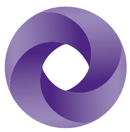

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July 2012

International Business Report: Quarter 2 Summary

Compiled by Pulane Makepe, Marketing

Highlights of the latest Grant Thornton International Business Report (IBR) indicate that business investment is picking up, especially in emerging markets. The global survey suggests that businesses, especially in emerging markets, are taking a longer-term approach to growth by increasing levels of investment, an encouraging sign in an otherwise bleak economic outlook. The report also mentioned that businesses are increasingly looking overseas for mergers and acquisitions (M&A). The third annual IBR report on the global cleantech industry reveals that the adoption of cleantech is now motivated by the need to reduce costs and increase profits, supported by government intervention, and is no longer about just being 'green'.

Optimism / pessimism

- Overall South Africa ranked higher than Botswana for the optimism balance percentage ranking in the second quarter of 2012 with +63% to Botswana's +48%.
- Despite being less optimistic than South Africa, the change in optimism balance was higher from the first quarter of 2012 to the second quarter than that of South Africa; a difference of +14% to South Africa's +10%.
- The change in optimism percentage balance in Botswana from 2011 to 2012 was -2% but the change from the fourth quarter of 2011 to the first quarter of 2012 is +6%. This indicates that the positive trend in optimism amongst business leaders in their prospects has been sustained in 2012.

The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3 000 senior executives in listed as well as privately held businesses (PHBs) from all industry sectors across the globe. Launched in 1992 in nine European countries, the report now surveys over 12 000 PHBs per year across 40 economies. This unique survey draws upon 20 years of trend data for most European participants and 10 years for many non-European economies.

Mergers & Acquisitions

Despite the traumatic economic events in the second half of 2011 and the on-going challenges within the banking sector and the eurozone, the results of the 2012 Grant Thornton International Business Report, show that businesses across the globe (34%) remain significantly more interested in acquisitions than they were in 2010 (26%), reflecting the upward trend seen in 2011.

- United States (37%) and Canadian (42%) businesses continue to be at or near the top of these results. Mainland Europe appears to be cautiously returning to the M&A market, with the key eurozone countries of France (34%) and Germany (18%) both showing an increased expectation of M&A activity compared to 2011. The UK and Irish market appetite for M&A remains at a high level, with 36% of respondents planning an acquisition.

- The BRIC economies have provided the most volatile results over the past five years, perhaps not surprisingly as M&A markets continue to develop. The 2012 survey suggests that overall the BRIC economies are now aligned with the rest of the world in terms of their current appetite for acquisitive growth. How these results evolve in the coming years will be of much interest to businesses and advisers involved in M&A globally.

- Either access to geographical markets (63%) or building scale (57%) remain the likeliest motivation to participate, indicating that M&A remains the simplest and most effective way for businesses to gain a footprint and build scale in new geographies.

- Globally, North America (91%) and, perhaps surprisingly, the BRIC countries (90%) continue to place the most importance on making acquisitions within their own borders, though the results illustrate that Japan's businesses have the greatest appetite (94%) for domestic acquisition.

- Businesses in Europe place proportionally more emphasis on expanding overseas (44%) compared to wanting to acquire within their own country (75%). This may reflect a relatively mature and sophisticated M&A market as well as the lack of economic growth within that region when compared to the growth and opportunities available in emerging markets.

- Within the BRIC economies, there appear to be two distinct themes. Whilst all see value from domestic acquisitions, indicating an increasingly vibrant and exciting local M&A market, only India (29%) and China (26%) show real enthusiasm to expand overseas. Clearly, at present businesses in these economies are more focused on expanding domestically, a situation we expect to change in the near future as Brazil and Russia continue to develop international links.

- In Botswana, generally businesses expressed that they did not have plans to grow through M&A within the next 3 years (49%) compared with 43% who do have an M&A agenda. This was relatively small difference compared to neighbouring South Africa, where a large majority of 65% have no intention of growth through M&A compared with 35% expressing interest in doing so.

Alternative Energy

A brief update on the growing green technology sector (businesses with more than 40% of their activities related to research and development, production, or distribution of alternative energy / cleantech) indicates the global trends of this relatively young industry.

- Businesses in the cleantech sector around the globe expressed optimism about the economy for the next 12 months, with net 37% optimistic in 2011, up from net 34% in 2010. This contrasts with the all-sector average, which declined from net 24% in 2010 to net 22% in 2011.

- While revenue prospects improved in most industry sectors in 2011, according to IBR survey findings, net 64% of businesses in the cleantech sector expected top-line growth, up from net 54% in 2010 and well above the all-sector net 53%. What's more, net 64% of cleantech businesses expected to increase profits, significantly higher than in 2010 (net 42%). The revenue and profitability expectations appear to have fuelled workforce expansion plans, with net 42% of cleantech businesses expecting to expand their workforces in 2011, compared to net 28% of all-sector businesses.

- Europe is seen to be the location with the greatest demand/potential for cleantech products and services (cited by 51% of cleantech businesses responding to the IBR survey), followed by the United States and Canada (39%). Africa has the least demand with 12%.

- The cleantech sector suffers from traditional constraints such as availaibility of skilled labour (32%), cost of finance (31%), shortage of longterm finance (29%), shortage of longterm working capital (27%) etc in 2011.

The Cutting Clutter Challenge

Compiled by Sakshi Shukla, Audit

*Extracted from Grant Thornton International's IFRS Top 20 Tracker

Clutter in financial statements

The disclosures required in IFRS continue to increase. In addition, public authorities in many jurisdictions have added reporting requirements in areas such as risk, governance, remuneration and sustainability. Unsurprisingly, recent years have seen a substantial increase in the average length of companies' financial statements in many parts of the world. Against this background, many companies, users and other stakeholders have been asking whether we are reaching 'information overload' – the point where the sheer volume of information starts to detract from its practical usefulness.

Standard-setters and regulators are mindful of this concern. Several bodies have launched consultations and studies aimed at finding a way to tackle clutter and thereby focus on the information that matters. Examples inlcude:

- the IASB, in its Agenda Consultation, has asked about whether it should develop a disclosure framework. This could lead to a less prescriptive and more principle-based approach to disclosure over time
- EFRAG and the FASB are collaborating in order to develop new thinking on how to ensure disclosures are relevant
- the Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants have undertaken a joint project, 'Losing the Excess Baggage', resulting in specific recommendations to reduce the volume of disclosure.

These and other initiatives may point the way to longer-term solutions. But in the meantime can companies do anything to reduce the length of their report while complying with all the required standards? The UK Accounting Standards Board (ASB) believes they can. In 2011 the ASB published 'Cutting Clutter – Combating clutter in annual reports'. This followed a discussion paper 'Louder than Words: Principles and actions for making corporate reports less complex and more relevant' that was published by the UK's Financial Reporting Council (FRC) in 2009.

What is clutter?

The ASB report explains the term clutter as comprising two problems:

- immaterial disclosures that inhibit the ability to identify and understand relevant information, and
- explanatory information that remains unchanged from year to year.

Immaterial disclosures can often be found where detailed notes are given in support of line items in the accounts which are small. A specific example given in the ASB report is share-based payment. An example of explanatory information that often remains unchanged, or largely unchanged, from year to year is the accounting policies note.

The barriers to cutting clutter

The ASB report identifies behavioral issues as a key barrier to cutting clutter in financial statements. They are not referring only to the behavior of preparers, but also regulators, standard setters, auditors and institutes. All of these parties may have a tendency to err on the side of caution, by including each and every disclosure requirement in the financial statements. However, because the barrier is behavioral, some change can be achieved to cut clutter without changing standards or guidance.

Actions to take

Both the FRC discussion paper and ASB report aim to provide guidance to preparers of financial statements. The FRC discussion paper provides four guiding principles for communication to be:

- focused
- open and honest
- clear and understandable
- interesting and engaging.

The ASB report provides disclosure aids for three areas of financial statements which often contain clutter, being governance disclosures, accounting policies and share-based payment disclosures. Four actions that all companies can take are considered below.

Accounting policies

Accounting policies should be specific to the circumstances of the reporting entity. Management should review and assess the accounting policies given in the financial statements. Where accounting policies are not relevant to an entity's business, they are irrelevant and add clutter, and should be deleted.

Eliminate duplication

Information is often duplicated within financial statements, particularly where management commentary is given. This duplication of information creates clutter. Management should seek to minimize such duplication, and, for example, make use of cross references where appropriate.

Remove immaterial disclosure

IAS 1 'Presentation of Financial Statements' states clearly that a specific disclosure required by an IFRS need not be provided if the information is not material (IAS 1.31). Materiality is judgmental, and this is an area where there is a tendency to err on the side of caution, perhaps to avoid questions arising from regulators if the disclosure were not included. However, this is an area where management can cut clutter in financial statements by giving careful consideration to whether or not disclosures are material.

Clarity of expression

One aim of cutting clutter is to increase the clarity of the financial statements for users. An element of this is looking at the clarity of expression and the language used in the financial statements, in order to assess whether complicated information is communicated in a clear way that users will be able to understand.

The future of the debate

The ASB report makes three calls for action considered necessary to remove some of the existing barriers. They are:

- continue to encourage debate about what materiality means from a disclosure perspective
- investigate the possibility and potential benefits of separating explanatory information, either within or outside the financial statements
- engage with other stakeholders regarding their information requests.

Both the FRC and ASB have called for the debate on cutting clutter to continue, but recognize that change will only happen if all those involved in corporate reporting make a concerted effort.

Elements of Competition Law

Compiled by Anjana Suresh – Partner, Corporate Services

Botswana joined many other Sub Saharan African countries including South Africa, Namibia, Tanzania and Mauritius when the Competition Authority was launched in January 2012, pursuant to enactment of Competition Act by Parliament in 2009, with a mandate to regulate competition in the economy. Implementation of the Competition Act is in line with Botswana's various initiatives to diversify its economy and promote international trade.

Competition law is law that promotes or maintains market competition in any country.

Competition law has the following main elements:

- Prohibiting agreements or practices that restrict free trading and competition between businesses.
- Prohibiting anti – competitive behavior by a firm dominating a market.
- Supervising the mergers and acquisitions of large corporations including some joint ventures.
- Protecting consumer welfare and ensuring that entrepreneurs have an opportunity to compete in the market.

Duties of the Competition Authority

Competition authority shall be responsible for prevention of redress of anti-competitive practices and remove constraints to the free play of competition in the market.
In order to perform its functions, the authority shall

- Make rules to increase fair and transparent practise,
- Regulate merging of enterprises,
- Investigate and evaluate alleged anti-competitive practices,
- Hold regular consultation with Government and other stakeholders and monitor competition within various sectors,
- Hold regular consultation with Government and other stakeholders and advise on the actual or likely anti-competitive effects of the current or proposed legislations.

Highlights of the Competition Act

Part V of the Competition Act deals with control of restrictive agreements and dominant position. The Act prohibits an enterprise from entering into agreements with other enterprises:

- if parties to the agreement together supply or acquire 10% or more of goods and services in a particular market,
- if the agreement is entered into by parties to fix price of goods and services, divide markets, introduce restraint on production or sale, bid rigging, concerted practice, denial of access to competition to the enterprise, fixing of resale price, prevention or reduction of competition in the market for any goods or services.

Part X of the Act deals with Control of Merger which occurs when an enterprise acquires control of another enterprise by way of purchase of shares, lease, assets or when 2 or more companies are amalgamated to one company.

When a merger is proposed, if the turnover or total assets of the enterprise being acquired exceeds P10M or if subsequent to merger the merged enterprise would be the supplier of 20% of the goods or services

in the market, each enterprise shall approach the Authority. The details shall thereafter be published by the Authority and be subjected to investigation and hearing. If required the Authority may allow or disallow the merger.

In assessing a proposed merger, the Authority would consider the following main factors:

- Whether the proposed merger would prevent or lessen competition in the market; or
- Whether the proposed merger would allow any enterprise to acquire dominance in the market.

The Authority may also consider other factors which could have bearing upon the broader public interest in the proposed merger including whether the proposed merger:

- would result in benefits to public which would outweigh the negative effects of dominance of an enterprise in the market, would improve production and distribution of goods in the market,
- may promote technical or economic progress in Botswana, promote development of a particular industry or sector, maintain or promote exports from Botswana,
- would promote employment in Botswana, provide socials benefits to Batswana, enhance competitiveness of SMME's, empower citizens and promote capability for industries to compete internationally.

Authority to investigate and prohibit

Competition Authority is authorised to investigate and prohibit any conduct by any enterprise which involves abuse of a dominant position in any market. The Authority while determining abuse of dominance may consider whether the agreement or conduct in question maintains or promotes exports from Botswana, provides socials benefits to Batswana, enhances competitiveness of SMME's provide training to citizens, empower citizens and promotes development of economy of Botswana.

Competition Authority on its own initiative or upon any complaints received from the general public would investigate any company who maintains a market share of 25% or one to three companies who maintain market share of 50%. The Authority can also initiate investigation into the conduct of any enterprise if it has grounds to believe that the conduct of such enterprise has caused irreparable harm to the economy and consumer.

The Authority, subject to investigation, may grant exemption from prohibition of signing of agreements between parties if it can be proved that there will be offsetting benefits to the public.

Prohibition

The Competition Authority may prohibit transactions that are considered a threat to the competitive process altogether, or approve such transactions subject to "remedies" such as an obligation not to retrench employees, to divest part of the merged business or to offer licenses or access to facilities to enable other businesses to continue competing.

Competition Law regulates competition among businesses in the economy and therefore creates an economic environment in which the best quality products and services are available at the lowest prices. The Competition Authority is called upon to ensure that high levels of concentration that characterise certain markets do not lend themselves to market abuse.

With the advent of the Competition Act, company disposal is a controlled process, not so much to prevent businesses to dispose of businesses, but to ensure that competition issues such as concentration, barriers to entry and others are addressed, otherwise businesses would maintain dominance by selling to those that they like and prefer.

Effective dates of new standards and IFRIC interpretations

Extracted from Grant Thornton International's 2012 Q2 IFRS News

The table below lists new IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010. Companies are required to make certain disclosures in respect of new Standards and Interpretations under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IFRS 9	Financial Instruments	1 January 2015	Yes (extensive transitional rules apply)
IAS 32	Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	Yes (but must also make the disclosures required by Disclosures – Offsetting Financial Assets and Financial Liabilities)
IFRS 1	Government Loans – Amendments to IFRS 1	1 January 2013	Yes
IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	Not stated (but we presume yes)
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013	Yes
IFRS 13	Fair Value Measurement	1 January 2013	Yes
IFRS 12	Disclosure of Interests in Other Entities	1 January 2013	Yes
IFRS 11	Joint Arrangements	1 January 2013	Yes (but must apply IFRS 10, IFRS 12, IAS 27 and IAS 28 at the same time)
IFRS 10	Consolidated Financial Statements	1 January 2013	Yes (but must apply IFRS 11, IFRS 12, IAS 27 and IAS 28 at the same time)
IAS 28	Investments in Associates and Joint Ventures	1 January 2013	Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 27 at the same time)
IAS 27	Separate Financial Statements	1 January 2013	Yes (but must apply IFRS 10, IFRS 11, IFRS 12 and IAS 28 at the same time)
IFRS Practice Statement	Management Commentary: A framework for presentation	No effective date as non-mandatory guidance	Not applicable
IAS 19	Employee Benefits (Revised 2011)	1 January 2013	Yes

New IFRS Standards and IFRIC Interpretations with an effective date on or after 1 January 2010

Title	Full title of Standard or Interpretation	Effective for accounting periods beginning on or after	Early adoption permitted?
IAS 1	Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).	1 July 2012	Yes
IAS 12	Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)	1 January 2012	Yes
IFRS 1	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)	1 July 2011	Yes
IFRS 7	Disclosures – Transfers of Financial Assets (Amendments to IFRS 7)	1 July 2011	Yes
Various	Annual Improvements 2010	1 January 2011 unless otherwise stated (some are effective from 1 July 2010)	Yes
IFRIC 14	Prepayments of a Minimum Funding Requirement – Amendments to IFRIC 14	1 January 2011	Yes
IAS 24	Related Party Disclosures	1 January 2011	Yes (either of the whole Standard or of the partial exemption for government-related entities)
IFRS 1	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (Amendment to IFRS 1)	1 July 2010	Yes
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010	Yes
IAS 32	Classification of Rights Issues (Amendment to IAS 32)	1 February 2010	Yes
IFRS for SMEs	International Financial Reporting Standard for Small and Medium-sized Entities	Immediately subject to approval within the individual jurisdiction	N/A
Various	Annual Improvements 2009	1 January 2010 unless otherwise stated (some are effective from 1 July 2009)	Yes
IFRS 1	Additional Exemptions for First-time Adopters (Amendments to IFRS 1)	1 January 2010	Yes
IFRS 2	Group Cash-settled Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2010	Yes

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Contact us

Gaborone
Jay Ramesh
Acumen Park
Plot 50370 Fairgrounds
P O Box 1157
Gaborone Botswana
T + 267 3952313
F + 267 3972357
E info@bw.gt.com

Francistown
Sydney Muzadzi
Ground Floor
Botswana Life House
P O Box 101
Francistown Botswana
T +267 2418961
F +267 2418962
E info@bw.gt.com

Editorial Panel
Aswin Vaidyanathan
Pushpa Ramesh
Pulane Makepe

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