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Contact Person: Kallia Mylonaki
Tel: 210 8114386
e-mail: kallia.mylonaki@pwc.com

PwC Greece: Annual PwC Update for Shipping Industry Finance Professionals 2023

Highlighting new trends and developments in the Shipping industry and providing information on financial reporting issues

From changes in accounting standards to the introduction of minimum-effective-taxation and from ESG to Cybersecurity

More than 120 executives from finance departments of shipping companies had the opportunity to meet, exchange views and be informed by PwC's experienced consultants on recent developments in the industry, emerging accounting and financial issues, as well as new market trends at "The Annual PwC Update for Shipping Industry Finance Professionals".

The event, which was held a few days ago at the InterContinental Athenaeum Athens hotel, was introduced by Mr. Socrates Leptos-Bourgi, PwC Greece Partner and Global Shipping & Ports Leader in PwC's global network, who commented on the financial performance of the Shipping Industry in 2022 compared to the one of 2021, which, despite the effects of the pandemic and geopolitical conflicts, had relatively been good. He also offered his views on the recent challenges of inflation, rising interest rates and sanctions imposed on Russia, while stressing on the actions that the finance departments of shipping companies can take to address them. Mr. Leptos-Bourgi also referred to the possible impact these challenges may have on discount rates used for impairment tests, Going Concern assessments and the companies' long-term financial planning.

The event then shifted focus on issues related to recent changes in existing International Financial Reporting Standards (IFRS) and new decisions of the IFRS Interpretations Committee, as well as offering a reminder on the accounting of transactions between companies under common control and the impending replacement of USD LIBOR rates.

For companies with securities listed on the US-based stock exchanges, PwC executives highlighted some of the key areas where the Public Company Accounting Oversight Board (PCAOB) is expected to focus its attention in the current year and how this may impact on shipping companies. Furthermore, PwC experts referred to recent proposals and developments in regulations issued by the US Securities and Exchange Commission (SEC).

An update on tax issues followed, with reference to amendments in tax legislation affecting the shipping community, including the political agreement to establish a minimum-effective-taxation of large multinational groups, as well as the expected evolution of existing tax frameworks to adapt to the needs of the modern, digitalized economy.

With pressure mounting on shipping to adopt sustainability criteria and to address climate change, particularly from the investors' perspective, PwC's specialists emphasized on the need for shipping companies to take action on their ESG Reporting strategy. The aim of these actions is initially for companies to become acquainted with the minimum required information that they should disclose, and to take the necessary actions to upgrade their ESG reports and align them with the applicable regulatory requirements.

Finally, the cybersecurity risks were addressed as they rank among the most important operational risks for any business today, including shipping companies. It has become clear that managing cybersecurity issues must be of high importance on a shipping company’s agenda and for those responsible for managing its core operations. In this context, PwC's Technology and Cybersecurity team highlighted the necessary actions and investments that businesses could take, for mitigating the relevant risks and protecting their operations.

Some key points from the topics covered during the event are the following:

IFRS – recent amendments and current issues

With regards to recent developments in IFRS, Irene Psalti, Corporate Reporting Services Leader of PwC Greece, pointed out that there have not been any recent changes in IFRS expected to have a significant impact on shipping companies that prepare their financial statements in accordance with IFRS, with the possible exception of the amendments to IAS 1 regarding the classification of financial liabilities with covenants and the agenda decision of the IFRS Interpretations Committee regarding the forgiveness of lease payments by lessors.

Nelly Sakellariou, Corporate Reporting Services Senior Manager, presented an overview of business combinations under common control that is typically found in the shipping industry and explained that, since there is currently no IFRS authoritative guidance for such transactions, this area typically involves a high degree of management judgment and remains a continuous challenge for preparers. Therefore, the relevant facts and circumstances should be considered in each case in the determination of the appropriate accounting treatment.

Finally, Mariela Mylona, Corporate Reporting Services Senior Manager, and Iosif Kapetanios, Assurance Senior Manager and Shipping Industry Group expert, focused on the IBOR reform and in particular the replacement of the US LIBOR rates, which are relevant to the shipping industry. Specifically, the remaining USD LIBOR tenors (only 1-week and 2-month USD Libor have been replaced so far) are expected to be replaced by SOFR by June 30th 2023. Mariela and Iosif provided useful reminders regarding the practical implications of the replacement under both IFRS and US GAAP and addressed the participants towards further useful guidance regarding the disclosures that should be included in preparers' financial statements for the year ending December 31, 2022.

PCAOB inspections

Presenters also highlighted the areas on which the Public Company Accounting Oversight Board (PCAOB) is expected to focus in the upcoming inspections. These areas are primarily driven by the economic environment and the results of previous inspections. Specifically, Despina Filippou, Assurance Senior manager and Shipping Industry Group and Methodology Expert, PwC Greece, mentioned that the PCAOB will mainly focus on the risk assessment (including fraud), the design and operation of controls to respond to the assessed risks, the going concern, as well as complex accounting areas, such as revenue recognition and accounting estimates involving significant judgment.

US Securities and Exchange Commission (SEC) and Capital Markets Update

Regarding developments in US Securities and Exchange Commission (SEC) regulations and recent comment letters issued by the SEC, Thanos Lakavas, Assurance Manager, highlighted some recent examples from the shipping industry, placing emphasis on the sections of MD&A, Non GAAP measures, Climate change disclosures and treatment of Debt and Equity instruments. During his presentation, he pointed out that while the SEC proposed radical changes to the information shared by companies on environmental issues, it focused more on the risks and opportunities associated with climate change, which should be disclosed in the MD&A.

Furthermore, Michail Efstathiadis, Assurance Senior Manager of PwC Greece noted that the issuance of equity and debt securities showed a significant decline in 2022, as Initial Public Offerings (IPOs) declined by 93% on the basis of funds raised, compared to 2021. Additionally, publicly traded bonds of shipping companies experienced a significant increase in their yields to maturity, mainly due to the Central Banks increasing reference rates. Looking at the current market in January (2023), LIBOR/SOFR yield curves are expected to peak within the year, with the fixed leg in interest rate swaps declining as maturity increases. At the same time, the divergence between funding costs and banks' pricing remains, due to reference rates, amid pressure to narrow the spread.

Sustainability as an investment priority

While inflation and economic uncertainty are regarded as the two biggest threats for businesses, ESG criteria are emerging as a key factor in the investment decision-making process, with investors and entrepreneurs around the world placing them at the top of the list of data they evaluate.

In this context, Stella Gounari, Assurance Director of PwC Greece, referred to the growing trend that urges shipping companies to report on the environmental impact that their activities and operations have. At the same time, regulators and standard-setters around the world have proposed new disclosure requirements driven by investor demand. Three major proposals by regulators (ISSB - US SEC - EU) have been developed on this basis, which target different corporate audiences. The ultimate goal of these is to align sustainability standards globally in an effort to provide consistency and comparability of the non-financial information provided. Apart from standard-setting bodies, both the International Maritime Organization (IMO) and the European Union (EU) have set targets to reduce greenhouse gas emissions, resulting in new regulations and requirements being imposed on shipping companies. It is, therefore, important that companies are proactive and take timely steps to upgrade their sustainability reports following applicable regulatory requirements..

Fortifying against Cyber Attacks

Cyber risks are nowadays considered as one of the most significant categories of corporate risks and have already become a regular topic of discussion on the board of directors' agenda. Both digitalisation- even on the ship site - and the increase of cyber attacks along with the major and different types of impact to an organization, make it clear that cyber security is a matter of concern for the C-level suite.

In this context, Dimitra Xintara, Cyber Security & Privacy Senior Manager, underlined that executives should ensure to cooperate effectively with the CISO in order to protect both IT and OT infrastructure, while also considering cyber security risks when working with third parties. At the same time, cyber security risk quantification is essential to comprehend potential financial impact as well as budgeting of investments and how these contribute to impact/ likelihood minimisation. Finally, training and awareness on cyber security is critical for all employees, from the board of directors to the employees on the ship, in order to ensure both the timely identification and the effective management of security incidents as well as the reduction of risks triggered by human factors.

Tax reforms and a minimum tax rate of 15% in the EU

Christina Tsironi, Tax Senior Manager, PwC Greece, spoke about the recent changes regarding ship taxation and the amendment of the New Voluntary Contribution Agreement between the Greek State and the shipping community. Article 6 of Law 5000/2022 ratified the Additional Act to the Voluntary Contribution Agreement, which came in effect since 01.01.2022, introducing, mainly, amendments to the Voluntary Contribution of the members of the shipping sector, including the reduction of the Voluntary Contribution rate from 10% to 5%, the increase of the minimum amount of the Voluntary Contribution to 60 million euros per year and the extension of the binding force of this Agreement upon ship-owning companies that are not signing parties.

At the same time, the political agreement to establish a minimum effective taxation of 15% of large multinational groups with a combined annual turnover of at least EUR 750 million (Pillar Two), reached in October 2021 by around 140 OECD member countries, is coming into effect. At European Union level, the rules will be implemented from 2024, while many countries worldwide have officially declared their intention to adopt the rules within 2023. Due to the extremely volatile nature and the long duration of the economic cycle of the shipping sector, the international shipping income is exempt from these rules. The exception, however, does not affect either the industry as a whole or companies with shipping related activities, explained Stavroula Marousaki, Tax Partner at PwC Greece. It is therefore possible that groups active in shipping may have to pay additional tax on income arising in the jurisdictions, in which they operate, that does not fall within the definition of "international shipping income".

Socrates Leptos-Bourgi, Partner at PwC Greece and Global Shipping & Ports Leader in PwC's global network, commented on the event: "In a demanding and constantly changing economic environment it is natural that the challenges that businesses face also change every day. Given that, shipping companies cannot remain unaffected, especially in a period of intense geopolitical unrest, our annual event - which over the years has emerged as a stable meeting point for the maritime world - has a dual goal. On the one hand, the transfer of know-how and experiences from our qualified experts regarding market trends and developments concerning the sector and, on the other hand, the highlighting of good practices and the exchange of opinions and concerns on financial issues that need to be managed by the relevant departments of shipping companies. As PwC, we monitor developments and stand alongside our clients and the market in general, with the aim of building trust and achieving sustainable results."

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