

Press Release

Date: 26 January 2021

Contact: Kallia Mylonaki
Tel: +30 210 8114386
e-mail: kallia.mylonaki@pwc.com

Pages 4

PwC Greece - Annual Finance Update for the Shipping Industry

Global trends and key topics shaping the shipping industry finance landscape

PwC Greece shared its insights on the key topics that are currently shaping the landscape for the shipping industry during a virtual, 2 days event titled “The Annual PwC Update for Shipping Industry Finance Professionals”. The event was organized in January 2021 and was attended by more than 100 shipping finance professionals who were updated by PwC experts on a number of key issues that impact shipping companies.

In a constantly challenging and unpredictable business landscape, the maritime industry is reshaping and gradually adapts to the new developments. **Ms. Santos Equitz**, Managing Director, Shipping Industry Leader, PwC Greece, mentioned that issues like the **COVID 19 pandemic**, the **new ESG reporting and other regulations affecting shipping finance providers** and **new tax legislations** result in a demanding business environment for shipping companies to which finance professionals are required to timely and effectively respond. Implementing the right **technology**, establishing appropriate **Corporate Governance** and the development of **ESG strategies** are key tools in addressing these challenges.

Covid 19 reporting implications

The COVID 19 pandemic, coupled with the current stock market volatility, has created an economic environment likely to have significant accounting and reporting implications. PwC provided their insight on those implications that may impact the shipping industry. The shipping industry has been impacted by business disruption and significant operational challenges, particularly in relation to crew management and ongoing maintenance on their vessels. Specifically, PwC noted that impairment testing impacts several areas of the financial statements, with underlying assumptions being subject to uncertainty in the market. PwC also encouraged companies to engage early with their banks when they foresee potential breaches of covenants, as debt classification has a significant impact on the liquidity and going concern assessments. The current environment is driving the need for transparent disclosures, with your



stakeholders looking for a clear understanding of how shipping companies addressed the COVID 19 related implications.

Stephanie Dias, Assurance Director, believes that the key takeaway from the finance update is for shipping companies to be proactive in discussions with their lenders as the current market conditions might increase liquidity and counterparty risk. Companies should have a good understanding of their ability to obtain additional financing or to refinance existing loans, as debt servicing requirements have a significant impact on going concern assessments.

Corporate governance trends

The current trends in corporate governance and their impact on the financial results of shipping companies were also addressed during the event. According to PwC Greece, the shipping industry has to take immediate action to improve in the area of Corporate Governance as it will be shortly affected by the new trends in ESG reporting and new regulations. Recent research has shown that shipping companies with stronger corporate governance had an increased equity performance compared to their peers in the industry. Additionally, finance providers are looking into ESG reports to determine the long-term risks on a company's future growth. Since the majority Greek shipping companies are family owned, Corporate Governance that is developed in tandem with strong family governance will enhance creditors' confidence. It is expected that the viability of the business and its credibility with external stakeholders will be significantly influenced by the effectiveness of family governance.

George Drellas, Senior Manager, Governance, Risk & Compliance, PwC Greece commented: "Corporate Governance is an important challenge for shipping companies since there is a wide spectrum of stakeholders, including the owners, employees, finance providers, charterers, society and others, who are looking to see that their interests will be addressed by a formal system of governance in the business, which ensures accountability, oversight and control. As such, Corporate Governance is not only a matter of concern for public shipping companies but also for private ones".

ESG reporting developments and their impact on shipping finance

The ESG and climate change landscape continue to rapidly evolve and remain a major challenge for the shipping industry according to PwC. As new ESG regulations and requirements have a significant impact on shipping finance, shipping companies have numerous issues to consider like managing the ESG rating agencies, addressing the changing investor requirements, establishing "investor grade" ESG reporting, enhancing governance, designing a Net Zero and green transition strategy and being tech-enabled in providing ESG information to stakeholders. In addition, as ESG commitments and Net Zero strategy become a more and more pressing issue for society, there are some key considerations to be taken into account by shipping companies, such as their fleet size and age, the applicability of the existing technical and operational measures and the need for continuous access to data.

Dimitris Sakipis, Senior Manager, ESG, Sustainability & Climate Change, PwC Greece, commented: "As ESG has become an important factor in shipping financing, shipping companies that wish to deliver on their ESG transformation should consider end-to-end business transformation elements. These include the design of Net Zero and emission reduction strategies, the operationalization of ESG across all business functions and the establishment of ESG reporting mechanisms that meet the requirements of various stakeholder groups, including financial institutions, charterers, insurance providers and regulators.



The impact on Basel IV regulations on financial institutions and their impact on shipping finance

PwC experts also referred to the implementation of Basel IV by financial institutions, which is a remarkable challenge for the European banking landscape as methodologies for the determination of capital requirements are to be revised. In doing so, capital calculations across all risk types will be fundamentally amended. Specifically for the shipping industry, Basel IV introduces a new exposure class for shipping exposures for the purpose of their capital requirements calculation under the standardized approach. The capital impact for shipping exposures depends on the approach followed by each Bank for calculating capital requirements for credit risk. The expected increase in capital requirements for banks will likely impact on their cost of capital allocation, potentially driving up the pricing allocated on shipping loans.

According to Evangelos Venizelos, Partner, Assurance in PwC Greece: “As the Basel IV regulations are expected to make traditional loan finance more expensive, shipping companies may start considering alternative sources for ship financing such as the increasing use of lease finance, especially when the leasing company is not a subsidiary of a bank, private placements and high yield bonds”.

Using technology to address challenges of finance departments of shipping companies

Digitisation and technology have been transforming the way the shipping industry operates and PwC Greece shared thoughts and insights on the emerging challenges as well as the new opportunities for the finance departments by applying specific tools.

The modern finance transformation agenda focuses on topics like process excellence and automation, cloud ERP and digital platforms, advanced analytics, automated and predictive controls. This agenda requires a strategic shift in the operating model in parallel with the digital enablement of the shipping companies. According to PwC Greece, SAP S/4HANA is a solution that enables finance departments to respond to financial challenges such as the time consuming and not standardized reporting and monitoring, the lack of transparency in the procurement processes and the delayed invoice payments, and the existence of multiple systems and different process leading to insufficient resource utilization and increased need for out of system controls.

Ioannis Potamitis, Director, Applications stated: “The SAP S/4 HANA solution offers unified and centralized information in line with GAAP and IFRS principles and gives standardized, reliable, timely and easily accessed management reporting. Additionally, PO, delivery, invoicing and payment processes are integrated, sharing of common data becomes easier and system architecture is simplified. A unified data model, an integrated solution and the use of intelligence to accelerate performance are the key elements for shipping companies to consider during their technological transformation journey”.

Tax update: Implications of EU economic substance rules and DAC 6 reporting on shipping companies

On the tax side, as Stavroula Marousaki, Tax Director, commented the Greek tax shipping regime has been stabilized since 2019 and no further developments are expected in the near future. Thus, we had a glance at the EU economic substance rules & and the new reporting obligations under DAC 6.



According to Christina Tsironi, Manager, Tax, PwC Greece: “The introduction of EU Economic Substance Rules marks a significant change for International Financial Centers. These rules are the flip side of international tax rules implementing measures to prevent base erosion and profit shifting (BEPS) from higher tax jurisdictions to lower tax jurisdictions. Companies engaged worldwide in the shipping industry should monitor, on a regular basis, their portfolios to identify any group structures with companies in zero/low-tax jurisdictions and check the substance requirements in those territories”.

Antonia Zahaki, Manager, Tax, PwC Greece also noted: “DAC6 introduces new reporting obligations regarding companies' cross-border transactions. The new reporting obligations burden primarily the external business consultants of the companies, in certain instances through the reporting obligation shifts to the company itself. Since there is no sectoral exemption from the reporting obligation, the shipping industry may be affected as well”.

Mr. Socrates Leptos, Partner, Global Shipping & Ports Leader, PwC Greece commented: “In PwC Greece, we are closely observing the rapidly changing business environment for the shipping industry and we remain close to the shipping industry professionals by sharing our insights. Nowadays, shipping companies are facing multiple, diverse and unexpected challenges that deeply affect their core operations. PwC has extensive experience in servicing the shipping industry and our experts can support shipping companies on successfully dealing with these new challenges”.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 155 countries with more than 284,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

© 2021 PwC Greece. All rights reserved.