IS Chartered Accountant

November 2017

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

DOING BUSINESS IN MYANMAR
Opportunities Await Investors

DRIVEN BY DATA
ISCA Member Alex Lee, Director, Global Finance, Accounting & Reporting, DFS Venture

THE ENHANCED RESTRUCTURING REGIME IN SINGAPORE
Benefiting The Accounting Profession

CONSOLIDATION AMONG SMPS
Practical Considerations For SMP Owners

IS CHARTERED ACCOUNTANT
NOVEMBER 2017

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***IS C**hartered **A**ccountant journal* clinched the APEX 2017 Award of Excellence in the "Magazines, Journals & Tabloids - Print +32 Pages" category

IN SUSTAINABILITY MATTERS, THE RIGHT MINDSET IS EVERYTHING

Dear members,

For some years now, we have been hearing the word "restructuring" being frequently used, most commonly in relation to businesses and economies. We hear, for instance, that the Singapore economy is undergoing restructuring; organisations must restructure to address the challenges brought on by technological disruption; companies must restructure to prepare for the future, and more. Taking the definition of "restructuring" to mean "transforming", the Institute, too, has embarked on its own journey of change as it advances towards its 2020 vision.

Achieving our vision requires careful planning, and ISCA has charted its progress through a comprehensive strategy roadmap built on seven strategic priorities. In the May and July issues of this journal, CEO Lee Fook Chiew had shared his thoughts on four strategic priorities and what they mean to our members, the profession and the wider community. Here, he continues the discussion on the remaining three strategic priorities, reinforcing how the Institute creates value and helps our members attain a competitive edge.

Things are now moving faster than before. To ensure that you and your business continue to thrive, I urge members to give serious thought to sustainability. Take affirmative action that brings you closer to your goals, starting with the right mindset which can make the difference between advancement and stagnation, success and failure.

ISCA offers a plethora of initiatives to help members attain new skills and competencies. These initiatives also address issues of concern to business owners, especially SMP owners who lack the resources of the larger firms. In the cover story, we look at what SMP owners need to do to further their firms' sustainability. From collaborations to consolidation such as mergers and acquisitions (M&As) and organic growth, they have different options on how to scale up for long-term growth. The article sheds light on the common practices and pitfalls surrounding consolidation, and includes advice from SMP owners who have gone through the process. There is also an overview of the more common deal structures and valuations in the market.

ISCA, through its frequent interactions with members, is in a unique position to support SMP owners in their sustainability efforts. The Institute can match interested practitioners with prospective buyers and sellers, and also link them up with professional service providers for deal facilitation. The facilitation of mergers is in line with the Institute's strategic goal to support SMP development.

Having the right mindset is essential for sustainability. In the case of SMPs, if an owner is not ready to buy, sell or merge, there would be no deal. Likewise, a finance professional who does not upgrade or upskill would be severely challenged in the fast-changing business environment.

ISCA's role, as the national accountancy body, is to equip members with the right skills to meet the needs of today and tomorrow. Against a backdrop of growing financial fraud and cybercrime, the Institute organised the inaugural ISCA Financial Forensic Conference to raise awareness of financial forensics as a specialisation pathway. To enable accounting professionals to deepen their expertise in this area of high demand, the ISCA Financial Forensic Accounting Qualification – the first financial forensic accounting qualification in Southeast Asia – will be open for application on 1 March 2018.

Our regular Member Profile column showcases members from different industries, and aims to inspire members to scale greater career heights and broaden their awareness of the multiple career paths an ISCA membership can bring them. Significantly, having the right mindset features prominently in all their success stories – including for Alex Lee, who is featured in this month's column. His firm belief in continual learning, and his embrace of technology and "disruption", has added value to his role as Director, Global Finance, Accounting & Reporting, DFS Venture. Finance professionals who have yet to adopt a positive mindset towards learning and technology may be missing out on the immense benefits they can bring.

As always, this issue contains multiple resources that are relevant to you – including information about nearby destinations that are ideal to ring in the New Year.

Have a good read.

Gerard Ee
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FIRST LOOK

PUBLISHER
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Onshoring on the Rise among Singapore's Financial Services Firms

New independent research commissioned by recruiter Robert Half revealed that Singapore's financial services companies are increasingly bringing their offshore operations back to the city-state as companies are being affected by rising costs and a growing skills shortage in offshore regions, potentially leading to more jobs in the financial services sector.

According to the research, 44% of Singapore's financial services Chief Financial Officers (CFOs) have increased their level of onshoring – transferring their offshore business operations back to Singapore – in the past two years, compared to 10% who have decreased their onshoring activities. A further 50% have increased their level of nearshoring – transferring operations to a nearby country in preference to a more distant jurisdiction – over the same timeframe.

Financial and manpower motives were the key reasons for the move back to Singapore, with 66% pointing to the rising costs, and 59% to the skills shortage in offshore regions. In terms of the quality of their operations, 48% further cited service complaints in offshore regions and 43% identified the lack of efficiency as among the key reasons for the move back.

Onshoring can result in tangible benefits for Singaporean companies. Almost half (47%) of Singapore's financial services leaders who have returned business activities to Singapore said it has resulted in increased productivity, an increase in service quality (44%), greater customer responsiveness (44%) and an increase in cost efficiency (39%).

This survey is part of the international workplace survey, a questionnaire about job trends, talent management and trends in the workplace.

SUSS SCHOOL OF BUSINESS

At Singapore University of Social Sciences (formerly SIM University), we equip students with relevant business knowledge, real world skills and social awareness so that they will lead with a heart. The School of Business offers degree programmes in **Accountancy, Business Analytics, Business, Finance, Logistics and Supply Chain Management, Marketing, Security Studies and Visual Communication with Business.** In addition, we also offer graduate programmes: **Master of Business Administration**, **Master in Management [Urban Transportation], Master of IP and Innovation Management, Doctor of Business Administration in Management and Doctor of Business Administration in Finance.**

BACHELOR OF ACCOUNTANCY

Our Bachelor of Accountancy programme's curriculum provides comprehensive accounting knowledge and relevant industry skills to students who want to pursue a professional accountancy degree.

The programme provides training in general business skills, accounting, taxation, assurance, attestation, analytics and strategy. The programme is also mapped to SCAQ and other professional examination requirements.

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SUSS's **Bachelor of Accountancy** is recognised by ACRA as a qualification for registering public accountants under the Accountants Act. It has been granted accreditation by SAC for direct entry to the Singapore Chartered Accountant Qualification Professional Examinations.

Graduates also enjoy exemptions from **ACCA** and **CIMA** professional examinations.

For more information on the work attachment , please contact:
Office of Career Development at careerdev@suss.edu.sg

Find out more at suss.edu.sg/sbiz

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IN TUNE

ISCA NEWS

▶ Tan Wah Yeow, Chairman, ISCA Corporate Reporting Committee, giving the welcome address

SUSTAINABILITY REPORTING SEMINAR

ISCA Spurs Sustainability Reporting with Seminar and Publication

The ISCA Sustainability Reporting (SR) Seminar, titled "The 'How to' of Implementing SGX Sustainability Reporting Guide", was held at the SGX Auditorium on September 18. In attendance were 190 participants, many of them finance professionals and representatives from listed and non-listed companies.

The Seminar, organised by the ISCA Corporate Reporting Committee (CRC), featured a sterling line-up of speakers and panellists with a wealth of experience in SR. The session provided insights on the "how to" of implementing the SGX SR Guide and the role played by Chief Financial Officers (CFOs) in driving the sustainability practice in their companies. A panel discussion centred on the practical issues faced by companies when applying the SGX SR Guide.

One of the highlights of the Seminar was the launch of the ISCA SR Implementation Roadmap. The Roadmap was developed to help new or early-stage SR adopters kick-start their SR journey by providing practical guidance on the SR implementation process as well as key considerations for the company's first Sustainability Report. The Roadmap includes a compilation of questions asked by early-stage SR implementers in the market. These questions touch on the practical implementation challenges faced, based on discussions with ISCA's CRC and SR Working Group.

▲ **(From left) Lee Fook Chiew, ISCA CEO; Henry Tan, Chairman, ISCA SR Awareness Working Group and Managing Director, Nexia TS; Koo Lee Sze, CFO, Ascendas Funds Management (S) Ltd (Manager of Ascendas Real Estate Investment Trust); Yvonne Chan, CFO and Director (Corporate Development), Maritime and Port Authority of Singapore; Rajnish Juta, Chairman, ISCA SR Quality Working Group and Partner, Deloitte & Touche; Krishna Sadashiv, Member, ISCA CRC and MD, Climate Change & Sustainability Services, Ernst & Young LLP; June Sim, Senior VP and Head, Listing Compliance, SGX; Fang Eu-Lin, Member, ISCA CRC and Partner, PricewaterhouseCoopers LLP; Esther An, Chief Sustainability Officer, City Developments Limited; Tan Wah Yeow, Chairman, ISCA CRC, and Ian Hong, Member, ISCA CRC and Partner, KPMG Singapore**

There are six phases in the Implementation Roadmap, namely, Planning, Materiality Assessment, Setting Targets, Data Collection, and Report and Assurance.

Besides the Roadmap, the ISCA SR Roundtable Report: CFOs for SR, was also launched at the Seminar. The Report seeks to provide the key takeaways from the ISCA SR Roundtable which took place on July 28.

With the insights shared during the Seminar and the launch of the Implementation Roadmap and Report, ISCA would like to assure participants that the Institute is here to provide help with the SR journey.

Download the ISCA SR Implementation Roadmap and ISCA SR Roundtable Report from ISCA's Sustainability Reporting webpage (https://isca.org.sg/tkc/sustainability-reporting/).

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Five Reasons Why Companies Outsource Their Payroll

Managing accounting, human resources, payroll, tax, and other financial responsibilities at the same time is a complex and time-consuming affair. Many businesses still do all of these activities in-house, not realising that such routine administrative work is getting intricate by the day, and is a big drain on their time.

Accounting, payroll and human resources are some of the most commonly outsourced company functions. Here are the top 5 reasons why you should outsource your payroll.

Complex rules and calculations

With so many rules, by-laws, provident fund percentages for different age groups, employee benefit programmes, employees joining and leaving and taxes to consider, it is becoming extremely challenging to process the exact salary and reimbursements of each employee. You must also be able to answer your employees' queries about their payroll confidently and clearly.

Even if you can do all this by yourself, how can you be sure that everything has been taken care of? How will you verify the accuracy of your calculations? Do you have a safe and secure mechanism to do a proper audit of your payroll processing?

Better reporting

Payroll processing companies provide a wide array of reports that address the most common reporting requirements. Such comprehensive reports may not be possible with your in-house payroll software or may take a long time for your IT staff to figure out or develop. You can quickly get the outsourcing company to deliver specific and ad hoc reports for your custom analysis.

Direct access to experts

Outsourcing companies are staffed by payroll experts who can answer your employees' queries on the phone, and act as a single point of contact for your staff.

They can also conduct standard or specialised training for your HR staff whenever there are changes to CPF rules, taxation and employee benefit programmes. Most payroll outsourcing companies can even come to your office to conduct in-house training or have a hands-on consulting session with the management and staff.

Cost savings

Outsourcing monthly payroll processing often frees up manpower that can help you in sales or customer services, or simply allows you to enjoy cost savings. In fact, cost saving is a byproduct of payroll outsourcing. Most companies outsource their payroll because of the hassle it proves to be, not realising that by outsourcing, they will actually save costs in the long term.

Professional payroll processing services

Payroll outsourcing companies provide basic to complex payroll administration for businesses. They maintain individual payroll files for each employee and compute all salaries and reimbursements on time. Printed or electronic itemised payslips via the internet are delivered to each employee, and items such as annual bonus and increments are processed with ease.

On top of this, the annual income statement required for tax purposes is generated for each employee in a professional, timely and fully confidential manner. Such enhanced services ensure that HR professionals can focus on real HR work such as staff training and development or compensation planning.

ISCA

Financial Forensic Conference

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ISCA Financial Forensic Conference

The inaugural ISCA Financial Forensic Conference, organised by ISCA, took place on September 28 at the Marina Bay Sands Expo and Convention Centre. Themed "Fortifying Your Business", the Conference attracted close to 500 delegates including professional accountants, law enforcement agents, regulators, legal specialists, financial compliance experts and financial forensic investigators from both the public and private sectors.

In his welcome address, ISCA President Gerard Ee highlighted the importance of the financial forensic profession in defending Singapore's reputation as a global financial hub. Citing some recent notable cases on financial crime, he emphasised the need for Singapore to stay vigilant against white-collar crimes, and hence, there is a rise in demand for a workforce with the required knowledge and skill sets to do so. With that, he announced the launch of the ISCA Financial Forensic Accounting (FFA) Qualification on 1 March 2018. The Qualification aims to equip existing and aspiring financial forensic professionals with the needed competencies and to further their professional development.

▲ Guest-of-Honour Teo Chee Hean, Deputy Prime Minister and Coordinating Minister for National Security, delivered his keynote address

Guest-of-Honour Teo Chee Hean, Deputy Prime Minister and Coordinating Minister for National Security, in his keynote address, urged both the public and private sectors to work together to keep up with the dynamic risks and challenges, and implement timely measures to maintain Singapore's reputation as a trusted financial and business hub where any illegal activities

> The ISCA FFA Qualification is the first applied learning financial forensic qualification developed by a professional body in Southeast Asia, with inputs from leading financial forensic experts from the public and private sectors. The Qualification comprises four modules, and upon the passing of the examinations and satisfaction of relevant financial forensic experience, will lead to the conferment of the ISCA Financial Forensic Professional (FFP) credential. For more details, please visit the Qualification website at https://isca.org.sg/become-a-member/qp/isca-ffa/.

▲▶ **The inaugural conference attracted close to 500 delegates**

are ferreted out. Mr Teo highlighted two key risks that "all financial centres, including Singapore, need to work on – money laundering activities that support transnational crime, and the financing of terrorism".

Mr Teo underlined Singapore's commitment to maintaining a resilient system with high integrity for its financial institutions and the financial sector, which is a key competitive advantage for Singapore in the global economy. Achieving this would require not only the support of the government, it would need the efforts of the wider community. "The accounting and financial professions can help protect businesses against money laundering and terrorism financing," he said. "Together, we can ensure that Singapore strengthens our resilience as a trusted business and financial centre."

▼ **ISCA President Gerard Ee welcoming delegates to the Conference**

CONFERENCE HIGHLIGHTS

Singapore, which has a high Internet adoption rate, is a prime target for cyber-enabled crime. Given its connected and integrated role in the global economy, the financial crimes here are increasing in magnitude and complexity, especially crimes aided by professionals and new technologies. To overcome such challenges, David Chew, Director of Commercial Affairs Department, Singapore Police Force, shared on the local and international collaborations between the public and private stakeholders, including exchanging of financial intelligence, sharing of good practices and joint investigations. Similarly, Tan Ken Hwee, Chief Prosecutor of Financial and Technology Crime Division, Attorney-General's Chambers, touched on how digital forensics, in particular, data analytics, are used by law enforcement agencies to gather and analyse voluminous digital evidence. Dan Yock Hau, Director of National Cyber Incident Response Centre, Cyber Security Agency of Singapore, emphasised the importance of businesses having a proper cyber response plan, and treating cyber security as part of business risk management and an enabler which powers their business, instead of a frill.

The Conference speakers, from local and overseas anti-corruption agencies, shared their perspectives. Allen Ng, Chief Forensic Accountant (Acting) of the Independent Commission Against Corruption, Hong Kong (ICAC), addressed the role of forensic accountants in financial investigations and in combating corruption and corruption-facilitated crimes, pointing out that there is an upsurge of corruption-related financial fraud from the private sector in Hong Kong. A similar observation in Singapore was made by Loh Yoon Min, Senior Assistant Director (Internal Audit), Corrupt Practices Investigation Bureau (CPIB). He reinforced the need for a strong political will for CPIB to act without fear or favour, and shared that businesses could choose to be accredited for the anti-bribery management system ISO 37001, or they could refer to the "PACT: A Practical Anti-Corruption Guide for Businesses in Singapore" booklet for practical steps on setting up anti-corruption measures.

The panel discussions, led by panellists including members of the ISCA FFA Qualification oversight task force, financial forensic experts from firms providing financial and digital forensic advisory services, professionals from the financial institutions handling financial crime and compliance, and officers from the Monetary Authority of Singapore and CPIB, offered clarity on topics spanning the core skill sets and competencies of financial forensic professionals, the nature of financial forensics work in the public and private sectors, challenges faced in tackling white-collar crimes amid technological advancements and how they work alongside other experts to overcome the challenges. Another topic involved the more common measures to fortify business, such as preventive measures in the form of regular monitoring of internal controls, and the need for the top management to set the right tone and maintain vigilance of the company as a whole.

SIATP Ups Readiness for Tax Peak

In preparation for the corporate tax filing season and in view of the ongoing developments, the Singapore Institute of Accredited Tax Professionals organised a series of tax compliance-related seminars for both tax agents and in-house practitioners.

Complementing the earlier hands-on e-Services workshops, a group of tax specialists from Inland Revenue Authority of Singapore's Medium Corporation Branch conducted a session on the common errors and blind spots in tax filing. Participants certainly walked away with greater confidence to face this tax peak.

▲ A "very useful session" and an appreciation of the clear explanations, especially during the Q&A session, were just two of many positive comments received from participants after the tax compliance session

▲ Dissecting the recent developments, Tang Siau Yan, Assistant Commissioner, IRAS, provided participants a clear and succinct explanation on key TP compliance issues

To ensure a strong foothold in transfer pricing (TP), Adriana Calderon, Director, Transfer Pricing Solutions Asia, was back again, this time to facilitate a session on various TP methods and their application. SIATP members and participants also had the rare opportunity of listening to Tang Siau Yan, Assistant Commissioner, Inland Revenue Authority of Singapore (IRAS), share about the recent TP developments and key business implications.

To find out more, email enquiry@siatp.org.sg.

Disciplinary Findings

UPON FINDING that **Mr Lee Wan Sing**, *CA (Singapore)*, had breached Rule 64.6 of the Institute (Membership and Fees) Rules, in that he was adjudged a bankrupt on 23 March 2017 and is still an undischarged bankrupt, the Disciplinary Committee ordered that his name be removed from the register and that he shall cease to be a Member of the Institute with effect from 30 August 2017.

DATA ANALYTICS BREAKFAST TALK SERIES

Building a Data-enabled Business (Part 1)

▲ **Mark Jansen, PwC Singapore, proving insights into data governance**

On October 11, ISCA rolled out the first of a three-part series on data analytics. The session shone the spotlight on data governance – the first step to any business's data analytics journey.

Mark Jansen, Technology, Media and Telecommunications Industry Leader, and Singapore Data & Analytics Leader, PwC Singapore, shared with more than 80 participants the importance of data governance, and how it can help businesses achieve compliance and improve data quality, while supporting growth initiatives.

Data governance involves building up the organisation's capabilities in various ways to better manage, protect and exploit data to achieve business objectives. He explained the steps necessary for finance functions to become data driven, such as identifying the organisation's objectives, encouraging a culture where data analytics is integral to decision-making, introducing pilot projects that use data analytics, closer collaboration with IT and data experts, and constantly refining the process through feedback and inputs.

Mr Jansen further elaborated on the components of a good data governance framework, and how having this can help organisations to better manage their data. He ended the session by sharing the success factors for embedding data analytics into business processes. One key takeaway for anyone looking to embark on a data analytics journey is "think big, start small, and take achievable steps".

ISCA CALENDAR OF EVENTS 2017

NOVEMBER

Wednesday **08**	**ISCA Breakfast Talk** *Part 2 of Data Analytics Series: Turning Data into Insights*
Wednesday **29**	**Economic Outlook 2018** *Local and global economic outlook for 1H2018; and A Focus on the rise of the Chinese economy*

UPCOMING

December **13**	**ISCA Breakfast Talk** *Part 3 of Data Analytics Series: The Actual Application*
January **10**	**ISCA Breakfast Talk** *Stay tuned for more details*

Dates and events are subjected to change without prior notice.
For more details, visit www.isca.org.sg

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ISCA

Navigating the Horizon PART 3

ISCA's Strategic Priorities towards 2020

By
LEE FOOK CHIEW

As a result of the rigorous professional training that they undergo, Chartered Accountants are valued for their sharp financial skills and all-rounded business knowledge. They are therefore valued as strategic advisors to businesses. This is a strategic advantage that the Institute seeks to maintain and continuously strengthen in our members. To do so, the Institute developed a comprehensive strategy map built on seven strategic priorities (Figure 1).

In my earlier two articles, published in the May and July 2017 issues of this journal, I had shared with you my thoughts on four of the strategic priorities and what they mean to our members, the profession and the wider community. In this article, I will be covering the remaining three strategic priorities.

Strategic Priority 5
Branding and Marketing

With the introduction of two new membership classes in 2016 – Associate and Affiliate – eligible interested individuals now have three different pathways to become members of

Figure 1 ISCA's Strategic Priorities

PHOTO SHUTTERSTOCK

ISCA (Figure 2). The worth of the ISCA membership is reflected in the value that the market – in this case, employers – places on the designations conferred by ISCA. The Institute is well aware that members want to be recognised by employers and the market for having the highest professional and ethical standards. Likewise, employers will have peace of mind knowing that their accounting professionals belong to a reputable professional accountancy body that ensures they undergo continuous professional development to keep their professional skills and competencies up-to-date, and enforces appropriate disciplinary action for breach of professional standards and rules.

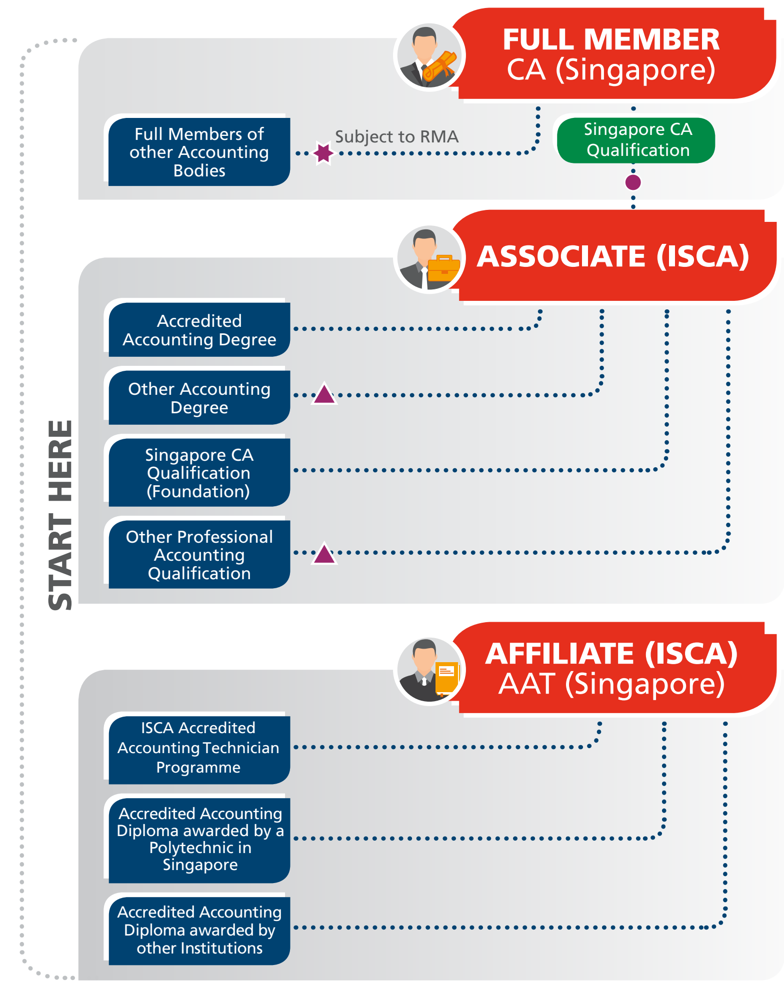
Chartered Accountants: A Trusted Mark of Excellence

Among the various initiatives to promote the ISCA membership, I would like to draw your attention to our well-received member profiling campaigns, the first of which was launched in 2013. Through these campaigns, ISCA profiles members who are leaders in accountancy and business and iterates how Chartered Accountants bring value to businesses across various industries. The campaigns aim to position the ISCA membership as a mark of excellence, thereby influencing employers' perception of ISCA members, making them the preferred choice for jobs that require a chartered accountancy qualification.

Last year, we launched a series of videos that showcased the benefits a Chartered Accountant can bring to businesses. In these videos, six ISCA members shared their insights on the future of accountancy in risk management, data analytics, the new lease accounting standard, sustainability reporting, and mergers and acquisitions (Figure 3). This series caught the attention of over one million viewers through digital and social media channels. It was also featured on outdoor screens of lift lobbies and office buildings, reaching out to more than one million professionals, including employers and clients of Chartered Accountants, daily, over the span of two months.

Our members are also featured in the regular Member Profile column of this journal, where they share their career highlights and insights gained in their professional journey as a Chartered Accountant. The column aims to inspire members to scale greater

Figure 2 Pathways to ISCA membership



★ Subject to the terms of the current Mutual Recognition Agreement (MRA) or the future Reciprocal Membership Agreement (RMA) with other professional bodies
▲ Subject to Assessment of Application
● Candidates must fulfil the entry requirements for the Singapore CA Qualification

Figure 3 ISCA's 2016 campaign: "Future of Business"

career heights and broaden their awareness of the multiple career paths an ISCA membership can bring them.

Following the launch of the expanded Associate and Affiliate membership pathways, ISCA also ensures that similar to the Chartered Accountants, Associate and Affiliate members are well-equipped professionally, to keep ahead of their respective professional peers. In addition, as they represent a valuable talent pool contributing to the accountancy profession, it is important that they belong to a professional body that upholds professional and ethical standards. These messages, which are constantly reinforced in our branding and marketing activities, enhance the positive perception of ISCA members among employers and the community at large.

In the last two years, ISCA has actively promoted the Associate and Affiliate membership classes to a wider audience including working professionals, students and employers, such as at our employer info-sessions and roadshows at public career fairs. To further broaden the accountancy talent pipeline, we stepped up our campus outreach activities to engage accountancy students at the Institute of Technical Education, polytechnics and universities with the aim to encourage them to apply for ISCA membership upon graduation, or when they join the workforce.

ISCA has an important role to play in strengthening the branding of the profession and industry. We launched the Singapore Accountancy Awards in 2014 to recognise business and individual excellence while promoting good practices. Through the biennial awards, we honour outstanding organisations and individuals who represent the best in the sector, for their contribution towards the profession and Singapore's business landscape. On this note, I would like to encourage all members of the profession to continue to strive towards excellence and raise the bar for the sector so that the profession continues to shine in the coming years.

ISCA Membership Opens Doors to the World

The ISCA membership has become even more coveted because of two reciprocal membership agreements (RMAs) with leading professional accountancy bodies.

In April this year, ISCA concluded RMAs with the Institute of Chartered Accountants in England and Wales (ICAEW) and Institute of Chartered Accountants of Scotland (ICAS). These RMAs are a firm endorsement of ISCA's professional and ethical standards, and have significantly raised the international standing of the Institute. We are delighted to be able to provide our members who have completed the Singapore CA Qualification, the opportunity to become members of the two prestigious chartered accountancy bodies. The RMAs pave the way for our members to pursue greater career opportunities in key financial and business centres around the world.

For members who have not completed the Singapore CA Qualification, they can explore the

ICAEW pathways to membership scheme which provide an opportunity for qualified CA (Singapore) members to be admitted as an ICAEW member based on their experience. Through this pathway, eligible CAs (Singapore) will have to complete an Examination of Experience. ISCA will continue to work on more valuable membership pathways, including with other Chartered Accountants Worldwide bodies, as members progress in their careers.

Inking the two RMAs also paved the way for ISCA to become the first professional accountancy body in Asia Pacific, and the only body other than the founding members of Chartered Accountants Worldwide, to be accorded full membership of Chartered Accountants Worldwide. The grouping brings together 11 chartered accountancy bodies, connecting and representing the interests of over 1.6 million members and students globally in over 180 countries globally. With ISCA now a full member, it will help open doors for CA (Singapore) members to enjoy greater international career opportunities around the world.

Strategic Priority 6
International Relations

Technology will aid and spur globalisation even more in the future. To make our mark among the bigger global players, ISCA needs to develop good international relations to create opportunities for our members and raise ISCA's international standing and prominence on the global accountancy stage.

Raising ISCA's International Standing and Prominence

Besides being an active member of Chartered Accountants Worldwide and ASEAN Federation of Accountants, ISCA plays an active role at the United Nations Conference on Trade and Development-International Standards of Accounting and Reporting (UNCTAD-ISAR). ISCA has been invited for the fourth consecutive time to speak at the UNCTAD-ISAR. This is a strong indication that the global audience values ISCA's contributions on issues concerning the global accountancy profession.

As a show of confidence in ISCA as a leading professional accountancy organisation (PAO) with a global outlook on issues, the UNCTAD-ISAR group elected the ISCA President to chair the group for a one-year term ending November 2017. This is the first time a Singaporean has chaired this prestigious international grouping. This raises the standing of the Institute on the global platform and further bolsters ISCA's potential as a leader and spokesperson for the ASEAN accountancy profession.

Intensifying ISCA's Role as a Leading PAO in ASEAN

With the rapidly growing ASEAN market, businesses in the region will need accountants and finance professionals to support their growth, and most emerging markets are lacking such expertise. To seize new opportunities in the region, ISCA has been collaborating with national accountancy bodies in ASEAN to help develop and strengthen the accounting profession in the region.

In October 2016, ISCA signed a Memorandum of Understanding with the Lao Chamber of Professional Accountants and Auditors (LCPAA) to explore opportunities with Laos to co-develop the Lao accountancy profession through capability-building programmes. We hosted the first batch of 10 senior Lao government officials in Singapore for a five-day training in July this year. The training, sponsored by Temasek International Foundation, aims to create awareness and develop a sense of familiarity among the Laos government towards Singapore, ISCA and our members. This will be useful when Singapore businesses and ISCA members enter the Lao market, which is currently untapped and therefore offers high potential.

More of such programmes with emerging markets such as Myanmar, Vietnam and Cambodia are being planned for the near future. There are several reasons for doing so. First, we want to create awareness of ISCA and our members in high-growth markets in ASEAN; second, we want to connect and help open up communications between Singapore accountancy firms/members and businesses in the emerging markets; third, the greater awareness of ISCA members and established communications line would facilitate the internationalisation efforts of Singapore accountancy firms and ISCA members, thereby potentially leading to an increase in export of accountancy services to the region.

ISCA had announced in June that the first batch of 47 ISCA members have been conferred the ASEAN Chartered Professional Accountant (ACPA) title by the ASEAN Chartered Professional Accountant Coordinating Committee (ACPACC). To date, a total of 167 ISCA members have been conferred the ACPA title.

ISCA has represented Singapore as the ACPACC Chair since September 2015, until Thailand took over in October 2017. During our tenure as ACPACC Chair, ISCA was responsible for ensuring the successful implementation of the Mutual Recognition Arrangement on Accountancy Services (MRAA)

PHOTO SHUTTERSTOCK

and promoting the acceptance of the ACPA across ASEAN. Under the MRAA, ACPAs are legally allowed to provide accountancy services (excluding signing-off of the independent auditor's report and those that require domestic licensing) in ASEAN markets. Previously, in the absence of the MRAA, Singapore accountants may have faced challenges in providing even non-regulated accountancy services in some ASEAN member states as provision of these services may have been restricted to citizens in those markets. The ACPA designation provides more opportunities for CA Singapore, ISCA Associates and accounting firms in Singapore to operate in markets across the region.

Next year, ISCA will be the AFA Chair, coinciding with Singapore assuming the ASEAN Chair. We can look forward to ISCA rolling out more initiatives targeted at helping Singapore businesses and members to build inroads and access opportunities in ASEAN markets.

Strategic Priority 7
Relationships with Key Stakeholders

Our last strategic priority looks at strengthening relationships with key stakeholders. As the world becomes more connected and globalised, relationships are increasingly important. It was with the support and encouragement of our key stakeholders, such as government agencies, regulators and profession/industry, that ISCA has made rapid progress in recent years.

ISCA will continue to place relationship management with our key stakeholders as a priority. For example, we have renewed our collaboration with ACRA on the Financial Reporting Surveillance Programme for the third time. The Programme is aimed at strengthening the financial reporting system through the review of financial statements. This will strengthen the financial reporting supply chain and better safeguard public interest. There are also regular exchange sessions held with the Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange to advocate and represent the profession's interest and to discuss issues relating to the accountancy profession and the businesses.

CONCLUSION

I am glad to be given the opportunity to share with you the Institute's strategy map, the importance of and reasoning for the seven key strategic priorities, why initiatives were developed and what objectives and outcomes they are designed to achieve. I hope that through this series of articles, you have gained a better understanding of how we are delivering membership value to you through the various initiatives.

Together with my senior management team and colleagues, we look forward to continued support from our stakeholders and members as ISCA strives towards achieving its vision. ISCA

Lee Fook Chiew is Chief Executive Officer, ISCA.

CONSOLIDATION AMONG SMPS

Practical Considerations for SMP Owners

BY
JOELLE LOY

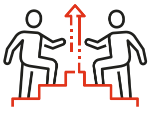
PHOTO SHUTTERSTOCK

Small and medium-sized practices (SMPs) today face many issues that challenge their business and bottom line. Besides facing the challenges arising from disruptive technologies, enforcement of regulations and rising business costs, they find themselves being squeezed out of their traditional market of serving clients in small and medium-sized enterprises (SMEs) by large international audit firms. The emergence of improved audit software and new audit methodologies scaled down for SMEs has enabled international audit firms to offer competitive prices to SME clients, which was not cost effective to do in the past. SMPs which do not embrace audit software will eventually find their profit margin further compromised by the competition, especially when they also have to contend with high labour costs and audit exemption threshold. Scaling up is one way for firms to be able to make the necessary investments and maximise efficiencies from technology deployment. Ideally, a firm with at least three to five partners, and 30 to 50 staff, is better able to take the firm to the next level.

To cope with today's competitive and highly-regulated assurance business, SMPs are no longer shying from consolidation and are increasingly viewing mergers and acquisitions (M&As) as a strategy to scale up for sustainable growth.

There are SMPs banding together to form informal groupings to collaborate more closely and to share investment and resources. This mode of collaboration helps to retain the autonomy in each practice but at the same time, the partners can learn more about and get comfortable with one another before considering further structural consolidation. Firms can also choose to grow organically but in this talent-starved industry, it is difficult to attract the right talent and this strategy will need a longer runway to mature.

"Very little time is spent by practitioners assessing their existing business and plotting a course for where they want the practice to be in two, five and 10 years' time," says Tim Underwood, Managing Director of Foulger Underwood Asia. "Without a plan, and without applying the time and resource to implement the plan, practices will continue to drift, become less competitive and ultimately have reduced realisable value when the shareholders/members look to exit. It takes a long time to grow organically, therefore, most strategic plans should incorporate organic



Scaling up is one way for firms to be able to make the necessary investments and maximise efficiencies from technology deployment.

growth, supplemented with M&A, to try and achieve strategic objectives in a shorter period of time." Foulger Underwood Asia is a boutique M&A and strategy consultancy firm based in Singapore. It has facilitated close to 50 professional service M&A deals across Asia (mainly in Singapore and Hong Kong) and the United Kingdom in the past 24 months.

There are different reasons why SMPs may want to sell their practices, a common one being retirement, especially in situations where there are no successors to take over. Practitioners may also look to sell when they are being suspended due to practice monitoring review findings. For mergers to succeed, it would be useful for both firms to be of similar size and offer complementary business service lines.

Despite growing interest from SMPs to buy or sell practices, the pace of M&A activity is not picking up as fast as it should be. The individual deal discussion process between parties is often long drawn – more than 12 months for some – and typically ends in limbo. The low volume and lack of market information on local M&A deals have also resulted in practitioners being uncertain or unrealistic on the terms of sale.

"It is also important to remember that a successful merger/acquisition is a multi-year affair and its success should not be judged or measured at a single point in time when the deal is completed."

EDWIN HOOI
PARTNER
ARDENT ASSOCIATES LLP

PHOTO SHUTTERSTOCK

This article outlines the common practices and pitfalls whether you are merging, acquiring or selling a practice. It aims to help ease the process of consolidation among SMPs and shed more light on the more common deal structures and valuations in the market.

BE MENTALLY PREPARED TO SELL

Many SMP business owners have been with the practice for many years and they find it challenging to detach and let the firm change hands. Sometimes, practitioners express an interest to sell without any real intent to let go, which impedes the progress of negotiation.

Going to work every morning has become a lifestyle habit, and as long as they are still fit to report for work, they are not in a hurry to sell. The longer they hold on to their firm without the drive or clear vision to grow it, the more the clientele quantity and quality will dwindle; over time, the value of the practice will also erode.

While it is understandable that practitioners are emotionally attached to the firm they have painstakingly built up over decades, they need to recognise the need to move on, and prepare themselves mentally to let go of their firm.

For practitioners who are still undecided on their exit strategy, "it is important to acknowledge that we are mortals and therefore, we will need to let go of our beloved practice," advises Paul Tan, Managing Partner of CA Trust PAC. "Plan your exit. Sell your practice when it is still well managed and therefore valuable (rather than wait till it is too late and the value is much less)." Mr Tan is a seasoned practitioner with over 25 years of experience. In recent years, he had amalgamated two small practices with his founding firm, Tan Teo & Partners, thereafter practising under the firm name CA Trust PAC. This year, he amalgamated a third practice into CA Trust PAC.

SET REALISTIC EXPECTATIONS

Some sellers are expecting above-market firm valuations based on a significant multiple of the firm's fee income, for their practice. While there are rare occasions where practices have succeeded in selling at a premium, this could be due to the nature and composition of the client portfolio, such as a client portfolio with larger engagements or a proven record of growth, which could differ from firm to firm. Hence, it is important to sell while the house is in order.

Practitioners who genuinely want to put up their firm for sale should manage their expectations before the value of the firm erodes over time and they stand to lose more in the long run.

To benchmark against market practices, it is useful to turn to fellow practitioners who have successfully sold practices so you can learn the pitfalls to avoid, bearing in mind that the conditions will vary from firm to firm.

Practitioners should also engage a lawyer to draw up the legal contract and term sheet to avoid unnecessary complications in the event of disputes.

"There is generally a lack of internal succession options in Singapore public accounting firms, and we see this as a 'ticking time bomb'. First-generation partners have one route to exit and, rightly or wrongly, it is quickly becoming a buyers' market in the public accounting firm sector," comments Mr Underwood.

MANAGE YOUR RISKS

When you plan to acquire or merge with another firm, be prepared that there will be some degree of attrition of clients and staff. As both firms have different cultures, the staff and clients who are unable to ease into the culture will eventually leave. To facilitate a successful deal, it is important for existing employees to immerse in the new culture and be aligned with the new management's directions. To mitigate the risk of client attrition in acquisition deals, the buyer would typically require the seller to stay on for two to three years after the deal is concluded, to help in the transition of the employees and clients to the buyer's firm. The buyer will typically institute a clawback clause in the M&A agreement for those clients that are lost/churned due to different management styles, and the eventual proceeds paid out will take into consideration the clawback amount.

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Mr Tan shared his experiences on the challenges he faced during the amalgamation of practices and how he overcame them. He related that the majority of clients of the practices that CA Trust PAC acquired or merged with, were not comfortable with the firm's methodologies, especially in audit services. His firm did lose some clients due to disagreements in audit approach but with a lot of effort put into explanation and persuasion, they managed to retain approximately 70% of the clientele acquired.

PAUL TAN
MANAGING PARTNER
CA TRUST PAC

Based on his firm's experience, Paul Tan shared that market valuation is usually close to 100% of sustainable turnover. The common payment terms for acquisitions are about a third of total payment upfront, with maybe two other instalments payable at each 12-month anniversary.

Another common challenge faced was the personnel that the firm inherited from these practices, who might face work culture integration difficulties. "The employees who decided to stay till today with the amalgamated entity, approximately a fifth of them, were able to adapt to new work methodologies and human resource policies including training and development; our methodologies and policies are generally more structured, compared to smaller practices which were more laissez faire," explains Mr Tan.

In early 2016, Edwin Hooi, who founded EMPAC, merged his firm with Ardent Associates LLP because of some commonalities in values which he believed the two firms shared at that point in time. "I had initially founded EMPAC based on a vision to operate a firm focusing on the values of teamwork, quality, professionalism, and self-actualisation (at both the personal and organisational levels). My objective for considering the merger was to bring my team to a desired destination based on the said founding values, and I believed that by embarking on that journey with Ardent, the chances for success would be higher and perhaps at a faster pace. Today, most of my team members who were formerly from EMPAC are thriving at Ardent and on that basis alone, I believe my decision to merge was the correct one," says Mr Hooi.

With no prior intention to merge or be acquired, Mr Hooi shared that the merger took place due to serendipitous circumstances and honest discussions that culminated in the merger. It also helped that Mr Hooi had known Terence Ng, one of Ardent's founding partners, for the past few years as part of the OneSMP working group. Both of them were also part of the 2014 ISCA SMP Business Study Mission to Myanmar.

To fellow practitioners seeking to merge or be acquired, Mr Hooi suggested to adopt some simple risk management principles. These are:

1. Know your or your organisation's objectives for the M&A;
2. Get to know the potential acquiring/merging party as well as possible;
3. Identify the risks (that will prevent you from meeting your objectives) in the M&A;
4. Assess the identified risks;

Quite often, the valuations of the whole public accounting firm are not equal to the sum of the different business units and service lines.

5. Respond to the identified risks (either by treating the risk or by avoiding the risk altogether), and
6. Review and monitor the risks up to the deal completion as well as the post-merger/acquisition period (to ensure that your objectives are being met).

"It is also important to remember that a successful merger/acquisition is a multi-year affair, and its success should not be judged or measured at a single point in time when the deal is completed," advises Mr Hooi.

DEAL STRUCTURES

According to Mr Underwood, public accounting firms' transactions are still being structured over two to three years. Sellers tend to pocket a consideration amount based on an agreed multiple of their firms' average fee income generated over this two-to-three-year period. Typically, between 20% and 35% is payable upon signing the deal. In most cases, the consideration achieved for the business, which is paid out over two to three years, is equal or comparable to the exiting partner's salary/drawings over the same period, especially when inflation is factored in. Therefore, there isn't a huge incentive to the would-be seller, especially if the upfront amount payable on deal signing falls below 25%

Specialist firms, which do not have any assurance service revenue, will have a larger number of potential acquirers and this remains a sellers' market. Acquirers of specialist firms, or units of business from public accounting firms, are valuing target firms on multiples of profit. They are paying 65% to 80% of the consideration on completion of the transaction, with the balance payable in 12 to 18 months.

The degree to which firms service individual clients in an array of service lines from tax to book-keeping, company secretarial and payroll, significantly impacts the valuation of the firm. Similarly, firms servicing international clients can also command a higher value. Quite often, the valuations of the whole public accounting firm are not equal to the sum of the different business units and service lines.

VALUATIONS

Based on his firm's experience, Mr Tan shared that market valuation is usually close to 100% of sustainable turnover. The common payment terms for acquisitions are an upfront payment about a third of the total, with maybe two other instalments payable at each 12-month anniversary. Usually, the final consideration will take into account the attrition/retention rate of the clients.

"The success rate of acquisitions is higher, in my opinion, than mergers because of the common challenges mentioned earlier," he adds.

Here are some valuation figures in the Singapore and the United Kingdom markets (Figure 1), based on Foulger Underwood's past transactions in both countries.

PHOTO SHUTTERSTOCK

For sale of audit firms which were transacted in the past 24 months in Singapore, the multiple ranged between 0.62 and 1.5 times of recurring fee income, with most deals occurring at 0.97 times. In comparison, in the UK market, the range is wider and has a higher median multiple of 1.02 times.

Specific elements or business units command higher valuations, and non-PA firm acquirers buying these units of business out of PA firms, offer higher valuations in Singapore, compared to the UK. Normally, based on EBITDA or PBT, the multiple of 6.34 is seen in Singapore, versus 5.95 in the UK.

As explained by Mr Underwood, "Valuations of specialist firms and non-audit practices have risen over the last five years. Generally speaking, especially SMPs with more than 60% of their revenue being derived from audit services, are seeing valuations fall significantly. Five years ago, these practices could have secured 110% to 125% in fees, but they are now transacting below 100%. The same is experienced in the UK market for the same reasons, but added to this are pressures that have been brought about due to the withdrawal of tax relief on amortising goodwill."

Figure 1 Deal valuations in the past 24 months (as of July 2017)

	General Practice (PA Firm)	Specialist Business or Sale of Business Unit out of PA Firm
	(% of Recurring Fee Income)	(Multiple of EBITDA[1] or PBT[2])
Singapore		
Range	62-150	4.5-7.5
Median	97	6.34
United Kingdom		
Range	35-200	3.6-7.0
Median	102	5.95

[1] EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortisation
[2] PBT: Profit Before Tax
Source: Foulger Underwood Asia

CONCLUSION

The clock is ticking away, so do give deeper thought to your strategy for succession planning. Plan ahead and make sure that your house is in good order to preserve the value of your firm. Keep an open mind, catch the golden opportunities and be realistic. ISCA

If you are keen to buy/sell/merge your practice, ISCA can support SMPs in matching interested practitioners to prospective buyers, sellers, and and also link you up to professional service providers who support deal facilitation. Do email to smp@isca.org.sg if you require further assistance.

Joelle Loy is Manager, Industry Support - SMP Development, ISCA

MEMBER PROFILE

DRIVEN BY DATA

Alex Lee, *CA (Singapore)*, Director, Global Finance, Accounting & Reporting, DFS Venture

BY
ASHUTOSH RAVIKRISHNAN

Good leaders are often characterised by their positive interactions with team members. Alex Lee, Director, Global Finance, Accounting & Reporting of luxury retailer DFS Venture (DFS), chooses to lead his department by example – or as he describes it, "walking the talk". A firm believer in the importance of continual learning, Mr Lee encourages his colleagues to keep abreast of developments in the accounting and finance field – something he strives to do himself.

Making the most of his ISCA membership, the 39-year-old is a familiar face at the Institute's seminars and workshops, where he aims to better understand how traditional finance roles in the industry are transforming. He believes ISCA's enhanced continuing professional education (CPE) requirements for members are a good way of keeping professionals ahead of the curve.

Beyond the Institute's training initiatives, Mr Lee has also learned considerably from his peers in the profession, with whom he has forged lasting relationships. "Whether it's about an accounting framework or the latest regulations, there's a lot of unstructured, peer-to-peer learning," he shares. "One must be open to such knowledge, even if it comes from outside your sector, as some business challenges are not industry-specific."

These factors have helped Mr Lee remain relevant in the accounting and finance profession, which he describes as being in a state of flux. "We're starting to see automation creep into our processes and if we don't evolve accordingly, we could become obsolete," he opines, urging his fellow professionals to realise that accountants are no longer just book-keepers or bean-counters. "Increasingly, finance departments are being called on to add value to our organisations – and should not be perceived as just a 'cost centre'."

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"Our job is no longer just to book-keep and carry out financial reporting. We need to be custodians of the data we collect and know it inside-out, so that we can add value to our organisations and drive growth."

V FOR VALUE

One way for finance professionals to move up the value chain is through management accounting. This uses accounting and financial information to consider the merits of business decisions, allowing finance professionals to take on more advisory roles. They can also offer important technical expertise about how impending business decisions will affect corporate affairs, among them financial reporting. "There may be questions about how we can amortise intangible assets like websites and apps; these questions will be raised more frequently as we continue to invest in newer technologies," explains Mr Lee, who adds that accountants need to identify the possible risks and gains from such activities and advise their organisations accordingly.

Management accounting is especially important in disrupted industries like the retail sector, which is continuously being challenged to remain relevant in competitive business climates.

According to Mr Lee, organisations, in making such data-driven decisions, are increasingly relying on inputs from accountants, who play a big part in generating and collecting financial data. "For this data to be relevant, (accountants) need to ensure that there is data integrity and accuracy, which stems from sound accounting and finance processes," says Mr Lee. But for accountants to take on more advisory roles, they also need to understand the data they govern. "I tell my team that we need to be in control of our data and financial information. It's no use knowing the numbers if you don't understand the story behind the numbers," he explains. "Having this mindset means you thoroughly know the business and can influence its direction."

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"Performing audit after audit hones your critical thinking and ensures you always corroborate the information you receive. These traits then become second nature to you when making critical business decisions."

Despite its obvious benefits, Mr Lee admits that getting everyone to share his views towards data and disruption can be challenging. To overcome this, he makes it a point to understand up-and-coming work processes and barriers to adopting them. "Working hand-in-hand with your team helps them see your vision, which can improve outcomes," he shares. But beyond attitude, it is also important that firms get the right people for the job and train them accordingly. "Organisations must continue to develop and equip their staff with the relevant technical and accounting knowledge."

A CHANCE ENTRY

Hearing Mr Lee speak so zealously about the future of accounting might suggest that accountancy was a childhood passion. But that's not the case. "I actually stumbled into accountancy in university, because it was one of the few three-year Honours programmes back then," he says with a grin. Regardless of the intentions behind his decision, Mr Lee has charted a successful career in the profession since graduating from Nanyang Technological University (NTU) in 2001.

He first spent six years at PwC, an experience that he cherishes to this day despite the gruelling workload. "Being at a Big Four firm allows you to pick up industry knowledge very quickly," he recalls. "The experience equips you with fundamental accounting and auditing skills." While at the firm, he was exposed to a wide range of business; such exposures gave Mr Lee a broad overview of accounting and client profiles. But he realised that the next career step would need to provide the in-depth experience in commercial finance operations.

Mr Lee shored up on this knowledge when he joined multinational Honeywell in 2007. He recalls that making the switch from a Big Four firm to a commercial finance environment required a transition phase. "But there were some transferable skills – performing audit after audit hones your critical thinking and ensures you always corroborate the information you receive," he says. "These traits then become second nature to you when making critical business decisions." Mr Lee served in Honeywell's Automation & Control Solutions operations and client assignments business group (ACS) division for four years before joining DFS in 2011. Having been in both a Big Four firm and commercial organisations has taught Mr Lee that there is no textbook pathway to success. "Undergraduates should consider their strengths and interests and ask themselves what they want out of their careers," he says. "This will steer them in their journey to success."

CHANGE, CONTINUITY AND SIMPLICITY

Although his job at Honeywell already dealt with some degree of commercial finance operations, Mr Lee says that the switch to DFS was a new challenge since it involved luxury retail – a whole new world to him. "But I took up the challenge because I believed there was room for personal growth," he shares. His venture paid off when he found himself taking on new and exciting job roles soon after joining the retailer. Among these was being part of a team which led a company-wide reorganisation initiative, an experience that provided critical insights into the finance function and processes in the luxury retail industry.

But being around the industry's glitz and glamour has not changed Mr Lee, who admits that he is still a simple family man at heart. "On a Saturday morning, you're most likely to find me at a wet market, sourcing for the freshest ingredients to cook up a storm for my family," he says, as he reveals a love of cooking. When asked about his signature dish, he replies with a laugh, "Probably my *orh kueh* (yam cake)." ISCA

Career Milestones

2001	Bachelor of Accountancy (Honours), NTU
2001	Manager (Assurance), PwC
2007	ACS Asia Pacific Internal Controls Manager, Honeywell Pte Ltd
2011	Director, Global Finance, Accounting & Reporting, DFS Venture (S) Pte Ltd

Ashutosh Ravikrishnan is a contributing writer.

DOING BUSINESS IN MYANMAR

Opportunities Await Investors

BY
HTUN HTUN NAING AND
LOKE HOE YEONG

Myanmar has often been touted as "Asia's last frontier" for investors[1], ever since it moved towards political and economic liberalisation starting in 2010. More recently, Myanmar underwent a peaceful political transition after Aung San Suu Kyi and the National League for Democracy (NLD) swept into power at the November 2015 general election, although the military retains significant control over many aspects of the government and the legislature.

Its economy had been shut out from the world for much of the last 50 years, through self-imposed isolation as well as external sanctions. With a population of 51.5 million, the fifth largest in ASEAN, Myanmar has a large and mostly young workforce. Coupled with its liberalisation, the scale and range of opportunities it presents cannot be overstated.

[1] "Myanmar's Opening: Doing Business in Asia's Final Frontier", 18 November 2016, The Diplomat; http://thediplomat.com/2016/11/myanmars-opening-doing-business-in-asias-final-frontier/

[2] "New investment law helps Myanmar rebuild its economy and create jobs", 25 January 2017, The World Bank; http://www.worldbank.org/en/news/feature/2017/01/25/new-investment-law-helps-myanmar-rebuild-its-economy-and-create-jobs

[3] Directorate of Investment and Company Administration, Ministry of National Planning Economic Development Myanmar. Information as of 31 January 2016.

Tachileik, Myanmar

PHOTO SHUTTERSTOCK

There are many other good reasons to do business in Myanmar.[2] Besides being a member state of the Association of Southeast Asian Nations (ASEAN), the country occupies a strategic position, both in geographic and geopolitical terms, between two major world powers – China and India. As a country sharing borders with Bangladesh, China, India, Laos and Thailand, Myanmar potentially has access to 40% of the world's population – if all trade barriers between these borders are removed through trade agreements in the future. Singapore's economic ties with Myanmar continue to be strong, even though the two countries do not share a border. As of last year, Singapore was the second largest investor in the country (after China), having brought in US$13.07 billion in investments.[3]

If English were considered the global language of business, then Myanmar may have an advantage over some of its Southeast Asian neighbours. English is spoken as a second language particularly in urban areas of the country, a residual effect of British colonial rule that ended with Myanmar's independence in 1948. This British legacy also means that Myanmar has a common law legal system that gives it a certain affinity with Singapore and Hong Kong. Anglo-American legal firms like Baker & McKenzie and Allen & Overy, as well as Singapore's Big Four law firms such as Allen & Gledhill

As a country sharing borders with Bangladesh, China, India, Laos and Thailand, Myanmar potentially has access to 40% of the world's population – if all trade barriers between these borders are removed through trade agreements in the future.

and Rajah & Tann, have a presence in Myanmar, and a role in the deals and transactions which drive the country's booming economy.

Myanmar's GDP growth for 2016 stood at 6.5%[4], a dip from the range of 7% to 8% in previous years, but this is largely due to the global economic slowdown. The country's growth prospects are still very positive in the years ahead, and it stands among the world's fastest-growing economies, according to data from the International Monetary Fund.

REFORMS TOWARDS A MORE BUSINESS-FRIENDLY ENVIRONMENT

Some observers have mixed views about the pace of regulatory reform in Myanmar, particularly with regard to the ease of doing business in Myanmar. They generally point to Myanmar's relatively low score on The World Bank's ranking of countries on the ease of doing business – at 170th place out of 190 countries at last count.[5]

Nevertheless, this presents a slow but steady improvement over the years and will accelerate with the lifting of major international sanctions on Myanmar. Last October, the US government lifted its main sanctions on Myanmar, following on from the European Union which lifted theirs back in 2013. These were the sanctions that played a large part in stunting Myanmar's growth for much of the past two decades. The few sanctions that remain mainly pertain to the sales of arms. This is good news in signalling the renewed landscape for doing business, although it may also mean increased competition for other investors such as those from Asia.

The major reforms currently on the table include two key pieces of legislation of relevance to foreign investors and companies – the Myanmar Investment Law and revised Companies Act.

The New Myanmar Investment Law of 2016

Last October, a new version of the Myanmar Investment Law was passed, which would reduce by half the number of companies required to obtain the Myanmar Investment Commission (MIC)'s approval before gaining market entry, and to reduce the time needed to obtain such approval from six months to three. Now, only businesses that are considered strategic to Myanmar, have large capital investments, have a large potential impact on the environment and local community, or which involve state-owned land, require the MIC's approval. There would also be increased protection for investors against unfair treatment and the expropriation of property.

The new Myanmar Investment Law is in fact a merger of two previous pieces of legislation passed soon after Myanmar's liberalisation – one for local investors, another for foreign ones. One key motivation of the government in passing the new law last year was to assure concerned local investors that foreign ones were not favoured over them, and vice versa. In simplifying the investment laws as such, the government, with the support of a team from The World Bank Group, sought to balance the interests of local and foreign investors.[6]

For instance, the new law reserves some special privileges for local SMEs in providing technical support and market access; at the same time, the new law has revoked the previous local employee quotas to give foreign investors more flexibility in hiring for their businesses, and now also expressly contains a guarantee against the expropriation and nationalisation of property owned by foreign investors.[7]

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[4] Country data, The World Bank; https://data.worldbank.org/country/myanmar

[5] Ease of Doing Business in Myanmar, The World Bank; http://www.doingbusiness.org/data/exploreeconomies/myanmar

[6] "New investment law helps Myanmar rebuild its economy and create jobs", 25 January 2017, The World Bank; http://www.worldbank.org/en/news/feature/2017/01/25/new-investment-law-helps-myanmar-rebuild-its-economy-and-create-jobs

[7] "Snapshot of Myanmar Investment Law 2016 and Myanmar Investment Rules 2017", IE Singapore; https://www.iesingapore.gov.sg/-/media/IE-Singapore/Files/Venture-Overseas/Browse-By-Market/Myanmar/Snapshot-on-Myanmar-Investment-Law-2016-and-Myanmar-Investment-Rules-201.ashx?la=en

[8] "Myanmar Companies Act sent to parliament", 10 Oct 2017, Myanmar Times; https://www.mmtimes.com/business/24508-myanmar-companies-act-sent-to-parliament.html

[9] "Myanmar Companies Act set for revision", 10 Oct 2017, Myanmar Times; https://www.mmtimes.com/business/7674-myanmar-companies-act-set-for-revision.html

[10] "New Companies Law submitted to Parliament", 24 July 2017, Consult-Myanmar; https://consult-myanmar.com/2017/07/24/new-companies-law-submitted-to-parliament/

Yangon, Myanmar

PHOTO SHUTTERSTOCK

A Singaporean in Yangon

John Loo, Managing Director of Metta (formerly known as Elpiji), a leading liquefied petroleum gas (LPG) installation company, was impressed with the professional knowledge of the local engineers he met at seminars in Myanmar on his business trips. While they may not have been the most fluent in English, it was clear to Mr Loo that those engineers were very much on par with their peers around the world in their grasp of technical knowledge, despite all he had heard about the state of development in Myanmar.

When asked, those engineers told him they had studied in polytechnics and other institutes of higher learning in Singapore.

It was then that Mr Loo fully realised the extent of the links between Singapore and Myanmar, and how that presented an opportunity for Singaporean businesses to make greater inroads there. Those links extended to the historical and cultural spheres.

"I was reminded of Singapore in the 1960s," said Mr Loo, when he saw landmarks in Yangon; the General Post Office heritage building at the corner of Bo Aung Kyaw Street and Strand Road reminded him of the Fullerton Hotel in Singapore, formerly Singapore's own General Post Office. "It was nostalgic and I felt I was able to connect with the place and people."

He also pointed out that beyond historical landmarks, the common legacy of British colonial civil service administration meant that Myanmar's institutions, like its government ministries and the police, are more similarly structured like Singapore's, compared to other Southeast Asian countries like Vietnam, Cambodia and Indonesia.

As with all its other forays into foreign markets, Mr Loo's company would conduct educational seminars on LPG in Myanmar as a means of familiarising himself with the local market, and imparting knowledge of good standard practices and procedures of Singapore in particular, and the world in general, in this field.

"They are knowledge-hungry and ever ready to learn," said Mr Loo of the people of Myanmar. "I'm very positive about the business opportunities in the country." He cited the property, hotel and educational sectors as among those offering key business opportunities in Myanmar today, as well as the transport sector, for which he believes there is a need for more organised taxi services.

The revised Companies Act draft seeks to dramatically reduce compliance costs and regulatory burden for firms, especially the costs for foreign investors entering the Myanmar market.

Revising the Colonial-era Companies Act

The draft for a revised Companies Act is a key focus of legislative activity in Myanmar now.[8] The Companies Act currently in force in Myanmar dates back to the year 1914, in the days of colonial rule. Understandably, the Act is replete with antiquated requirements which hinder the ease of doing business. Companies technically have to seek the approval of the President of Myanmar to change their names, and court approval is required in the event of a change in their stated business objectives. There are also onerous requirements to submit multiple copies of documents when registering a company in the country, a relic of the pre-digital age.

The revised Companies Act draft seeks to dramatically reduce compliance costs and regulatory burden for firms[9], especially the costs for foreign investors entering the Myanmar market. It also contains a key provision which, if passed, will allow foreign investors to buy shares on the Yangon Stock Exchange.

Myat Nyana Soe, Secretary of the Bill Committee of the Upper House of Myanmar's Parliament, told the media that "there are a lot of restrictions on business operations under the existing Companies Act, which is why the country has difficulty attracting foreign investment".[10] This revised version of the Companies Act is expected to be passed by the end of this year.

CONCLUSION

As Myanmar continues on to the next stage of its political history, it presents businesses around the world with boundless opportunities as the "last frontier market" in a rising continent that is Asia. ISCA

Htun Htun Naing (Nelson) is President, Myanmar Young Entrepreneurs Association, and Chairman and CEO, Blue Ocean Operating Management Co Ltd. Loke Hoe Yeong is Manager, Insights & Intelligence, ISCA.

REGIONAL GEMS

Exciting ways to ring in the upcoming new year that are just a short flight away

▸ SHOP TILL YOU DROP AT A NIGHT MARKET

Vientiane, Laos

Why not celebrate the start of a new year with a shopping spree at one of Asia's largest night markets? It all kicks off around sunset, when sellers start setting up hundreds of stalls along the **Chao Anouvong** riverside promenade in downtown Vientiane. Grab a cup of cool fruit juice, watch the gorgeous sun set as it dips into the Mekong River, and then get ready to shop, shop, shop.

You'll find plenty of casual clothes, accessories, souvenirs and more – all very affordable but be prepared to haggle for deeper discounts. This is a great place to practise your negotiation skills – and don't forget to shop around.

There's no food at this night market though, so once you've bought what you want, head over to the **Ban Anou** night market just a few blocks away. This open-air market serves up the best of Lao cuisine, from grilled meats to sticky rice. Wash it all down with a bottle of cold Beerlao, one of the country's most famous exports.

WHERE TO STAY Try the **Salana Boutique Hotel (rooms from S$150)**, located right between both markets. Rooms are elegant, clean and there's a full-service spa and restaurant onsite. You'll also be walking distance to lots of other attractions, including the National Museum, Wat Si Saket, Wat Si Muang, as well as the Chao Fa Ngum Statue. It's also right across the street from the not-to-be-missed L'Adresse de Tinay Restaurant, a tiny French restaurant that's worth the trip alone.

Visit www.tourismlaos.org for details.

Vientiane, Laos

PHOTOS SHUTTERSTOCK

Chiang Mai, Thailand

◀ PLAY WITH PACHYDERMS
Chiang Mai, Thailand

If you want to spend some quality time with these beasts, an elephant sanctuary is definitely the most humane and sensitive way to do it. This New Year, consider heading up to Chiang Mai for a visit to the **Elephant Nature Park** for a chance to feed, play with and bathe these social, intelligent creatures. Situated in the stunning Mae Taeng Valley, Elephant Nature Park offers programmes that range from a brief day visit **(2,500 baht or S$103 for an adult)** to a full week of volunteering and cultural immersion with the local hill tribes **(15,000 baht or S$618 for an adult; no children allowed).**

The most popular programme is the two-day trip **(5,800 baht or S$239 for an adult)** that departs Chiang Mai at 8am. You get to stay overnight in a traditional bamboo hut nestled amid the elephants' foraging areas, and spend the days caring for and playing with the rescue elephants. Meals are delicious vegetarian fare made with local ingredients, and prices include all admission fees, park guides and activities.

WHERE TO STAY All Elephant Nature Park excursions depart fairly early in the morning and return in the late afternoon to Chiang Mai, so it's best to plan on overnighting in Chiang Mai before and after your trip. Stay at the **Rainforest Boutique Hotel (rooms from S$50)**, which is conveniently located minutes from the city centre and is a great base for discovering the delights of the city.

Visit www.elephantnaturepark.org for details.

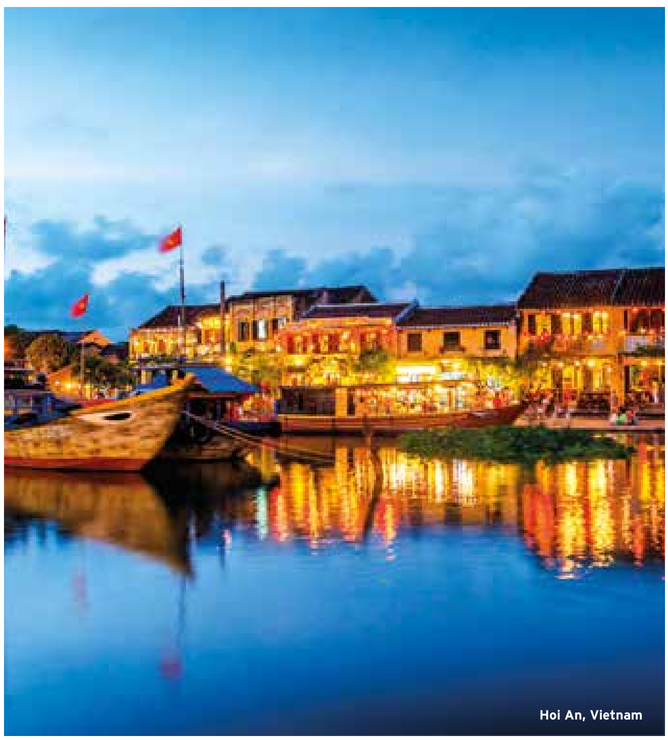
▶ RIDE AROUND ANCIENT STREETS
Hoi An, Vietnam

Nestled along Vietnam's central coast, just hours south of the tourist beach town of Da Nang, **Hoi An** is a UNESCO World Heritage town that boasts some stunning, well-preserved architecture in a mix of cultures, eras and styles. The only catch? For the safety of the many visitors, no motorised vehicles are allowed to enter the ancient trading port for most of the day. Your best bet is to rent a bicycle from your hotel **(for about 30,000 *dong* or S$1.80 a day)** and pedal around to see the sights.

You can take a cycling tour, but if you prefer to explore independently, all you need is an entrance ticket **(120,000 *dong* or S$7.20)** that is valid for 24 hours, which grants you entrance to five places within the World Heritage site. The impressive list of sites includes old houses, assembly halls, museums (don't miss the folk culture one), traditional arts workshops and performances, as well as temples.

WHERE TO STAY The **Red Flower Cottage Homestay (rooms from S$55)** delivers excellent bang for your *dong* – we mean, buck – thanks to its awesome location on the white sands of An Bang beach plus its comfy, cool modern cottages. Or try the **Lantana Boutique (rooms from S$135)**, nestled right on the riverside by the steps that lead to the ancient town.

Visit vietnamtourism.gov.vn/english/index.php/tags/Hoi-An for details.



Hoi An, Vietnam

SAY OMMMMMMMMMMM ...
Angkor Wat, Cambodia

There's nothing more peaceful than honouring the beginning of a new year – and yourself – at a meditation retreat set amid the splendour and serenity of the ancient temple complex of Angkor Wat. Each day, guests enjoy many opportunities to mindfully sit and move through various yoga and meditation offerings.

Wake at dawn to an invigorating yoga practice, followed by breakfast. Then comes a *pranayama* (breathing) and meditation practice, plus an optional lunch. Spend the day exploring Angkor Wat, before returning for yoga and tea, followed by meditation and dinner. All meals are taken communally, and feature vegetarian options influenced by Southeast Asian, Indian and Nepali cuisines. You can also enjoy traditional Khmer bodywork including massage, foot massage and aromatherapy.

WHERE TO STAY Guests can choose from a variety of accommodation options ranging from standalone bungalows **(from S$108)**, made from rustic, local materials or a deluxe studio **(from S$136)**, which provides an additional level of comfort (such as en suite bathrooms, air-conditioning and a private terrace). Getting around is easy – grab a cheap *tuktuk* (about S$4 to $5) to get downtown, or ride a bicycle (provided by the hotel).

Visit www.angkorzen.com for details.

Ubud, Bali, Indonesia

Angkor Wat, Cambodia

▼ TREK TO GUNUNG MULU

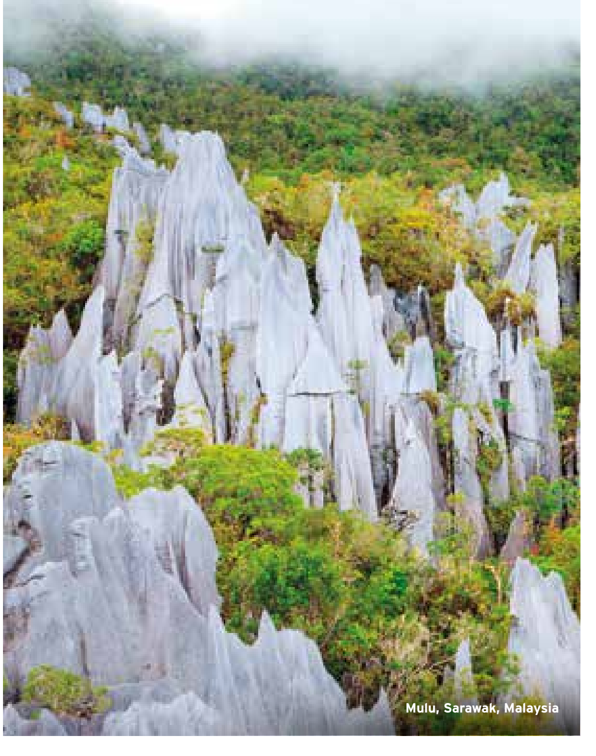
Mulu, Sarawak, Malaysia

Imagine welcoming the New Year from the peak of Sarawak's second-highest mountain. The trail to Gunung Mulu winds its way through **Gunung Mulu National Park**, taking in a diverse range of ecosystems from lowland forest to montane vegetation. You'll see pitcher plants galore, crystal clear waterfalls and rivers and limestone cliffs, and you might even spot some wildlife, such as the rhinoceros hornbill, gibbon or even a clouded leopard or sun bear if you're lucky. After two days of some challenging hiking through dense jungle, you'll be rewarded with unbeatable summit views and the welcome sight of a downhill trail back to civilisation.

The trek is one of the toughest in Southeast Asia. Described by Lonely Planet as "treacherous" and "gruelling", you'll need to be fit and prepared for four days of hard physical activity and very rustic camping conditions. You'll also need a guide from the national park as this is not a self-guided hike.

WHERE TO STAY Just five minutes outside the park is the **Mulu Marriott Resort and Spa (rooms from S$160)**, which features plenty of the luxuries and amenities you'll be missing while trekking. After four days in the bush, nothing will beat the comfort of a hot shower, a gourmet meal (or two) and cocktails in an elegant four-star resort.

Visit www.mulupark.com for details.



Mulu, Sarawak, Malaysia

PHOTOS SHUTTERSTOCK

◀ TAKE IN THE RICE VIEW

Ubud, Bali, Indonesia

Sometimes, all you need is a little peaceful break at the end of the year to reflect on your hits and misses of 2017, and set out your resolutions for 2018. Where better to do that than by basking on the patio of your own villa overlooking the tranquil and lush rice paddy terraces of **Ubud**?

There's plenty here that will help an overworked executive rest and recharge. You could take in a yoga class (try one of the many classes at Yoga Barn, one of the largest studios in Bali, where **a single class costs about S$13**), take a stroll in the monkey forest, try your hand at making your own raw cuisine or even create an art piece. And of course, you could go for a leisurely stroll around any one of the many gorgeous rice paddy terraces in the area. The most Instagram-able by far are the stunning Tegalalang terraces just north of Ubud. Go there at sunset, after the daytrippers have left, and soak in the impressive view from one of the many local restaurant patios.

WHERE TO STAY Surrounded by rice paddy terraces and pretty views of the Ayung River valley, the **Amandari (rooms from S$950)** makes an ideal place for your own personal year-end retreat. On New Year's Eve itself, there will be a traditional dance and *gamelan* performance to celebrate the beginning of a new year.

Visit http://www.balitourismboard.org/bali-travel/ecotourism for details.

PHOTO www.tallship.com.sg

▲ NEW YEAR'S EVE COUNTDOWN ABOARD A LUXURY YACHT
Singapore

There isn't a more unique way to ring in 2018 than onboard a superyacht in Sentosa. Kickstart your New Year's Eve (NYE) celebrations with a sunset cruise on the upper deck of the 47m *Royal Albatross* with a glass of champagne, and your loved one by your side. Watch the crew raise and trim the 22 sails on this historic tall ship, using nothing more than their hands, as you sail toward the Southern Islands – it'll be an adventure of a lifetime. Then, head on down to the air-conditioned Grand Salon on the main deck to tuck into a BBQ buffet spread before weighing anchor at Adventure Cove at Resorts World Sentosa to party the night away dockside.

Tickets start at **S$295 for the NYE cruise**, BBQ and dockside party (or just S$50 for the dockside party), and includes a drink, DJs and more. The rest of your drinks are extra, but you can leave your worries at the dock – pre-purchase a drink package at a discount of up to 25%. Don't forget to get a babysitter – this is an adults-only event and no children are allowed.

Visit www.tallship.com.sg for details.

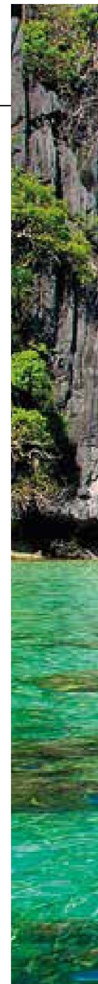
▶ NEW YEAR'S EVE NIGHT DIVING
El Nido, Palawan, Philippines

Instead of drinking as soon as the sun goes down on NYE, why not slip into a wet suit first for a special night dive on one of the year's most exciting nights? That's what is on offer in **El Nido**, one of the premier diving spots in the Philippines. Night diving here is an extraordinary experience – it starts with a sunset cruise to Bacuit Bay and ends with a breathtaking display of bioluminescence. While on the dive, you'll see many shy creatures that are often difficult to spot in the daytime, such as sleeping fishes and turtles, seahorse, shrimp, crabs and more.

You'll need to be at least a PADI Advanced scuba diver to tackle night diving. So if you've never tried the sport before, why not plan a week or two in El Nido over Christmas and NYE to check this off your bucket list? El Nido, with its calm, clear waters, is a great place to stay. You can complete the theory portion online ahead of your trip, then spend another three to five days getting certified.

WHERE TO STAY **Overlooking Resort (rooms from S$200)** boasts some of the prettiest sea views in Palawan and is ideally located right in central El Nido. Or check out the recently-built **Mahogany Resort (rooms from S$220)**, tucked away on neighbouring Corong Corong beach amid a quiet coconut grove.

Visit www.visitpalawan.info for details.




PHOTOS SHUTTERSTOCK

El Nido, Palawan, Philippines

Jerudong, Brunei

◂ FUN AND GAMES AT JERUDONG PARK
Jerudong, Brunei

Just outside the capital city of Bandar Seri Begawan, **Jerudong Park** is a top-rated destination that your whole family can enjoy. It features a huge water park, mini golf course and an all-new playground with rides that will please everyone – from the sedate charms of the Double Decker Carousel to the thrills and spills of the Sky Diver ride. And of course, no trip to an adventure park would be complete without a ride on the ferris wheel. Entrance to the park is just **B$20 or S$20 per adult and B$10 per child** (tots under the age of three enter free). Families can pick up a family package deal for just B$50 for two adults and two children.

WHERE TO STAY The **Empire Hotel and Country Club (rooms from S$280)** is just minutes away and offers ocean-view rooms and family villas, plus a wide variety of amenities that includes eight international restaurants, a Jack Nicklaus-designed golf course and full-service spa.

Visit www.jerudongpark.com for details. ISCA

*Prices are correct at the time of print.

PHOTO SHUTTERSTOCK

THE GREAT ECONOMIC INVERSION PART 3

How Balance Sheets Have Been Tipped Upside Down

BY
PAUL ADAMS

In this three-part series, Paul Adams, CEO of EverEdge Global, discusses one of the most important trends in accounting in the last four decades – the increasing recognition of the importance and value of the assets the profession discusses the least – intangible assets. Part 1, published in the September issue of ***IS** Chartered Accountant*, addressed why intangible assets are important. Part 2, in the October issue, looked at intangible asset risks. In this final edition, we look at why intangible asset risks are important but are often not managed the way they should be managed.

PART 3 INTANGIBLE ASSETS ARE RELEVANT AND URGENT, AND NEED TO BE ACTIVELY MANAGED

Even though intangible assets such as brand, content, data, software code, know-how, confidential information, design, inventions, domain names and regulatory approvals represent over 87% of the value of most companies today, some boards and senior management teams

Intangible assets also open new avenues for funding – financial institutions are beginning to advance capital against intangible assets and investors are increasingly recognising that companies with strong intangible assets make better bets.

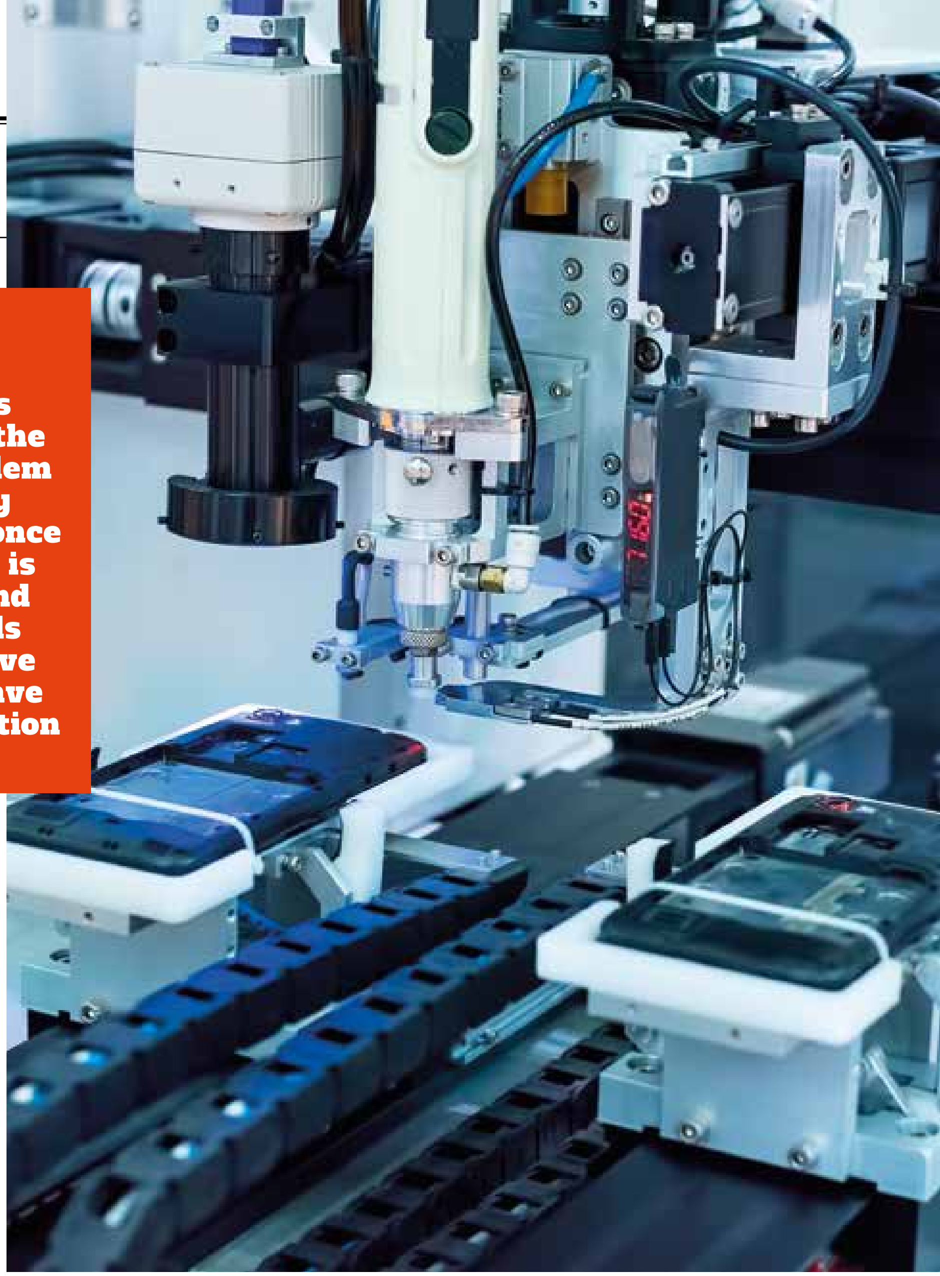
continue to believe intangible assets are irrelevant to their business.

Reasons often given include:

- It's easier just to "run as fast as you can";
- Intangible assets like patents are too expensive;
- Intangible assets are "impossible to enforce" without huge resources;
- Intangible assets aren't really about business but are just "legal stuff".

All of these arguments are incorrect for a variety of reasons. First, in the long run, a strategy of rapid product iteration to offset weak intangible assets (weak brand, weak data, easily-replicable code, poor content, easily-reproducible designs, etc) is simply unsustainable. It requires constant resource injections just to stay ahead. In a global economy, new competitors continually spring up and you simply cannot outrun everyone. Further, running fast doesn't help when a large competitor shuts you out of the market using its intangible assets or copies your product and does so for half the price because it has no sunk R&D cost.

Second, as stated above, intangible assets include more than just patents. It's brand, it's confidential information, it's copyright – none of these rights rely on spending millions of dollars on lawyers. Most of the intangible assets companies use on a day-to-day basis are secrecy-based – it involves keeping what you know confidential to maintain your advantage. There is no hard cost associated with confidential information for example, other than good operational systems to keep



★ **Failing to deal with intangible asset risks creates what is called the "humpty-dumpty" problem – it is extraordinarily expensive to fix things once they've gone wrong. It is not uncommon to spend hundreds of thousands of dollars trying to solve problems that could have been resolved for a fraction of the price earlier.**

valuable intangible assets secret, something the company should be doing regardless.

Third, although a small company may not have the resources to sue a huge multinational, if your intangible asset is valuable, you can guarantee there will be someone out there who does. What about their competitor? Many will welcome (and pay for) the right to use your intangible asset to knock out their (and your) foe. What about a litigation funder? These entities fund high-value litigation. What about a well-resourced development partner or licensee? They don't want to see the rights or advantage they pay you for be eroded. The key point is, you don't necessarily need to be the person doing the enforcing, and if you don't have valuable intangible assets, partners will be harder to find.

Fourth, intangible assets are a business tool and their highest value is often strategic. In many industries, you can't play unless you have a strong intangible asset position (example, the mobile phone industry). Intangible assets can generate revenue through licensing or sale. They can increase bargaining power in negotiations or enable access to other technologies via cross-licensing or development agreements. Intangible assets can in fact *reduce* the threat of litigation (without an arsenal of your own, you are an easy target and therefore more likely to be attacked). Intangible assets also open new avenues for funding – financial institutions are beginning to advance capital against intangible assets and investors are increasingly recognising that companies with strong intangible assets make better bets.

INTANGIBLE ASSETS ARE URGENT

Unfortunately, even when intangible assets are recognised as relevant, management teams seldom see them as a burning issue – it is all too easy to put off in favour of business as usual. It only gets taken notice of when something goes catastrophically wrong, such as when management discovers that a contractor, not them, owns a core intangible asset, or their latest "breakthrough technology" actually broke through 10 years ago, and the company is now infringing someone else's intangible asset.

Failing to deal with intangible asset problems creates what is called the "humpty-dumpty" problem – it's extraordinarily expensive to fix things once they've gone wrong. It is not uncommon to spend hundreds of thousands of dollars in just a few weeks trying to solve problems that, had they been headed off at the top of cliff, could have been resolved for a fraction of the price. Senior management teams and boards need to prevent this kind of behaviour by proactively working at all levels to manage the company's intangible assets and intangible asset risk.

PHOTO SHUTTERSTOCK

An important point to keep in mind is that management can't manage what it can't see. Effective intangible asset management begins with understanding what intangible assets you have now, and what you do with the new assets you are creating. The starting point for any intellectual property (IP) management exercise is an independent Intangible Asset Audit or Intangible Asset Management Review, and this should be conducted by a specialist provider familiar with intangible assets, and clearly someone other than your existing IP provider.

PULLING IT ALL TOGETHER

Understanding why and how intangible assets are important is best illustrated by the true story of a well-known technology company. Like many companies, it had succeeded for over a decade without paying any real attention to its intangible assets. No one had told the team that these assets were relevant; they barely featured on the company's balance sheet. In fact, the early team were "anti-IP" (one key manager said he "didn't believe in it"). There were no systems to manage internal intangible assets or review external intangible asset risks. It relied purely on speed to outwit competitors and the closest it came to an "intangible asset strategy" was filing the occasional patent or trademark, which it never enforced or used.

Multiple times, the engineering team had created innovative products which enabled them to be the first movers in major new markets. However, each time, the company's failure to manage the valuable intangible assets in these products saw it slowly surrender market share and margin to competitors who out-manufactured and out-distributed them. On one occasion, owing to the complete absence of intangible asset management, an entire highly-valuable bundle of intangible assets (millions of lines of software code) was transferred to an offshore supplier because the engineering team didn't stop to think, "Is this important?" The supplier copied the code and rapidly became the company's biggest competitor, turning over hundreds of millions of dollars.

This was bad enough but the real problem came later. The strength of the engineering team eventually led to the company's acquisition by a multi-billion-dollar offshore corporation. Within weeks of acquisition, the company was sued multiple times for intangible asset infringement. For years, it had flown beneath the radar but now, it was worth suing. To the management team expecting big returns from the earn-out, this was a major problem. For the directors, various warranties and indemnity provisions in the Sale and Purchase Agreement were suddenly examined in detail. Questions were asked – Why had the intangible asset function been ignored for so long? Despite being extremely innovative, a culture of ignoring intangible assets and their risks (internal and external) had been allowed to permeate the entire company. No one had taken intangible assets seriously. The result was a series of expensive back-downs and settlements. Eventually, the multinational divested itself of its troublesome acquisition. Ultimately, the destruction of shareholder value could be measured in the hundreds of millions.

The tragedy here is twofold – not only did a failure to take intangible assets seriously lead to missing multiple opportunities to secure a leadership position in billion-dollar markets, the company essentially created an impermeable ceiling to its growth. Its failure to consider its own or anyone else's intangible assets meant that, not only was it violating third-party intangible assets, it also had no arsenal to fight back with. Consequently, it doomed itself so that every time it grew tall enough, its head would be lopped off.

With a different approach to intangible assets, the story would have been very different. As the leading innovator in new markets, it was well-placed to create a dominant intangible asset position it could have used to protect market share and extract high margins to fuel further growth. With more awareness of intangible assets, it could have avoided infringement or at least have had a portfolio to bargain with. Its shareholders and the country missed the opportunity to create a billion-dollar technology leader.

How can the accounting profession assist clients to better manage their intangible asset risks? The starting point is to help clients recognise that although these assets are intangible, they are still assets and need to be managed as they would any other valuable asset. Here are some questions accountants as advisors can ask clients, to start the conversation on intangible asset management:

- Do you have a process for identifying intangible assets?
- Do you have any systems or processes for actively managing these assets?
- How do you measure the impact these assets have on your business?
- Are intangible assets on any senior management or board agenda for discussion?

THE TAKEAWAY

To succeed in the 21st century, companies have to be smarter and faster, not just in terms of the products and services they develop, but in how they protect and leverage their most valuable assets – their intangibles. The key takeaway – if your company is in the business of employing smart people, you're in the business of building intangible assets. This means intangible asset strategy and risk management needs to be a core consideration for not only the board and senior management, but for the entire company. ISCA

Paul Adams is CEO of EverEdge Global (www.everedgeglobal.com), the world's leading intangible assets specialist.

THE VALUE OF ANNUAL REPORTS

Building Trust among Stakeholders

BY
NG KAI TECK

Marina Bay Financial Centre, Singapore

PHOTO SHUTTERSTOCK

Trust is the lubricant that keeps the economy running smoothly. It is either given on faith, or earned with information. Lack of trust increases transaction costs as proper risk management requires that effort be spent to investigate, verify and in many cases, price protect.

Listed companies release relevant information to the public over the course of the year through various channels. However, few vehicles have the prominence and persistence as the annual report. A company's annual report is a chance for it to not just show how it did, but also who it is. It is a chance for it to build trust with its stakeholders.

The Best Annual Report Awards (BARA) is presented under the umbrella of the Singapore Corporate Awards, jointly organised by ISCA, Singapore Institute of Directors and business newsdaily *The Business Times*. They are awarded to recognise excellence in companies which engage with their stakeholders by disclosing useful and relevant information through their annual reports.

With increasingly complex business environments and greater awareness of the social responsibilities of companies,

the information needs of corporate stakeholders have grown in both volume and complexity. Regulatory bodies mandate only minimum disclosure requirements that are relevant to a wide and diverse audience. Beyond this minimum requirement, it remains the discretion of each company, when crafting its annual report, how much of its private information to make public, and how much of that to be disclosed in the very limited real estate of an annual report.

Among those that impressed the judges at this year's BARA, DBS Group Holdings Ltd continues to finetune its integrated report, moving seamlessly from section to section, weaving its annual report into a story about its financial, social and environmental performance. Readers of the annual report of Tuan Sing Holdings Limited were given a clear picture of its business, strategy, risks and performance. Similarly, the other winners at this year's BARA presented reports that provided a clear, concise and coherent snapshot of the company for the year. Information that is needed is there, easy to read and is not hard to find.

ENVIRONMENTAL, SOCIAL AND RISK MANAGEMENT

Sections of the annual report that are relatively new but quickly maturing are the disclosures on

While cash flow is the currency that ensures short-term survival for firms, trust is the currency needed for long-term sustainability. This transparency and trust is what forces companies to remain accountable and pursue excellence.

environmental and social performance and risk management. Being largely unregulated, the quality of disclosures among companies does vary significantly. Some of the best companies have taken leadership to provide positive examples of how this can be done well, improving on their disclosures every year.

Progressive companies now present clearly their environmental and social policies, with quantitative performance measures and targets coupled with meaningful commentary. An increasing number of companies are also now mapping their disclosures to the Global Reporting Initiative (GRI) framework. However, the scope of social and environmental reporting is vast, and curating the disclosures is a challenging problem. For the disclosures to be readable, companies need to focus on disclosures that are significant to their business. For example, companies with a large carbon footprint would need more sophisticated emission disclosures while those with a large number of employees in less developed countries may need to disclose more on their labour practices.

Megachem Limited presented clearly the environmental and social aspects that are important to it and its stakeholders, publishing targets and plans next to its performance, with commentaries as well as engagement efforts with various stakeholders. DBS provided commentaries on its performance, with clear links to its business strategies. Banyan Tree Holdings Limited provided industry averages for comparison.

In risk management disclosures, many companies still only focus on financial risk with vague descriptions of other types of risks. What stakeholders need from management is to understand the various material risks that can affect the company, the level of risk the company is facing, what its risk management strategies are, and a discussion on its risk appetite. This is unique to each business model and its environment. DBS and Tuan Sing are companies that have presented all of the above in a clear and comprehensive way.

REVIEW OF RESULTS, CORPORATE GOVERNANCE DISCLOSURES AND PRESENTATION

It is also heartening to see improvements in more traditional sections of the annual report, such as the review of results. Five-year historical analyses are commonly presented as a simple table of historical numbers but some companies, such as Sembcorp Industries Ltd, presented comprehensive segmental breakdowns, with commentaries explaining the numbers.

To address the requirements of the Code of Corporate Governance, many companies still follow “check-box”-type disclosures with boilerplate statements. However, many of this year’s winners have provided comprehensive disclosures on both their corporate governance policies and activities. Some companies even publish infractions of their policies or where their performance has fallen short of expectations. One area that has seen great improvement is the disclosure of the directors’ background information. There is also greater discussion of board selection policies focusing on diversity in age, gender and background.

While something seldom commented upon, the design and presentation of the annual report is something that readers will certainly appreciate when done well. Good graphic and layout design using a restricted colour palette allows readers to extract required information quickly and with less fatigue while those with a bit more flair, such as Baker Technology Limited, are a breath of fresh air.

TRANSPARENCY MATTERS

The BARA is an annual award. However, having served on the judging panel for a number of years, it is with pleasure that I note,

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Transparency is a long-term commitment. It is not easy for many companies as the first step requires a fundamental shift in their corporate culture. Many prefer to hide their ineffectiveness or inefficiencies. Companies which truly focus on performance excellence have no need to hide.

among several companies, the consistent year-to-year drive to embrace transparency and produce high-quality reports. Transparency is a long-term commitment. It is not easy for many companies as the first step requires a fundamental shift in their corporate culture. Many prefer to hide their ineffectiveness or inefficiencies. Companies which truly focus on performance excellence have no need to hide.

As companies grow, the diversity of their stakeholders grows, as do their information needs. Publicly-listed companies must be conscious of their public nature and provide clear and transparent annual reports that address those needs. The best companies have a clear understanding of those needs and discharge their duty with comprehensive yet succinct and readable annual reports. This engagement builds trust between the company and its stakeholders. While cash flow is the currency that ensures short-term survival for firms, trust is the currency needed for long-term sustainability. This transparency and trust is what forces companies to remain accountable and pursue excellence.

However, an easy trap that a company can fall into, in embracing transparency, is to report everything. As the page count on annual reports increases, they become more and more unreadable. Regulation should be applied with a soft touch as well, as this is often the cause of the bloat in the reports. It takes great understanding of its business to focus narrowly on what is core, material and significant to a company. In this respect, I have found Baker Technology to have used its relatively low page count exceedingly well.

CONCLUSION

Looking to the future, some things I would like to see is increased use of industry benchmarks in discussing results to provide a better context for readers. Value-adding and productivity disclosures are also rare and when presented, are often done without commentaries. More thought and consideration in these areas will certainly give stakeholders a better insight on the relative performance of the business.

Finally, I would like more companies to embrace transparency and "comply" rather than "explain" with regard to disclosure requirements, especially in relation to corporate governance. Where explanation is given, it should be that the particular requirement is not relevant to that particular company rather than a preference to keep that information private for competitive or other reasons. Also, no more boilerplate statements, please.

Depending on their financial year-ends, many companies have also started to disclose Key Audit Matters in their Independent Auditor's report. I am looking forward to boards (or their sub-committees) addressing them critically and openly, and also more careful and thoughtful discussion on the company's internal controls.

As an increasing number of users consumes annual reports digitally, companies may want to consider augmenting their electronic version of their annual report with navigational links to related content or even embed videos in place of photos, or animations in place of charts. **ISCA**

Dr Ng Kai Teck is Deputy Head, Accountancy Programme, School of Business, Singapore University of Social Sciences. He is a member of ISCA's Best Annual Report Award judging panel for the Singapore Corporate Awards.

An abridged version of this article was first published in *The Business Times* on 8 September 2017.

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

ISCA ISSUES IFRS CONVERGENCE 2018 IMPLEMENTATION ROADMAP PUBLICATION

A recent ISCA poll found that many listed companies are not prepared for IFRS Convergence. The poll, which collated responses from audit partners of 235 listed companies, showed that 31% have not started any preparation work for IFRS Convergence, 25% are at the early stages of preparatory work and only 9% had substantially finished assessing the impact of IFRS 1. To get listed companies back on track, ISCA has developed this publication in collaboration with the Singapore Institute of Directors to provide guidance on how to navigate the maze of accounting change that IFRS Convergence exercise requires. It also provides a bird's eye view of what IFRS Convergence entails and areas that would commonly impact entities the most when adopting the IFRS framework.

Please visit https://isca.org.sg/media/2238610/ifrs-convergence-2018-implementation-roadmap.pdf for the publication.

Please visit https://isca.org.sg/media/2238611/ifrs-convergence-poll-report-final.pdf for the poll report.

ISCA ISSUES REVENUE GUIDANCE FOR SALE OF UNCOMPLETED RESIDENTIAL PROPERTIES

ISCA has developed this guidance to share the discussion and consensus reached by ISCA's Financial Reporting Committee on the application of FRS 115: Revenue from Contracts with Customers. The pertinent issue addressed by this guidance is whether property developers have the enforceable right to payment for uncompleted properties.

Please visit https://isca.org.sg/media/2238612/isca_frs-115-revenue-recognition.pdf for the guidance.

ISCA SEEKS COMMENTS ON IASB EXPOSURE DRAFTS

- **ED: Accounting Policies and Accounting Estimates**

  IASB proposed narrow-scope amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors so as to help companies distinguish accounting policies from accounting estimates. Comments are to be submitted to IASB by 15 January 2018.

  For more information, please visit http://www.ifrs.org/news-and-events/2017/09/iasb-proposes-to-clarify-how-to-distinguish-accounting-policies-from-accounting-estimates/.

- **ED: Definition of Material**

  IASB proposes minor amendments to IAS 1: Presentation of Financial Statements, and IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors to clarify the definition and improve understanding of the current requirements. Comments are to be submitted to IASB by 15 January 2018.

  For more information, please visit http://www.ifrs.org/projects/work-plan/definition-of-material/comment-letters-projects/exposure-draft-definition-of-material-proposed-amendments-to-ias-1-and-ias-8/.

AUDITING AND ASSURANCE

MORE INSIGHTFUL AUDITOR'S REPORTS LEADING TO GREATER CORPORATE DISCLOSURES

Companies are stepping up their corporate disclosures in response to the enhanced auditor's report. This was one of the key findings in a study conducted by ACRA, ACCA, ISCA and NTU, to examine the impact of first-year implementation of the new and revised auditor reporting standards in Singapore.

For more information, please visit https://isca.org.sg/tkc/aa/resources/articles-publications/auditor-reporting/2017/october/embracing-transparency-enhancing-value-a-first-year-review-of-the-enhanced-auditor-s-report-in-singapore/.

IAASB WEBCAST: PROPOSED CHANGES TO INTERNATIONAL STANDARD ON QUALITY CONTROL

IAASB Quality Control Task Force Chair, Karin French, leads a discussion on proposed changes to International Standard on Quality Control (ISQC) 1 for firms. The proposed changes will result in a restructured and enhanced standard that will change the current approach to firms' systems of quality control.

For more information, please visit https://www.ifac.org/news-events/2017-09/iaasb-webcast-proposed-changes-international-standard-quality-control.

REGULATORY

UPDATED GUIDELINES FOR REGISTERED FILING AGENTS

ACRA has updated the Guidelines for Registered Filing Agents (RFAs) to better guide RFAs in complying with regulatory requirements under the enhanced regulatory regime for Corporate Service Providers.

For more information, please visit https://www.acra.gov.sg/components/templates/newsDetails.aspx?id=136a3f66-6543-43c9-97bb-c9e5f777c1a6.

PHOTO SHUTTERSTOCK

Stone Forest IT

Globally Connected
RSM

F&B Wholesale Distributor Boosts Productivity with Automation Tool

CHALLENGE

The client is an established local company with a vast food distribution network. As the company expanded regionally, it had to manually input voluminous data from ordering lists that came in various formats from numerous distributors into its Sage 300 ERP system. This manual, time-consuming process presented a high risk of human errors and data loss, requiring multiple checks before packaging and delivery that wasted more man-hours. To address these challenges, the client turned to Stone Forest IT (SFIT) for a solution that would link Sage 300 directly to distributors' systems.

SOLUTION

After consulting the client and distributors, SFIT identified various ordering list formats, such as CSV, XML or Excel spreadsheets, and proposed a customised utility for Sage 300 with the following features:

- Ability to interpret the different formats and seamlessly import ordering lists' data into Sage 300
- Validation checks to identify issues such as duplicate sales orders

RESULTS

Following implementation, the client enjoyed several benefits:

- Greater efficiency and productivity as ordering lists' data is automatically transferred to Sage 300
- Elimination of human errors and data loss
- Cost-effective use of human resources as staff are not required for manual data entry

Businesses tap into SFIT's extensive experience in providing customised solutions for Sage 300 to meet their needs and enhance productivity.

HIGHLIGHTS

Industry:
F&B Wholesale Distribution

Location:
Singapore

Solution:
Customised utility for Sage 300

Results:

- Greater efficiency and productivity
- Elimination of human errors and data loss
- Cost-effective use of human resources

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sage Premier Partner

TAX PEAK: ARE YOU UP FOR IT?

Journey through the Tax Peak Season Smoothly

BY
FELIX WONG AND
ANGELINA TAN

The peak season for corporate tax filing is here. Beyond the usual reminders for smaller businesses to ensure proper record keeping (especially for documents printed on thermal paper), reasonable remuneration to family members who are employees in family businesses, and accurate segregation of personal and private expenses, larger businesses also have a wide range of tax compliance issues to note as they get into the thick of it, amid a backdrop of greater scrutiny by tax authorities in the global marketplace.

The Singapore Institute of Accredited Tax Professionals (SIATP), working closely with officers from the Inland Revenue Authority of Singapore, has encapsulated some key Singapore corporate tax issues in the following article, for companies to note this tax season.

CLASSIFICATION OF INCOME AND EXPENSES FOR INCENTIVE COMPANIES

Companies on tax incentive schemes, such as the Development and Expansion Incentive (DEI), may enjoy concessionary income tax

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rates on their qualifying income. For such companies, it is essential to ensure that their income and expenses are classified into the correct tax categories in accordance with the relevant tax legislations and regulations. To allow for easy identification and proper classification into the various tax categories, companies are encouraged to assign distinct tax codes to each type of income and expenses.

In addition to segregating income and direct expenses (incurred to generate the income) to the correct tax categories, companies are also required to select an appropriate and reasonable allocation base to allocate the common expenses and capital allowances (CA) on the common fixed assets.

Once an allocation base is adopted, it is to be applied consistently unless there is a change in circumstances. As a good practice, companies should include a note in their tax schedules to justify the allocation base used.

FOREIGN EXCHANGE GAINS OR LOSSES

Foreign exchange differences can arise from capital or revenue transactions. For income tax purposes, foreign exchange differences arising from capital transactions are capital in nature and hence, not taxable as income or deductible as an expense. On the other hand, foreign exchange differences arising from revenue transactions are revenue in nature and hence, taxable or deductible.

Reimbursements paid to employees for taking public transport (for example, MRT rides, taxi rides and Uber/Grab ride-hailing services) for business purposes are tax deductible.

One common compliance error is the incorrect tax treatment applied on foreign exchange differences arising from revaluation of bank financing facility. Instead of simply assuming that all loans are capital in nature, companies need to know the actual usage of their banking facility when determining whether the foreign exchange differences arising from the banking facility or loan is capital or revenue in nature.

MOTOR VEHICLE EXPENSES

Tax deduction claims on any expenses incurred directly or indirectly (in the form of reimbursement) in respect of private cars are strictly disallowed, even if they are incurred for business purposes. If, instead of a reimbursement, a company provides a monthly car allowance to its employee for using his private car for business purposes, such expense would be deductible for the company (but taxable in the hands of the employee as a benefit-in-kind).

It should be noted that while expenses incurred to rent a private car (with or without driver) in Singapore are non-deductible, reimbursements paid to employees for taking public transport (for example, MRT rides, taxi rides and Uber/Grab ride-hailing services) for business purposes are tax deductible.

GROUP INSURANCE

With effect from Year of Assessment (YA) 2013, insurance premiums relating to group insurance (for example, group insurance policies covering life, personal accident or critical illness) are not taxed in the hands of an employee as a benefit-in-kind if the company elects not to claim a tax deduction on such premiums in its corporate tax returns. This administrative concession is not applicable to investment holding companies and service companies providing routine services to its related companies that are on the cost plus 5% mark-up basis of assessment.

To improve tax compliance and avoid unnecessary tax penalties, companies need to put in place good internal controls and a robust record-keeping system to enable its income and expenses to be correctly computed for tax purposes.

It should be noted that once an election is made, the same treatment should be consistently applied for all employees covered under the policy.

If the company wishes to claim deduction on the insurance premiums incurred, it will have to ensure that the amounts have been reported as benefits-in-kind in the employees' Form IR8A.

INTEREST EXPENSE

Interest expenses attributable to non-income producing assets (such as vacant properties acquired for long-term investment) are not tax deductible. Where the company is unable to identify and track the use of an interest-bearing loan to specific assets, the "total asset method" should be applied to attribute the interest expense relating to the loan to the income-producing and non-income producing assets.

A typical mistake involves companies claiming a tax deduction on interest expense relating to investment in shares and securities that yielded tax-exempt dividends. As such dividends are tax exempt, interest expense attributable to them will have no deduction value and should be added back.

DEMOLITION OR DISMANTLING COSTS

Demolition or dismantling costs (incurred to remove existing assets which are installed at the business premises during the course of or prior to renovating the premises) are generally capital expenditure disallowed under section 15(1)(c) of the Income Tax Act (ITA), and hence non-deductible for tax purposes.

However, if the costs are incidental to the provision of specific assets or other categories of expenditure under sections 14(1)(c), 14Q, 19 or 19A of the ITA (categories of expenditure), such cost may be claimed as part of the expenditure in that particular category of asset or expenditure if they can be specifically identified. Otherwise, it may be apportioned to the various categories of expenditure using a reasonable and consistent allocation method (for example, the total cost method).

CAPITAL ALLOWANCE FOR PLANT AND MACHINERY ACQUIRED UNDER HIRE PURCHASE

In computing CA for plant and machinery acquired under hire purchase, companies should not claim CA based on the full cost of the plant and machinery. Instead, CA should be claimed based on the principal

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repayments and deposits paid for that YA. Hire purchase interest and GST amount paid (if the company is GST-registered) should be excluded in the computation of the CA.

TAX EXEMPTION FOR FOREIGN-SOURCED INCOME

Singapore tax resident companies are subject to tax on foreign income received in Singapore unless the foreign income qualifies for tax exemption under the Foreign-Sourced Income Exemption (FSIE) regime pursuant to section 13(8) of the ITA. The qualifying conditions for FSIE are:

i. foreign headline tax rate is at least 15%;
ii. the foreign-sourced income has been subject to tax in the foreign jurisdiction, and
iii. the tax exemption is beneficial to the Singapore resident company.

In determining whether a foreign income qualifies for the FSIE scheme, special care should be taken to ascertain whether the "headline tax rate" condition is met. Headline tax rate refers to the highest corporate tax rate of the foreign jurisdiction from which the foreign income is received. Dividend is considered to be sourced in the jurisdiction where the company paying the dividend is tax resident in. For example, dividends received from a company that is incorporated in the Cayman Islands (a tax haven country) but listed on the Hong Kong Stock Exchange (Hong Kong has a headline tax rate of more than 15%) may give the wrong impression that the dividends meet the headline tax rate condition.

In addition, companies should also ensure that sufficient documentation is maintained to substantiate that the "subject to tax" condition has been met.

FOREIGN TAX CREDIT

Foreign income earned by a Singapore resident company may be subject to tax in the foreign tax jurisdiction from which it is derived. The Singapore resident company may claim foreign tax credit (FTC) against the Singapore tax payable on the same income, either in the form of Double Tax Relief (DTR) or Unilateral Tax Credit (UTC). Claim of the FTC should be restricted to the lower of the foreign tax paid and the Singapore tax payable on the foreign income (net of expenses).

For companies with permanent establishment (PE) overseas, FTC can be claimed (against the Singapore tax payable on the same income) if the trade income is derived through the PE in the foreign jurisdiction and the foreign tax has been paid in accordance with the relevant Avoidance of Double Taxation Agreement (DTA).

In situations where a company is subject to tax in the foreign jurisdiction even though it does not have a PE in the foreign jurisdiction, FTC may still be claimed if the company is subject to tax in the foreign jurisdiction based on the relevant Article(s) in the DTA. For example, Article 13 of the Singapore-Malaysia DTA states that technical fees derived from Malaysia by a Singapore tax resident may be taxed in Malaysia if the services are performed in Malaysia (notwithstanding that the Singapore tax resident may not have a PE in Malaysia).

For passive income (such as interest and dividend) derived from outside Singapore, FTC may be claimed in the year of remittance (when the income is taxed in Singapore).

To improve tax compliance and avoid unnecessary tax penalties, companies need to put in place good internal controls and a robust record-keeping system to enable its income and expenses to be correctly computed for tax purposes. It is also good practice for companies to conduct periodic reviews of their tax matters and voluntarily disclose any errors in a timely manner.

With the right procedures in place, tax compliance does not have to be taxing. ISCA

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, SIATP. This article is based on SIATP's *Tax Excellence Decoded* session facilitated by Ms Lee Woon Ling, Ms Yap Zhi Hui and Accredited Tax Practitioner (Income Tax) Ms Nancy Ng, Inland Revenue Authority of Singapore. For more tax insights, please visit www.siatp.org.sg.

THE ENHANCED RESTRUCTURING REGIME IN SINGAPORE

Benefiting the Accounting Profession

BY
ANDREW GRIMMETT

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The rapid globalisation of trade and the growth of Asian economies over the last three decades have resulted in significant increases in cross-border business and expansion in investment, credit and debt to fund the growth. The underlying Asian growth story continues but it is not without challenges due to changes in cycles, competitive conditions and an often imbalance in the demand-supply equation. Sectors including shipping and transportation, energy, resources and commodities have been impacted in recent times resulting in restructuring activity.

As a major financial, business and legal hub, Singapore has been engaged in addressing these issues and in seeking to enhance its position as a forum for international debt restructuring to enable participants to benefit from an efficient and transparent business and legal framework, as well as the country's deep pool of skills to support such corporate exercises.

Changes to the Companies Act in Singapore came into effect on 23 May 2017 to enhance the restructuring regime. These changes followed a consultation study led by industry participants in conjunction with the legal community. The changes are timely and offer increased flexibility and options for restructuring participants, and most

importantly, take into consideration the cross-border nature of the operations of these companies. These changes are envisaged to enhance Singapore's standing as a hub to attract regional and international corporates to undertake their debt restructuring exercises should such needs arise.

AMENDMENTS TO THE SCHEME OF ARRANGEMENT REGIME

The Scheme of Arrangement (Scheme) mechanism under Section 210 of the Companies Act is an established and frequently-used restructuring mechanism for a Company-led (Debtor-in-Possession) restructuring process. Schemes allow a company to implement a restructuring plan if 75% in value and a majority in number of creditors approve the plan, which is easier to achieve than 100% consent. The Scheme provisions have now been enhanced by the incorporation of four key features which are established in the US bankruptcy code:

1. **Enhanced moratorium provisions**
   Revisions have been made to provide companies with an automatic 30-day moratorium against any creditor or legal action on the filing of an application (under Section 211B(1) of the Companies Act) when the company has the intent to restructure. This is a significant variation from the previous regime,

The broadening of laws which give rise to increased options and flexibility, where distressed companies within the region may now look to Singapore as a hub to undertake their debt restructuring proceedings, will likely lead to an increase in restructuring activity in Singapore and for the supporting ecosystem of banks, funds, financiers, and professional advisers.

where the moratorium under Section 210(10) was considered by the Court together with the company's application for a Scheme. The grant of the automatic moratorium upon application under the new regime can provide significant relief to companies initiating a debt restructuring process early in the process, thereby allowing management to focus on more pressing issues. Additionally, the moratorium can be extended to cover the related companies (a subsidiary, for example) of the applicant and potentially has worldwide effect on parties that are within the jurisdiction of the Singapore Courts, which is especially relevant given the increased global reach of companies.

2. Super priority rescue financing

Modelled after the Debtor-In-Possession (DIP) financing regime in the US bankruptcy court, this is to encourage the provision of fresh funds (under Section 211E of the Companies Act) to maintain business or rescue companies in distress which are in the midst of a restructuring process. The Court can grant varying levels of priority repayment and security status over other existing creditors to the extent that the financiers of such new funds can have super priority over all other existing creditors, with the objective of ensuring survival of the company or to achieve a more advantageous realisation of the assets of the company than winding up.

3. Cross-class cram down

Restructuring situations often involve more than one class of creditors. Under the previous Scheme regime, each class of creditors has a veto right over the entire Scheme, that is, if one class of creditors does not approve a restructuring plan, the plan can be frustrated and lead to a variety of issues for the company going through the restructuring. The enhancements provide that in situations where a minority class of creditors does not approve a Scheme but the majority of creditors have approved the Scheme, the Court has the discretion to cram down the dissenting minority, where the Scheme is fair and equitable between classes.

4. Pre-packaged Scheme

Where prior negotiations have been undertaken and consensus agreed with major creditors, the Court may, under the newly-introduced S211I of the Companies Act, approve a Scheme without the need to hold a creditors meeting in some situations. This allows the Scheme process to be accelerated, allowing the company to emerge from the restructuring and re-focus on rebuilding its businesses in a shorter period of time and at potentially lower cost.

AMENDMENTS TO THE JUDICIAL MANAGEMENT REGIME

Under the Judicial Management (JM) mechanism under Section 227 of the Companies Act, the management of a company is replaced by a Court-appointed Judicial Manager, typically a suitably experienced accountant. While the Scheme provisions have been enhanced by four key features which were detailed earlier, the JM provisions have been enhanced by the incorporation of three key features:

1. Extension to foreign companies

Unlike the previous JM regime which was only available to Singapore-incorporated companies, foreign companies with a substantial connection to Singapore such as a place of business, business activities or substantial assets in Singapore will now be able to appoint a JM.

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2. Application for JM

JM applications can now be made earlier when it is *likely* that a company will become insolvent rather than only after the company had become insolvent. This will allow more flexibility and earlier applications, and is intended to provide companies in distress a better chance of successful resuscitation under the JM regime.

3. Super priority rescue financing

As with the allowance of DIP

★ ... the accounting profession is likely to benefit from the increase in restructuring and insolvency activity for accountants who practise as advisers and insolvency professionals but also more broadly, given the accounting, tax and valuation considerations relevant in many restructuring matters.

financing to companies undergoing Schemes, the amendment is to encourage the provision of fresh funds to maintain business or rescue the company under JM (under Section 227HA of the Companies Act), and the Court can grant priority repayment and security status over other creditors to the extent that such new funds are regarded as having super priority.

RESTRUCTURING ENVIRONMENT

In addition to the specific amendments to Schemes and JM, there were other changes to enhance the restructuring environment in Singapore:

1. **Adoption of UNCITRAL Model Law on cross-border insolvency**
   Singapore has formally adopted the Model Law, joining many other leading restructuring jurisdictions. The Model Law provides a harmonised framework to deal with cross-border restructuring and insolvency cases with parallel insolvency proceedings.

2. **Specialist Judiciary and Judicial Insolvency Network**
   The Judges who preside over restructuring cases in Singapore will be specialists with the knowledge and experience to deal with complex cross-border matters. The Singapore Courts are also advocates for increased communication and cooperation between Courts in different jurisdictions, and a Judicial Insolvency Network has been established to share experiences and ideas.

The enhancements to the restructuring regime are timely, given the increased complexity of business and trade. The broadening of laws which give rise to increased options and flexibility, where distressed companies within the region may now look to Singapore as a hub to undertake their debt restructuring proceedings, will likely lead to an increase in restructuring activity in Singapore and for the supporting ecosystem of banks, funds, financiers, and professional advisers. In particular, the accounting profession is likely to benefit from the increase in restructuring and insolvency activity for accountants who practise as advisers and insolvency professionals but also more broadly, given the accounting, tax and valuation considerations relevant in many restructuring matters. ISCA

Andrew Grimmett is Chairman, Insolvency and Restructuring Practitioners Committee, ISCA, and Deloitte SEA Restructuring Services Leader.

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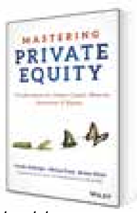

Claudia Zeisberger, Michael Prahl and Bowen White
ISBN: 978-1-119-32797-4
S$112.30 including GST

A unique handbook and valuable on-demand tool for investors, finance professionals, managers and business owners looking to engage with private equity or venture funds, it provides a comprehensive, unbiased guide to investing market practices, enabling readers to better understand the inner workings of the private equity model. It can serve as a standard introduction to investment professionals new to the field, as a reference book for specific steps along the investment process, or as a comprehensive overview of the mechanics of private equity to students of alternative investing.

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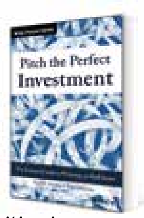

Paul D. Sonkin and Paul Johnson
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Written by leading authorities in investment pitching, this book shows how to develop and exploit the essential, career-advancing skill of pitching value-creating ideas to win over clients and investors. Readers will gain world-class insight into search strategy, data collection and research, securities analysis, and risk assessment and management that can help uncover the perfect opportunity.

CONGRATULATIONS

OCTOBER QUIZ WINNERS:

Kelvin Tan Boon Heng Sxxxx062H | **Peh Yew Mian** Sxxxx607C | **Herry Husodo** Sxxxx351I

Answers for October quiz: (1) A, (2) B, (3) A

3 Prizes Up for Grabs

Stand to win the book of your choice! Simply email your answers to the quiz questions to journal@isca.org.sg by 24 November 2017. Please provide your full name, NRIC number, mailing address, contact number and the book you're interested in.

QUIZ

1 In "Consolidation among SMPs", SMPs which do not embrace audit software will eventually find their profit margin further compromised by the competition, especially when they also have to contend with high labour costs and audit exemption threshold.

A True
B False

2 In "The Enhanced Restructuring Regime in Singapore", the broadening of laws which give rise to increased options and flexibility, where distressed companies within the region may now look to Singapore as a hub to undertake their debt restructuring proceedings, will likely lead to an increase in restructuring activity in Singapore and for the supporting ecosystem of banks, funds, financiers, and professional advisers.

A True
B False

3 In "Doing Business in Myanmar", as a country sharing borders with Bangladesh, China, India, Laos and Thailand, Myanmar potentially has access to 40% of the world's population, if all trade barriers between these borders are removed through trade agreements in the future.

A True
B False