The publication for listed businesses and their advisors.

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PKF

CapitalQuarter

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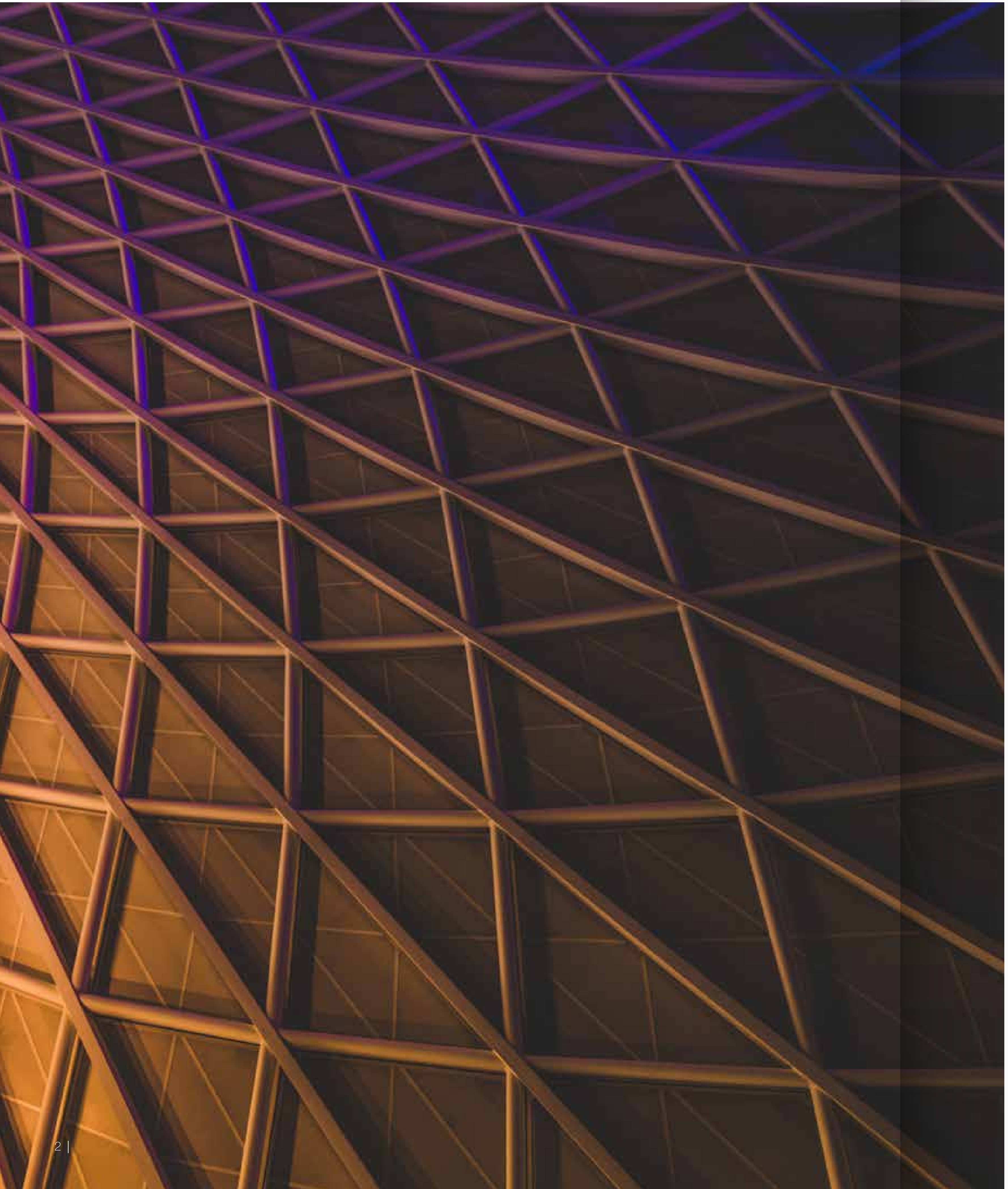
Don’t get caught out by the Revised Ethical Standard

The FRC’s Revised Ethical Standard was introduced in late 2019. It introduced revised and clarified rules for auditors and their ability to provide non-audit services to audit clients. Find out how they affect you.



December In this issue...

Welcome to December's issue of Capital Quarter...

In this edition of Capital Quarter we take a closer look at the FRC's Revised Ethical Standard which was introduced in late 2019 -bringing in revised and clarified rules for auditors and their ability to provide non-audit services to audit clients.

Nick Joel examines cryptocurrency and asks, Could the tide be turning on the cryptocurrency market? Read our industry update. Also take a look at Louise Fryer's article on the social security agreements with EU countries being subject to new provisions after 31st December.

We hope you find this edition useful, and we are always keen to hear your comments and suggestions for future articles.

Joseph Archer
Partner - Capital Markets

+44 (0)20 7516 2453
jarcher@pkf-l.com

Looking Ahead...

Reporting dates for companies

Dec

31 December 2020

LSE Premium and Standard –
Deadlines for 30 June year ends (with extension)

LSE Premium and Standard –
Deadlines for 30 September interims (no extension)

AIM and Aquis -
Deadline for 30 June 2020 year ends (no extension)

Deadlines for 30 September interims (no extension)

Q3 Capital Markets

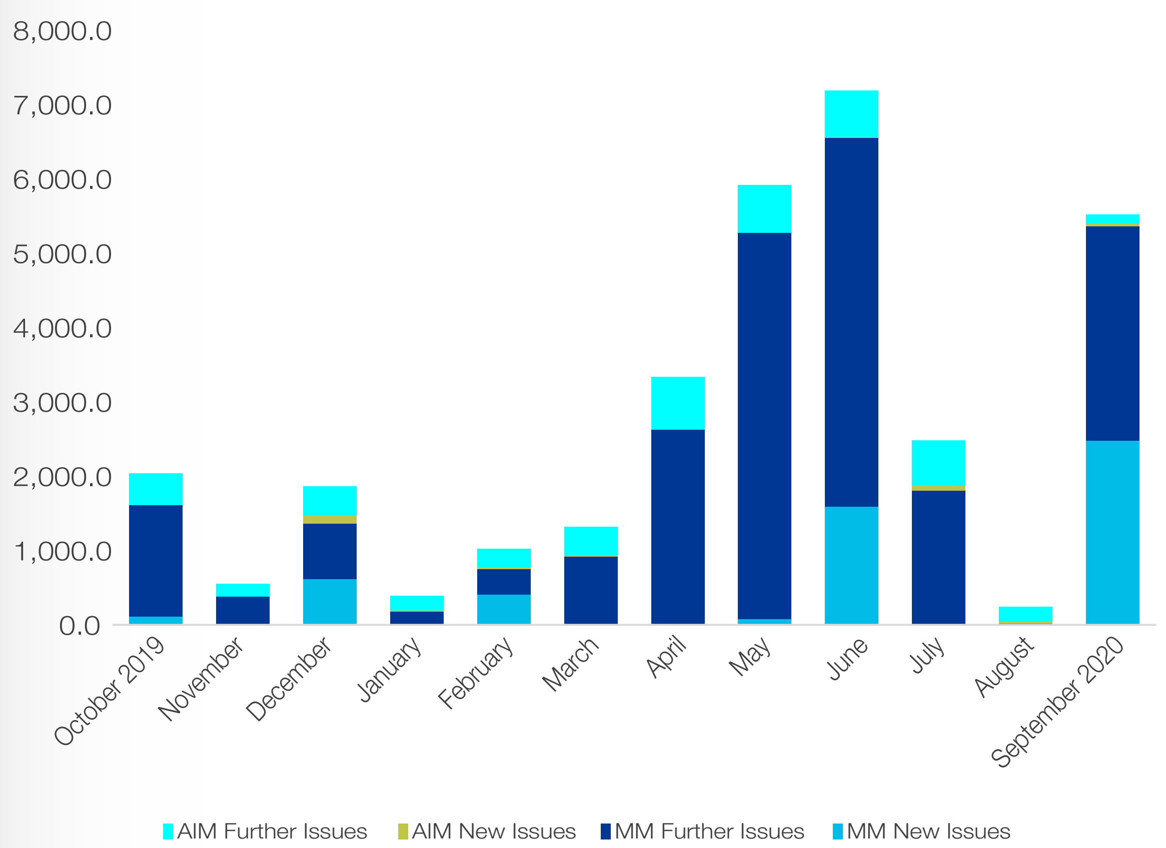
Lauren Haslam
Assistant Manager - Transaction Services

+44 (0)20 7516 2259
lhaslam@pkf-l.com

During the quarter to 30 September 2020, new and further issues across AIM and the Main market combined totalled £8.2bn, the majority of which occurred during September as markets started to see an improvement, following a slow July and August.

The main market had two new issues in July and August with total combined funds raised of £1.3m. That compared to £1.6bn in June and emphasises the halt to new issues at beginning of this quarter amidst fears of a second wave of COVID-19 infections. However, the Main market experienced somewhat of a comeback in September; the total value of new issues was the highest for any month in 2020, totalling £2.5bn and relating to three new IPOs and one transfer from AIM. As at the end of September 2020, 1,119 companies were actively listed on the Main market.

Total money raised on AIM and the Main Market (£m)



On AIM, a further £1.1bn was raised in the quarter to 30 September 2020, including both new and further issues, down from £2bn in the previous quarter largely due to there being minimal funds raised in August, and comparatively higher further funds raised in May and June while companies pushed to seek additional funding to support working capital.

New issues on AIM totalled £148m, up from just £24m in the previous quarter following improvements after hopes of a vaccine were restored. The disparity between performance in months within this quarter alone, is representative of a highly turbulent year with ongoing impacts of COVID-19 and a continuation of Brexit uncertainties.

August was a particularly bad month with six departures from AIM in the month, contributing to a total 14 cancellations in the quarter. However, this was the lowest number of cancellations per quarter in 2020. New issues, of which there were 5, included the re-admission to trading on AIM of oil and gas company i3 Energy plc, alongside its successful acquisition of producing assets in Canada. PKF acted as the reporting accountants on the transaction, which saw i3 Energy complete a placing of £29m.

£107bn

total market value of AIM, Q3 2020

The total market value of AIM increased from £97bn at the end of quarter to 30 June 2020, to £107bn as at the end of the quarter to 30 September 2020 - an increase of £10bn, despite the number of companies actively listed falling from 830 at June 2020.

Don't get caught out by the Revised Ethical Standard

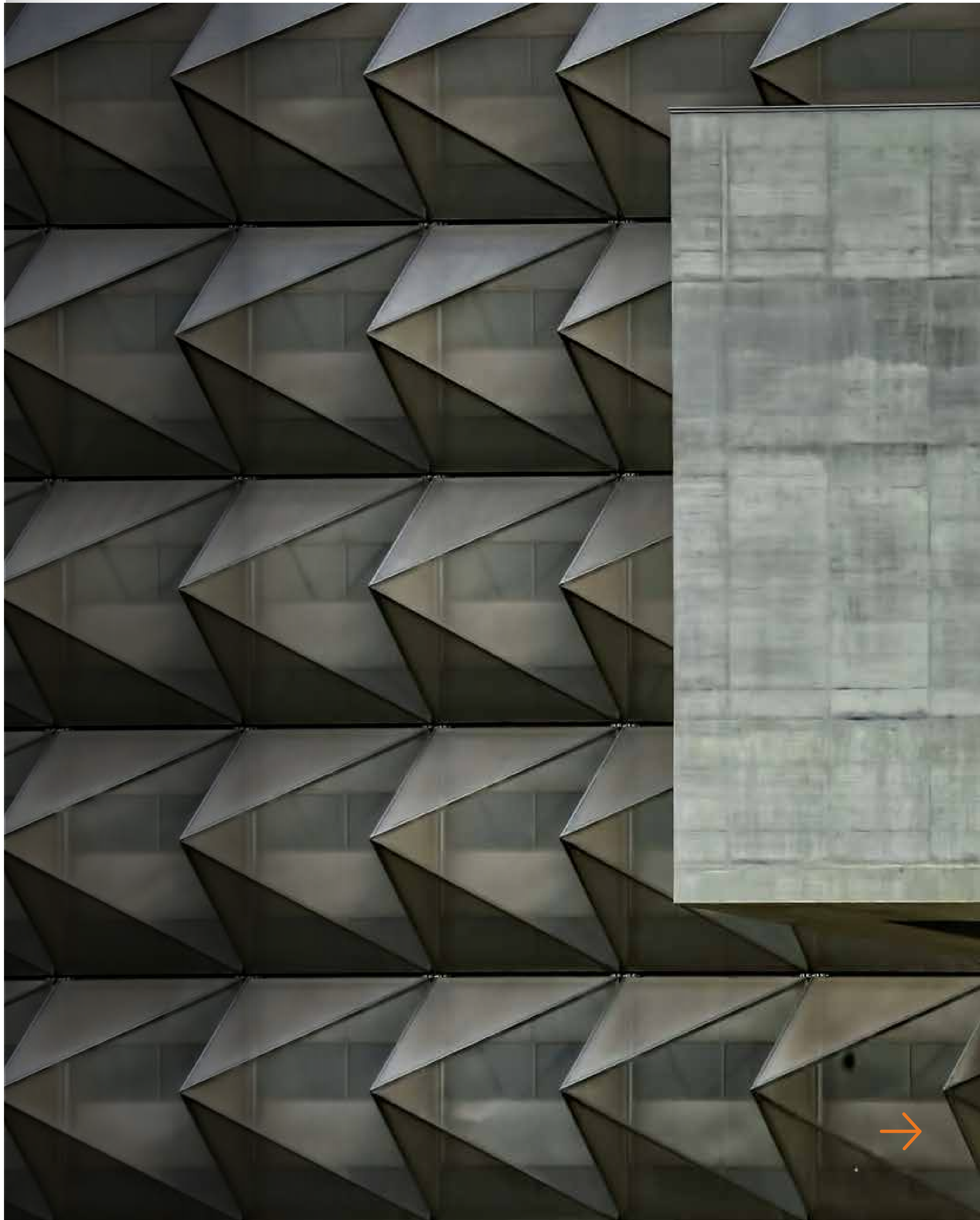
The FRC's Revised Ethical Standard was introduced in late 2019. It introduced revised and clarified rules for auditors and their ability to provide non-audit services to audit clients. Find out how they affect you.

Reviews into the practice of auditors have topped the agenda in recent years. They followed a series of high-profile scandals, where auditors were amongst those blamed for missing potential financial problems or fraud in blue chip companies that subsequently collapsed. Among many, these included BHS in 2016, Carillion in 2018 and Patisserie Valerie in 2019.

The Financial Reporting Council (FRC) issued its Revised Ethical Standard in December 2019. These recently changed rules apply more restrictions on what "non-audit" work auditors are able to do for a public interest entity (PIE) audit client. The restrictions were effective from 15 March 2020. The new standard also applies in full to engagements carried out under Standards for Investment Reporting (SIRs), such as for some reporting accountant engagements.

> To be properly objective, it is important that the auditor is, but is also seen to be independent of the company that it is auditing and from the perception of an "objective, reasonable and informed third party"

The FRC has extended most of these rules to a broader sweep of client companies than previously. This wider group, referred to as OEPIs (other entities of public interest), must apply the restrictions to services beginning on or after 15 December 2020.



What do the changes aim to achieve?

The engaging of an auditor to provide other services (such as tax and accounting support) to the same company has the potential to impact on the perceived threat to the auditor's independence. To be properly objective, it is important that the auditor is, but is also seen to be independent of the company that it is auditing and from the perception of an "objective, reasonable and informed third party". The Revised Ethical Standard therefore seeks to strengthen the view of an auditor's independence, by restricting what other services they may be able to offer to audit clients. And in doing so it aims to improve the overall quality of the audit and provide better investor protection.

What is an OEPI?

OEPIs are companies that do not meet the definition of a PIE but are still considered to be of significant public interest to stakeholders. These include:

- Large AIM-listed companies (with a market cap at or over €200m euros on a three-year average)
- Lloyd's Syndicates
- large private sector pension schemes (with more than 10,000 members and more than £1billion of assets)
- Large private companies (with over 2,000 employees, or a turnover of over £200m and gross assets of more than £2billion)

From mid-December 2020 they are subject to all the same restrictions as PIEs except they will not be subject to the 70% cap on non-audit services.

What are the key revisions to the Ethical Standard?

01 **The introduction of a 'whitelist' of non-audit services which are allowed to be undertaken by auditors. This aims to be clearer than the previous, more ambiguous, blacklist of prohibited services (albeit that these still exist in law). Broadly, whitelist services are those which the auditor is obliged to provide by law or regulation, or those that are closely related to the audit (for example, interim reporting).**

02 **A general ban on internal audit services, secondments, and contingent fee arrangements by external auditors and their network firms.**

03 **The restrictions placed on gifts and hospitality being provided to or received from audit clients extends to those that may in future become audit clients.**

04 **The restrictions on when certain tax work can be done for audit clients has been tightened, especially for listed companies.**

What if a company has an existing contract for non-audit services?

Where an auditor was engaged and had commenced that non-audit service before 15 March 2020, transitional arrangements allowed them to complete their work under that engagement as per guidance in the earlier (2016) Ethical Standard.

For OEPIs, the relevant date is 15 December 2020 with the new requirements coming into effect for periods commencing on or after that date. Again, there are transitional arrangements for the provision of non-audit services that were engaged and commenced before that date.

What next for reform of the audit sector?

The government has yet to make specific proposals for audit reform in response to the 2019 reviews by Sir Donald Brydon, Sir John Kingman and the UK's Competition and Markets Authority (CMA). These reviews included recommendations for formal separation of audit and non-audit service lines, particularly among the Big Four audit firms.

Joseph Archer
Partner - Capital Markets

+44 (0)20 7516 2453
jarcher@pkf-l.com

Where are crypto-currencies heading?

Blockchain technology and Bitcoin have been with us for more than 10 years. Yet they are still viewed with caution in many quarters. But could the tide be turning for the cryptocurrency market? Here's our industry update.

The value of Bitcoin has soared to near record levels over the last two months, led by growing institutional interest and PayPal's recent decision to allow its customers to buy and sell certain cryptocurrencies.

PayPal announced in October that customers could hold Bitcoin and other virtual coins in its online wallet and shop using cryptocurrencies at the 26 million merchants on its network.

This move could potentially help Bitcoin and rival cryptocurrencies gain wider adoption as viable payment methods. But will this change the definition of cryptocurrencies? For this we must look at how we define 'money' itself. The definition of money says that it must fulfil three main functions as: a medium of exchange, a store of value, and a unit of account. How do cryptocurrencies such as Bitcoin fare against these criteria?

An appropriate medium of exchange?

A medium of exchange is a payment mechanism used to pay someone for something, or to extinguish a debt or financial obligation. An appropriate medium of exchange must be widely accepted in the context in which it is being used. Although Bitcoin, for example, is certainly accepted within its community, this is not yet the case globally. But PayPal's recent announcement could trigger a change of behaviour in the general population.

Store of value: too volatile?

Store of value means that your money will be worth almost the same amount in a year's time, for example, as it is today. Even though Bitcoin as an investment has performed incredibly well since its introduction in 2009, would the average person move all their savings into this asset? Given its highly volatile price, the answer is probably 'No'.

But since Bitcoin halved in value in May this year, values have been more stable, ignoring the recent price increase linked to the PayPal decision. Following current protocols, the number of bitcoins created will decrease over time until it reaches the present capped amount of 21 million. Many believe that as the generation of bitcoins reduces over time, the price will become more stable and Bitcoin may meet the 'store of value' definition.

Unit of account: too soon?

A unit of account is used to compare the value of two items, or to count up the total value of your assets. To be an effective unit of account, the money must have a well-accepted or understood price against assets. Otherwise it's hard to figure out the total value across all your assets. Right now it could be argued that Bitcoin fails heavily as a unit of account, due to both its price volatility and the fact that hardly any merchants are willing to price items in Bitcoin.

> While banks have been slow to adopt blockchain, innovators in the payments industry have quickly recognised the value of the technology.

Not yet money

While arguably there may be a gradual shift in the perception of cryptocurrencies, there is not yet enough substance for us to classify it as 'money'. Until PayPal's announcement, spending bitcoins online was largely restricted to selling through an exchange for fiat money. So it does represent a significant step in the evolution of cryptocurrencies and how they are viewed by the wider world.

Developments in blockchain technology

Blockchain has evolved markedly since its launch with Bitcoin, and is now seen to be a pioneering technology capable of providing services and applications for a wide scope of activities. These include payments, cyber security and charitable donations. We explain below how blockchain has developed into some of these new areas.

The future of payments

While banks have been slow to adopt blockchain, innovators in the payments industry have quickly recognised the value of the technology. Many financial institutions have been able to offer easy, trackable and secure payments for years. Now the large high street banks are beginning to explore the technology's potential too. For example, Mitsubishi UFJ Financial Group, one of the largest banking institutions in Japan, is expected to launch its high speed blockchain payments network in 2021. Blockchain has clear advantages for the financial sector, and the technology's application continues to grow in this industry. But for banks it still remains a largely untouched area so its full capabilities are yet to be seen.

Tighter cyber security

When it comes to cyber security, blockchain is one of the best solutions to ensure the integrity of sensitive data. Blockchain encrypts its data and creates a log of persons who accessed and modified it. This means that it's really difficult to access, steal, or alter information without instant detection. Indeed many experts claim it is impossible to tamper with data stored on blockchain.

Blockchain resolves the 'lack of trust' problem between counterparties at a very basic level. It is a distributed database used for both private and public applications rather than a centralised structure where all the information is stored in few, but very large, databases. The data pertaining to each batch of valid transactions is stored within its own block. Every block is connected to a previous block and the chain grows continuously as new blocks of information are added. Blockchains provide no 'hackable' entrance or central point of failure. So they provide more security than many current database-driven transactional structures.

Blockchain technology eliminates the human factor from authentication. There is decentralised storage, every transaction is traceable and, crucially, blockchain transactions can be easily denied in the event of any DDoS attack. Over 50 per cent of the nodes would have to work collectively for any invalid transactions to pass through.

A boost for charities?

Scandals in the charity sector have damaged the public perception and trust in lesser known charitable organisations. There have been growing concerns about where donations really end up and, as a result, fewer are being received. Coinciding with inefficient and underfunded administration and increased regulation, the drop in donations means charities are struggling. But how could blockchain help?

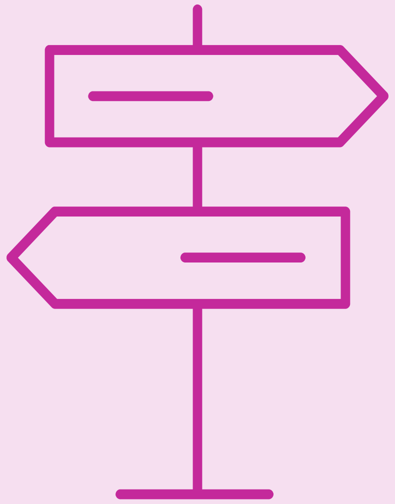
Blockchain technology will allow donors to confirm they have contributed funds to a real charity. The mysterious route of donated money could be tracked through the blockchain, so restoring lost credibility in the sector. Blockchain will allow full transparency by sharing financial information in real time.

If you have any questions please contact

Nicholas Joel
Senior Audit Manager

+44 (0)20 7516 2373
njoel@pkf-l.com

Social security for mobile employees after Brexit



From 1 January 2021, social security agreements with EU countries will be subject to new provisions. If the employees of your listed business move within Europe there are a number of things you need to know.

Social security often gets overlooked when companies move people to work in other countries. It is either assumed to follow the tax position or just completely forgotten about. But social security is independent of tax and has different rules and regulations.

When employees move within Europe or the EEA for a fixed period of time under a secondment agreement (usually two years), a Certificate A1, PDA (Portable Document A1) or E101 can be applied for.

The certificate provides evidence that EU social security coordination rules have been considered and that home country social security contributions will be due.

Brexit brings us new challenges. HMRC has released guidance for UK employers sending or receiving workers to or from the EU, the EEA or Switzerland from 1 January 2021.

The UK outbound rules

For employees starting work in the EU, EEA or Switzerland **before 1 January 2021** the current rules will continue to apply after 31 December 2020. This is regardless of whether a future relationship agreement between the UK and the EU on social security coordination is agreed or not, per the provisions in the Withdrawal Agreement.

Current certificates will have an end date and UK social security should be paid until the certificate expires.

Employers and individuals should continue to apply to HMRC for PDA1s and E101s, as normal, for employees who are to start working **after 31 December 2020** in a situation involving the UK and one or more of the EEA countries and Switzerland.

HMRC will issue further guidance in due course.

> The government has been clear that there will be changes to future social security coordination arrangements

The UK inbound rules

If you employ a person from the EU, EEA or Switzerland **before 1 January 2021** and they have a PDA1 showing they are subject to an EEA country or Swiss legislation, UK National Insurance need not be paid for the period stated on the PDA1, even if it ends after 31 December 2020, so long as their situation remains unchanged. If an individual has a PDA1 showing they are subject to UK legislation, both employer and employee will have to pay UK National Insurance.

For employees from the EU, EEA or Switzerland starting work in the UK **after 31 December 2020,** the situation is slightly different. If they do not have a PDA1 and they work in two or more of any of the UK, EU, EEA countries or Switzerland, an application should be made to the social security institution of the country where they normally reside.

Agreement with the Republic of Ireland

The UK has reached a reciprocal social security agreement with Ireland so that social security coordination continues after 31 December 2020 on the same terms that are currently in place for UK-Irish National moves.

What about immigration rules?

After 31 December 2020, employees should check the immigration rules for the country in which they will be working. Although Part Two of the Withdrawal Agreement protects social security coordination rights for certain UK and EU citizens, it doesn't protect the right to work in countries in which they are not resident – unless they are a UK national with rights as a frontier worker by 31 December 2020. Simply put, a frontier worker is someone who lives in one country but travels to work in another on a regular basis.

If an employee is an EU, EEA or Swiss national and they have not applied for settled or pre-settled status, they should consider registering with the EU Settlement Scheme by 30 June 2021.

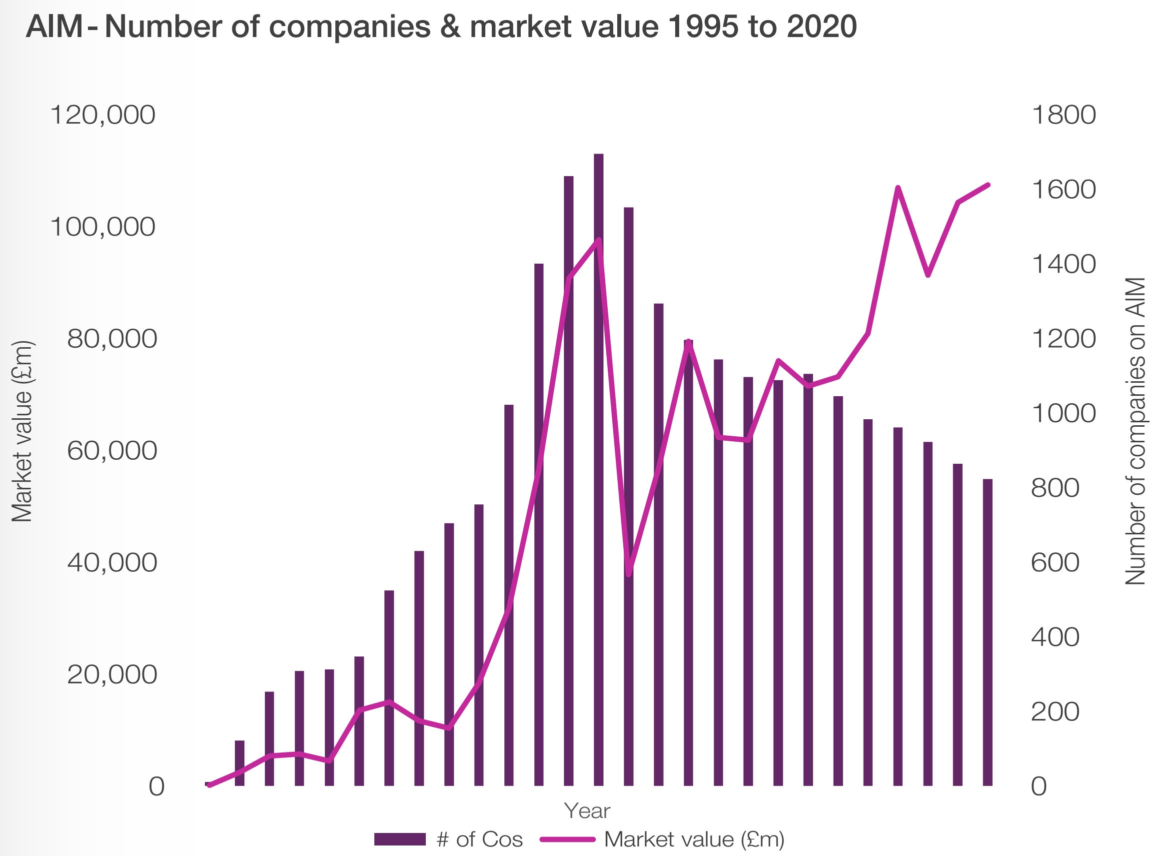
Will there be further changes?

The government has been clear that there will be changes to future social security coordination arrangements for those individuals not in the scope of the Withdrawal Agreement and related agreements with EEA EFTA countries and Switzerland. The government continues to work with the EU to establish practical, reciprocal provisions on social security coordination which include preventing having to pay social security in two countries at once.

If you have any questions please contact

Louise Fryer
Director - Global Mobility

+44 (0)20 7516 2446
lfryer@pkf-l.com



25 years of AIM

19th June 2020 saw the 25th anniversary of the launch of AIM originally known as the Alternative Investment Market.

It was established in 1995 to cater for growing businesses seeking the benefit of a public quotation alongside a flexible regulatory approach. The market has been true to its roots and shown considerable growth in those 25 years, despite some significant market challenges. At launch, there were just 10 companies listed on AIM, with a combined valuation of £82 million. As of June 2020, there were more than 800 companies on the market, with a combined valuation of over £70 billion.

Over its 25 year history, AIM has admitted over 3,800 companies from around the world, raising £118 billion in equity capital. 61% of capital raised in this period relates to further raises which demonstrates the ongoing support AIM investors have provided to companies on the market.

AIM's goal, as a growth market, has been to provide access to public equity earlier than might be possible on traditional markets and then support these companies through their growth phase. The above graph would suggest they have been successful in this regard with the average market capitalisation of an AIM company increasing from circa £28m in 2000, to £66m in 2010 and to £131m in 2020. By enabling growth-oriented companies to raise external finance at different stages in their lifecycle and helping them remain resilient throughout a changing business environment – as well as providing an exit route for early stage investors – AIM has played a significant role in the UK SME funding environment.

What next for AIM?

Over AIM's lifetime, the funding opportunities for companies has altered considerably. 'Early stage' financing has become increasingly available through crowd funding, angel investments and peer-to-peer lending. This could be a risk to growth markets such as AIM, however it could also mean the market is used a platform for more mature businesses to secure further investment whilst giving an exit opportunity to founder investors. This trend may explain why there are increasingly fewer companies on AIM but the total market capital continues to grow.

From January to May 2020, 158 companies have raised over £1.9bn in secondary capital on AIM. This could suggest that a listing on AIM provides some resilience and access to capital during the extremely unstable economic environment created by the COVID-19 pandemic and Brexit.

An AIM listing has been invaluable for these entities and continues to be a significant route to funding for SMEs around the world.

Key statistics on AIM today*:

AIM has admitted over **3,800 companies from across the globe,** with **79 countries represented on the market.**

Combined, these companies have **raised £118bn; 39% at admission** and **61% through further fundraising,** highlighting the long-term nature of support provided by investors to companies on the market.

53% of AIM-quoted companies have a market capitalisation **above £25m,** compared with one-third in 2000.

37 AIM companies carry London Stock Exchange's Green Economy Mark, which recognises London listed companies that generate more than **50% of their total annual revenues** from green products and services. These 37 companies have raised **£656 million** on admission and a further **£1.5 billion** in follow-on fundraising.

* London Stock Exchange June 2020

PKF is proud to have supported many companies on AIM throughout this time and are delighted to be number 5 auditor of AIM listed companies. We have many years of experience in assisting companies preparing for the rigours and extra reporting requirements that come with being a public company. We understand it can be a daunting task, and look to remove as much of this stress as possible.

Our extensive IPO experience means we know what works and how best to go about achieving a successful IPO. We have a strong network of trusted advisors including lawyers, brokers and PR advisers and we are always willing to share our contacts who can ensure that you receive the appropriate, and most suitable, representation.

Please get in touch with your usual PKF contact if you would like to discuss any aspect of AIM or the admission process.

Adam Humphreys
Partner - Capital Markets

+44 (0)20 7516 2393
ahumphreys@pkf-l.com

About PKF
Simplifying complexity for our clients

PKF is one of the UK's largest and most successful accountancy brands.

We have a strong reputation with publicly listed companies, and understanding these highly regulated, technically complex businesses has become a specialism of ours. We focus on delivering consistent quality and making all our clients feel valued.

Our specialist capital markets team has vast experience working with companies listed, or looking to list, on a range of international markets including the London Stock Exchange Main Market (Premium and Standard), AIM, AQUIS, NASDAQ & OTC, ASX and TSX & TSX-V.

PKF in the UK...

Ranked 10th in the UK

£140 million annual fee income

2,300 staff

7th ranked auditor of listed companies in the UK

Our Capital Markets credentials

Our auditor rankings from ARL

- 7 Total UK stock market clients
- 5 Total AIM listed clients
- 2 Basic materials sector
- 6 Energy sector
- 6 Financials and Real Estate sector
- 7 Technology sector

How we can help

- Pre-IPO →
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PKF UK in numbers	Capital Markets in numbers	PKF International in numbers
10th Largest accountancy brand in the uk	**120** Listed audit clients	**Part of the 14th** Largest global accounting network
30 Offices across the UK	**£2.7bn** Value of transactions advised on in last 10 years	**480** Offices in 150 countries
2,300+ Employees and 158 partners	**100+** Transactions advised on in last 5 years	**$1bn+** In aggregate fee income
£140m Fee income and growing rapidly	**26** International businesses brought to the UK in last 10 years	**20,000** Employees

Get in touch today to see how we can help...

Dominic Roberts
Partner – Capital Markets
+44 (0)20 7516 2219
dominicroberts@pkf-l.com

Mark Ling
Partner – Capital Markets
+44 (0)20 7516 2208
mling@pkf-l.com

Joseph Archer
Partner – Capital Markets
+44 (0)20 7516 2495
jarcher@pkf-l.com

Jonathan Bradley-Hoare
Partner – Capital Markets
+44 (0)20 7516 2203
jbradley-hoare@pkf-l.com

Dave Thompson
Partner - Capital Markets
+44 (0)20 7516 2293
dthompson@pkf-l.com

Zahir Khaki
Partner - Capital Markets
+44 (0)20 7516 2394
zkhaki@pkf-l.com

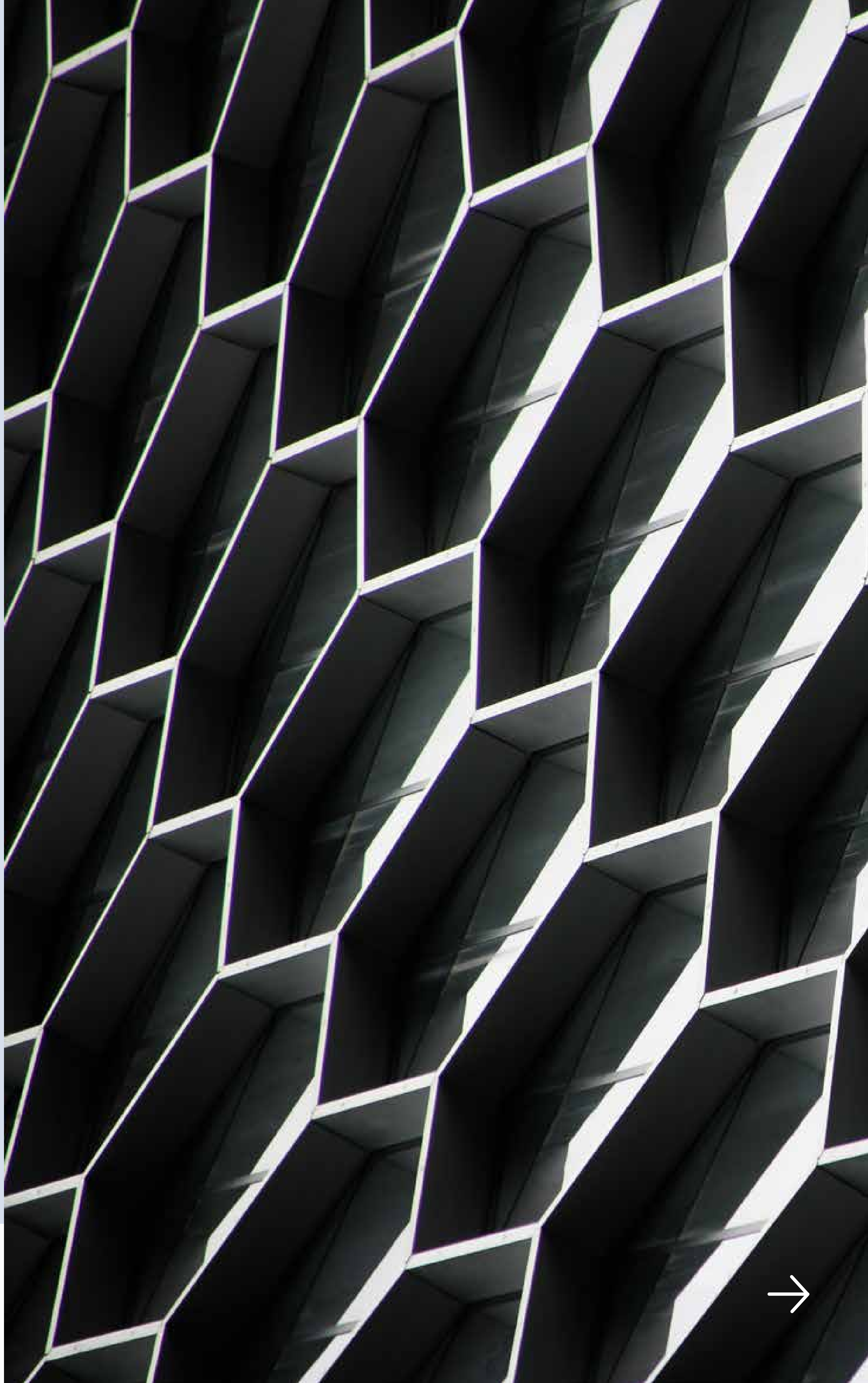
Joseph Baulf
Capital Markets
+44 (0)20 7516 2216
jbaulf@pkf-l.com

Adam Humphreys
Partner - Capital Markets
+44 (0)20 7516 2393
ahumphreys@pkf-l.com

Chris Riley
Partner – Tax
+44 (0)20 7516 2427
criley@pkf-l.com

Cheryl Court
Partner – Valuations
+44 (0)20 7516 2279
ccourt@pkf-l.com

Jessica Willis
Partner - Governance, Risk & Control Assurance
+44 (0)20 7516 2229
jwillis@pkf-l.com



PKF Littlejohn LLP
15 Westferry Circus
Canary Wharf
London E14 4HD

Tel: +44 (0)20 7516 2200
www.pkf-l.com