

Accounting Matters

Evelyn Brady
PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Accounting Matters

Accounting for PCC:

- Have cellular, non-cellular and totals columns
- Need to comply with relevant SORPs requirements (ABI SORP IMA SORP OEIC SORP)
- Audit opinion on the entity as a whole – i.e. totals column
- No requirement for opinion on the cells

UK GAAP – Cellular Shareholders Perspective (PCC's)

How to account for cell? (non-cellular shares)

- A cellular shareholder enjoys risk/rewards of cell
- In practice has influence in the operation of cell
- In this situation cell would be a JANE as defined under FRS 9

UK GAAP – Cellular Shareholders Perspective (PCC's)

How to account for a JANE?

- FRS 9 requires assets/liabilities of the cell to be recognised at entity level
- Much closer relationship than with a subsidiary

UK GAAP – Cellular Shareholders Perspective (PCC's)

- Cell has cellular share capital
- A cellular shareholder enjoys risk/rewards of cell
- In practice has influence in the operation of cell
- Can demonstrate it behaves like a subsidiary may be deemed to be a Quasi subsidiary – FRS 5

UK GAAP – Cellular Shareholders Perspective (PCC's)

How to account for Quasi Subsidiary?

- At group level consolidate
- Same group relief as a bona fida subsidiary (FRS 2)

IFRS – Cellular Shareholders Perspective (PCC's)

SIC 12 deals with special interest companies:

- A cell would be deemed a SIC
- Consolidate as in same manner as a bona fida subsidiary under IFRS (IAS 27)

Accounting Matters

Accounting for ICC's:

- ICC is a separate legal entity from an IC
- ICC does not meet the definition of a Parent undertaking per FRS 2
- Hence no obligation to consolidate the ICs into the ICC accounts
- ICC together with the IC's (in total or selective) prepare one set of accounts

Accounting Matters

What would a set of accounts for an ICC and IC's collectively look like?

- As this structure is not a group – no consolidation
- Accounts take form of columular format with no totals
- Audit opinion on each of the IC's and ICC

UK GAAP – Shareholders Perspective (IC's)

- IC has its own share capital/shareholders
- The IC's shareholder enjoys risk/rewards of the IC
- In practice has influence in the operation of IC (directors have a duty to state which IC they are acting on behalf of)
- Deemed to be a subsidiary undertaking under FRS 2

IFRS – Shareholders Perspective (IC's)

- Each IC separate legal entity
- Meets definition of subsidiary under IAS 27

Jersey PCCs and ICCs

- Jersey has similar legislation to Guernsey but
- PCC under the Jersey regime are not allowed to amalgamate the cells
- Opinion issued on each cell

Jersey PCCs and ICCs

- The difference between ICCs and PCCs is really down to the legal status
- Recognised the IC is more desirable if they want to encourage specific investors or have plans to List

Closing Statement

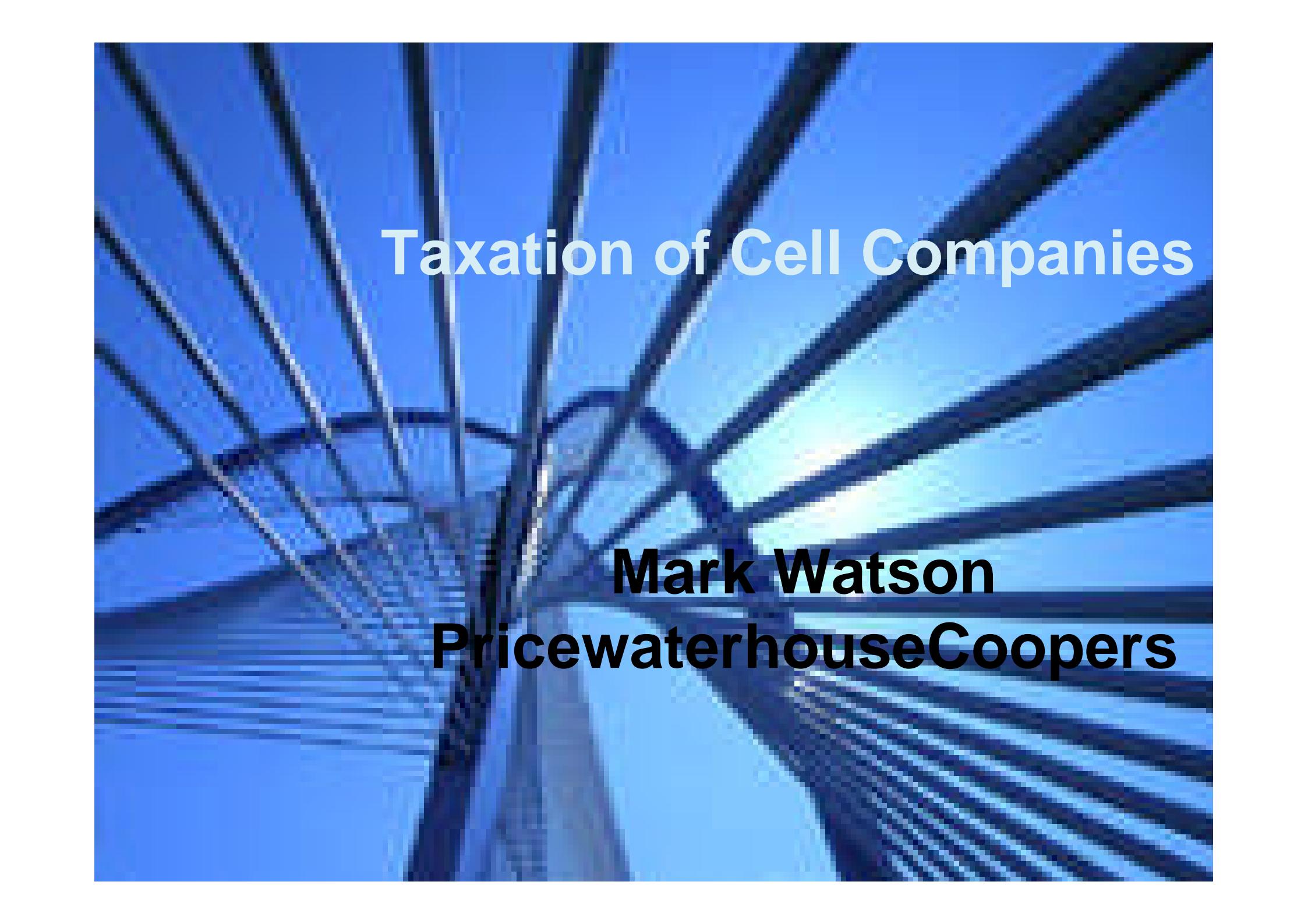
PCC's

- One single entity, one set of accounts, one audit opinion on the entity as a whole – can produce un-audit accounts in any format required for the respective cellular shareholders

ICC's

- Set of accounts for each entity (IC stand alone) if required
- Choose to prepare one set of accounts – within one set take a columular format, each having its own audit opinion

Key – we now have different flexible structures to meet the needs of the investors/promoters



Taxation of Cell Companies

Mark Watson
PricewaterhouseCoopers

Taxation of Cell Companies

- Tax Treatment in Guernsey
- Benefits and disadvantages in other jurisdictions
- Distinctions between PCCs and ICCs
- Opportunities

Tax Treatment in Guernsey

- PCC is a single entity, one status
- Each IC in ICC recognised as separate legal person
- Individual tax status and tax return

Overseas Tax Treatment - PCC

- Single entity status tends to be respected
Ownership of cell = investment in non-resident company
- Benefits: Often outside CFC rules;
Transfer pricing may not apply;
- Disadvantages: May not qualify for participation exemptions; UK substantial shareholders relief

Overseas Treatment - ICC

- Likely to reflect Guernsey treatment
- Full ownership of offshore company => CFC rules and transfer pricing

Uses and Opportunities

- PCCs remain well-trodden route with clear advantages
- Attraction of ICC depends on individual circumstances
- Key is to retain fiscal neutrality