

Press Release

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PwC Greece - Annual Finance Update for the Shipping Industry

From US GAAP/IFRS Reporting to New Greek Tax Regimes to ESG to Cyber Security - Key updates on the shipping industry finance landscape

PwC Greece, for another consecutive year, shared insights with 150 shipping executives on emerging developments from an accounting reporting perspective but also on shipping market trends during the two-day virtual event “The Annual Finance Update for the Shipping Industry”, held on 19 & 20 January 2022.

As the maritime industry continues to wade through the effects of the ongoing pandemic, growth has also been shown in certain areas. On the first day of the event, PwC experts summarised the requirements and updates on accounting and financial reporting under US GAAP and IFRS, covering topics that included **Lease modifications**, **Asset Acquisitions**, **IBOR Reform**, **IAS19** and reporting requirements for **Climate Change** and **Covid-19**. On the second day, PwC’s tax experts provided an introduction to the new **Incentive Tax Regimes** in Greece, which may also apply to the shipping community. The PwC tax experts also provided an update on how the new regulation for **myData** in Greece impacts ship-management companies. As the **Environmental, Social and Governance (ESG)** activities of companies will continue to be a priority for stakeholders in the current market, PwC’s Advisory professionals focused on how companies can apply a holistic transformation to address these and how available technology, in this case an **SAP** solution, can assist finance departments cover the ESG agenda and requirements from a monitoring and reporting perspective. Finally, while **Cybersecurity** has continued to cause major disruptions to businesses in 2021, PwC’s Technology experts emphasised how cybersecurity should be the core of their operations.



Some key highlights from the PwC topics covered during the event are:

Lease Modifications

PwC's overview of the market indicated that contract renewals of time charters are on the rise and companies need to ensure they are properly assessing the charter renewals under lease modifications accounting. Other than an increase in the number of time charter contracts, there has also been a rise in the number of renewals that are being agreed up to 6 months to 1 year in advance of the current time charter contract termination, especially in the containership sector. In the event that the contract renewal meets the modification criteria, the impact can under certain circumstances be significant, such as when the renewal is agreed well in advance of the termination of the existing charter, or if the renewal hire rate is significantly different to that of the current charter.

Asset acquisitions

There has been significant activity in Asset acquisitions with a high level of Sales & Purchases transactions being recorded. These transactions include large vessels and their time charter contracts. PwC pointed out that each acquisition needs to be separately evaluated through the asset vs. business accounting model to ensure the proper accounting is applied.

Climate change

The momentum continues around the shipping industry with regards to climate change and as Mariela Mylona, Senior Manager, and a member of the Global Accounting Consulting Services team at PwC Greece explained, the main focus from an accounting perspective has been on climate-risk disclosures. From a shipping perspective climate change impacts key areas such as: impairment of non-financial assets, fair value measurements, expected credit loss models for financial assets, financial statement disclosures, emission trading schemes and accounting for green loans. On the latter, Mariela commented: "In the event that a green loan's interest rate is linked to a certain sustainability (green) measure such as compliance with emissions standards, energy efficiency metrics, or even a combination of different green measures, the borrower should first consider whether such a feature gives rise to an embedded derivative, which should be separately accounted for as a derivative."

Covid-19 accounting and reporting reminders

As the Pandemic continues with waves of new variants, accounting and reporting challenges continue for shipping companies when preparing interim and annual financial statements. One of PwC's key highlights is that companies need to continuously evaluate its impact on liquidity and the ability to continue as a going concern, as well as focus on having appropriate and transparent disclosures in the financial statements.

SEC and capital market updates

From the US Capital markets standpoint Santos Equitz, Managing Director, Shipping Industry and Capital Markets Leader, PwC Greece, reported that there has been a significant amount of activity in the US capital markets in 2021, especially in SPAC transactions, which is one path for a company to become



listed in the US. Specifically, the US capital markets set all-time records in both issuance volume and proceeds, with 951 IPOs raising \$282 billion in 2021. SPACs raised \$145 billion across 613 IPOs, the largest annual number of SPAC IPOs yet. There were 274 SPAC merger announcements but there are still nearly 570 SPACs with \$134 billion looking for deals within the next couple of years.

One of the highlights of the capital markets transactions in Shipping during 2021 was that there were no Shipping SPAC transactions and only one US IPO. On the other hand, for the first time, two US listed shipping entities issued bonds on the Athens Exchange in 2021.

In reference to SEC updates, the Commission has increased their enforcement focus on cyber security incidents and disclosures with the issuance of multiple fines. In addition, SEC has a new commitment to the development of ESG reporting.

SAP & ESG: How shipping technology can support ESG requirements

Dimitris Sakipis, ESG Leader, PwC Greece, emphasised that ESG is of critical importance due to the regulatory initiatives, investor expectations and stakeholders demand.

He commented that the 2020s will be a decade of action for climate for the shipping industry. Long-term investment scenarios suggest that approximately \$1 trillion of newbuild orders may be needed for fleet renewal this decade.

Shipping companies need to consider their approach to designing ESG and decarbonization strategies, creating a new operating model with governance, roles and responsibilities and compliance and reporting. The required technology to cover the ESG agenda and transformation, as explained by Ilias Oikonomakis, Advisory Manager, PwC Greece, can be provided by the SAP Profitability and Performance Management solution which delivers speed, flexibility, reliability, automation, process large volumes of data, and adaptability. An overview of SAP's platform was discussed, together with PwC's ESG Intelligence tool that is used to assist companies to monitor and report their Environmental, Social and Governance performance - generating, among others, full transparency, automation and permanent optimisation.

Cyber security and the shipping industry

The past year was again a disruptive year when it came to cyber attacks, especially for the maritime sector. Since February 2020, there has been a 400% increase in attempted hacks. With the maritime industry entering the digitization era - fast, and as the IT/OT ecosystem is expanding, this creates new attack surfaces. George Vavitsas, Advisory Senior Manager, PwC Greece, commented: "It is important more than ever for shipping companies to have cyber security at the core of their operations. It is not about reducing risk to zero, it's about rebalancing risk as the context shifts." He continued to clarify that the weakest links in cyber security are still the users and that 90% of intrusions begin with a phishing email. To keep data safe a layered defence needs to be built.

New incentive tax regimes

Dimitra Giantamidou, Senior Tax Manager in PwC Greece, gave focus to the new tax incentive schemes that have been recently introduced to attract non-Greek tax residents and legal entities in Greece, as long



as certain conditions are met. Those more interesting to the shipping community are the High Net worth Individuals / Investors (5A regime) and Employees (5C regime) regimes along with the family offices.

As an overview, more than 80 foreign investors have applied to become Greek tax residents and 75 of them have already remitted taxes of €9.4m for 2020 and 2021. Most have come from the UK, Switzerland and Cyprus, but applications are also coming from Monaco, UAE, Hong Kong. In addition, more than 1.000 applications have been filed for 2021 by individuals being employed in Greece under new employment positions. Dimitra Giantamidou commented "These numbers show that there is a high attraction of individuals wanting to establish themselves in Greece. It verifies that Regimes 5A and 5C have proven to be very successful."

MyData: New tax regulation impacting ship management companies

Recently AADE issued the Ministerial Circular 1138/2020 which specifies to what extent ebooks apply, the exceptions, the data to be transmitted, the timing, the transmission method, the classification of revenues/expenses and the entities' obligations. In accordance with the Ministry of Finance, myData also applies to ship-management companies with operating offices in Greece under L.89/1967 and important to note that here, simplifications apply.

Mr. Socrates Leptos-Bourgi, Partner, PwC Global Shipping & Ports Leader, commented:

"As the shipping business environment evolves, so do the challenges faced by finance professionals working within shipping companies. Through our broad experience servicing this sector, this annual event seeks to provide insights on what lies ahead from regulators, standard setters and practice, as well as give a broader perspective on topics that remain top of the agenda of all stakeholders that finance departments of shipping companies seek to serve. This is part of our commitment to the shipping industry, which is a key industry for PwC".

About PwC

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