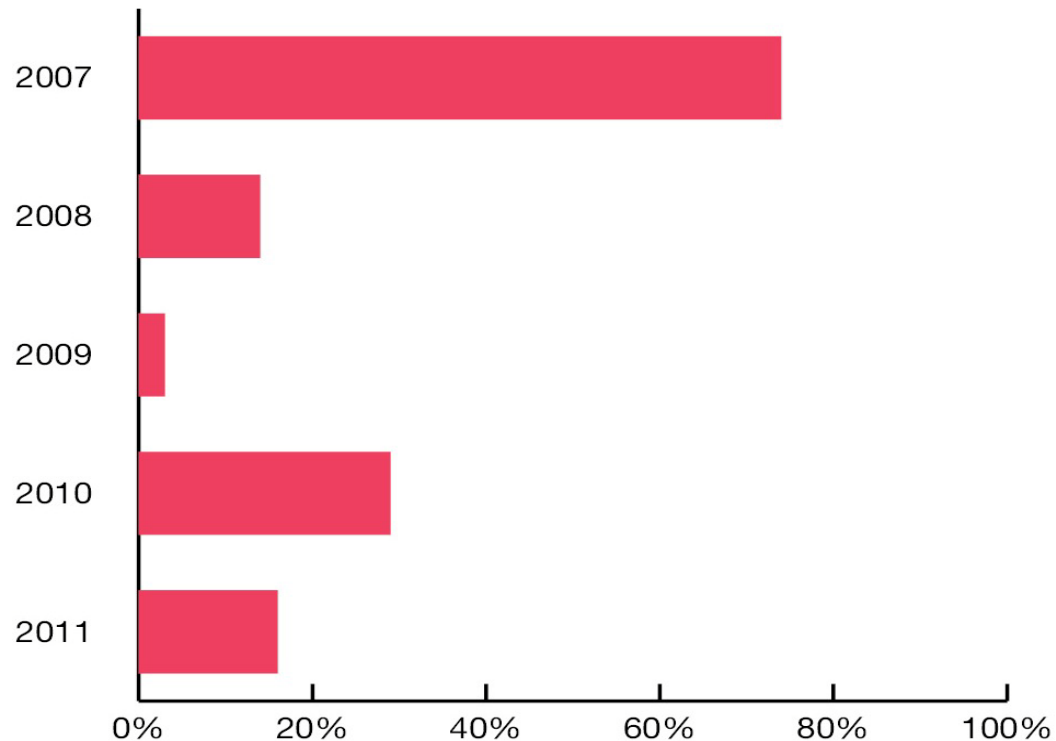
2011 Global survey:

1,200 interviews with CEOs in **69** countries

Selection weighted by GDP

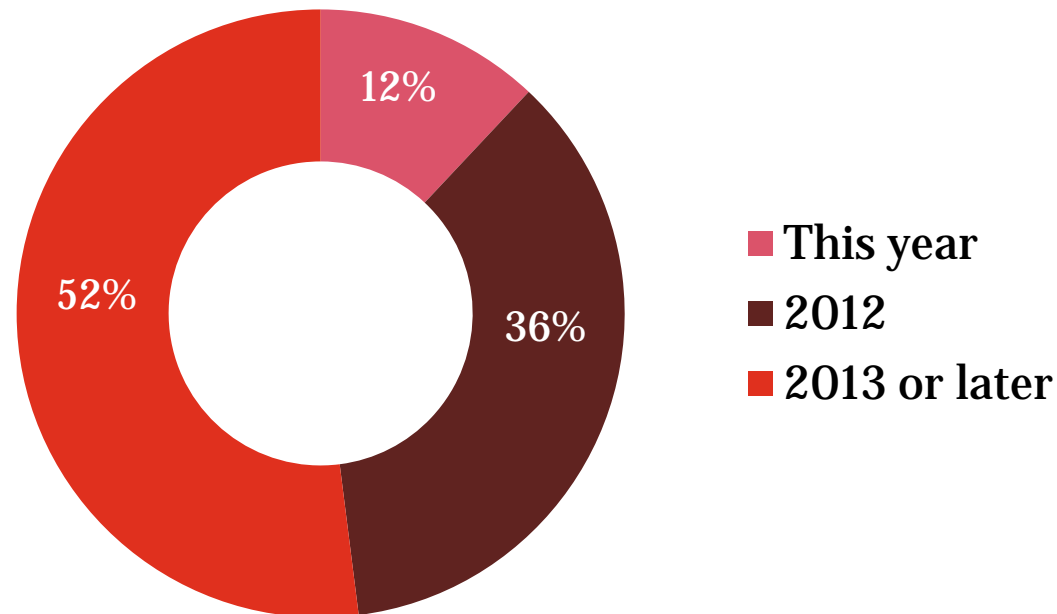
Irish CEOs not counting on a growing economy...

Favourable outlook for the Irish economy: 2007 – 2011



Irish CEOs not counting on a growing economy...

When will Ireland's economy return to growth?

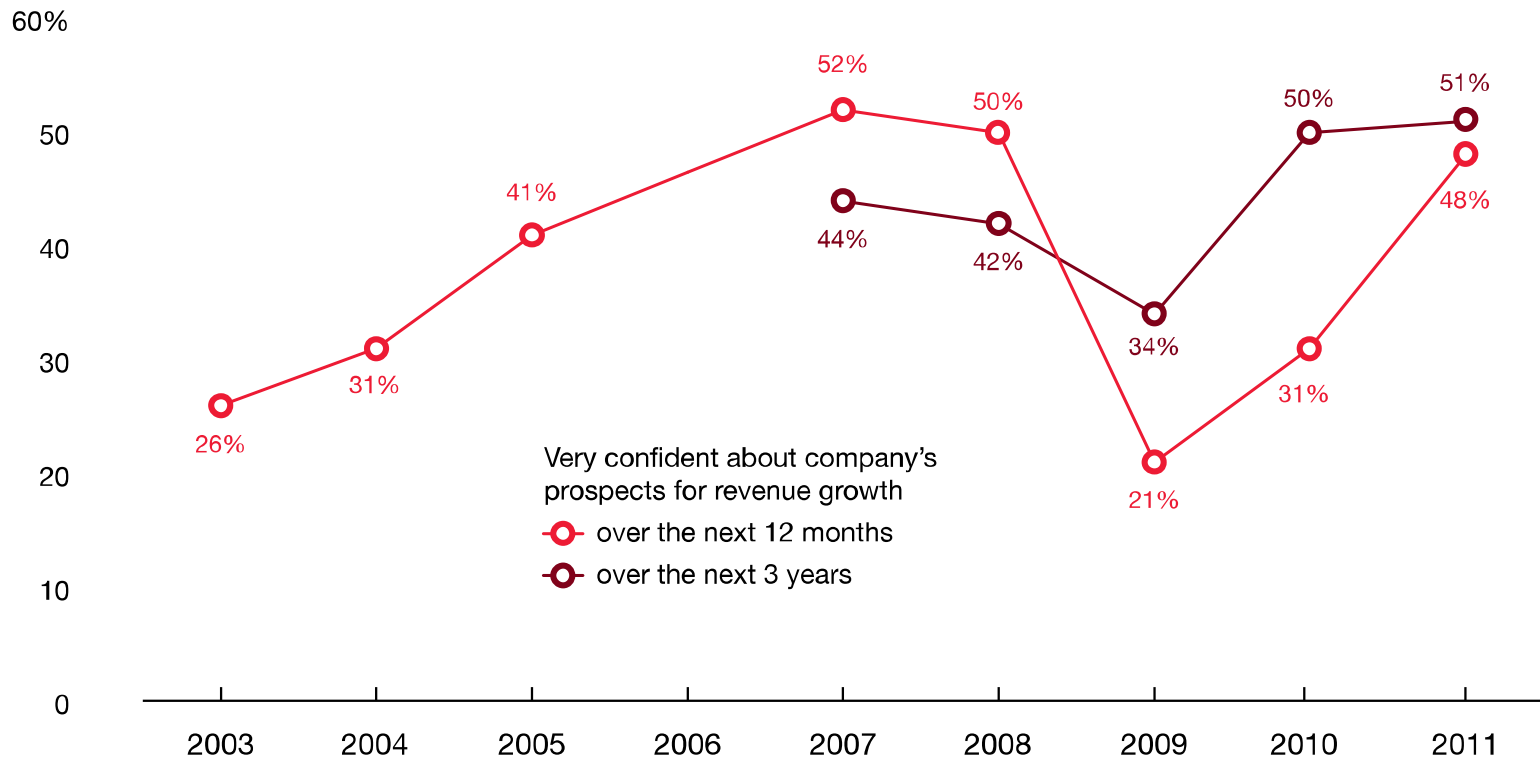


... but much more bullish about their own businesses!

2011 CEO Expectations	Growth %	Decline %	No Change %
Revenues	54%	22%	24%
Profits	49%	25%	26%
Employment	33%	30%	37%
Investment	32%	19%	49%

Global CEOs are no more confident than Irish CEOs!

Q: How confident are you about your company's prospects for revenue growth over the next 12 months/3 years?



Is this reasonable ... or even credible?

Which economy?



Why might Irish business outperform the Irish economy?

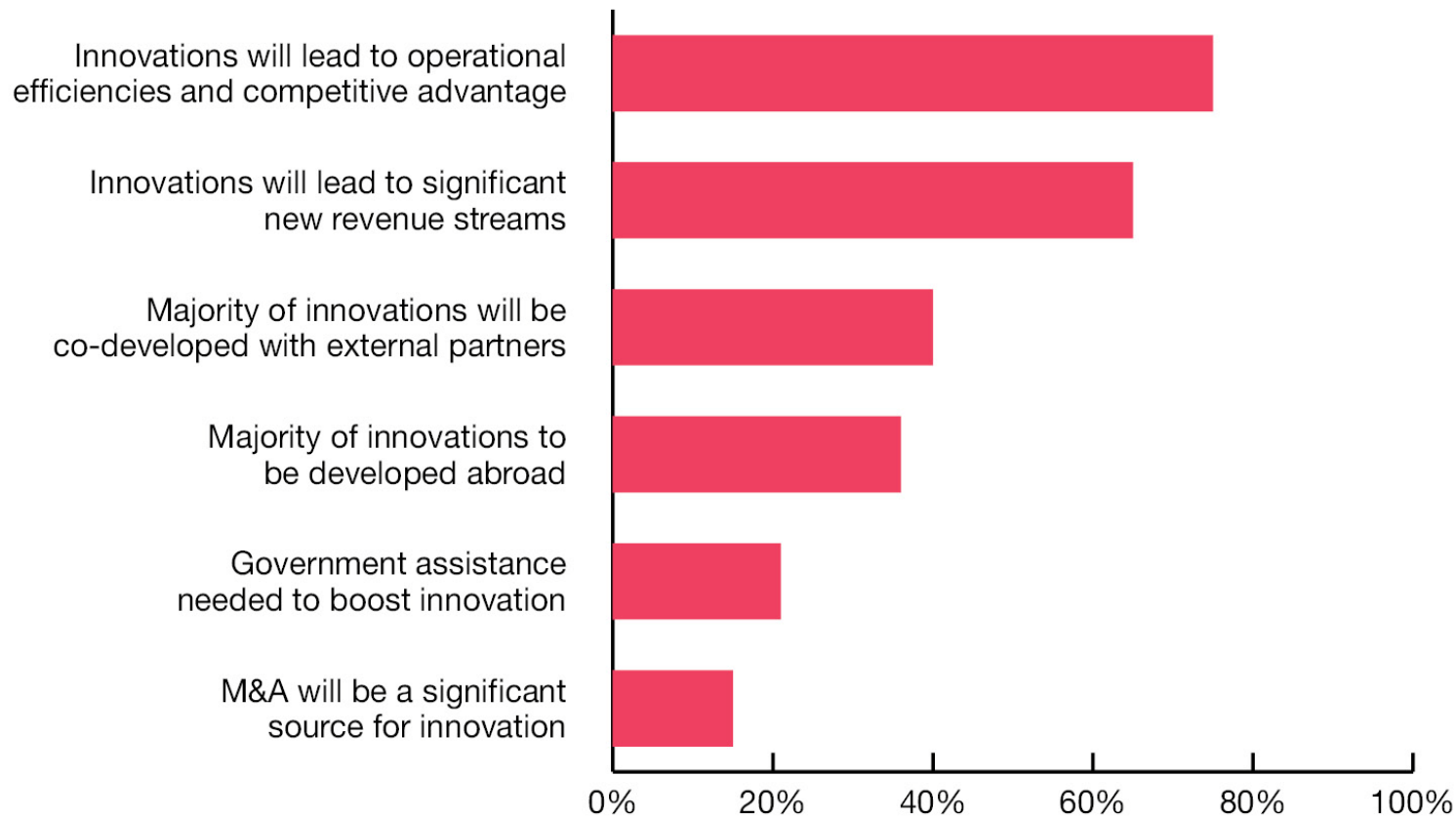
Management teams focusing on reshaping business models for 'new normal' conditions of:

- Reduced demand
- Changed consumer behaviour
- Changed competitive landscape

Strategies to emerge stronger from the recession are driving incremental improvements in:

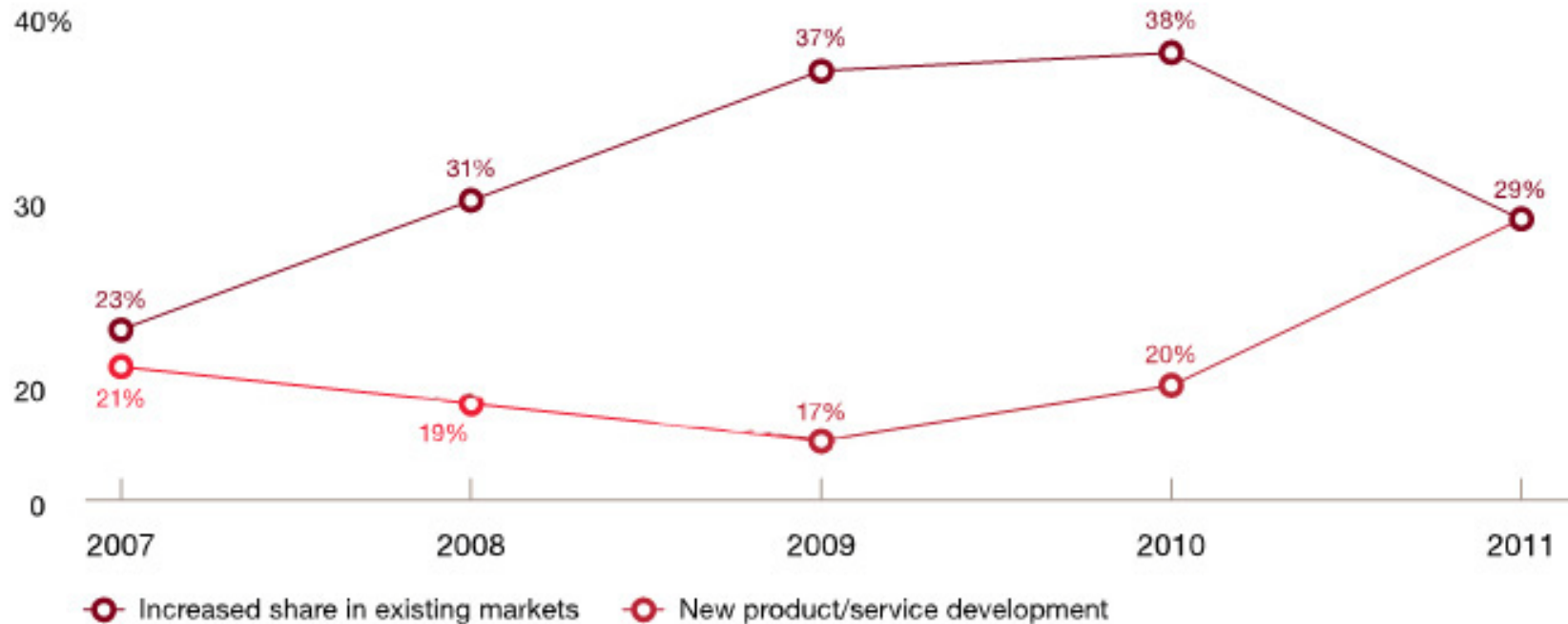
- Product/service offerings
- Capital efficiency
- Productivity
- Customer experience
- Market entry strategies
- Distribution
- Brand identity/promise
- Cost containment

What are Irish CEOs telling us about innovation?



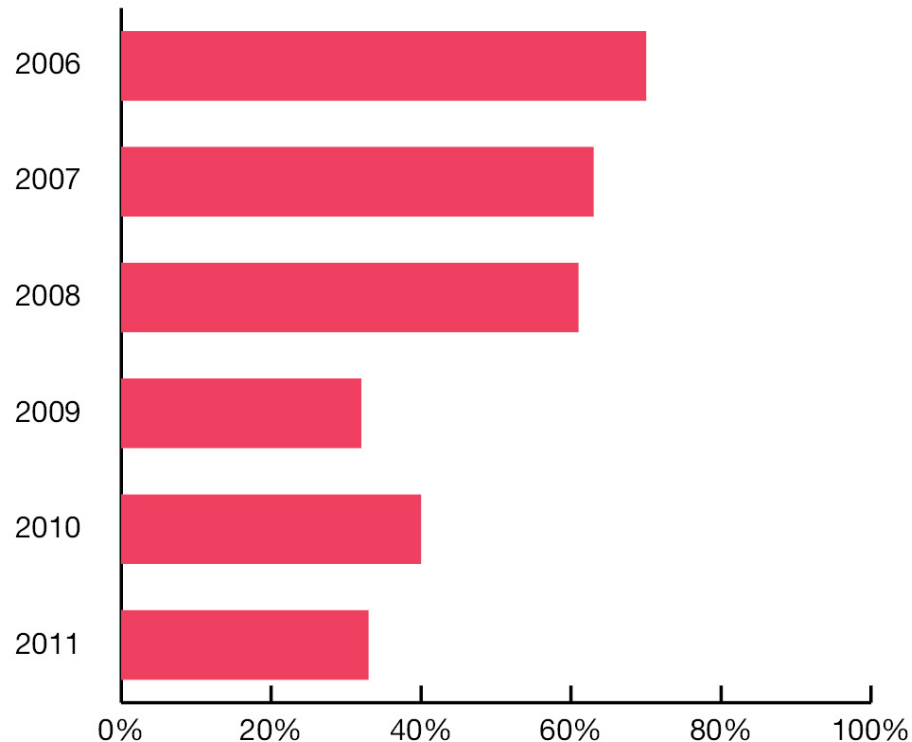
Global CEOs agree!

Q: Which one of these potential opportunities for business growth do you see as the main opportunity for your business in the next 12 months?



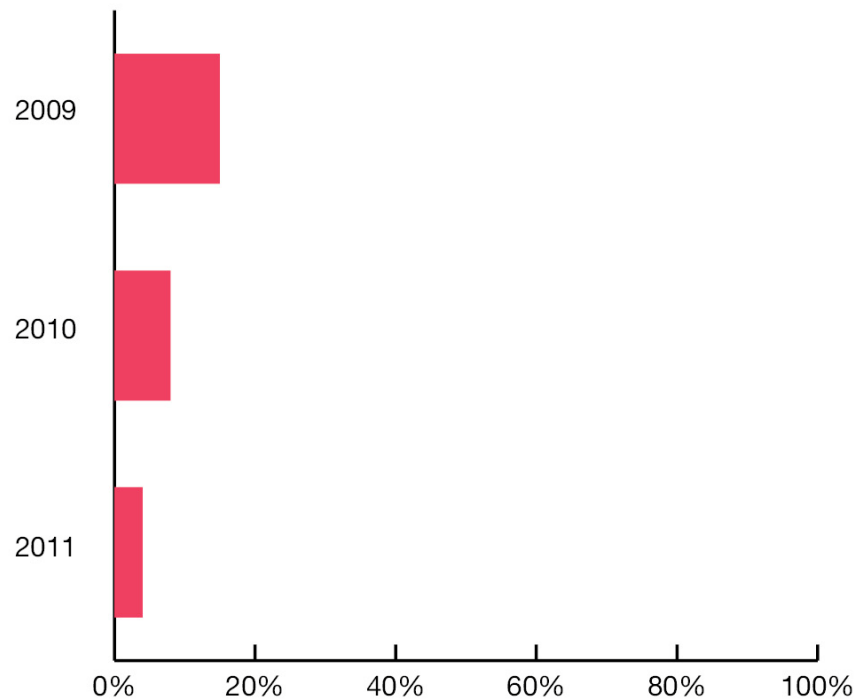
Irish CEOs expect a net increase in FDI

**MNCs considering additional investment in Ireland
(% of MNC respondents)**



Irish CEOs expect a net increase in FDI

**MNCs closing existing operations in Ireland & relocating abroad
(% of MNC respondents)**



World Competitiveness Rankings

Ireland's position

1st for real corporate taxes

1st for business legislation for foreign investors

1st for investment incentives for foreign investors

1st for availability of skilled labour

2nd for immigration laws

3rd for availability of finance skills

4th for labour productivity

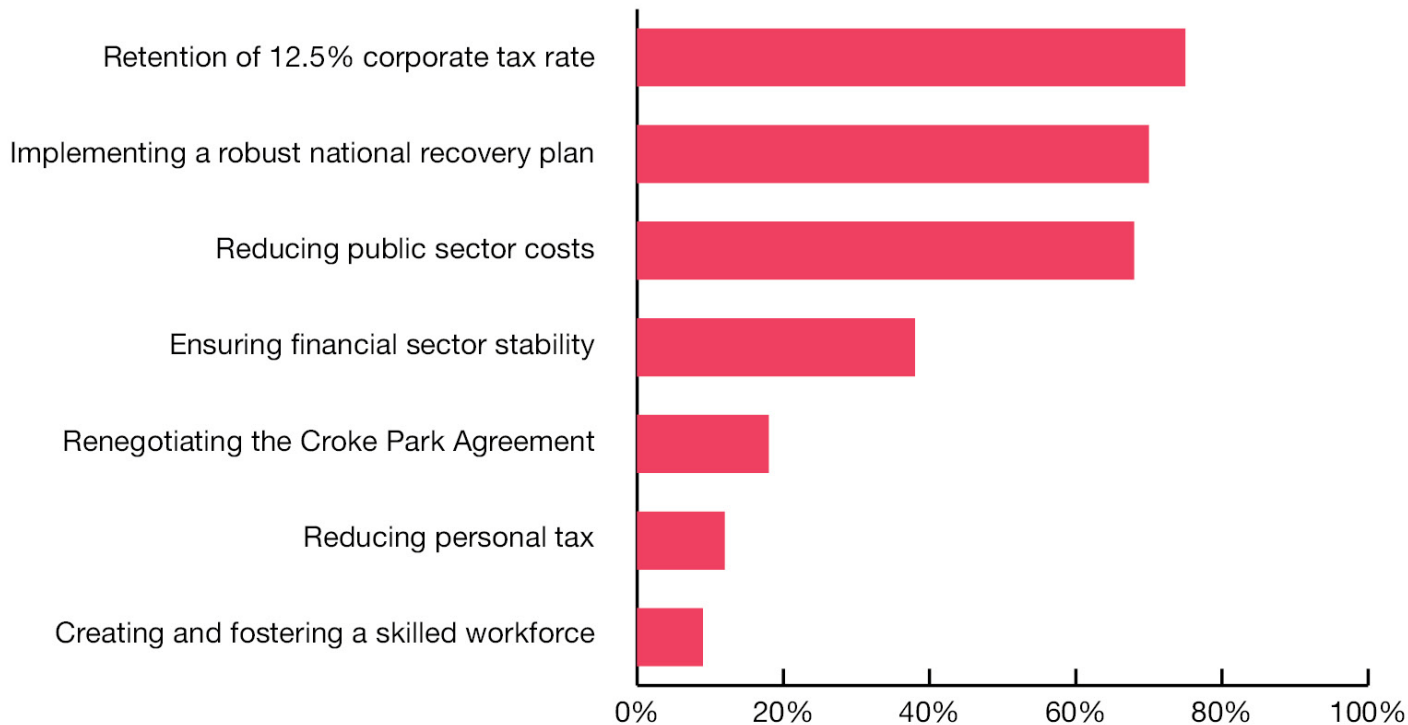
5th for Human Development Index (economic, social & educational)

World Competitiveness Rankings

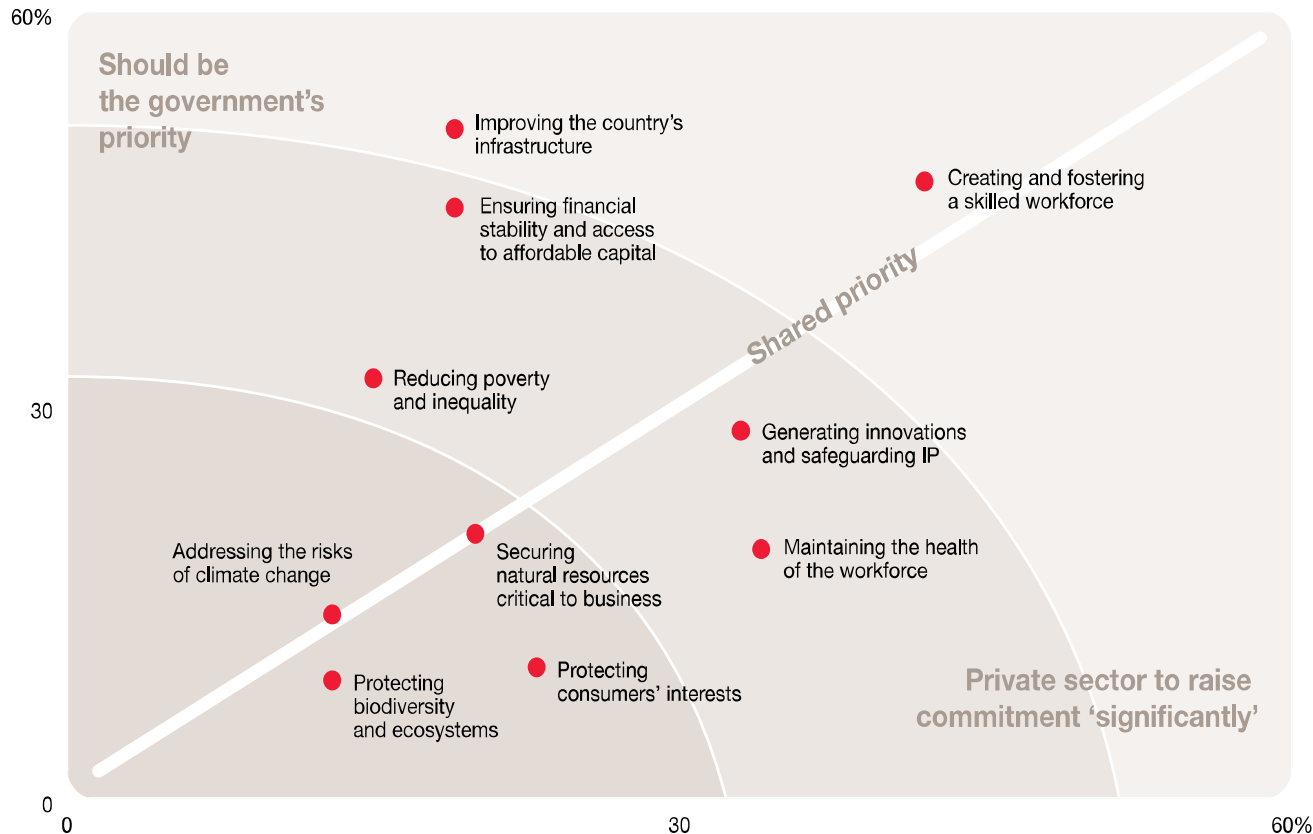
- IBM Global Location Trends Report– ***Number 1*** for FDI per 100,000 population
- National Irish Bank / FDI Intelligence - ***Ireland 2nd*** most attractive country ***globally*** for FDI
- Forbes 2010 – ***1st*** in Eurozone Best Countries for Business

What does Irish Business want from Government?

Priorities for Government in the year ahead (*% of respondents*)



What do Global CEOs want from Governments?



Base: All respondents (1,201)

Note: CEOs were asked how much their companies plan to increase commitments to achieve these outcomes; and what should be the government's priority.

The plot shows percentages of CEOs who chose each of these areas. Multiple choices were allowed

Source: PwC 14th Annual Global CEO Survey

Agenda – Tuesday 8th November 2011

Speaker	Topic
Kevin Egan	Welcome: Irish business in 2011
Terry O'Rourke	The state of corporate reporting
Industry break-outs	Asset Management – Trish Johnston Insurance - Paraic Joyce Banking & Capital Markets - Chand Kohli & John Bligh
Coffee Break	
Jim Power	The economic outlook
John O'Leary	Tax update
Aidan Brady	The outlook for International Financial Services in Ireland
Kevin Egan	Wrap-up & close
Lunch	

The State of Corporate Reporting

Terry O'Rourke

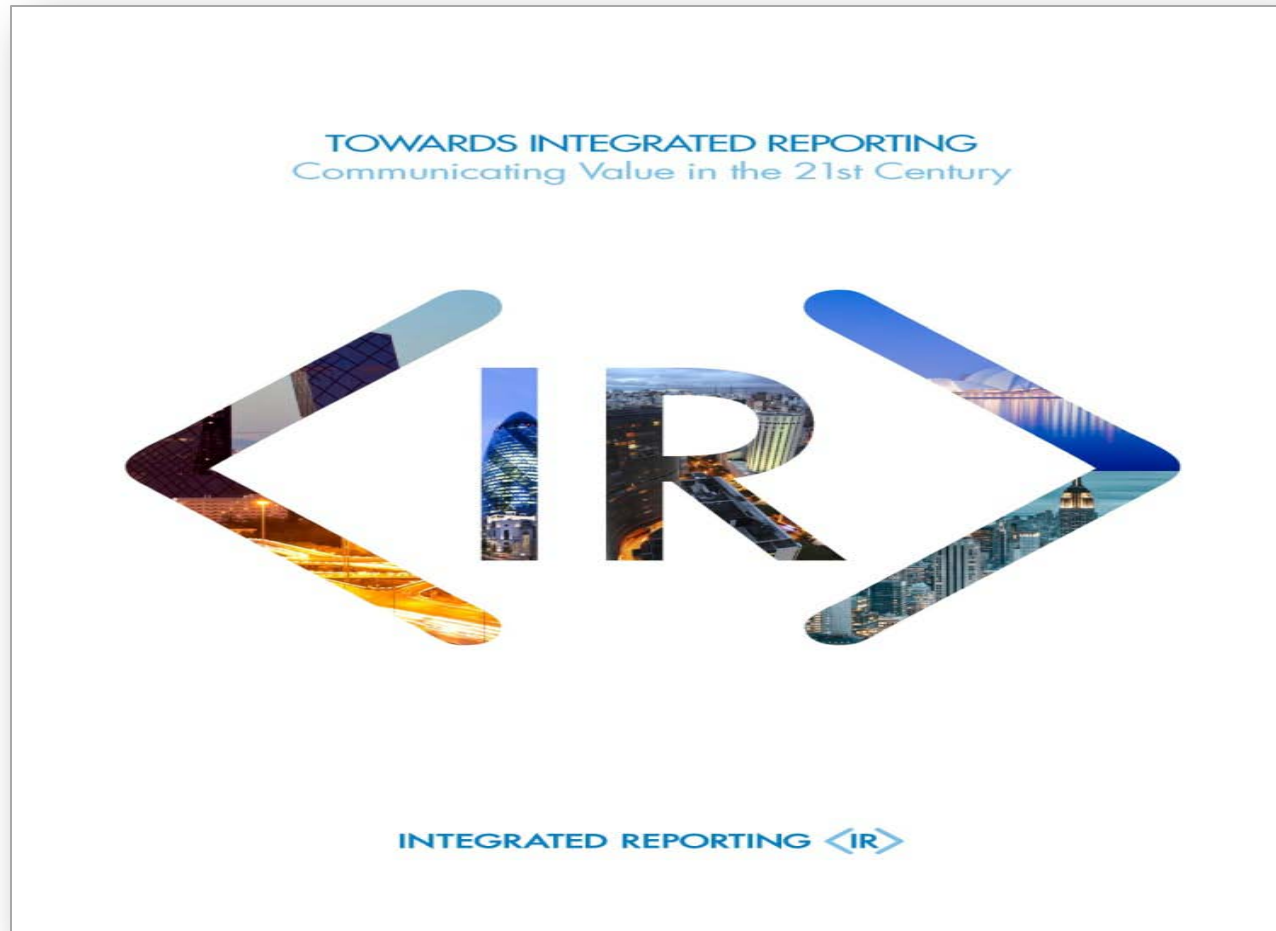
The State of Corporate Reporting



Corporate Reporting – Fit for Purpose?

- What is its purpose?
- Is this being achieved?
- Financial v non-Financial Reporting

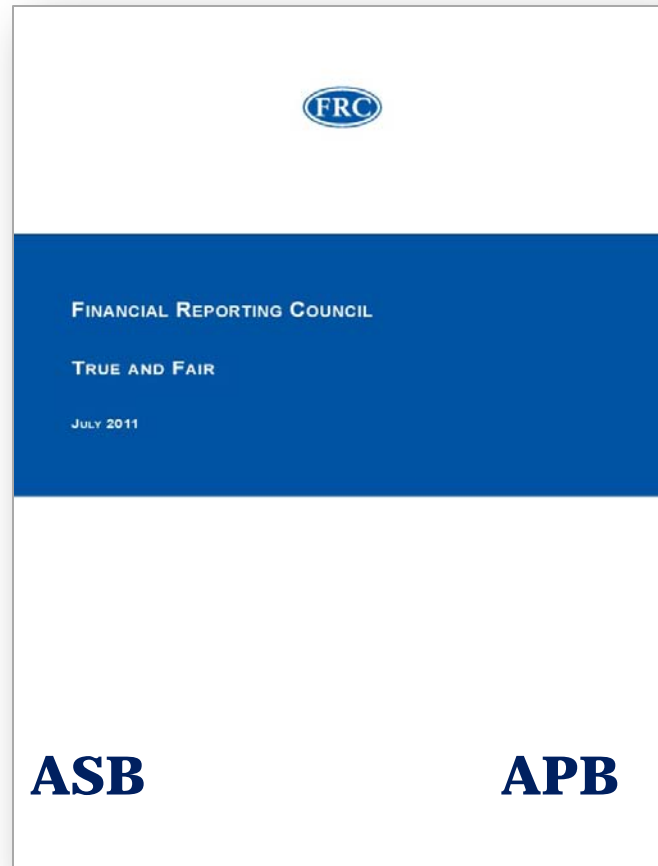
Corporate Reporting – Fit for Purpose?



Corporate Reporting – True & Fair?

- Law demands True and Fair
- What is True and Fair?
- UK ASB and APB Joint Statement

True and Fair – Under Pressure?



The State of Corporate Reporting



Corporate Reporting – Compliance?

- What do the Regulators say?
- Greater role for Audit Committee
- Areas of focus in current environment

Corporate Reporting – Compliance?



**OBSERVATIONS ON SELECTED FINANCIAL
REPORTING ISSUES**

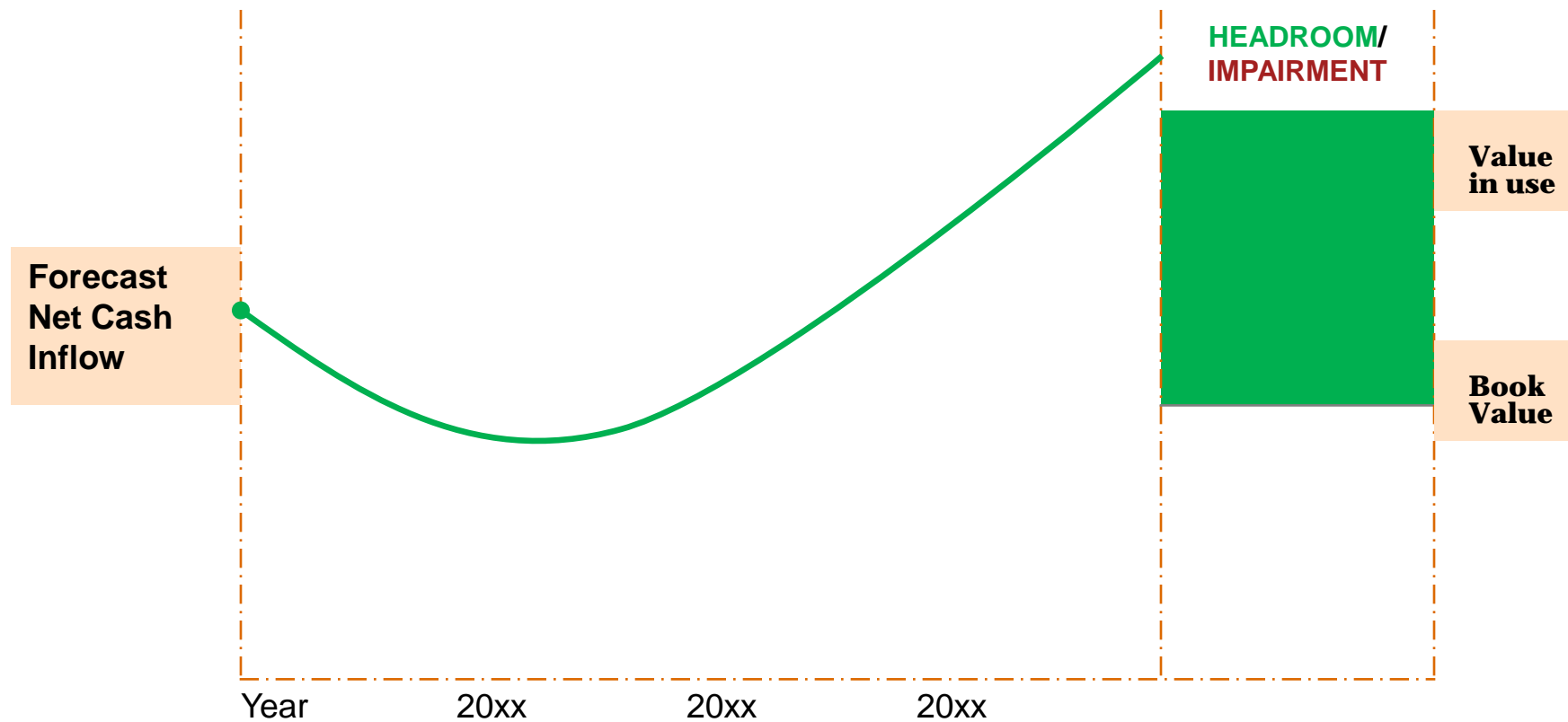
**ISSUERS' FINANCIAL YEARS ENDING ON OR
AFTER 31 DECEMBER, 2010**

1

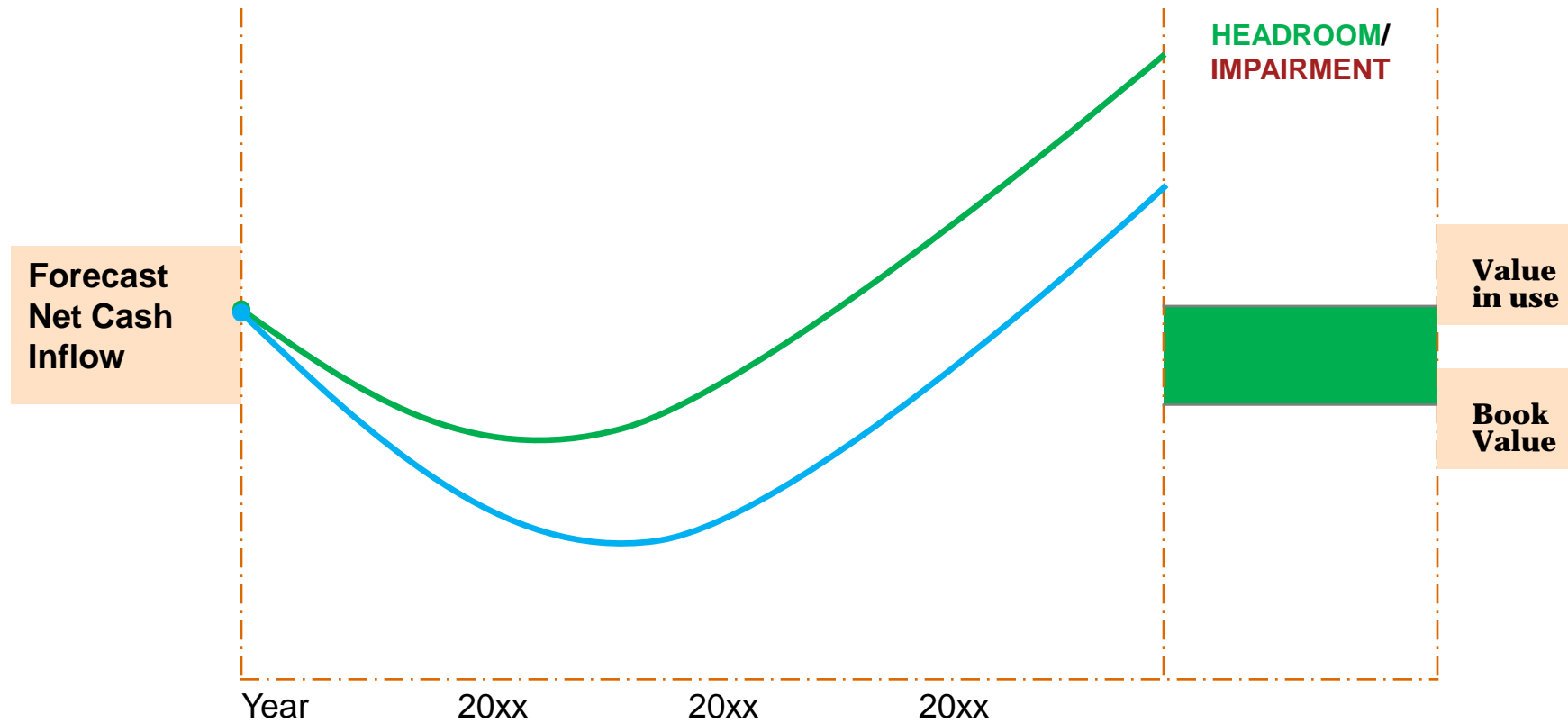
Corporate Reporting – Impairment

- Write down assets to recoverable amount
- Usually based on value in use
- Discount forecast cash flows

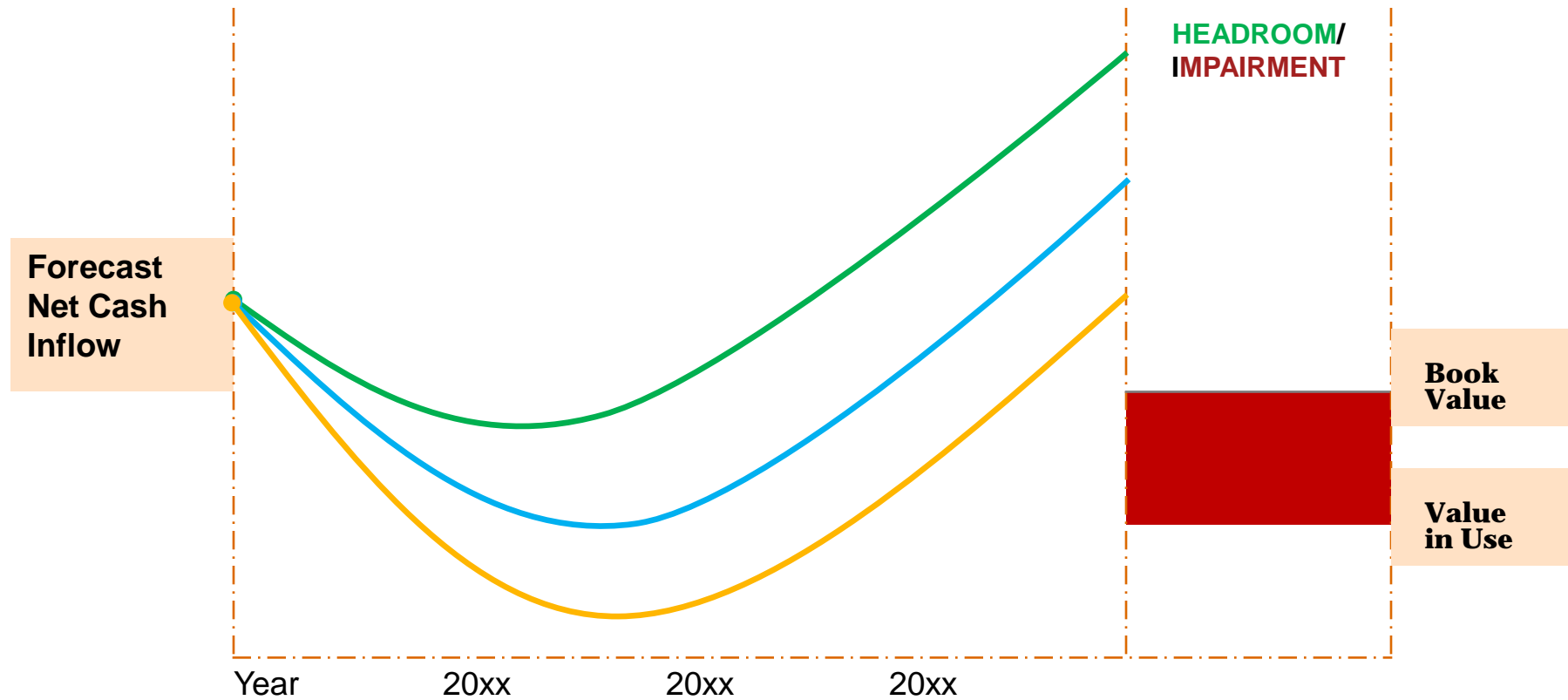
Corporate Reporting – Impairment



Corporate Reporting – Impairment



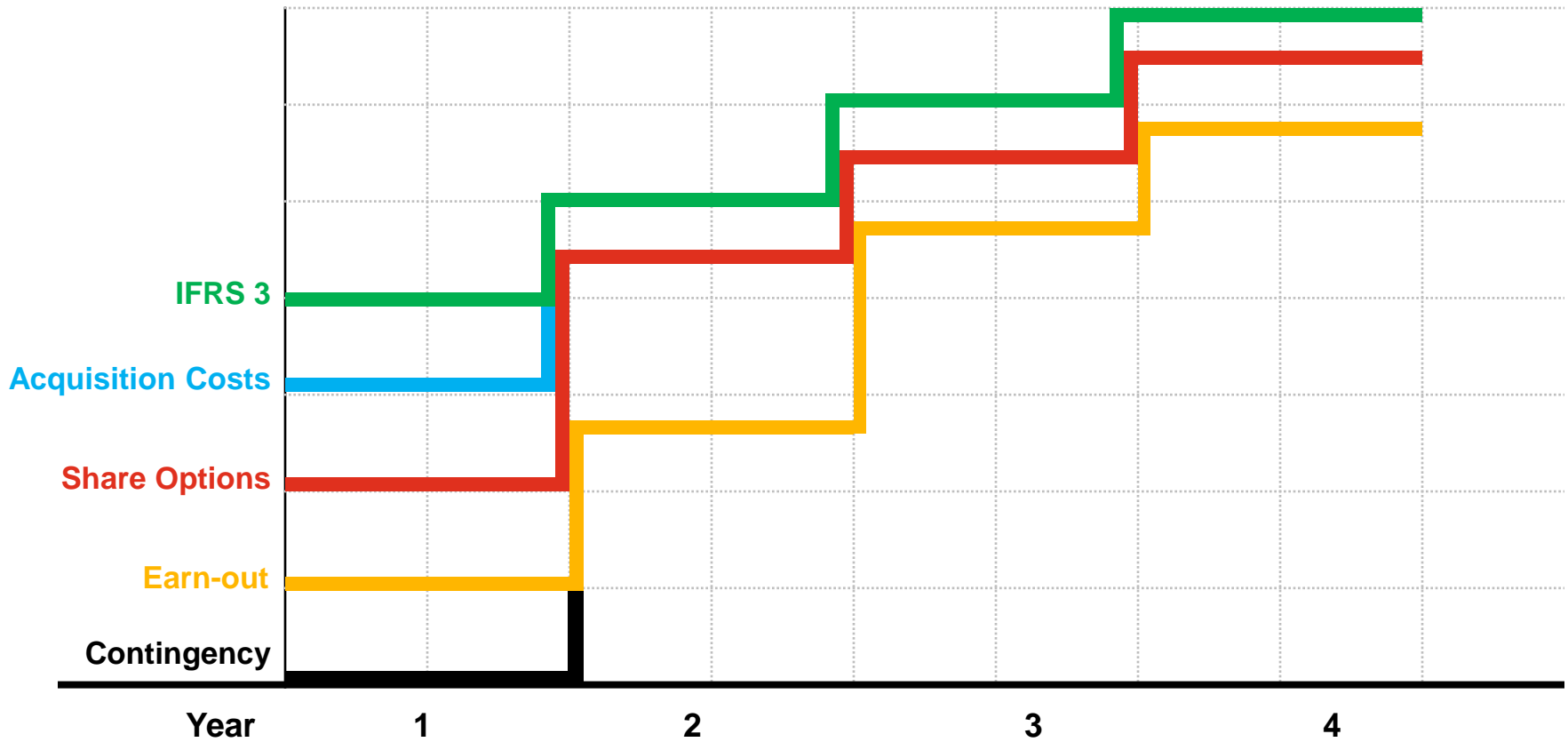
Corporate Reporting – Impairment



Corporate Reporting – Acquisitions

- Not long since we took on IFRS 3 – 2005
 - Recognising intangible assets → Amortisation
 - Not amortising goodwill → Impairment
- Now getting used to IFRS 3R – 2010

Post acquisition Profit – IFRS 3R



Corporate Reporting – Financial Risk Management

- Getting used to IFRS 7 disclosures
 - Credit risk
 - Market risk

Corporate Reporting – Financial Risk Management

- Getting used to IFRS 7 disclosures
- Greater relevance of FRM / IFRS 7
 - Liquidity risk, capital management & going concern

The State of Corporate Reporting



Corporate Reporting – Changes Afoot

- Trend toward better narrative reporting
 - EU rules
 - Stock exchange rules
 - UK Government proposals

Corporate Reporting – UK Government Proposals

BIS | Department for Business
Innovation & Skills

**THE FUTURE OF NARRATIVE
REPORTING**

Consulting on a new reporting
framework

SEPTEMBER 2011

Corporate Reporting – Changes Afoot

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 - EU rules
 - Stock exchange rules
 - UK Government proposals
 - **Market demand**

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- **IFRS continually changing**

Corporate Reporting – Changes Afoot

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 - EU rules
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 - Market demand
- IFRS continually changing
- **UK / Irish GAAP set to change fundamentally**

IFRS Changes

- **IFRS 10 – 13 issued in 2011**
 - **Control, consolidation, investments in other entities**

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 - Delayed effective dates
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- **IASB future agenda up for grabs**
 - **US GAAP convergence?**

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 - **“Condorsement”?**

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 - US GAAP convergence?
 - “Condorsement”?
- **IAS 19 rules on pensions changed**

IAS 19R – Defined Benefit Pensions 2013

Scheme Assets	400
Scheme Liabilities	<u>600</u>
Net Deficit	<u>200</u>

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P&L	IAS 19
Service Cost	(80)
Expected return on assets @ 8%	32
Interest on Scheme Liabilities @ 5%	(30)
Interest on Net Deficit @ 5%	<u>N/A</u>
Net P&L Charge	<u>(78)</u>

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Additional OCI credit	N/A	<u>12</u>

ASB – The Future of Irish / UK GAAP

- **Current state of Irish GAAP**

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- **ASB proposals for change**
 - **Tier based system**

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- **The role of FRSME**
 - **Financial Reporting Standard for Medium-Sized Entities**

ASB – The Future of Irish / UK GAAP

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 - Tier based system
- The role of FRSME
 - Financial Reporting Standard for Medium-Sized Entities
- **To be re-exposed**
 - **Revised proposals**

ASB – The Future of Irish / UK GAAP

- **Areas of significant change include:**
 - **Financial instruments / derivatives**
 - **Acquisition accounting**
 - **Deferred tax**
 - **Disclosures; financial institutions**
 - **Special regime for subsidiaries**

ASB – The Future of Irish / UK GAAP

- Areas of significant change include:
 - Financial instruments / derivatives
 - Acquisition accounting
 - Deferred tax
 - Disclosures; financial institutions
 - Special regime for subsidiaries
- **2014?**

The State of Corporate Reporting



Auditor's Role

Perceived wisdom

- Vital role to play
- Scope could be expanded
- Sceptical enough?
- Reporting duties could be expanded

Auditor's Role

Perceived wisdom

- Vital role to play
- Scope could be expanded
- Sceptical enough?
- Reporting duties could be expanded

**Short Term
Consequences**

- Likely to become more probing
- Fraud risk
- Estimates, judgments, representations

The State of Corporate Reporting



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Tax Update

John O'Leary

Agenda

- International tax update
- What will Budget/Finance Bill 2012 hold?

International Tax update

1

International Fiscal Environment

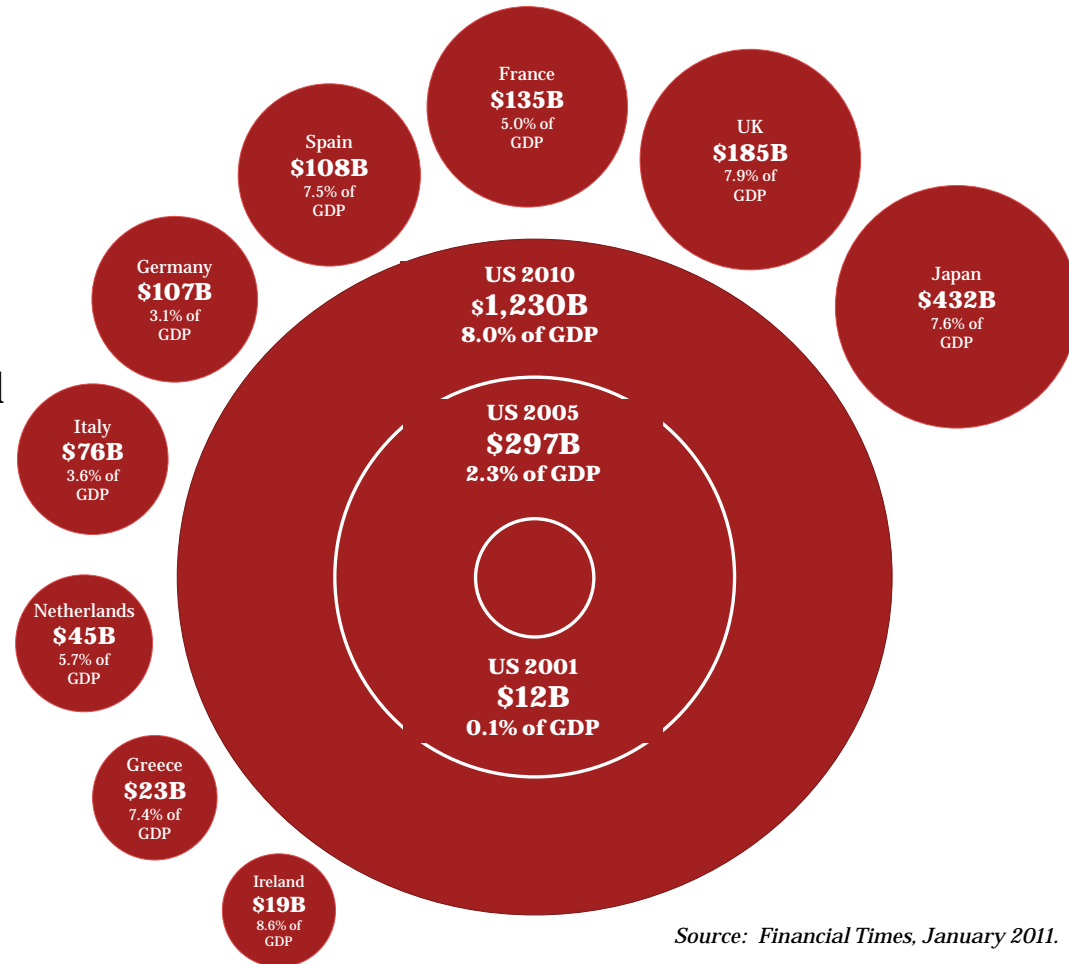
Increased Transparency, Reporting & Auditing

State of Fiscal Affairs

- Starved for revenue, governments from the around the world are taking drastic steps to repair fiscal shortfalls.

Tax Measures to Fill the Gap

- New tax measures are being enacted in rapid succession.
 - Bank levies
 - New taxes (e.g. FTT, FAT)
 - Information reporting (e.g., FATCA, OECD TRACE project, EU Savings Directive)
 - Withholding taxes on dividends, interest and capital gains



Source: Financial Times, January 2011.

Financial Transactions Tax

Background and the latest position

September 2009

- IMF asked by G20 to prepare recommendations for FS sector to make a “fair and substantial contribution”

April 2010

- IMF proposes 2 new taxes – Financial Stability Contribution and Financial Activities Tax

October 2010

- New EU proposal for two taxes – Financial Transactions Tax (“FTT”) and Financial Activities Tax (“FAT”)

August 2011

- France and Germany issue outline of proposed FTT

October 2011

- Draft Directive on FTT issued

FTT – The IMF View

“FTT does not appear well suited to the specific purposes set out in the mandate from the G-20 leaders”

FTT – The EU View



- Key element of raising revenues
- First step towards closer fiscal union
- Promote FTT at global level
- Failing global approach, EU should implement anyway
- Perceived VAT exemption justification

Proposed FTT Directive

The key points

- **Applicable to any financial transaction undertaken by a financial institution established within the EU**
- **Financial institution is very widely defined**
- **Principal or agency capacity**
- **Broad scope: trades in equities, bonds, foreign currency, derivatives and securities lending transactions**
- **Rate: 0.1% of consideration paid or 0.01% of notional principal amount for derivative**
- **Timing: start date of 1 January 2014**

Proposed FTT Directive

Concerns

- **Distortion of financial markets – more financial trading outside the EU**
- **Distortion accentuated if adopted by Eurozone only – UK will only agree to a global tax**
- **Possibility of multiple hits**
- **Impact on financial institutions and consumers**
 - **capital**
 - **savings**

Proposed FTT Directive

Ireland's response

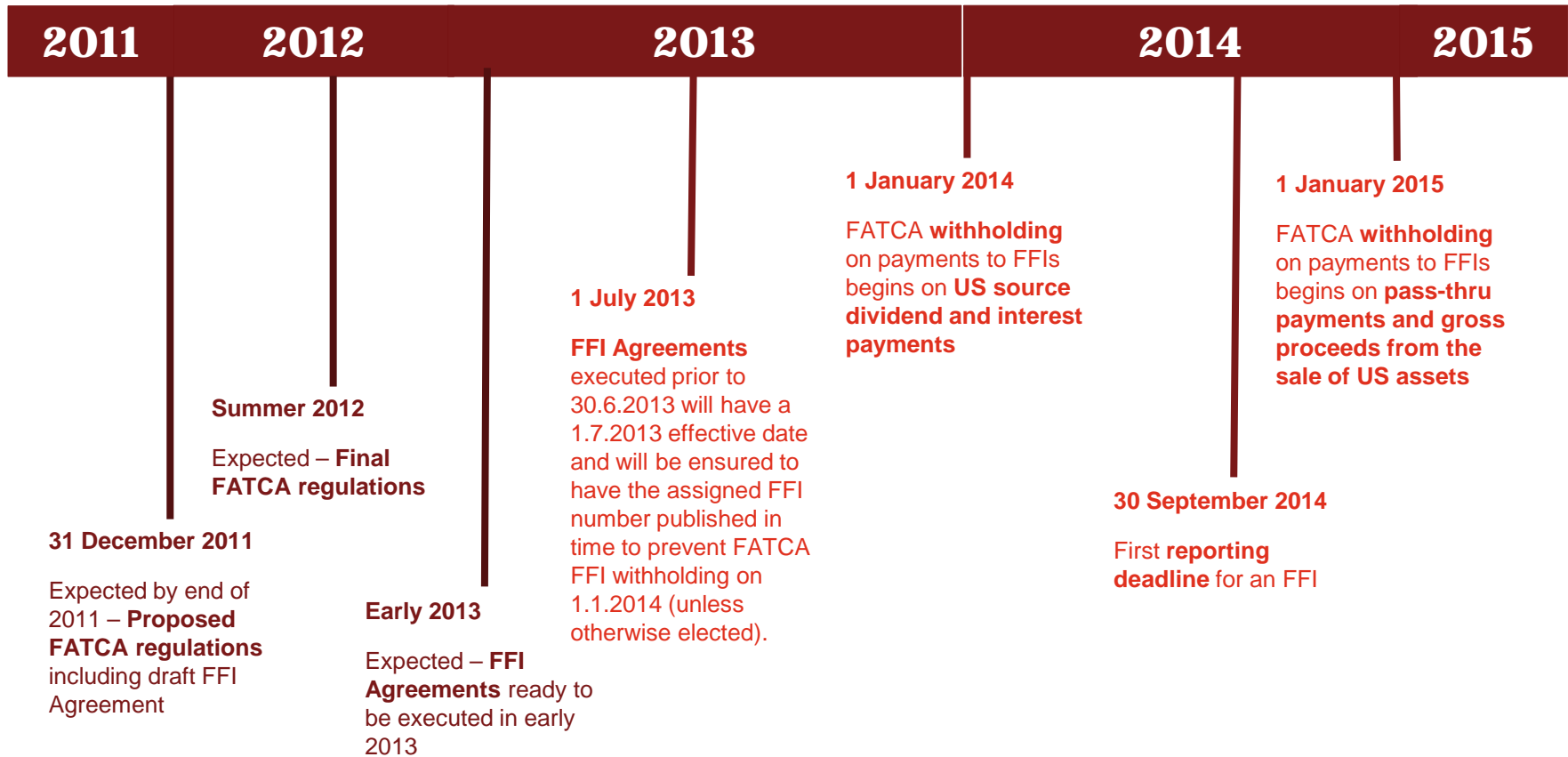
- Will “participate constructively” in discussions
- “Best applied on a wide international basis to include the major financial centres”
- Impact on IFSC and domestic industry
- Dept of Finance working group



FATCA in a nutshell

- Provides IRS with an increased ability to **detect US tax evaders depositing their money in foreign accounts** and investments
- Foreign Financial Institutions (FFIs) must
 - enter into an **agreement with IRS**, obliging itself to perform certain due diligence procedures to identify any US accountholders and report specific information on such account holders, as well as information on account balances and certain account activity, **OR**
 - face a **30% withholding tax** on “withholdable payments” out of the US
- FATCA will have an impact on **banking** institutions, **life insurance** companies, and the **asset management** industry including investment funds, brokers and custodians
- In brief the **challenge** will be to properly identify US Account Holders, collect required documentation, properly report to the IRS and withhold FATCA tax where applicable

FATCA timeline



FATCA – Industry reaction

RBC Dexia Poll: More than a quarter of financial institutions worldwide have little or no awareness of FATCA

Banks fear FATCA raises operational and systemic risks (*Operational Risk & Regulation, Risk.net*)

"FATCA is a blunt instrument for which foreign banks have no choice but to each spend tens of millions of dollars to help the U.S. enforce its own tax law,"
said Scott Michel, a tax lawyer at Caplin & Drysdale in Washington, D.C.

FATCA will be one of the most significant, and onerous, developments in compliance over the next couple of years.
(Markus Hinkley, Corras Crill, Channel Islands Law Firm)

FATCA: Asset Managers draft in staff (Ignites Europe)

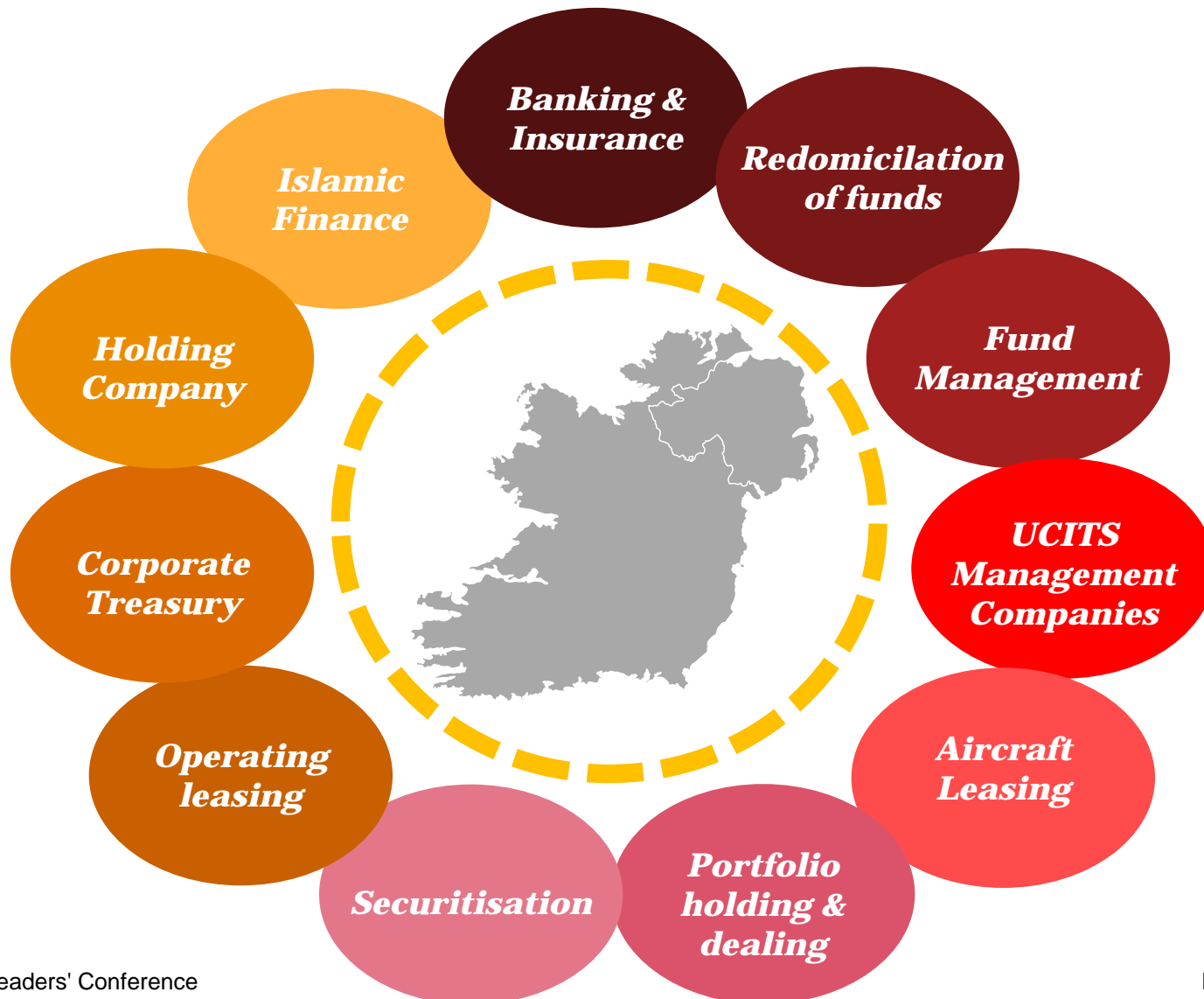
Budget/Finance Bill 2012

2

Ireland's international financial services offering

- What is our current offering?
- Where do the opportunities lie?
- What improvements do we need to make?

Ireland's financial services product offering



Structural issues facing the FS sector

Legal and operational structure

- Head office location
- Booking location
- Branch v subsidiary
- Service model

Key Drivers of Change

- Regulation/Risk
- Capital
- Tax
- Cost reduction

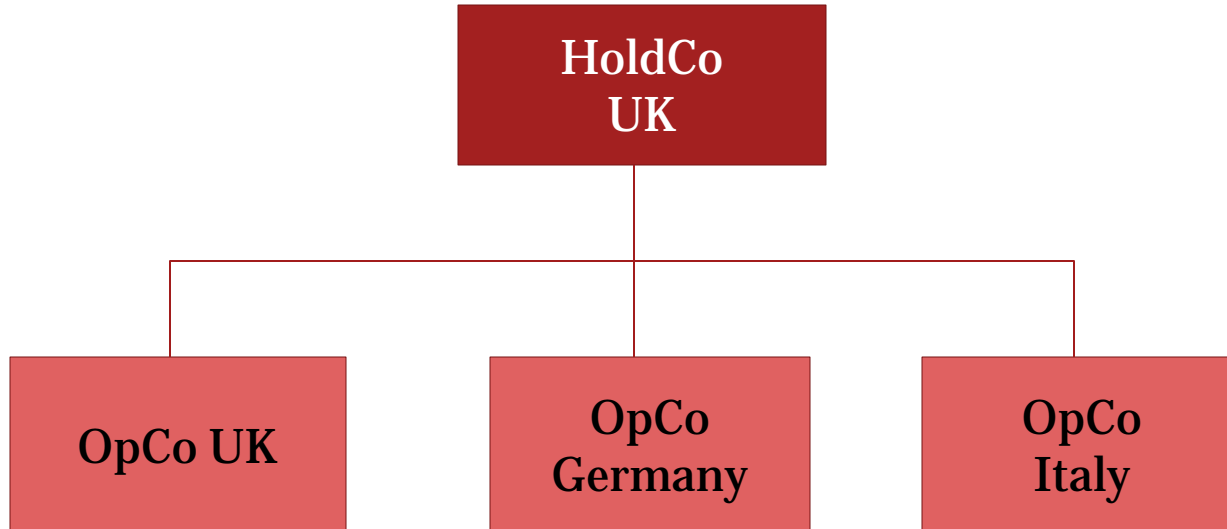
Branch v Subsidiary/entity reduction

- Key theme
- Regulatory developments
 - Solvency II
 - UCITS IV



Branch v Subsidiary/entity reduction

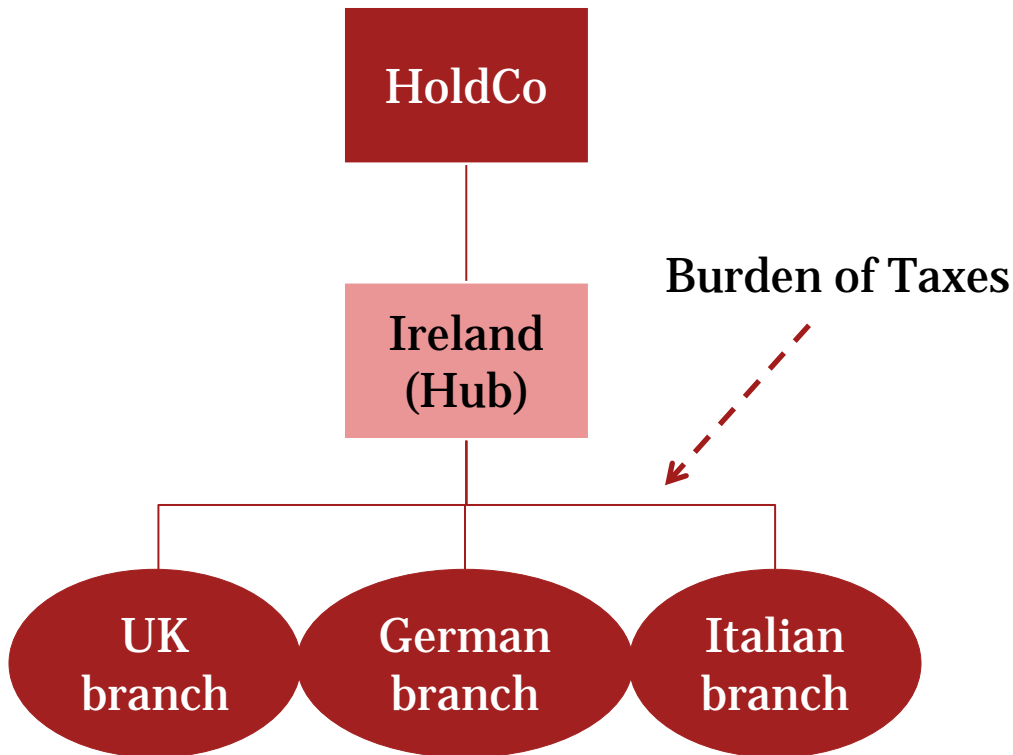
Conventional Structure



Branch v Subsidiary/entity reduction

What might a restructured business look like?

Branch Structure

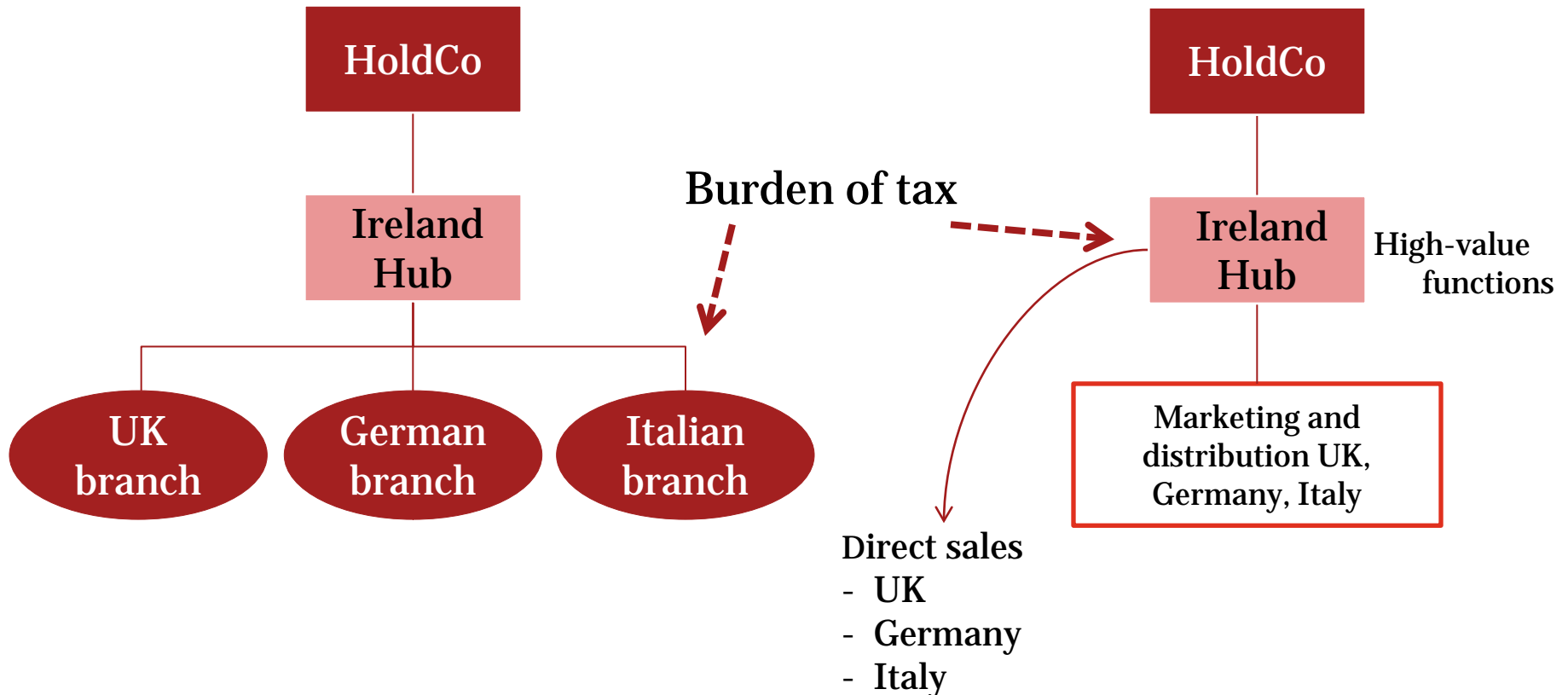


Benefits:

- Capital efficiency
- Single governance structure
- Tax??

Branch v Subsidiary/entity reduction

What might a restructured business look like?



Ireland's international finance services offering

- ✓ Low corporate tax rate
- ✓ Tax treaty protection
- ✓ No product taxation
- ✓ No domestic withholding taxes
- ✓ Good holding company regime
- ✓ No CFC rules
- ✓ No thin cap rules

CCCTB – Dead or Alive?

Franco/German proposal

- Tax base harmonisation
- Tax rate harmonisation
- Deadline of 2013
- Will others join?
- Will this set the direction of future EU tax integration policy?

Ireland's international finance services tax offering

- ✓ Low corporate tax rate
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Attracting key talent

- Effective personal tax rates are high
- Better regimes for expatriates in competitor locations – Switzerland, Netherlands, Singapore, etc
- Impacting on location decisions

What does Ireland need to do?

- SARP overhaul required
- 2010 changes have not worked
- SARP is not being used!

Attracting key talent

What changes to SARP might we get in the Budget/Finance Bill?

- Reduction in earnings threshold to €70k
- 30% of excess earnings taxable
- Extend to cover share options
- Relief at source through PAYE
- Full exemption for USC and PRSI
- Make it simpler!

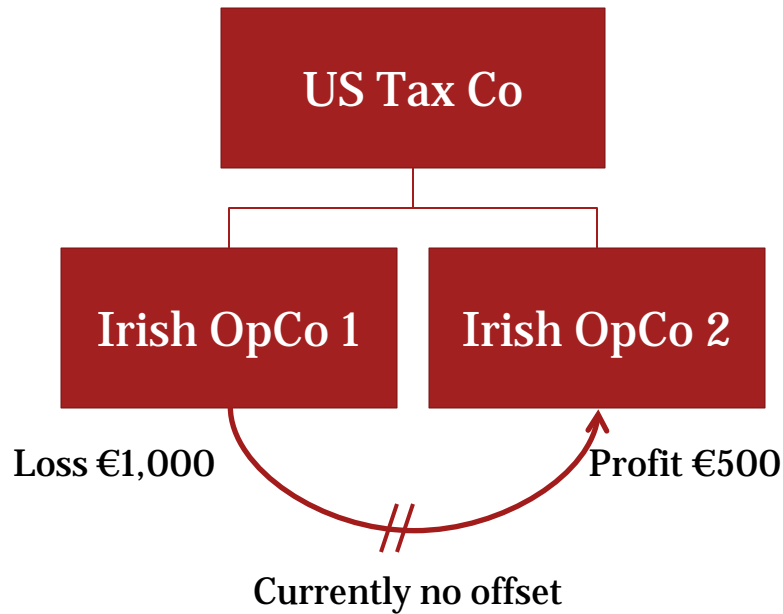
Assignment Relief Proposals 2012

	Current	Proposed
Salary	€200,000	€200,000
Share Option Gain	<u>€50,000</u>	<u>€50,000</u>
Total Income	€250,000	€250,000
Tax Relief	<u>(€50,000)</u>	<u>(€126,000)</u>
Taxable	<u>€200,000</u>	<u>€124,000</u>
% of total income taxable	<u>80%</u>	<u>50%</u>

Budget/Finance Bill

What else can we expect?

Enhanced group relief regime?



- May be addressed in Finance Bill
- FCE Bank case

Budget/Finance Bill

What else can we expect?

Domestic financial services industry

Already suffered a series of negative measures

- 0.6% levy on private pension funds
- Additional 2% levy on non-life insurers

More on the way in Budget/Finance Bill?

- Higher DIRT and exit tax rates on savings?
- Further restrictions on private pension contributions?
- Higher VAT rates?

Summary and Conclusions

International tax environment

- New taxes
- New information reporting requirements
- Significant cost and effort for FS sector to comply

Budget/Finance Bill

- More pain on the domestic front?
- Improvements to already attractive regime for international FS

Thank you

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