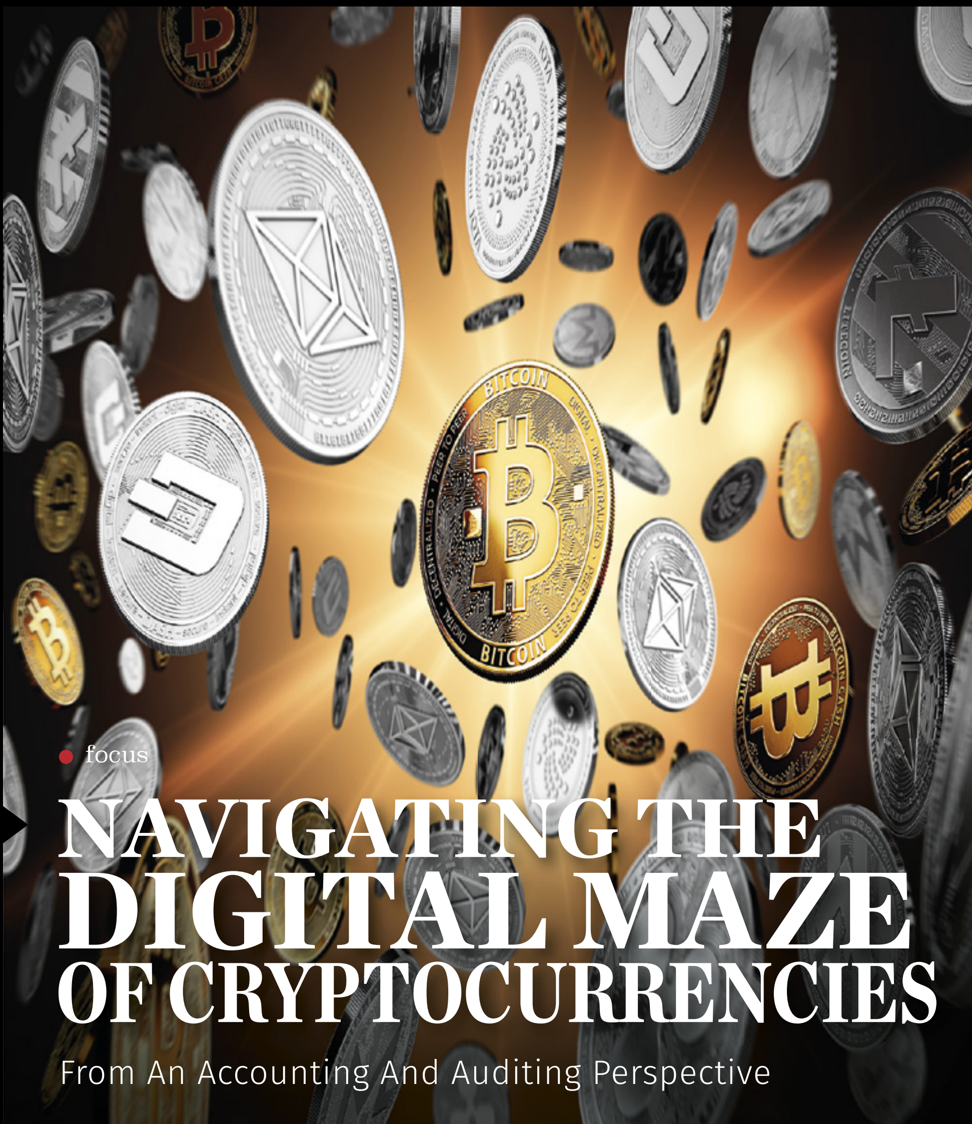
IS Chartered Accountant Journal

OCTOBER 2018



focus

NAVIGATING THE DIGITAL MAZE OF CRYPTOCURRENCIES

From An Accounting And Auditing Perspective

focus

Bringing Stability Into A StartUp

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Prepare For The Unknown, Be Ready For The Unexpected

Dear members,

IN RECENT YEARS, THE INSTITUTE HAS BEEN PREPARING MEMBERS FOR THE NEW BUSINESS LANDSCAPE where conditions are increasingly complex. We have urged members to embrace new technologies, and be more flexible and adaptable. Notably, we have encouraged our members to continue to upgrade and upskill so that they can keep up with what is happening in the profession and industry; it is through such continuous improvements that they can continue to create value for their clients and businesses.

Being prepared for the unexpected is infinitely more preferable – and indeed, a necessity – than being caught unawares. In this cover story, we shine the spotlight on cryptocurrencies, whose rapid rise has proven problematic for accountants and auditors as existing accounting and auditing frameworks appear insufficient in dealing with them. CoinMarketCap, a website which tracks alternative coins, lists over 1,990 different cryptocurrencies in circulation today. There are almost 90 cryptocurrency exchanges and some countries have accepted the legality of this virtual cash. As the Monetary Authority of Singapore does not regulate cryptocurrencies – although it monitors the activities surrounding them that may require regulatory response as a financial regulator – it is important for members to keep in touch with developments in this area.

Besides those working in the financial sector, professional accountants, regulators and enforcement agencies too, need to keep abreast of the types of financial crime relating to cryptocurrencies, the regulatory requirements and sanctions as well as the associated risks. Being well-equipped with practical knowledge in the areas of digital forensics and financial investigation would be essential to effectively identify, interpret and analyse evidence for reporting, litigation support or case resolution. These are some of the emerging areas that ISCA has been focusing on, to foster our members' on-going development.

As the national accountancy body, we cater to the needs of different member segments. Today, more than 50% of our members are aged 40 years and below. To these aspiring accountants, young ISCA member Xin Ying Goh-Krechel, Head of Business Development at Funding Societies, shares tips on how to prepare for future demands amid disruptions in the economy, in this Member Profile column. Also tailored to our younger members was the inaugural ISCA Young Professionals Symposium in August, which aimed to empower millennials with the know-how to forward their careers. We bring you the highlights of the event in this issue.

Technology is now an integral part of business and the ISCA TechCountx Conference 2018, also held in August, centred on the effects of technology on the accounting profession. Providing a showcase of the latest innovative solutions available to the accounting and finance sector, the event primed our members for the digital age.

Elsewhere in this issue are resources that are directly relevant to your work. In March this year, the International Accounting Standards Board issued the revised Conceptual Framework for Financial Reporting. The Framework is a major document and has significant implications for financial reporting. We highlight the changes and explain the implications for practice in the first of a two-part series here, with the second part to be published next month.

Since 1 January 2018, FRS 39 has been replaced by FRS 109: Financial Instruments, and banks in Singapore are now required to apply FRS 109, or SFRS(I) 9[1] for locally-incorporated banks listed on the Singapore Exchange. A revised MAS 612 was issued as a result, and we bring you the main changes.

Ending off on a happy note, I am pleased to share that the Read & Reap Game, available in our digital journal, has been conferred the Platinum Award at the Hermes Creative Awards 2018.

The Platinum Award is the highest accolade in this international competition for creative professionals involved in the concept, writing and design of works in the traditional and emerging media. Administered by the Association of Marketing and Communication Professionals and judged by veterans in the sector, the US-based Awards honours outstanding works across different industries. This year, the competition attracted about 6,500 entries from the US and 21 other countries, and I am proud to say that we were among the 17% that were conferred the Platinum Award.

If you have yet to try out our interactive, award-winning game, now is the time to do so at https://readandreap.isca.org.sg/. Enjoy!

Kon Yin Tong
FCA (Singapore)
president@isca.org.sg

[1] Locally-incorporated banks listed on the Singapore Exchange may choose to assert dual compliance with SFRS(I) and IFRS from 1 January 2018.

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Advanced Tools To Enhance Customer Experience: Less Is More

PHOTO SHUTTERSTOCK

A DEEP FOCUS ON ENHANCING THE CUSTOMER EXPERIENCE has taken root in many emerging markets, most notably Asia Pacific, which is well ahead of its more developed market counterparts in Europe and North America in terms of adoption of customer experience tools. Specifically, predictive analytics, sensors in products and personalised experience have become the most widely-used across both B2C (business-to-consumer) and B2B (business-to-business) markets. These are the key findings from Bain & Company's first comprehensive survey and analysis of customer experience tools and trends.

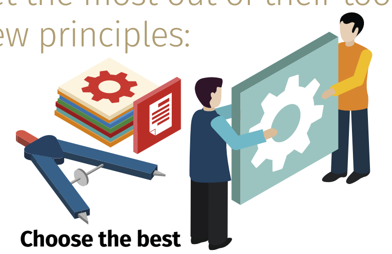
Bain & Company surveyed executives at 700 companies worldwide on 20 tools used to enhance the customer experience in four categories – sensing, deciding, acting and managing. The survey also identified the leaders in financial performance, as measured by having 10% or higher revenue growth over the past five years and high satisfaction with financial results, to see how their responses differed from the average and from the laggards.

Broadly speaking, emerging market companies, particularly in the Asia-Pacific region, lead the way in customer experience tool adoption, followed by Latin America, Europe, and finally, North America. Companies in emerging markets tend to be unencumbered by legacy IT systems or organisational issues, making it easier for them to experiment with innovative tools and adopt the latest promising technology from scratch. In addition, data privacy is a less volatile issue in many of these markets.

Work Those Tools

Leading firms get the most out of their tools by following a few principles:

Clarify the business goals
Senior executives must agree on what type of experience they want to deliver in the future that meets the needs of the target customer segments better than competitors do. A clear vision sets the stage for the strategy and investment priorities – which aspects of the experience need to improve, and which aspects can become a means of truly delighting customers.



Choose the best handful of tools for the job
In most cases, a few capabilities will be critical to support the chosen experience. A tool will only improve results to the extent that it helps to fulfil a customer's needs and, ideally, develops an experience that distinguishes a company from the rest of the pack. These are the tools that organisations can further invest in.

Adapt to competitive shifts
While focusing investment on the few tools that help create or sustain a distinctive value proposition, companies will still need to keep abreast of developments in the broad range of tools. Tool experts and senior managers will want to anticipate which new tools may move from the periphery to the heart of an experience, based on their ability to more effectively meet their business goals.

"With customer expectations increasing exponentially, the new basis of competition is how reliably you can deliver delightful customer experiences," says Gerard du Toit, global head of Bain & Company's Customer Experience capabilities. "This has generated intense innovation and experimentation to find ways to effectively use new and existing customer experience tools." Yet, many companies in developed markets are hampered by rigid technology. To survive in a fast-changing business environment, he advises that organisations must deploy a "flexible, more modular architecture that can integrate different data sources in real time to assemble a single view of the customer and manage their end-to-end experience in a personalised manner across channels".

Among the 20 tools assessed in the survey, the most widely used across most industries in both consumer and B2B markets are predictive analytics, followed by sensors in products and operations, and personalised experience, powered by artificial intelligence (AI) and advanced analytics. Yet, these and some of the other most-used tools rank at the lowest level of satisfaction among survey respondents. This is because as tools become established, users expect more of them. The longer a tool is in place, the more a company relies on it to deliver better results – but eventually, users will run up against the tool's limitations. In addition, competitors are using the same tools,

Most widely-used tools across industries

- predictive analytics,
- sensors in products and operations,
- personalised experience, powered by AI and advanced analytics

so the tools lose their distinctiveness.

Conversely, tools with the lowest adoption currently achieve high satisfaction rates – delivery drones, episode management and privacy management. Early adopters typically are the most excited by new technology because they have spotted a way to benefit and sometimes, they hope, to create a competitive advantage.

"Our research reveals a strong correlation between the amount of effort a company puts into adopting the tool and their satisfaction with it," said Andreas Dullweber, who leads Bain & Company's Customer Strategy & Marketing practice in Europe, the Middle East and Africa. "There is clear evidence that the best outcomes result from a major effort and investment in a handful of tools, not from dabbling in a broad range of tools."

"Companies that reap the greatest benefits from a tool weave it into their operations and ways of working, rather than bolting it on as a separate project or through a separate team," says Richard Hatherall, head of Bain & Company's Customer Strategy & Marketing practice in Asia Pacific. "Embedding it is the only way to change behaviour in the organisation."

ASEAN Youths Bullish About Impact Of Technology On Jobs

ASEAN YOUTHS ARE OPTIMISTIC ABOUT THE IMPACT OF TECHNOLOGY on their job prospects and incomes (Figure 1), according to a survey from the World Economic Forum.

Some 52% of the under-35 generation across Southeast Asia said they believe that technology will increase the number of jobs available, while 67% said they believe that technology will increase their ability to earn higher incomes.

However, the degree of optimism about the impact of technology on the future of work varied strongly by country (Figure 2). The youth of Singapore and Thailand were much more pessimistic in their responses, while the youth of Indonesia and the Philippines were much more optimistic.

In Singapore, only 31% said they believe that technology would increase the number of jobs, compared to 60% in the Philippines. The results also varied by level of education. Among those who stated they have no schooling, some 56% believed that technology would increase jobs. Among those with a university degree or higher, only 47% felt the same way.

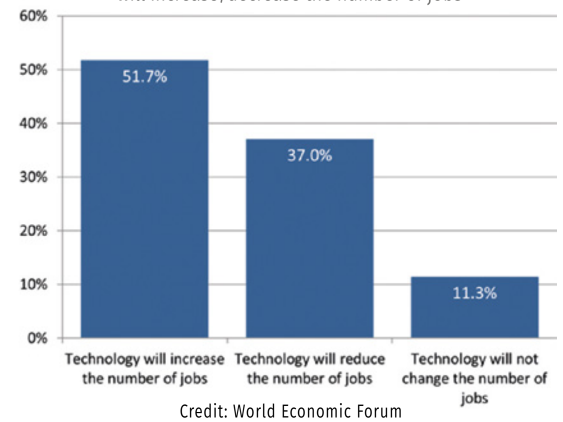
Preference For Income Stability; Rising Appetite For Entrepreneurialism

Among the respondents, 58% currently work in small businesses – either for themselves, their family or a small or medium-sized enterprise (SME). A significant portion of youths (one in four) aspire to work for themselves and start their own business. However, many working for SMEs said that they would like to work for a different organisation. Today, 17% work in an SME, but only 7% said that they would like to work in an SME in the future. In contrast, the results show a strong preference to work for foreign multinational companies (10% work for one today, but 17% want to work for one in future) and for governments (13% today compared to 16% in future).

These results suggest a preference for income stability, given the more unpredictable nature of employment in small organisations versus large ones. But there are nonetheless some countries that show a rising appetite for entrepreneurialism and the associated risk-taking it involves. In Thailand, for example, 26% of young people work for themselves today, but 36% said they would like to in future. In Vietnam, 19% work for themselves today, compared to 25% who want to be self-employed in future.

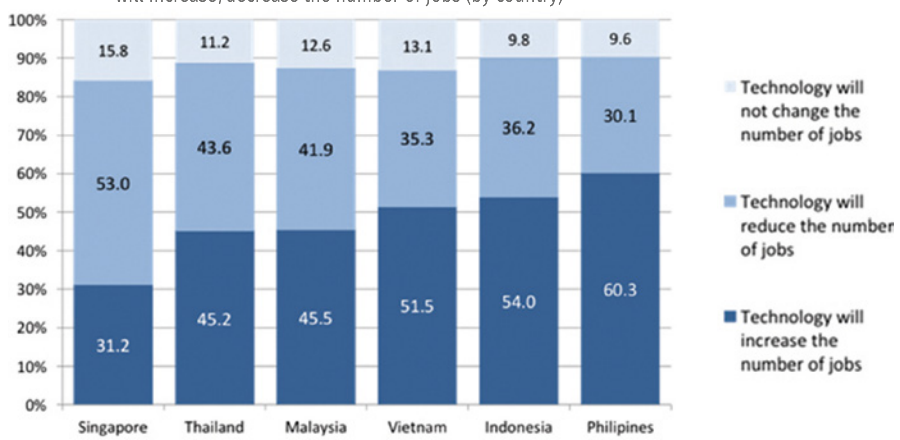
The survey, which was run in partnership with Internet company Sea, gathered results from 64,000 ASEAN citizens through Sea's online games and e-commerce platforms. The majority of respondents were from six countries – Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The survey report is available at the World Economic Forum website.

Figure 1 Percentage of ASEAN youths who think technology will increase/decrease the number of jobs



Credit: World Economic Forum

Figure 2 Percentage of ASEAN youths who think technology will increase/decrease the number of jobs (by country)



Credit: World Economic Forum

PHOTOS: SHUTTERSTOCK

Reskilling Urgently Needed To Leverage Digital Technologies: Accenture

THE ECONOMIC PROMISE OF DIGITAL TECHNOLOGIES is being put at risk by inadequate education and corporate training systems, according to Accenture. The report, "It's learning. Just not as we know it", published in collaboration with the G20 Young Entrepreneurs' Alliance (G20 YEA), suggests that unless radically new learning approaches are adopted, the failure to close the skills gap could result in 14 of the G20 economies forgoing as much as US$11.5 trillion in GDP growth promised by investment in intelligent technologies over the next 10 years.

Complex reasoning, creativity, socio-emotional intelligence and sensory perception are the skills that are rising in importance across almost every single work role, according to the report, and these skills will be even more essential with the adoption of intelligent technologies.

Accenture recommends a three-pronged approach for organisations to help workers level up:

1) Speed up experiential learning
Deploy a range of techniques, from design thinking in the boardroom to simulation training tools for more technical roles; from on-the-job training initiatives to apprenticeship schemes. In schools, provide active project-based learning and team-based learning activities. Apply new technologies like virtual reality and artificial intelligence to make learning more immersive, engaging and personalised.

2) Shift focus from institutions to individuals
Education and training targets should incentivise each individual to develop a broader blend of skills, rather than only producing certain numbers of graduates from specific courses. This blend must include a focus on complex reasoning, creativity and socio-emotional intelligence.

3) Empower vulnerable workers
Older workers, the less educated, those in physical manual labour roles and in smaller businesses are more vulnerable to work dislocation and have less access to training. Targeted intervention is required to guide these learners to appropriate training and career pathways. Courses must be more modular and flexible to work around their commitments. New funding models must encourage lifelong learning, such as grants to support personal training plans.

"Whether new technologies augment or automate work, upskilling is an urgent priority," says Eva-Sage Gavin, Senior Managing Director and Global Head of Talent and Organisation, Accenture. "But before business leaders commit to improved workplace training, they must assess how technology will reconfigure work in their sector and the new range of skills it will demand of their people."

ISCA Journal's Read & Reap Game Clinches International Award

IN THE AUGUST 2018 ISSUE, the ***IS*** *Chartered* ***A****ccountant* Journal unveiled a new interactive Read & Reap Game that replaced the First Look Quiz.

Within two months of the launch, we are proud to share that the Read & Reap Game has been conferred the Platinum Award at the Hermes Creative Awards 2018. An international competition for creative professionals in concept, writing and design of works in the traditional and emerging media, the Platinum Award is a recognition of outstanding work across industries.

Read the Journal, Reap the Rewards!

The simple yet interactive game consists of five questions that are categorised according to their level of difficulty. Based on the articles in the latest Journal issue, readers who read and correctly answer the questions are entitled to a chance to spin the prize wheel.

Says a participant, Soo Jianhao, "The interactive game allows readers to test our knowledge after reading the issue and helps us recall the key points mentioned in every Journal issue. It's a job well done that the ISCA Journal incorporated technology to better interact with the readers!"

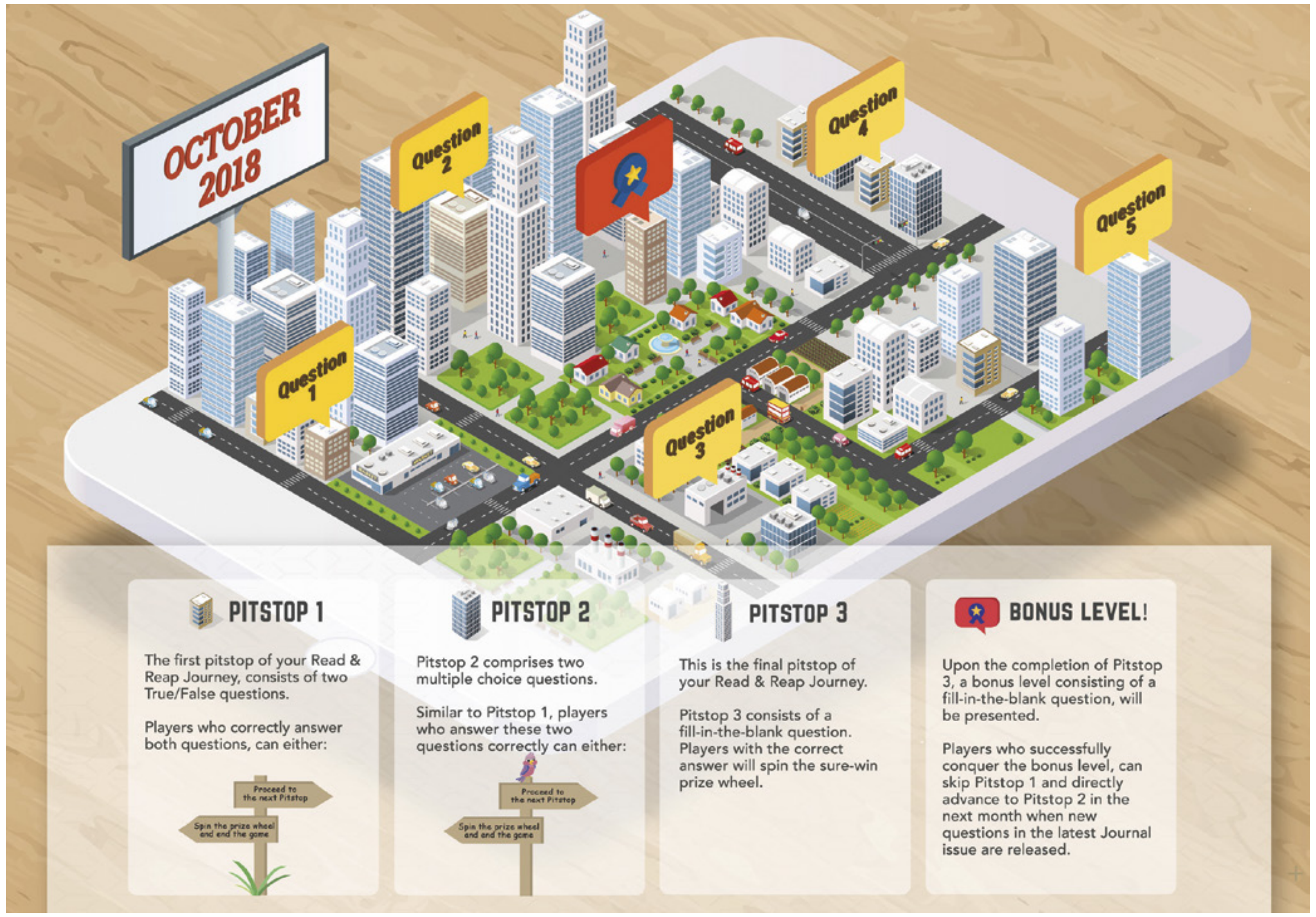
WHAT MEMBERS SAY...

"Excellent idea to have this game while reading the articles!"

"The new game is much more interactive and refreshing as compared to the old format."

"The articles are very comprehensive and insightful!"

Embark on a reading journey with us by reading the monthly issue of the *IS Chartered Accountant* Journal and reaping the rewards in our award-winning game at https://readandreap.isca.org.sg/.



Membership Privileges

ISCA Members' Privileges Programme (MPP) is a platform where various merchants of different industries offer their respective services and products as a form of privilege to our esteemed members. Membership benefits now extend beyond signing up for CPE courses at members' rates and accessing the Technical Knowledge Centre as ISCA members can ride on and take advantage of the various discounts or deals that are offered throughout the year.

Our newly-revamped ISCA MPP allows our members to enjoy special deals and discounts from various merchant partners, enhancing our value to you as an esteemed member of the Institute.

You may also access your privileges online at http://bit.ly/memberssignup.
*Terms and conditions apply.

Flash your membership e-card to enjoy these benefits as an ISCA member.

Fine Wines

ISCA members enjoy:

- 10% discount on all wine classes. Enjoy additional 5% discount for 2 persons.
  Visit http://www.finewines.com.sg/wine-lessons for class dates
- Complimentary leather carrier for first time purchase

Island Yacht Charter

ISCA members enjoy:

Rates (Inclusive of GST):

A. Mon to Thu (Excluding eve of PH and PH)
For a 5-hours boat charter (Max 20 pax): S$1,320.00 nett
For a 4-hours boat charter (Max 20 pax): S$1,200.00 nett

B. Fridays, Weekends, eve of PH and PH
For a 5-hours boat charter (Max 20 pax): S$1,480.00 nett
For a 4-hours boat charter (Max 20 pax): S$1,360.00 nett

For bookings, please refer to the ISCA website for details.

*ISCA member who made the booking must be on the charter trip booked to show the membership/staff card.

isca techcountx conference 2018

Leveraging Exponential Technologies For The Accounting Profession

The TechCountx Conference attracted a capacity crowd

ISCA CEO Lee Fook Chiew delivering the welcome address

Guest of Honour Tan Kiat How, Chief Executive, IMDA, outlining the government initiatives to help SMEs digitalise

(From left) Moderator Karen Leong, Managing Director, Influence Solutions Pte Ltd, with panellists Oliver Tian, CEO and Director, HutCabb Services; Mervyn Koh, Managing Director, Country Head, Business Banking Singapore, UOB; Jonathan Chiang, Partner, KPMG LLP, and Gary Loh, Executive Vice Chairman and CEO, SunMoon Food Company

OVER THE PAST DECADE, THE ACCOUNTANCY LANDSCAPE HAS EVOLVED RAPIDLY with technology bringing advances in capabilities and efficiencies. Our inaugural TechCountx Conference, held on August 30 at Grand Hyatt Hotel, focused on the impact of technology on the accountancy profession and aimed to gear professionals up for the digital era by exposing the profession to innovative digitalisation solutions.

In his welcome address, ISCA CEO Lee Fook Chiew shared initiatives by the Institute to equip the profession with the necessary skills to support accountants amid rapid technological advancement. These initiatives include ISCA's publication titled "Cybersecurity Risk Considerations in a Financial Statements Audit" to help auditors incorporate cybersecurity risks in their work and ISCA's Financial Forensic Accounting Qualification which trains professionals in digital forensics and investigative techniques using data analytics. ISCA also supports the adoption of technology by audit practices through the funding of Audit Singapore software under the Local Enterprise Association Development (LEAD) programme.

Guest of Honour Tan Kiat How, Chief Executive of Info-communications Media Development Authority (IMDA), delivered the keynote address, where he emphasised the urgency for businesses to digitalise in order to remain competitive. An example shared was the implementation of the nationwide e-invoicing framework to digitalise business transactions, which results in faster payment cycles. A key government initiative to help small and medium-sized enterprises (SMEs) digitalise is the SME Go Digital programme, which provides SMEs with step-by-step advice on the digital solutions to use at each stage of their growth.

With the increasing use of artificial intelligence (AI), one of the leading issues is the ethical considerations arising from the adoption of AI. Jeremy Tan, Director of CMS Holborn Asia, shared how AI can potentially be used to nudge society towards good behaviour. On the flip side, such capabilities can be misused if in the wrong hands, resulting in far-reaching consequences. There is thus a pressing need to regulate the ethical aspects of safety, accountability and transparency of AI.

The panel of experts discussed how the ABCDs (AI, blockchain, cybersecurity and data analytics) of technology advancements have disrupted traditional work processes, and shared their experiences on the transition process towards automation. Gary Loh, Executive Vice Chairman and CEO of SunMoon Food Company, emphasised that mindset, rather than skill set, is the key to digital transformation. Also, implementing a system that works is important as people can be persuaded to adjust their mindset when they discover the benefits that can be reaped.

Moderator Karen Leong, Managing Director, Influence Solutions Pte Ltd, summarised the panel discussion succinctly – Instead of being a passenger, be a player in this revolution. Instead of focusing on skill sets, look into mindsets. Instead of asking "Can we do it?", ask "How can I do it?"

TRACKS 1 AND 2

The afternoon session was conducted in two parallel tracks (Tracks 1 and 2) and also encompassed a technology showcase and Tech Talk arena which housed demonstrations of various solutions and tools for finance professionals.

Technology has become a vital component of the accounting industry and Track 1 focused on automation and blockchain technology for accountants in business.

Zann Kwan, Co-Founder and CEO of Bitcoin Exchange Pte Ltd, explained how blockchain will change accountancy sectors through distributed ledgers which allow transparency in real-time transactions with a decentralised network with proof-of-work (PoW) consensus. The Initial Coin Offering (ICOs) fundraising mechanism, which uses cryptocurrency as a medium for tokenisation, has allowed crowdfunding to be made possible with community involvement and venture capitalists evaluating investment worthiness. The increasing use of cryptocurrency has created a new economic paradigm and would expedite the progression to a cashless society.

The emergence of big data technologies provides auditors with the capabilities to collect and analyse data in greater depth and breadth. Track 2 focused on the shift in the audit value proposition arising from such technologies. Adrian Tan, Partner and Industry Lead, Technology, Media & Telecommunications of RSM Singapore, shared real case studies on how auditors leverage data analytics to spot anomalies, such as analysing an interactive heat map showing abnormal trends for a more risk-focused and meaningful audit.

Cybersecurity remains the cornerstone of digitalisation and Hoo Chuan-Wei, Chief Cybersecurity Technology Officer of ST Engineering Electronics, explored how fraud is interlinked with poor cybersecurity. He emphasised that security is as strong as the weakest link and stressed the importance for companies to step up their data security measures as employees become increasingly IT savvy and may be capable of circumventing system controls to commit fraud.

Participants discovered how accountants and businesses can leverage technology through a sharing session by Xero, Taiger Singapore, Receipt Bank and Virtual Cabinet on technology automation processes, going paperless and better organisation of work.

This Conference provided our professionals with valuable insights over an extensive range of hot-button technological topics, which will come in handy on their digitalisation journey. It also created many networking opportunities and forged meaningful partnerships for both members in practice and in business.

WHAT PARTICIPANTS SAY ...

"Excellent conference!"

"In favour of the free-and-easy concept in the afternoon, where participants can decide which tracks they want to attend based on their interests and job relevance."

"Well organised, and the topics of discussion are concise."

isca young professionals symposium

Today's Millennials, Tomorrow's Leaders

A capacity turn-out at the inaugural ISCA Young Professionals Symposium

THE INAUGURAL ISCA YOUNG PROFESSIONALS SYMPOSIUM, an initiative by the ISCA Young Professionals Advisory Committee (YPAC), was held on August 6 at the contemporary and modish Andaz Singapore Hotel, as befitting the youth-centric event. Organised for young professionals by young professionals, the Symposium, with the theme "Today's Millennials, Tomorrow's Leaders", aimed to pave the way for millennials in this transformative age and empower them with the knowledge and skills to boost their careers and be future-ready.

In her welcome address, YPAC Chairperson Belinda Teo, Assurance Manager of EY, iterated the dynamism of the business landscape and urged her fellow accounting professionals to be agile and versatile to adapt to the constant changes. With much enthusiasm, she kick-started the Symposium with a group photo.

ISCA Advisor Teo Ser Luck, the keynote speaker, inspired our young leaders with an insightful journey encompassing his childhood dream, first encounter with entrepreneurship during his university days, and the trials and tribulations of setting up his own business. Being an accountant has trained him to be sensitive to numbers, giving him an edge in his entrepreneurial journey. Mr Teo shared his profound satisfaction at having created something from scratch, and seeing people appreciate and benefit from the products and ideas that he was a part of. Giving back to the society, he has gone on to advise various start-ups. He hopes the business owners will become successful and experience the deep fulfilment in their business endeavours as he did.

ISCA Council member Lelaina Lim, Group Chief Financial Officer of Eu Yan Sang International, moderated a lively panel discussion titled "Embracing Change: Evolving Jobs and Skills". Technology innovation has changed the nature of jobs globally and Seah Gek Choo, Talent Partner of Deloitte Singapore, illustrated the change with an evolving audit procedure using technology. She shared that Deloitte has developed a mobile application for stock count audits, which for decades were done using pen and paper. Such a technological tool not only aids efficient counts, it eases the reconciliation process. Fen Teo, Senior Division Director of Robert Half, observed that more employers are now seeking finance candidates with data analytics and information technology background. Ong Wee Gee, Vice President Finance of Equinix Asia Pacific Pte Ltd, spoke about the "digital workforce" at his office, where robotics, analytics and automation co-exist with human talent.

YPAC Chairperson Belinda Teo taking a "wefie" with participants; also present were ISCA Advisor Teo Ser Luck (front row, 2nd from right) and ISCA Council office bearers (front row, from right) CEO Lee Fook Chiew, Treasurer Balasubramaniam Janamanchi, and Secretary Kelvin Tan with the big turnout

ISCA Advisor Mr Teo sharing anecdotes during his keynote address

Discussing how technology innovation has disrupted the workplace were (from left) moderator Lelaina Lim and panellists Seah Gek Choo, Ong Wee Gee and Fen Teo

Lively interactions between Assoc Prof James Leong and participants

Adjunct Associate Professor of National University of Singapore James Leong, Founder of Visions.One Consulting Pte Ltd, brought much participation and laughter with his engaging presentation on the latest buzz – design thinking. Illustrating how the imagination has the capacity to dream up ways to illustrate concepts, Assoc Prof Leong highlighted that the two major qualities that humans have over robots are empathy and creativity, which are key attributes integral to the design-thinking process.

Being adaptable to change is a recurring message at the Symposium. An aspiring finance business partner, for example, should embrace change, have a clear sense of purpose, understand people and stakeholders, walk the talk and build one's personal brand, advocated Lee Wei Hock, Partner of EY. Sharing survey findings, he listed the highly-sought-after soft skills of a future-ready business advisor as strategic thinking, business acumen and leadership.

TEDx speaker So-Young Kang, CEO of Gnowbe, said that strategising or proposing ideas from insights are what truly make the employee valuable. She urged the audience to ruminate on the bigger purpose of producing numbers and reports, to give insights and ultimately business recommendations and proposals that will help to propel the business. Providing forward-thinking and quality recommendations would require the 4 Cs – Critical thinking, Creativity, Collaboration and Communication.

Encouraging young leaders to make the world a better place for the future were (from left) moderator Yvonne Chan and panellists Fang Eu-Lin and S. Venkat

Haridas Kanagasabai, Partner of Deloitte Singapore, used practical examples to illustrate concepts in the new financial reporting standards effective in 2018 and 2019. Introducing a light-hearted moment, he said that actor Ben Affleck was inspired by FRS 115: Revenue from Contracts with Customers, in the movie "The Accountant".

Moderating the final panel of the day on integrating sustainable environmental, social and governance in the workplace, ISCA Vice President Yvonne Chan, CFO of Maritime and Port Authority of Singapore, encouraged the participants to champion successful workplace sustainability by aligning their own purpose and values in life. Fang Eu-Lin, Sustainability and Climate Change Leader of PwC Singapore, recalled the day she was tasked to lead the sustainability practice. Without any knowledge nor experience, Ms Fang revealed that passion, determination and time investment were key to keep her going when the going gets tough. S. Venkat, President and Global Head - Finance (Corporate) of Olam International Pte Ltd, elaborated on how sustainable development goals can be achieved in an organisation with the right spirit rather than the right form, where every employee must take small steps in their own ways to make the world a better place.

YPAC Committee members with keynote speaker Mr Teo; ISCA Director of Audit Quality & Standards Development, Continuing Professional Education and Industry Support Fann Kor (2nd from left) and YPAC Chairperson Ms Teo

Wrapping up the Symposium, Muhammad Ashiq Chu, Assurance Manager of PwC Singapore and ISCA's representative at the One Young World (OYW) Summit 2017, provided a heartfelt recollection of his experience. He had interacted with many inspiring youths from around the world who are committed to creating hope in their own ways. Ashiq encouraged his fellow accountants to participate in compelling and life-changing events that align with them personally, which for him was the OYW Summit.

The Symposium concluded on a jubilant note where the winner and finalists of the ISCA One Young World Competition 2018 were recognised with a trophy and certificate each.

In the words of renowned American author Leroy Eims, "A leader is one who sees more than others see, who sees farther than others see, and who sees before others do." The Symposium certainly motivated our leaders of tomorrow to expand their horizons, be in the forefront of change, and dream big!

MARK YOUR CALENDAR

08 10 & 15 OCT

ISCA-SMU Financial Controllership Immersion

This 3-day course aims to introduce participants to skillsets critical for Senior Controllers. The topics include Business Analytics, Corporate Financial Management, Ethics, and IFRS.

Jointly organized by ISCA and SMU

09 OCT

Whistleblower or Anti-Hero

Whistleblowing is the ultimate control and one that the public has high expectations of.

Join Elizabeth Richards who will share on overcoming challenges of whistleblowing with practical tips on implementation.

In collaboration with ICAEW

17 OCT

ISCA Breakfast Talk: Private Equity and Debt – What you need to know about Raising Funds from Alternative Capital Providers

Join us as we learn more about raising funding from alternative capital providers in private equity, private debt and situation funds. The speaker will also provide an overview of the process, key concepts and structuring issues.

17 OCT

IFRS 15 / FRS 115: Revenue from Contracts with Customers -

This course explains the standard's underlying principles, its requirements and implications for different revenue sources, and its impact on existing accounting practices.

23 OCT

Audit Quality Seminar

Join us at our upcoming Audit Quality Seminar 2018! ISCA will be launching the new Audit Manual for Group Entities (AMGE), which aims to provide auditors with guidance to effectively apply SSA 600 Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors) in group audits, which has been a key challenging area and one of the repeated PMP findings. ACRA will also be sharing the key inspection findings from their 2018 Practice Monitoring Programme report.

31 OCT

Audit Communication

(Management Representation Letters, Management Letters and Internal Control Deficiencies)

Provides audit professionals with guidance on communications from, and with, those charged with governance and management when performing a financial statement audit.

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

isca breakfast talk

Dealing With Increased Reported Economic Crime In Singapore

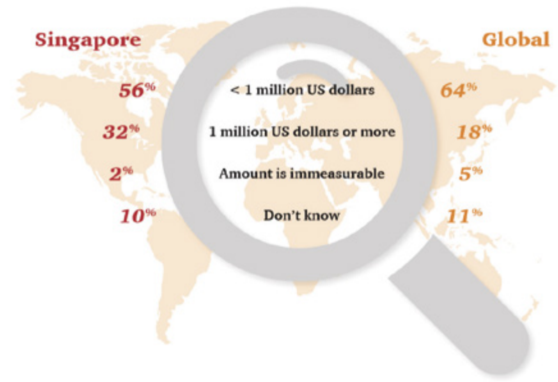
THE ISCA BREAKFAST TALK ON AUGUST 28 saw an interesting presentation on a global economic crime and fraud survey titled "Sharp increase of reported economic crime in Singapore" conducted by PwC. Helming the session were two Directors of Forensic Services from PwC South East Asia Consulting, Dmitry Kosarev and Daniel Fu.

Mr Kosarev kicked off the session by sharing the size, scale and depth covered by the global survey. He highlighted that more than one in three organisations in Singapore reported being victims of economic crime, despite the country being one of the safest in the world. Similarly, there is a higher level of economic crime reported across all regions. Two of the top 10 countries with the highest reported fraud rates are France and China. Thus, organisations looking to expand operations abroad ought to be aware of the higher instances of reported incidents in these locations.

Mr Kosarev encouraged the participants to adopt a proactive approach, such as investing in fraud prevention and ongoing detection tools early, rather than take a reactive approach, as the survey found that there was an increased amount of financial losses due to economic crime.

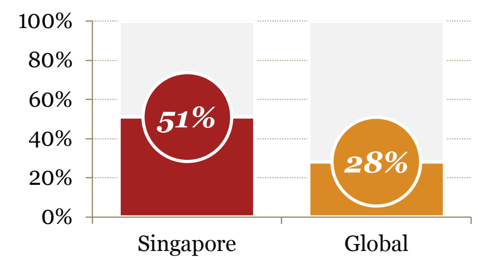
Mr Fu went on to discuss bribery, corruption and its related risks. He shared that although 81% of survey respondents in Singapore indicated that they have a formal business ethics and compliance programme, only 39% (compared to 50% globally) confirmed that this programme includes specific policies addressing bribery and corruption risks. Interestingly, 17% of the respondents globally have been asked to pay a bribe at one point in their business dealings. Generally, Singapore-based organisations should also consider better embedding anti-bribery and anti-corruption compliance into their overall business strategy.

Figure 1 Direct monetary losses due to fraud can be substantial



Source: Sharp increase of reported economic crime in Singapore

Figure 2 Half of Singapore-based companies spent more on investigations and/or other interventions than what was lost through their most disruptive crime



Source: PwC presentation slide

The survey results also indicated that relatively higher levels of anti-money laundering-related incidents were identified in Singapore, in the context where regulators inspected a higher percentage of organisations compared to the global average, in what may contribute to better and faster discovery of incidents.

Concluding the session, Mr Fu reiterated that it is important to have the right blend of technological and people-focused measures, such as investing in data analytics tools and establishing a culture of honesty, openness and accountability in the organisation, to combat fraud.

Daniel Fu and Dmitry Kosarev, Directors of Forensic Services from PwC South East Asia Consulting, shedding light on the reasons for higher levels of economic crime reported across all regions

DEALING WITH FRAUD THREATS

- Go beyond traditional fraud risk management
- Embrace technology-enabled techniques for suspicious activity monitoring
- A strong organisational culture pays off

Source: Sharp increase of reported economic crime in Singapore

SIATP Chums Up With IRAS For Excellence In Tax

THE LONG-ESTABLISHED RELATIONSHIP between the Singapore Institute of Accredited Tax Professionals (SIATP) and the Inland Revenue Authority of Singapore (IRAS) continues to layer up its dedication at equipping tax professionals here with firsthand insights across different areas.

The CorpPass session for accredited tax professionals, which was organised before the encore sessions for the general public, was fully booked within days of its announcement. Additional sessions with a slant towards GST filing using CorpPass were also organised.

Technology aside, collaborations between SIATP and the tax authority continued steadfastly to provide practical tips for tax professionals and preparing them for the corporate tax filing season.

From technology to technical, from general to specialised areas, the IRAS-SIATP partnership to benefit tax professionals included the sold-out and capacity-filled sessions covering tax issues pertaining to FRS 109 and separately, companies in the Financial Sector Incentive (Fund Management) Scheme (FSI-FM Scheme), which drew much interest and discussion.

SIATP and IRAS will continue to build on the success of the relationship to design programmes to achieve excellence in tax for tax professionals and taxpayers. Email enquiry@siatp.org.sg to be updated on the latest and emerging developments in tax.

(From left) Elin Sou, Assistant Manager and Dinesh Samuel Matthew, Senior Tax Officer, both from IRAS' GST – General Branch, aided tax professionals to get onboard CorpPass in this fully-booked session

(From left) IRAS officers Joan Alfred, Harold Seah, Tan-Yong Shew Fong and Doreen Chan in a panel discussion on the FSI-FM Scheme

Membership Suspension And Removal – Bankruptcy

UPON FINDING THAT MS SOH CHYE HONG, CA (SINGAPORE), was adjudged a bankrupt on 12 July 2018 and is still an undischarged bankrupt, her name has been removed from the register in accordance with Rule 46.4 of the Institute (Membership and Fees) Rules, and that she shall cease to be a Member of the Institute with effect from 24 August 2018.

BY WANG ZHUMEI

NAVIGATING THE DIGITAL MAZE OF CRYPTOCURRENCIES

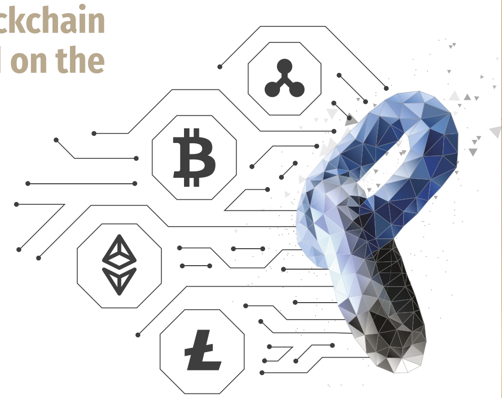
From An Accounting And Auditing Perspective

SINCE INCEPTION, cryptocurrencies have been described as everything from the future of money to elaborate Ponzi schemes. Regardless of the diverse opinions, it is undeniable that cryptocurrencies are the "in" thing right now, and it is crucial for us to understand them in order to account for and audit them in this digital age.

WHAT IS CRYPTOCURRENCY?

Cryptocurrency is a virtual currency that is not linked to any currency backed by any government, central bank or legal entity, and does not have any underlying asset or commodity. Transactions rely on a key technology called blockchain technology (see AUDIT RISKS AND CONSIDERATIONS section).

While proponents of blockchain argue that it provides irrefutable history and integrity, can we trust the blockchain simply based on the technology behind it? **Or does the blockchain need to be audited?**



TIMELINE OF KEY EVENTS

The birth of Bitcoin in 2009 sparked the development of cryptocurrencies in the decade that followed, and here are some of the notable milestones[1]:

2009
The first Bitcoin transaction occurs when Satoshi Nakamoto, the supposed creator of Bitcoin, sends computer programmer Hal Finney 10 Bitcoins.

2010
A Bitcoin user pays 10,000 Bitcoins (worth roughly US$41 at the time) for two large pizzas, attaching a monetary value to cryptocurrency for the first time. At the current transaction price of Bitcoins (approximately US$6,500 per Bitcoin), these are currently the most expensive pizzas in history.

[1] With reference to "A decade of cryptocurrency: from bitcoin to mining chips" by Rosemary Bigmore, 25 May 2018, The Telegraph online.

PHOTO SHUTTERSTOCK

On local shores, the Monetary Authority of Singapore (MAS) does not regulate cryptocurrencies but monitors the activities surrounding them that may require regulatory response as a financial regulator, such as fundraising through Initial Coin Offerings.

To date, it is estimated that there are more than 1,500 different cryptocurrencies in circulation. The meteoric growth of cryptocurrencies is problematic for accountants and auditors, with existing accounting and auditing frameworks seemingly insufficient to deal with them. In this article, we explore some of the challenges faced.

AN ACCOUNTING PREDICAMENT

As there are no specific financial reporting standards on cryptocurrencies, the accountant can draw guidance from existing standards with a scope that includes items with similar characteristics as cryptocurrencies. We consider whether it is plausible for an entity reporting under Financial Reporting Standards in Singapore (FRSs)[2] to account for the holdings of cryptocurrencies under the following FRSs:

As cash and cash equivalents in accordance with FRS 7: Statement of Cash Flows

FRS 7.6 states that cash comprises cash on hand and demand deposits, and defines cash equivalents as

PHOTO SHUTTERSTOCK

... audit processes should incorporate an understanding of the cyber environment as part of risk assessment, with considerations such as whether the entity has effective IT backup and restoration procedures, and IT security processes in place to mitigate risks of external attacks.

short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Although fiat currencies are accounted for as cash as suggested by FRS 32: Financial Instruments: Presentation AG3, cryptocurrencies are not entirely comparable to traditional fiat currencies due to their relatively limited acceptance and usage commercially as a currency of exchange. They also may not meet the definition of cash equivalents as price volatilities may result in significant risk of changes in value and consequently, entities may not hold them for purposes of meeting short-term cash commitments.

As a financial asset in accordance with FRS 39: Financial Instruments: Recognition and Measurement

If cryptocurrencies are not cash, depending on the facts and circumstances, another possible approach may be to account for them as financial assets at fair value through profit or loss (P&L). However, cryptocurrencies do not meet the relevant definition of a financial asset under FRS 32.11(c), as it does not give the holder any contractual right to receive cash or another financial asset.

As an intangible asset in accordance with FRS 38: Intangible Assets

FRS 38.8 defines an intangible asset as an identifiable non-monetary asset without physical substance.

Cryptocurrencies appear to meet this definition as they can be traded or transferred individually (identifiable), are neither money held nor assets to be received in fixed or determinable amounts of money (non-monetary) and are in virtual form (without physical substance)[3].

Cryptocurrencies that fall within the scope of FRS 38 can be accounted for using the cost or revaluation method.

Since cryptocurrencies may be considered to have an indefinite useful life in the context of FRS 38, such cryptocurrencies accounted for under the cost method would be subjected to annual impairment assessment as required by FRS 36: Impairment of Assets, with impairment charges recorded in P&L.

The revaluation method can be used only if there is an active market in which the cryptocurrency is traded. An active market is defined in Appendix A of FRS 113: Fair Value Measurement as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Under the revaluation method, increases in fair value are recorded in other comprehensive income (OCI), while decreases are taken to P&L. However, to the extent that an increase in fair value reverses a previous decrease in fair value that has been recorded in P&L, that gain is recycled to P&L. Similarly, a decrease in fair value that reverses a previous increase is recorded in OCI.

Until standard-setters provide further clarity on the appropriate accounting treatment for cryptocurrencies, more rigorous disclosures may be necessary to alert users.

Disclosure in financial statements

Given the complexities surrounding cryptocurrencies, entities with material amounts of cryptocurrencies should consider additional disclosures to enhance the understanding of users, which may include but are not limited to:

- Description of the characteristics of the cryptocurrency, the purpose of holding it and how doing so fits into the entity's business model;
- Considering the price volatility, it may be informative to disclose historical prices of the cryptocurrency and price changes after financial year end, and
- How technology risks surrounding the cryptocurrency (such as cybersecurity risks) are mitigated.

AUDIT RISKS AND CONSIDERATIONS

Like accountants, auditors also have to grapple with the uncertainties

[2] Entities can also consider alternative financial reporting frameworks such as Singapore Financial Reporting Standards (International) (SFRS(I)s).

[3] Notwithstanding this, broker-traders who trade cryptocurrencies as commodities should consider FRS 2: Inventories, paragraph 3(b), which states that commodity broker-traders should measure their inventories at fair value through P&L.

2011
Bitcoin is reportedly used on Silk Road, an online black market known as a platform for selling illegal drugs. Cryptocurrencies gain notoriety from their association with illicit activities.

2013
Bitcoin experiences its first big bubble, surpassing US$1,200 on one exchange. Meanwhile, various countries attempt to work out the best approach towards cryptocurrencies – at the extreme end, China bans financial companies from Bitcoin transactions, while Vancouver, Canada launches the first Bitcoin ATM.

2014
Tokyo-based Mt Gox, the largest Bitcoin trading exchange at the time, files for bankruptcy after losing US$470 million in a hack. Bitcoins continue to grow in popularity, with big companies such as Microsoft and Expedia accepting Bitcoin payments.

2015
New cryptocurrencies emerge including Ethereum, which is slated to be Bitcoin's main rival. San Francisco-headquartered digital currency exchange Coinbase raises US$75 million in a funding round, the largest amount for a Bitcoin company.

2016
The DAO – a stateless venture capital fund on the Ethereum blockchain – raises $150 million in crowdfunding, only to be hacked a month after its launch with a third of its assets siphoned off.

2017
Initial Coin Offerings (ICOs) and token sales take off at sky-high amounts. On December 17, the price of one Bitcoin reached a record high of US$19,783. Countries continue to diverge in their approaches towards cryptocurrencies – both China and South Korea ban ICOs, while Japan legalises Bitcoin as a payment method.

PHOTO SHUTTERSTOCK

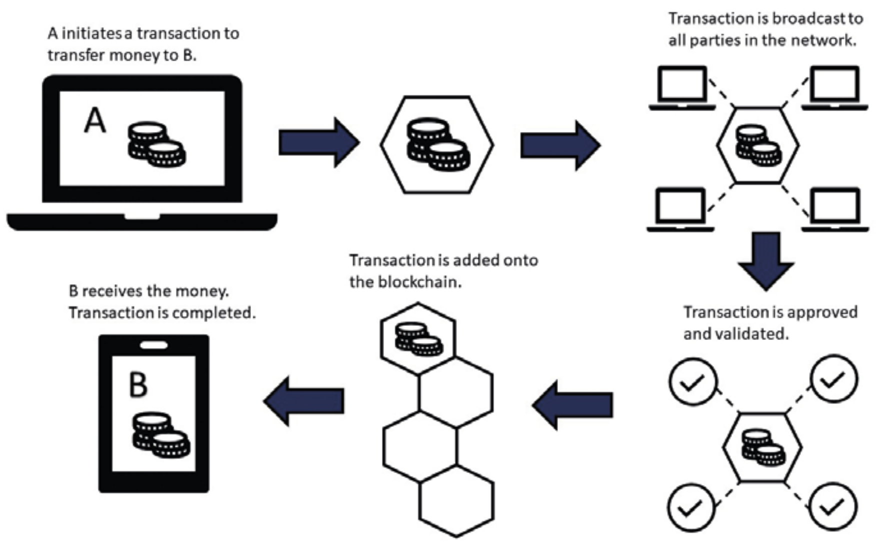
For cryptocurrencies that are not actively traded, fair value measurement may not be so straightforward. As much as possible, an entity should maximise the use of relevant observable inputs, such as prices of buy or sell offers on peer-to-peer exchanges, which are more reliable.

surrounding cryptocurrencies. Before we delve into the auditing concerns, it is essential to understand how the technology behind cryptocurrencies work.

A digital wallet is an application that stores cryptocurrency. It contains a public and private key – the former being the digital address of the wallet and the latter being the password/digital signature used to access the wallet and authenticate transactions. A blockchain, in its simplest form, is a distributed ledger which contains the relevant details for every transaction that has ever been processed[4].

Figure 1 is a simplified pictorial flow of how cryptocurrency is transferred between digital wallets through the blockchain.

Figure 1 How cryptocurrency is transferred between digital wallets through blockchain



Existence/Rights & obligations, and completeness of transactions

While cryptocurrency protocols are designed such that they can be used anonymously in principle, most businesses providing related custodian, trading or wallet storage services require proof of identification to comply with anti-money laundering/counter-terrorism financing regulations. As such, we would expect entities holding cryptocurrencies with legitimate service providers to be identifiable, but auditors need to verify that.

For cryptocurrencies held by custodians or exchanges, the auditor can request a confirmation in accordance with SSA 505: External Confirmations, similar to that of a bank confirmation when auditing cash balances held at banks. However, the auditor has to assess the reliability of the response and in the event of non-responses, perform alternative procedures to obtain relevant and reliable audit evidence. For cryptocurrencies that are stored in a digital wallet, ownership of the private key to access the cryptocurrency is critical and the auditor will have to verify this aspect.

A critical concern relating to cryptocurrencies is cybersecurity risk surrounding private keys. When private keys are lost (example, due to system failure, a private key that is stored in a computer is inadvertently erased), the related cryptocurrency can no longer be accessible to anyone in the cryptocurrency network and will effectively be out of circulation. Another risk is the private keys being stolen by hackers and the genuine holders of the cryptocurrency lose their right to the digital currency. As such, audit processes should incorporate an understanding of the cyber environment as part of risk assessment, with considerations such as whether the entity has effective IT backup and restoration procedures, and IT security processes in place to mitigate risks of external attacks[5]. In addition, the auditor has to consider if there are adequate controls in place to safeguard and prevent unauthorised access to the private keys to prevent misappropriation of the cryptocurrency.

For cryptocurrencies held by custodians or exchanges where private keys are safeguarded by these external parties, auditors may need to consider the custodian or exchange's IT controls under SSA 402: Audit Considerations Relating to an Entity Using a Service Organisation.

To verify the occurrence and completeness of cryptocurrency transactions, a logical approach would be to rely on the blockchain, since it stores information on all the transactions that have been processed since day one. A stumbling block is that the cryptocurrency blockchain itself is not audited. While proponents of blockchain argue that it provides irrefutable history and integrity, can we trust the blockchain simply based on the technology behind it? Or does the blockchain need to be audited?

Arising from the IT complexities surrounding cryptocurrencies, the engagement partner should also consider if team members possess the relevant IT knowledge to perform the audit engagement in accordance with professional standards and if there is a need to engage IT experts in accordance with SSA 620: Using the Work of an Auditor's Expert.

What price is right?

Although the intuitive approach to the fair value of a cryptocurrency (assuming that it is actively traded) would be the trading price on an exchange, varying prices across exchanges is an issue. For instance, take the prices of Bitcoin from the top 10 exchanges (in terms of volume) as of 6.33am, Singapore time, on 10 September 2018, where the difference between the highest and lowest price was about 11% (Figure 2).

As prices can be volatile and driven by speculation instead of economic factors, fair value measurement is a key audit risk area. When auditing fair value, the auditor should consider if the accounting policy has incorporated data from different sources of exchanges to address such price differences.

Figure 2 Bitcoin prices from 10 top exchanges (by volume)

Exchange	Price (US$)	24h Volume (US$)
TrustDEX	6,859	3,406,761
Livecoin	6,404	4,825,304
Gemini	6,393	12,655,754
Poloniex	6,247	3,725,913
Bitfinex	6,240	90,206,477
GDAX	6,233	35,463,259
itBit	6,230	7,993,558
Bitstamp	6,230	24,350,685
Kraken	6,227	20,314,446
Simex	6,187	12,746,226

Source: Extracted from CryptoCompare website, arranged from lowest to highest price per Bitcoin

For cryptocurrencies that are not actively traded, fair value measurement may not be so straightforward. As much as possible, an entity should maximise the use of relevant observable inputs, such as prices of buy or sell offers on peer-to-peer exchanges, which are more reliable.

CONCLUSION

Currently, we are seeing global efforts working towards unified cryptocurrency regulations, such as the G20 calling for international standard-setting bodies to assess multilateral responses during their meeting in March this year. While we await more clarity from standard-setters, we will have to work within the boundaries of the existing standards in the meantime to find the most appropriate approach so as to ensure that the financial statements for companies with cryptocurrency holdings are as reliable and relevant as possible. ISCA

[4] For more information on blockchain technology, the reader can refer to "Making sense of bitcoin, cryptocurrency and blockchain" by PwC US.

[5] For further guidance on cybersecurity risks, please refer to "Cybersecurity Risk Considerations in a Financial Statement Audit" issued by ISCA in June 2018.

Wang Zhumei is Manager, Audit Quality & Standards Development, ISCA.

MEMBER PROFILE

BRINGING STABILITY INTO A START-UP

BY YONG YUNG SHIN

HER RELAXED DEMEANOUR AND EASY, DIMPLED SMILE belie the demands of her job. As Head of Business Development at Funding Societies, Ms Xin Ying Goh-Krechel, 29, is an integral part of one of Southeast Asia's most exciting and fastest growing start-ups – a digital financing platform that offers SME owners alternative funding solutions to expand their businesses.

Many SMEs, which already grapple with the issue of unsteady cash flow, do not receive adequate financing through traditional options.

Xin Ying Goh-Krechel, CA (Singapore), Head of Business Development, Funding Societies

Buoyed by advances in financial technology and digital platforms, Funding Societies is disrupting the banking and finance industry by enabling business owners to obtain crowdfunded loans ranging from S$5,000 to S$2 million within a matter of hours. "We help the unserved or underserved SMEs, and even the well-served ones that may face unforeseen circumstances and need quick financing or short-term bridging loans," says Ms Goh, with no small amount of pride. "It is a very fulfilling job, especially when I am able to work alongside good and driven folks to achieve this purpose together."

At the same time, investors who lend to the SMEs receive up to 14% per annum in returns and can start investing with just S$20 per loan. Notably, Funding Societies has achieved a track record of less than 1.1% in default rate, one of the lowest in the region. With a platform that meets the common needs of multiple stakeholders, Funding Societies has tapped into a niche market flush with potential. Since its inception in 2015, it has evolved into Southeast Asia's largest P2P (peer-to-peer) financing platform with a burgeoning presence in Singapore, Malaysia and Indonesia (where it is known as Modalku, which means "My Capital" in Bahasa Indonesia), crowdfunding more than S$240 million in loans to-date.

Since joining the company in April last year, Ms Goh has risen to the challenge of leading a team in driving partnerships

> "My interest in accountancy grew when I started to realise and understand how accounting plays such an integral role in society and in business, **where we collect, analyse and communicate numbers to make commercial decisions.**"

CAREER HIGHLIGHTS

2012
Graduated from Singapore Management University
Joined DBS Bank as Management Associate
2014
Fund Management Consultant, Fund Management
2016
Director, Management Consultant, Bolt Ventures
2017
Head of Business Development, Funding Societies

"Don't stop learning... Accounting provides us with the ability and the discipline of mind to deal effectively with quantitative matters, which will stay relevant with the growth of data. Keep learning and mastering new skills whether they're related to your work or not."

with both corporate and government bodies, developing financial products and managing business operations. As one of the firm's first dozen employees or so (there are more than 200 staff today), Ms Goh enjoys being involved in shaping the work culture, which she describes as "passionate and fun". At the same time, there is "zero tolerance for second-class behaviour", a practice to ensure that everybody's energy is channelled to creating only positive impact, she explains.

BE NIMBLE, BE QUICK

It was Ms Goh's mother who encouraged her to take up accountancy in university 10 years ago, noting that she had always been better with numbers than words. "My interest in accountancy grew when I started to realise and understand how accounting plays such an integral role in society and in business, where we collect, analyse and communicate numbers to make commercial decisions," she says. Upon graduating with a double degree in Accountancy and Business Management from Singapore Management University (SMU) in 2012, she took up a management trainee role with DBS Bank and also ventured into business consulting, before taking the leap into the start-up scene with Funding Societies.

Perhaps it is due to this background that she still favours corporate styles over the more relaxed, smart casual dress codes of her colleagues. "I am probably the only person who wears heels to work, and I enjoy being the tiny misfit in this office," she says with a grin. More importantly however, the operational rigour she was exposed to in the corporate world taught her to set up processes and monitor operational risks at Funding Societies – valuable capabilities that help create stable counterpoints to the oftentime heady pace of growth in the world of fintech. "Here at Funding Societies, we have to be nimble," she asserts. "Being the leading digital financing platform in Southeast Asia, change is our only constant. One of our key values is to push our limits so that we are continually at the boundaries, which is in a way constantly preparing ourselves to excel in today's ever-changing and complex business landscape."

For Ms Goh, a typical day comprises a string of back-to-back meetings, be it getting down to the weeds of a product in the development phase or hammering out terms of agreement in a partnership. Asked if she finds it all a bit intense sometimes, she replies without missing a beat, "Yes!", before explaining with a relenting chuckle that the firm adopts an unlimited paid leave system. "Here, we do not reward people based on the number of hours worked but on performance. The company practises flexible working hours and believes that if we're given space and time away from the office, it will allow us to spend time with our families and do things that we enjoy outside of work. When we feel refreshed, we come to work happier and are much more productive."

The petite go-getter's idea of refreshment is dancing, a hobby since she was young. At one time, she even took part in competitive Latin ballroom dancing. Despite her current hectic work schedule, she manages to fit in a dance session every Wednesday. Occasionally, she goes back to her alma mater, SMU, to help with dance practices.

CHAMPIONING EMPOWERMENT

Given her passion for giving back, yet another role Ms Goh holds close to her heart is that of Mentorship Director for the Young Women's Leadership Connection. The non-profit organisation nurtures and supports young women leaders aged 21 to 35 years, in key areas such as community engagement, leadership development, networking and mentorship. As Mentorship Director, Ms Goh helps build healthy, constructive mentoring relationships by ensuring a good match of mentor and mentee. The former comprises some of Singapore's most prominent women leaders across various sectors, who are individually appointed by none other than Grace Fu, Minister for Culture, Community and Youth.

One piece of advice Ms Goh would give her 21-year-old self if she could turn back time is: do not be afraid to make mistakes. "I have always been a perfectionist, so I would tell my younger self that she should not be afraid to have flaws – to make mistakes – as long as she learns from them," she says. It was through the mistakes she made, Ms Goh recalls, that she was able to see where she needed to improve. "I would tell (the younger me) to appreciate herself more while acknowledging the screw-ups. Being imperfect is what makes us unique and we are loved for it, so give yourself a break sometimes."

At the same time, she also advises young accounting professionals that a lifelong approach to self-betterment is key in today's rapidly-evolving job market. "Don't stop learning," she advises. "Accounting provides us with the ability and the discipline of mind to deal effectively with quantitative matters, which will stay relevant with the growth of data. Keep learning and mastering new skills whether they're related to your work or not." She is currently reading up on the personality assessment model, Gallup's StrengthsFinder, to better understand how people's behaviours are driven by their inner motivations and strengths – all this in order to build an even stronger, more collaborative team.

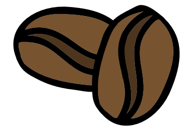
Even as she thrives on being a part of something bigger than herself at Funding Societies, Ms Goh finds that being an ISCA member enables her to grow her professional network – an important benefit given her role in business development. The ISCA membership also helps her to maintain a finger on the pulse of business trends and changing landscapes both in Singapore and regionally.

"Every day is a new experience," she says, "where I embrace change, where I am committed to my growth and where I bring my best self to benefit the community." ISCA

Yong Yung Shin is a contributing writer.

A COFFEE CULTURE

An Age-Old Beverage And Its Enduring Appeal



TO MOST, COFFEE IS A WAY OF LIFE. Beyond mainstream offerings such as Nespresso and Nescafe, coffee aficionados all around the world unite – or divide – over their favourite origins, preferred brewing equipment, and go-to coffee joints. This spunky drink has a rich history, originating from Ethiopia in the 11th century and sowing its seeds across geopolitical boundaries in a matter of decades. We break down the basics of brewing for the newly-minted coffee drinkers and highlight trends which are coming up in the coffee culture.

BACK TO BASICS

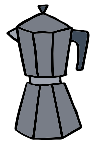
Master the fundamentals to make a better brew

1) When it comes to a cup of joe, there are really only two main species of beans which matter – Arabica and Robusta. The former is generally more “flavourful”, with a sweeter and softer taste profile. When roasted, these beans burst into bouquets of berries and fruit. With their pleasant acidity and slight bitterness, Arabicas form the bulk of the java you will find in cafes, grocery stores and markets.

COFFEE AROUND THE WORLD

In almost all cultures, coffee is an everyday staple. Here is a sampling of some of the better-known renditions of the world's favourite drink.

Cafe au lait (France)
Essentially a shot of espresso with steamed milk, the iconic cafe au lait is a harmonious balance between strong coffee and warm, creamy milk. Locals pair it with a croissant for the perfect to-go breakfast.

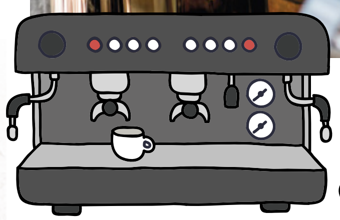


Cà phê đá (Vietnam)
Iced coffee is a streetside staple in tropical Vietnam and rightly so, because the refreshing beverage is equal parts invigorating and flavourful. A strong, dark roast (often Vietnamese) takes centrestage here, tempered by sweetened condensed milk and poured over a tall glass of ice.

Irish coffee (Ireland)
Coffee gets fun in Ireland, where the beverage is served with whisky, sugar and whipped cream, and typically served as an after-dinner cocktail. This iconic drink is a long-standing favourite in Irish pubs, with popularity rivalling a great stout!

Türk kahvesi (Turkey)
Made distinct by very finely ground beans, Turkish coffee is known for its intensity and special methods of preparation. This thick brew is usually served after meals from a long-handled copper pot called cevze, alongside a glass of water and a sweet treat, like the well-loved Turkish Delight.


Roaster machine roasting coffee beans at the cafe



Popular variations include those from Mandheling, Jamaican Blue Mountain, or Sumatra, which look and taste different due to factors like terroirs and harvesting or roasting techniques.

Robusta beans, on the other hand, tend to be stronger and harsher, often described to have a grain-like tone and a peanut aftertaste. However, they are easier to cultivate, higher in caffeine content and more resilient to pest damage. While Robustas are sometimes thought of as inferior to Arabicas, some varieties make exceptional espressos due to their deep flavours and good crema. In fact, local kopi is traditionally brewed from Robusta beans which have been well-roasted with sugar, margarine and sometimes even maize for the distinct fragrance many of us know and love.

2) Third-wave coffee drinkers (those who consider the drink an artisanal foodstuff instead of a commodity) are often partial towards single origins, which literally refer to coffee which is sourced from a single producer, crop or country/region. This gives drinkers a better understanding of the coffee profile and how it is affected by the factors in the region, much like how one appreciates wines and their terroirs.

Coffee blends are favoured by roasters in cafes or restaurants which endeavour to optimise aroma, aftertaste, crema and smoothness for their consumers. Whether these blends are created to complement or contrast, the process is a fine art in combining unique qualities of different coffees to create specific flavour profiles. As a rule of thumb, "breakfast blends" tend to be brighter and fruitier, while "espresso blends" are perfect for that cup of latte or cappuccino.

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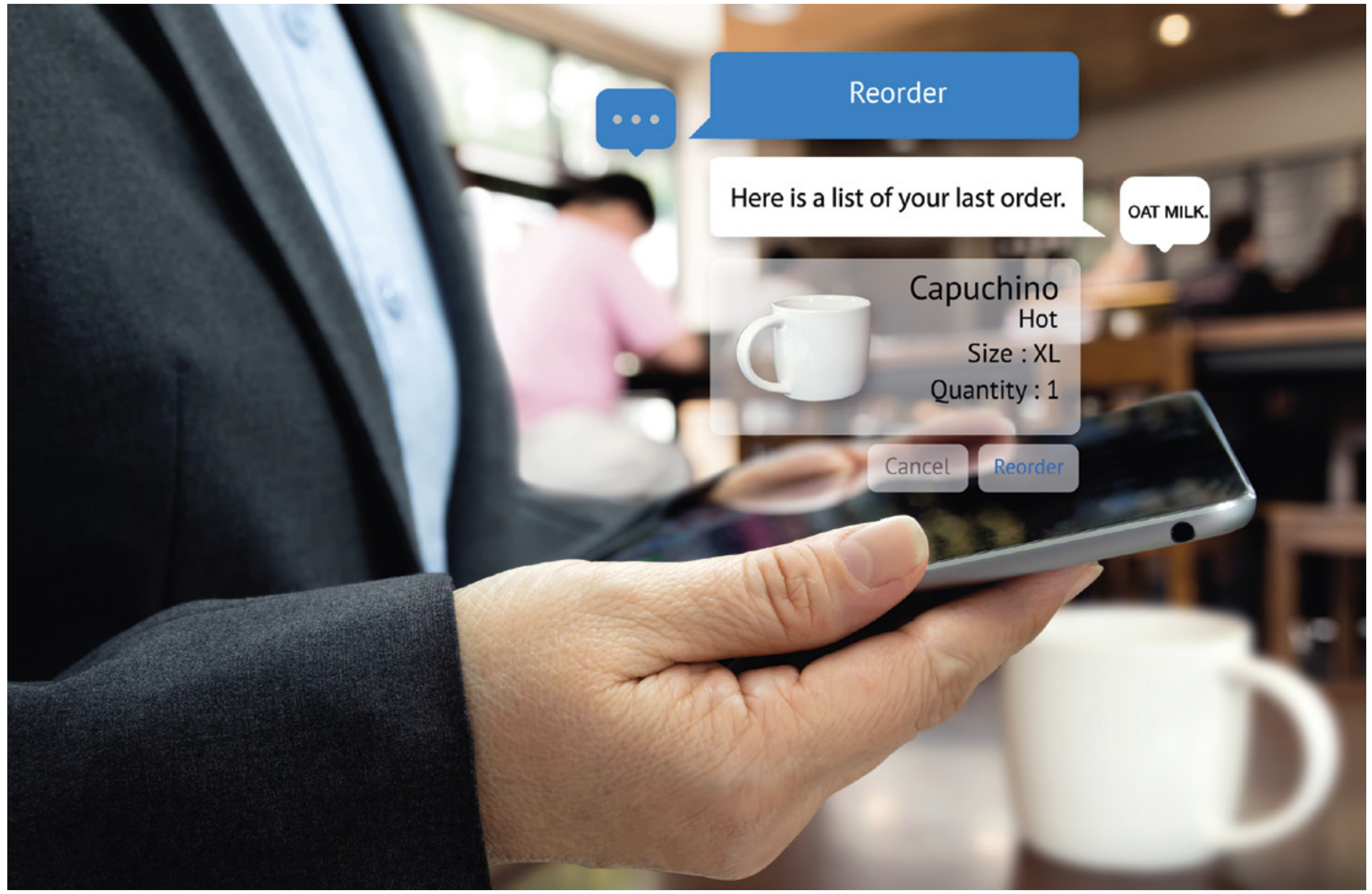

3) Today, with a plethora of home coffee-brewing methods accessible to most consumers, one may be spoilt for choice getting started making coffee at home. While experimentation can be daunting, take your time to figure out what works the best for your perfect cuppa. A French press is always a good bet for beginners as it is extremely easy to use, boasts a tried-and-tested history, and has a solid cult following among the home-barista community. Just stick to quality beans when you are using the press, and make sure you are using the right grinder for the best results.

For the more seasoned brewer, Chemex is a pour-over coffeemaker which will be a beautiful addition to any kitchen. Its generous capacity allows up to eight cups to be brewed at a time. Use a medium-coarse grind for this one, and when handled properly, you will be churning out smooth and flavourful coffee at home in no time.

THE NEXT WAVE

Trends dominating the coffee industry right now

1) Move over, cold brew. Nitro coffee is quickly becoming the cooler beverage of choice. While it is not a totally new phenomenon, it has recently become as ubiquitous as iced coffee. This hype is not for naught – the addition of nitrogen gas through a pressurised valve enhances the texture and flavour of the coffee. The micro bubbles give a creamier mouthfeel not unlike a Guinness, and the nitro foam gives your tongue a perception of sweetness without adding any sugar or milk. In a response to increased market demand, nitro coffee is now readily available on-tap or in cans, so you can grab your fix in grocery stores and cafes.

2) With more people adopting a vegan lifestyle, plant-based milks have never been a more popular companion for coffee. Soy and almond milk continue to be widely available, but the rise of milks from the likes of macadamia and rice are giving consumers fewer calories and more nutrients without compromising taste. Oat milk, in particular, is favoured by baristas as a tasty alternative for its neutral flavour and ability to steam and froth beautifully.

3) The coffee industry takes on a life of its own as savvy millennials look out for bespoke experiences, so we can expect roasters and cafes to go all out to cultivate the relationship between the consumer and their cups. What this might translate into are subscription services, barista courses, multisensorial events and tasting journeys. We are also keeping our fingers crossed for progressive brewing techniques and coffee varieties – all in the spirit of upgrading the consumer experience. ISCA

BY PERSPECTIVES@SMU

FINANCE, FINTECHS AND THE FUTURE

Big Banks And Fintechs Can Coexist

A QUICK CHECK ON JOB SITES for openings in the finance sector invariably yields variations of the following positions: Data Analyst; Big Data Analytics Engineer; VP, Quantitative Analytics; Project Manager, Data Management Office, etc. Successful candidates are as often expected to be engineers as bankers, with IT skills very much front and centre on top of financial experience.

Is the finance sector looking to hire bankers or engineers?

"Even in Legal and Compliance, we're looking for engineering skill sets," concedes Lam Chee Kin, General Counsel, DBS Bank, at a discussion panel at SMU. Themed "The German-Singaporean Financial Forum (GSFF): The Future of Banking – Evolution, Revolution or Big Bang", the event took place on 16 April 2018. Lam points out the industry's demand not only for "technology capabilities, data science capabilities, and the underlying infrastructure-design requirements" but also the need for "design skill sets".

"One of the things we ask is, 'What irritates the customer the most? What irritates our employees the most?' We draw up a long list of these things and we prioritise the top items. For Legal, it could be iterative document negotiations. We then put lots of resources into artificial intelligence to automate document negotiations. That gives rise to a need for design skill sets to shape the employee journey and the customer journey, and how to create the technology infrastructure for it."

He adds, "For Legal, we don't really need the cutting-edge stuff. We don't need 20 people working on the technology... maybe just one or two really good people to design the policy framework, and you can execute it with the existing skill sets."

Fellow panel member Charis Liau, Co-Founder and CEO of marketplace-lending platform Minterest, describes how her fintech is not necessarily looking for bankers. At least, not the experienced ones. "What we do is bridge the gap between the companies which are unable to secure the necessary funding, and we have a technology process for that," Liau explains, pointing out the wealth of banking experience that the company's management brings to the table. "As a result, we actually do not need any more bankers. What we are focusing on is the customer experience. We are looking for people who are armed with technology skills."

"We don't need bankers with 20 years of experience to talk to customers anymore; we can hire fresh grads. We can even have an intern pool who can ask the same set of questions and have the same output. Because of the technology, we are putting in place processes to make things a lot faster and more efficient," she elaborates.

Technology is shaping financial jobs and skills; big banks and fintechs will coexist instead of eating up each other.

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BY ALENA KOMAROMI AND HORACIO FALCÃO

DOES EATING TOGETHER IMPROVE NEGOTIATIONS?

Yes, No And Maybe

WHO YOU SHARE YOUR TABLE WITH MAY ADD OR DETRACT VALUE.

Sitting down to a meal to talk business, like drinking while negotiating, is common practice around the world. There is probably not a single executive or public official who has never negotiated over a meal. Because eating is such a salient part of our lives, we need to look at how food can influence negotiation.

Researchers have recently started to examine the act of eating together while negotiating, and its impact on the final deal. While most of us would expect that sharing a meal would positively affect our negotiation outcomes, the findings point to a more nuanced and strategic choice. Indeed, the effect of food and its presentation on negotiation outcomes can vary depending on individual circumstances.

A paper by Cornell University's Kevin Kniffin, Brian Wansink, Carol Devine and Jeffery Sobal delved into the shared food experience of firehouses, which have a special culture of cooking and eating together because of firefighters' long shifts. The study found a strong positive correlation between firefighters eating together (workplace commensality) and their group performance. However, cooperation among officers only increased when they cooked together; sharing the pleasure of being around a table and eating together had no influence. This leads us to believe that improved cooperation is most likely not the reason why food sharing could lead to better negotiation outcomes.

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NEGOTIATING JOINT-VENTURE DEALS

"Should You Eat While You Negotiate?" by Lakshmi Balachandra from the Harvard Kennedy School of Government reports the outcomes of several experiments with 132 MBA students role-playing a joint-venture negotiation.

The first experiment compared a group that negotiated over a meal in a restaurant with another that negotiated in a conference room without food. Another experiment looked at two groups negotiating in a conference room, one with a shared meal and one without. The groups that ate together respectively generated 12% and 11% more profit than the ones that didn't break bread together.

Encouraged by her findings, Balachandra designed a third experiment with 32 MBA students to ensure that it was not merely engagement in any collaborative task together (that is, eating versus solving a problem together) that led to better negotiation outcomes. In this experiment, rather than eating, half of the participants negotiated while completing a jigsaw puzzle together. No difference in profit or trust levels was found between the groups.

When negotiators eat together, the joint nature of this separate task does not seem to be what improves negotiation outcomes. Instead, Balachandra believes there is a biological explanation. Eating together increases glucose levels, which leads to better self-control, decreased aggression and regulated prejudice. These side effects positively affect negotiation outcomes. Based on other studies, she also believes a second explanation: While individuals eat together, they engage in mimicking or enacting movements that lead to pro-social behaviour and induce positive feelings about the other party. Both explanations are plausible, yet they rely on increased cooperation following commensality as the reason for better outcomes. However, the firefighters' study rejects the role of cooperation while eating as the cause of better negotiation outcomes... So where do we stand on this issue?

> The researchers found that competitive negotiations (merger deals), **while food sharing, produced the highest negotiation outcomes**, motivated by the high level of uncertainty.

THE ELEMENT OF UNCERTAINTY

A third study from Margaret Neale (Stanford University) and Peter Belmi (now at Darden School of Business, University of Virginia) may clarify the issue. Their experiments were broken down into competitive and cooperative negotiations that involved food sharing as well as just food consumption. The researchers also served savoury (chips and salsa) or sweet food (apples and caramel sauce) to see if the type of meal had any effect on negotiation outcomes.

In competitive negotiations, food sharing was expected to generate uncertainty as competition is associated with power moves, manipulation and deception – a sharp contrast to the warm feelings associated with shared meals. This element of uncertainty would likely make negotiators more alert and mindful of asking value discovery questions (leading to value creation opportunities). Conversely, in cooperative negotiations, food sharing was expected to introduce "sleepiness" into the process as parties already feel secure due to the cooperative framing. As a result, food sharing would reduce their alertness and motivation to go the extra mile in terms of value discovery or better deal creation.

The researchers found that competitive negotiations (merger deals), while food sharing, produced the highest negotiation outcomes, motivated by the high level of uncertainty. Cooperative negotiators who shared food, on the other hand, reported decreased levels of uncertainty and inferior value deals compared to competitive or control groups without food sharing. Finally, savoury or sweet meals did not make a difference in the outcomes.

So, according to the last paper, uncertainty introduced by food-sharing practices in competitive negotiations makes parties negotiate with the value creating goal in mind. For the practical purpose of maximising value creation, this means that you must be thoughtful about sharing a meal with your business counterpart. If your counterpart has a competitive reputation or there is a conflict or impasse, it may pay off to have your negotiation over a shared meal with dishes placed such that everyone can serve themselves – Spanish tapas, shared Asian dishes or Ethiopian fare, for example. If, on the other hand, your negotiation is expected to follow a cooperative path, stay away from the food sharing because it may reduce your awareness and alertness and, hence, lead to sub-par value deals.

For serious foodies, this does not mean, however, that one should abstain from having a meal altogether while negotiating; merely making separate individual orders or maintaining a level of alertness should help alleviate any concerns over decreased uncertainty and help parties stay focused on maximising mutual outcomes. ISCA

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FINANCE + TECH = MORE THAN JUST FINTECHS

Markus Gnirck, Co-Founder and CEO of investment advisory fintech tryb, points to a future populated by small financial firms that deliver one single product or service well, instead of banking behemoths that have dominated heretofore. While acknowledging numerous fintechs that have carved out profitable niches, Deutsche Bank's Rick Striano does not expect big banks to become totally obsolete.

"I see a future scenario where we see fintechs collaborating more and more with banks instead of them competing," says Striano, who is the Managing Director and Head of Digital Product Development within the bank's Global Cash Management section. "Banks have fairly deep pockets and massive distribution channels, lots of clients, and history. The data that comes with that is incredibly valuable; it's just a matter of monetising it."

With regard to fintechs taking customers away from the big banks, Striano says, "Put yourself in the corporate position when you're looking at a lengthy value chain where you're saying, 'Here're the 47 steps to executing the treasury strategy. Do I want to break all this into 47 separate contracts because this company does this one thing better or cheaper than the other?'"

"That will happen but at the same time, I don't think the treasurer will want to manage 47 different commercial relationships. It's why we are seeing more collaboration with fintechs where customers are coming to us, saying, 'I just found this really interesting company and I'd like to use them. Can we access them through you guys?' The balance between the two is where I think the future is going to go," he opines.

Bernard Wee, Executive Director of Prudential Policy, Monetary Authority of Singapore (MAS), points out that technology has lowered the barrier of entry to finance while observing a lack of attention paid to the resulting business process innovation.

"It's helped e-commerce move into financial services," Wee elaborates, citing the examples of Alibaba and the ride-sharing apps. "You build adjacencies, and this is where I'm talking about needing people who understand finance, who understand business and not just technology. The way e-commerce had built adjacencies into financial services is to first provide the marketplace to buy and sell things, then provide you with the payment platform to pay for the things you buy and sell, then lend you money to buy from online merchants or set up an online business."

"There's a lot of evidence outside of e-commmerce that businesses are able to monetise data. Social media have not yet been able to turn itself into a financial service. I'm not saying it won't, I'm not saying ride-sharing will never become financial services – there's clearly a business model to lend to people to lease their motorcycles – but it's not clear where the adjacencies would be."

He concludes, "The logical conclusion is – Is there a limit to where financial services can grow?"

THE VALUE OF VALUES

In anticipation of a rapidly-changing landscape, Wee highlights the importance the MAS places on critical thinking and values. "We describe a situation to them, and get them to respond to suss out the values they hold, what's important to them." Johannes Beermann, member of the Executive Board of Deutsche Bundesbank, agrees with that approach.

"You need inner values," says Beermann. "You need to know what is right and what is wrong because just following the compliance system and the regulatory framework is not enough. We as supervisors are sometimes one step behind. Values change, the products change – you need an inner feeling for the customer on what is right or wrong."

"We need people to think differently," Striano offers. "We can teach people the math; math is easy. But it's more about philosophy and ethics, and in my view, that makes a difference." ISCA

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BY KHOO TENG AUN AND CLEMENT TAN KAI GUAN

DON'S COLUMN

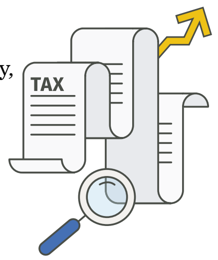
SINGAPORE CORPORATE TAX RATE

Is it Really A Flat Rate?

AS THERE IS ONLY ONE CORPORATE TAX RATE (CTR) IN SINGAPORE, it may appear that the Singapore CTR is a single flat rate, currently 17%. However, after taking into account the availability of the partial tax exemption[1] (PTE) scheme, the start-up tax exemption[2] (SUTE) scheme and the corporate income tax rebate (CITR) in Singapore, all of which have an effect of lowering a company's tax payable, the seemingly flat Singapore CTR is not what it seems to be. Instead, it translates to various progressive tax rates for different tiers of normal chargeable income (NCI[3]), as shown in Table 1. It is akin to the progressive tax system currently applicable to tax resident individuals.

The amount of tax exemption granted under both the PTE and the SUTE schemes (applicable to the first three tiers of NCI in Table 1) varies, depending on which tier of NCI the company is in. Consequently, the amount of tax reduction also varies.

In Singapore Budget 2018, the Minister for Finance has proposed to adjust both the existing PTE and SUTE schemes to lower the amount of tax exemption granted with effect from the year of assessment (YA) 2020[4], thereby resulting in the



... the prevailing seemingly-flat CTR of 17% in Singapore is being transformed into various progressive tax rates for different tiers of NCI before PTE, once we take into account the PTE and the CITR for YAs 2018 to 2020.

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CBD, housing and commercial buildings, Singapore

[1] 75% exemption on the first $10,000 of NCI, and 50% exemption on the next $290,000 of NCI

[2] 100% exemption on the first $100,000 of NCI, and 50% exemption on the next $200,000 of NCI

[3] NCI is CI that is taxed at the prevailing corporate tax rate

[4] With effect from YA 2020: For PTE scheme, 75% exemption on the first $10,000 of NCI, and 50% exemption on the next $190,000 of NCI. For SUTE scheme, 75% exemption on the first $100,000 of NCI, and 50% exemption on the next $100,000 of NCI

amount of tax payable being higher from YA 2020 than those YAs prior to YA 2020.

In addition, companies are granted CITR of 40% for YA 2018 (capped at $15,000), and 20% for YA 2019 (capped at $10,000). For a given level of NCI, the amount of tax payable will thus be higher in YA 2019 than in YA 2018 as the CITR is lower for YA 2019 than for YA 2018. As the Minister did not announce any CITR for YA 2020, tax payable will be higher in YA 2020 without the CITR than in YA 2019.

Table 1 below shows the different applicable tax rates (ATR) corresponding to the different tiers of

Table 1 NCI and ATR, YA 2018 to YA 2020

	NCI before PTE ($)	ATR (%)		
		YA 2018	YA 2019	YA 2020
1st tier	0 to 10,000	2.55	3.4	4.25
2nd tier	> 10,000 to 200,000[6]	5.1	6.8	8.5
3rd tier	> 200,000 to 300,000[7]	5.1	6.8	17
4th tier	> 300,000 to 373,088[8]	10.2	13.6	17
5th tier	> 373,088 to 446,618[9]	17	13.6	17
6th tier	> 446,618	17	17	17

Table 2 Incurring discretionary tax deductible expenditure in the basis period for YA 2019

	YA 2019	YA 2020	Total
NCI before PTE	230,000	240,000	
Less: Discretionary expenditure	(5,000)	-	
NCI before PTE but after discretionary expenditure	225,000	240,000	
Less: PTE	(115,000)	(102,500)	
NCI after PTE	110,000	137,500	
Tax @ 17%	18,700	23,375	
Less: 20% corporate tax rebate	(3,740)	-	
Net tax payable	14,960	23,375	38,335

Table 3 Deferring discretionary tax deductible expenditure to the basis period for YA 2020

	YA 2019	YA 2020	Total
NCI before PTE	230,000	240,000	
Less: Discretionary expenditure	-	(5,000)	
NCI before PTE but after discretionary expenditure	230,000	235,000	
Less: PTE	(117,500)	(102,500)	
NCI after PTE	112,500	132,500	
Tax @ 17%	19,125	22,525	
Less: 20% corporate tax rebate	(3,825)	-	
Net tax payable	15,300	22,525	37,825

NCI before PTE[5] for YA 2018 to YA 2020. The ATR are calculated after taking into account the PTE and the CITR, if applicable.

The following observations can be made from Table 1:

(1) For different tiers of NCI before PTE, the seemingly flat CTR of 17% progresses from 2.55% to 17% for YA 2018; from 3.4% to 17% for YA 2019, and from 4.25% to 17% for YA 2020.

(2) The prevailing flat CTR of 17% is applicable as follows:
- For every dollar of NCI before PTE that exceeds $373,088 in YA 2018
- For every dollar of NCI before PTE that exceeds $446,618 in YA 2019
- For every dollar of NCI before PTE that exceeds $200,000 in YA 2020

(3) For a given NCI before PTE falling within any of the first four tiers, we see a trend of increasing ATR from YA 2018 to YA 2020. For example, where NCI before PTE ranges from $0 to $10,000, the ATR increases from 2.55% in YA 2018 to 3.4% in YA 2019, and then to 4.25% in YA 2020.

This is due to the CITR being higher in terms of percentage and cap for YA 2018 than YA 2019, whereas it is currently not applicable to YA 2020.

(4) However, at the 5th tier, the ATR in YA 2018 (17%) is higher than in YA 2019 (13.6%).

The reason being that given a higher percentage (40%) of CITR for YA 2018, the CITR reaches its cap of $15,000 when the NCI before PTE is at $373,088 level. Hence, there is no further deduction in tax payable for every dollar of NCI before PTE that exceeds $373,088. On the other hand, the 20% CITR for YA 2019 reaches its cap of $10,000 when the NCI before PTE is at the $446,618 level.

(5) As there is no CITR announcement for YA 2020 and the threshold level for PTE has been adjusted from $300,000 to $200,000 with effect from YA 2020, the ATR is expected to be higher in YA 2020 than in YA 2019 for all the different tiers of NCI up to $446,618.

(6) At the 6th tier where the NCI before PTE is greater than $446,618, the ATR of 17% is the same for all the three YAs.

[5] SUTE is ignored in this article as SUTE applies to only qualifying companies in Singapore, which form the minority

[6] Reduced threshold level of NCI from $300,000 to $200,000 applicable to both the PTE and the SUTE schemes with effect from YA 2020

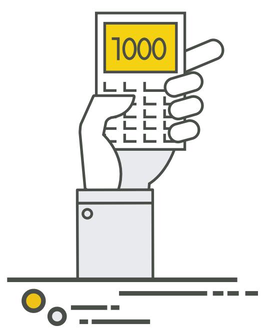
[7] Existing threshold level of NCI applicable to the PTE scheme prior to YA 2020

[8] [(15,000/40%)/17% + $152,500 (the maximum PTE) = $373,088, that is the amount of NCI before PTE at which the YA 2018 cap of $15,000 on the 40% corporate income tax rebate will be reached after claiming the maximum PTE of $152,500

[9] [(10,000/20%)/17% + $152,500 (the maximum PTE) = $446,618, that is the amount of NCI before PTE at which the YA 2019 cap of $10,000 on the 20% corporate income tax rebate will be reached after claiming the maximum PTE of $152,500

[10] Granted on due claim

Financial district, Singapore



POTENTIAL TAX SAVINGS OPPORTUNITIES

When a discretionary tax deductible expenditure (example, approved donations, marketing expense) or capital allowance[10] is claimed as a tax deduction, the amount of tax savings will depend on the tax rate applicable to a taxpayer. The higher the ATR, the greater the tax savings. As long as the ATR is higher in YA 2020 than in YA 2019, it is more tax beneficial if certain discretionary tax deductible expenditure and/or capital allowance claim can be deferred from YA 2019 to YA 2020 as more tax savings can accrue.

Let us suppose that the NCI before PTE for YA 2019 and YA 2020 is expected to be $230,000 and $240,000 respectively, before taking into account a discretionary tax deductible expenditure of $5,000.

The combined tax payable for both YAs 2019 and 2020 is $37,825 (Table 2) which is lower than $38,335 (Table 1) when discretionary deductible expenditure is deferred from YA 2019 to YA 2020. Hence, it is more tax beneficial if the discretionary deductible expenditure can be deferred to YA 2020 in this case as additional tax savings of $510[11] will accrue as a result.

Table 4 Making an approved donation towards the end of the basis period for YA 2019

	YA 2019	YA 2020	Total
NCI before PTE	230,000	240,000	
Less: Approved donation (2.5 x $5,000)	(12,500)	-	
NCI before PTE but after approved donation	217,500	240,000	
Less: PTE	111,250	(102,500)	
NCI after PTE	106,250	137,500	
Tax @ 17%	18,062.50	23,375	
Less: 20% corporate tax rebate	3,612.50	-	
Net tax payable	14,450	23,375	37,825

Table 5 Deferring making an approved donation to the start of the basis period for YA 2020

	YA 2019	YA 2020	Total
NCI before PTE	230,000	240,000	
Less: Approved donation (2.5 x $5,000)	-	(12,500)	
NCI before PTE but after approved donation	230,000	227,500	
Less: PTE	(117,500)	(102,500)	
NCI after PTE	112,500	125,000	
Tax @ 17%	19,125	21,250	
Less: 20% corporate tax rebate	(3,825)	-	
Net tax payable	15,300	21,250	36,550

As long as the ATR is higher in YA 2020 than in YA 2019, it is more tax beneficial if certain discretionary tax deductible expenditure and/or capital allowance claim can be deferred from YA 2019 to YA 2020 as more tax savings can accrue.

RECONCILIATION USING THE ATR TO EXPLAIN

As the NCI before PTE in YA 2019 falls within the 3rd tier in Table 1, the ATR is 6.8%. Any tax deduction within this range will accord a tax savings of 6.8% for every dollar deducted.

Although the NCI before PTE in YA 2020 also falls within the 3rd tier in Table 1, the ATR is 17.0%. Any tax deduction within this range will accord a maximum tax savings of 17.0 % for every dollar deducted.

Hence, additional tax savings of 10.2% (17.0% - 6.8%) will arise from claiming a discretionary tax deductible expenditure in YA 2020 instead of YA 2019. For a discretionary tax deductible expenditure of $5,000, total tax savings will therefore be $510[11] ($5,000 x 10.2%).

MORE TAX SAVINGS FROM DEFERRING APPROVED DONATIONS

More tax savings will accrue if the discretionary tax deductible expenditure in question is an approved donation as the tax deduction is 2.5 times for each dollar of approved donation made. As seen in Table 4 and Table 5, total tax savings will now be $1,275[12] instead of $510 as shown in the previous illustration.

CONCLUSION

Our article illustrates that the prevailing seemingly-flat CTR of 17% in Singapore is being transformed into various progressive tax rates for different tiers of NCI before PTE, once we take into account the PTE and the CITR for YAs 2018 to 2020.

Companies which are now towards the end of their basis period for YA 2019 should consider timing the incurrence of their discretionary deductible expenditure and/or defer certain capital allowance claim from YA 2019 to YA 2020 to take advantage of the additional tax savings that will accrue if their ATR is expected to be higher in YA 2020 than in YA 2019. Even more tax savings will accrue if the discretionary deductible expenditure in question is an approved donation. ISCA

Khoo Teng Aun is Associate Professor of Accounting, Singapore Management University, and Clement Tan Kai Guan is Associate Professor (Practice) of Accounting, Nanyang Business School, Nanyang Technological University.

[11] $38,335 - $37,825

[12] $37,825 (Table 4) – $36,550 (Table 5); alternatively, it can also be derived as follows: $510 tax savings x 2.5 times


BY LIAN WEE CHEOW AND LEE BING YI

AMENDED MAS NOTICE 612 ON CREDIT LOSS PROVISIONING

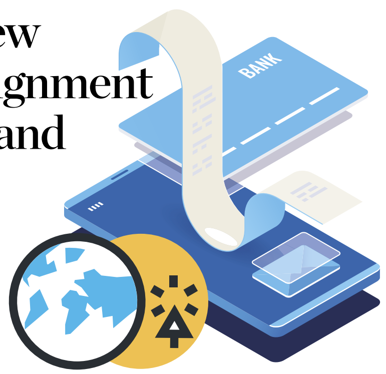
Impact On Banks And Their Responses

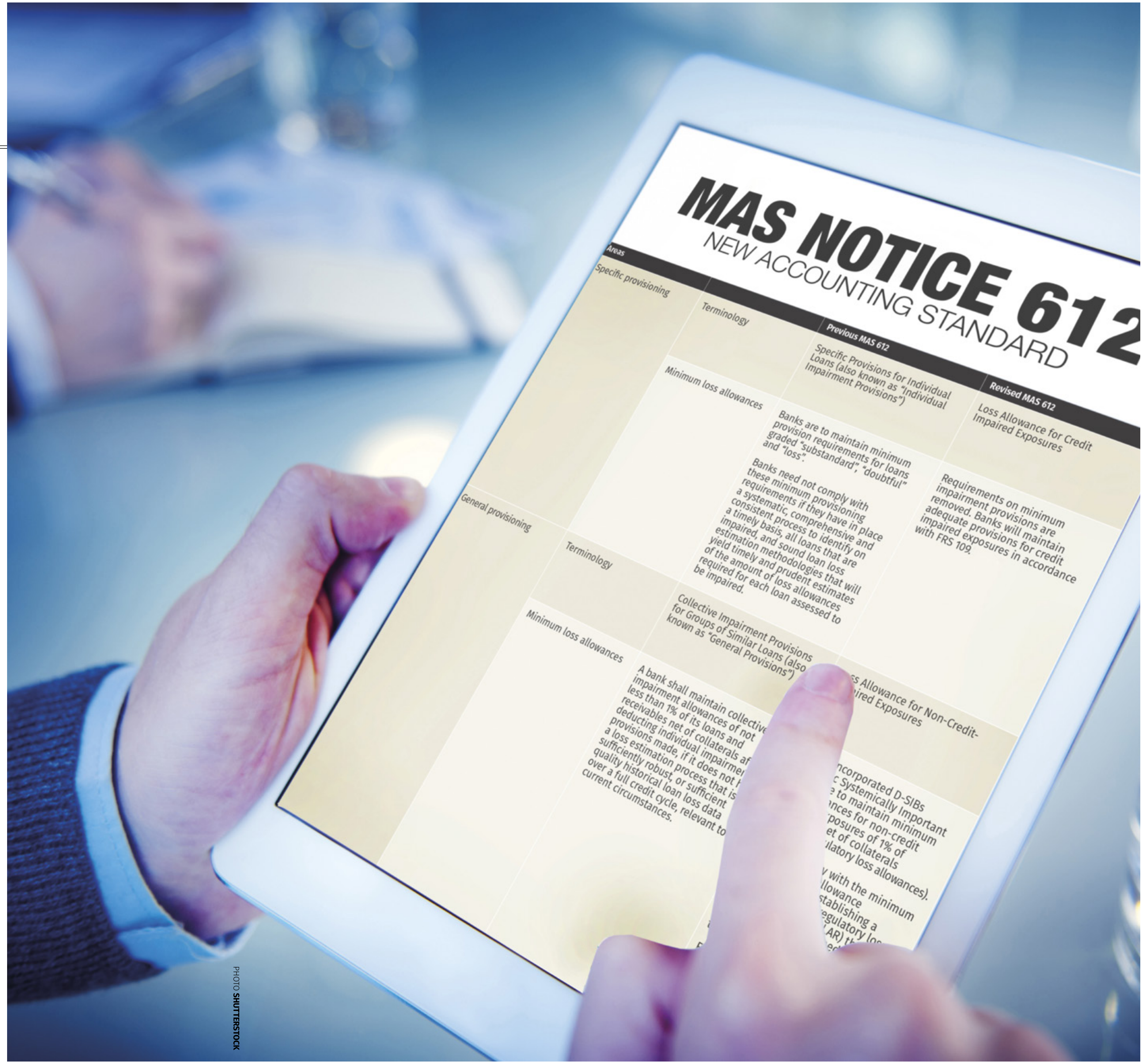
MAS NOTICE 612 (the Notice or MAS 612) applies to all banks in Singapore and sets out regulatory requirements relating to how banks should maintain their credit files, grade their credit facilities and provide for loan losses. A previous version of the Notice dated 11 March 2005 was issued in response to FRS 39: Financial Instruments – Recognition and Measurement (FRS 39) which first became effective for banks in Singapore from 1 January 2005. The Notice provided supervisory guidance on provisioning for loan impairment, to help banks implement FRS 39 for financial reporting purposes.

Since 1 January 2018, FRS 39 has been replaced by FRS 109: Financial Instruments (FRS 109). FRS 109 introduces a new approach for the estimation of allowance for credit losses based on the Expected Credit Loss (ECL) model, which includes more forward-looking information and addresses the issue of delayed recognition of credit losses on loans and other financial instruments under the incurred loss model. Banks in Singapore are now required to apply FRS 109, or SFRS(I) 9[1] for locally-incorporated banks listed on the Singapore Exchange, in the preparation of their financial statements for periods beginning on or after 1 January 2018. As a result, a revised MAS 612 (dated 29 December 2017) was issued to incorporate amendments relating to the changes in the recognition and measurement of allowance of credit losses that are introduced in this new standard.

[1] Locally-incorporated banks listed on the Singapore Exchange may choose to assert dual compliance with SFRS(I) and IFRS from 1 January 2018.

> ... compared to the previous MAS 612 where additional loss allowances are recognised through P&L, the new approach represents a better alignment with the accounting standards, and is in line with the direction of Singapore progressing towards full convergence with IFRS.





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CHANGES/NEW REQUIREMENTS OF MAS NOTICE 612 ISSUED, EFFECTIVE FROM 1 JANUARY 2018

A summary of the key changes under the revised MAS 612 are in Table 1.

Table 1 Changes/New Requirement of MAS Notice 612

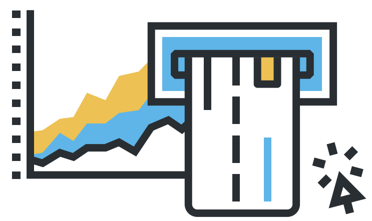
Areas		Previous MAS 612	Revised MAS 612
Specific provisioning	Terminology	Specific Provisions for Individual Loans (also known as "Individual Impairment Provisions")	Loss Allowance for Credit Impaired Exposures
	Minimum loss allowances	Banks are to maintain minimum provision requirements for loans graded "substandard", "doubtful" and "loss". Banks need not comply with these minimum provisioning requirements if they have in place a systematic, comprehensive and consistent process to identify on a timely basis, all loans that are impaired, and sound loan loss estimation methodologies that will yield timely and prudent estimates of the amount of loss allowances required for each loan assessed to be impaired.	Requirements on minimum impairment provisions are removed. Banks will maintain adequate provisions for credit impaired exposures in accordance with FRS 109.
General provisioning	Terminology	Collective Impairment Provisions for Groups of Similar Loans (also known as "General Provisions")	Loss Allowance for Non-Credit-Impaired Exposures
	Minimum loss allowances	A bank shall maintain collective impairment allowances of not less than 1% of its loans and receivables net of collaterals after deducting individual impairment provisions made, if it does not have a loss estimation process that is sufficiently robust, or sufficient quality historical loan loss data over a full credit cycle, relevant to current circumstances.	Locally-incorporated D-SIBs (Domestic Systemically Important Banks) are to maintain minimum loss allowances for non-credit impaired exposures of 1% of exposures, net of collaterals (minimum regulatory loss allowances). Banks to comply with the minimum regulatory loss allowance requirement by establishing a non-distributable regulatory loss allowance reserve (RLAR) through appropriation of retained earnings. Locally-incorporated D-SIBs are given a two-year transitional period to comply with this requirement. Foreign bank branches and merchant banks may choose to maintain loss allowances of 1% of non-credit-impaired exposures, net of collaterals, if it results in higher loss allowances than the expected credit losses estimated under FRS 109.

INTERPLAY BETWEEN MAS NOTICE 612 AND FRS (FRS 39 AND FRS 109)

While both the previous and revised versions of MAS 612 are based on the prevailing accounting standards (that is, FRS 39 and FRS 109 respectively), to a large extent, they prescribe certain rules that modify the requirements of the accounting standards in order to meet MAS' prudential objectives. Examples of these modifications include minimum loss allowances (over and above the amounts determined under the accounting standards) as well as the option for a bank or merchant bank whose head office is incorporated outside Singapore to carry its collective impairment provisions/loss allowance for non-credit-impaired exposures at its head office instead of its local books.

Under the revised MAS 612, however, minimum loss allowances for non-credit impaired exposures is achieved via the RLAR approach, under which the profit and loss (P&L) statements of banks will fully reflect credit loss allowance based on accounting standards. Hence, compared to the previous MAS 612 where additional loss allowances are recognised through P&L, the new approach represents a better alignment with the accounting standards, and is in line with the direction of Singapore progressing towards full convergence with IFRS.

While the prudential requirements of the revised Notice are viewed favourably as being more aligned with accounting requirements and moving Singapore closer to international practice, there remain challenges in the implementation of the new accounting standard itself.



HOW HAVE BANKS RESPONDED TO THE NEW REQUIREMENTS

Compared to the previous MAS 612 regime where banks may adopt the "simplified method" by recognising collective impairment provisions at 1% of the loans and receivables net collaterals and after deducting any individual impairment provisions, there has been a change under the revised MAS 612. Every bank is now expected to comply with the impairment requirements for the recognition, measurement and disclosure of loss allowance in accordance with the accounting standards. This means that all banks have to first calculate the ECL under FRS 109; in the case of foreign bank branches and merchant banks, they may subsequently elect to maintain loss allowances at 1% of non-credit-impaired exposures only if it results in higher loss allowances.

Meanwhile, the industry is in varying degrees of readiness in complying with the ECL requirements of the new standard with some banks facing more challenges than others, particularly foreign bank branches which generally require head office support for the complex modelling requirements.

The calculation of ECL is highly judgemental and relies on modelling and unobservable inputs. Year 2018 is the first year of adoption so there is a lack of track record or comparison to benchmark the calculation to. There is also diversity in practice relating to judgemental areas of the ECL model, such as the methodology used for weighting of economic scenarios and definition of staging thresholds.

In 2018, banks will continue to refine their impairment model, driven by a combination of known modelling challenges, industry developments, recalibrations and back testing.

CONCLUSION

The revised MAS 612 is a response to the new accounting standard governing credit loss provisioning based on the ECL model. While the prudential requirements of the revised Notice are viewed favourably as being more aligned with accounting requirements and moving Singapore closer to international practice, there remain challenges in the implementation of the new accounting standard itself. Therefore, as banks continue to finetune their ECL models in the initial years of implementation, it will take some time for FRS 109 adoption to mature before the impact of the new requirements can be fully understood and assessed meaningfully. ISCA

Lian Wee Cheow is Chairman, ISCA Banking and Finance Committee, and Partner, PricewaterhouseCoopers LLP. Lee Bing Yi is Senior Manager, PricewaterhouseCoopers LLP.


BY FELIX WONG AND ANGELINA TAN

DIG INTO THE INTEL ON IP INCOME

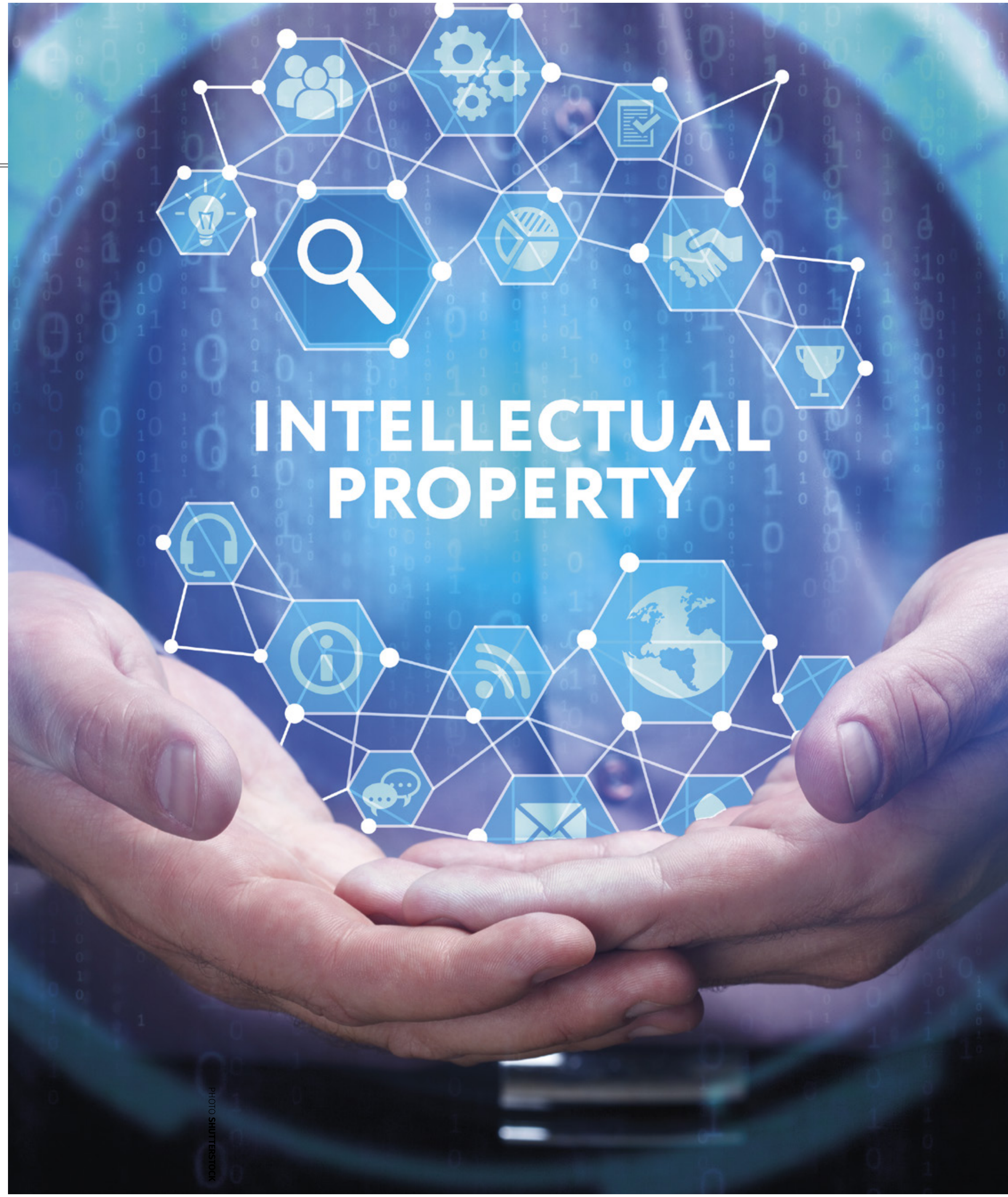
Understanding Tax Considerations Of IP Income And The New IP Development Incentive

INTELLECTUAL PROPERTY (IP) is often one of the most valuable and enduring assets that businesses hold. As with other major assets, businesses need to protect their IPs and consider their tax implications.

While IP planning is not new for multinational enterprises (MNEs), it was not until a few years ago that the topic gained greater attention from the authorities and the global media. Tax authorities were concerned that profitable MNEs were using preferential tax regimes or tax havens to artificially shift their profits, generally from a high tax jurisdiction (where the profits were generated) to a low tax jurisdiction (where the profits were booked), resulting in lower tax collection in the former.

Since then, the Organisation for Economic Co-operation and Development (OECD) has carried out the Base Erosion and Profit Shifting (BEPS) project, which provides recommendations on how profits should be taxed where economic activities generating such profits are performed and where value is created. Meanwhile, tax authorities worldwide have stepped up their

> IP planning is not a thing of the past. In fact, it is now more critical than ever for businesses to ensure that their IP structures are well planned and supportable by genuine commercial substance.



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(From top): Tan Bin Eng, Partner, Business Incentives Advisory; Stephan Lam, Partner, Transfer Pricing, and Johanes Candra, Associate Director, Business Incentives Advisory, Ernst & Young Solutions LLP, shared their insights on the various tax considerations surrounding IP Income and the new IP incentive regime in Singapore scrutiny on businesses' IP structures, and IPs held by companies in tax havens are now immediate red flags to tax authorities. Yet, IP planning is not a thing of the past. In fact, it is now more critical than ever for businesses to ensure that their IP structures are well planned and supportable by genuine commercial substance.

In choosing the ideal IP location, traditional factors such as functions and operations, cost drivers, tax consequences, and qualitative factors (such as the perception of risks) remain important considerations. In addition, businesses should also review their operating models to ensure alignment between the DEMPE (Development, Enhancement, Maintenance, Protection and Exploitation) functions performed and the level of profits attributed. Mere legal ownership and funding of the development of an IP do not entitle a company to the returns derived from the IP.

Against this backdrop, Tan Bin Eng, Partner, Business Incentives Advisory; Stephen Lam, Partner, Transfer Pricing, and Johanes Candra, Associate Director, Business Incentives Advisory, Ernst & Young Solutions LLP, shared their insights on the various tax considerations surrounding IP Income developments on existing incentives and the new IP incentive regime in Singapore, at a recent *Tax Excellence Decoded* (TED) session organised by the Singapore Institute of Accredited Tax Professionals (SIATP).

TRADITIONAL CONSIDERATIONS FOR IP PLANNING IN SINGAPORE

There are numerous tax incentives and schemes available in Singapore relevant to businesses for IP planning purposes. Traditionally, this includes the writing-down allowances, Approved Royalties Incentive, Development and Expansion Incentive under the Headquarters Programme (DEI-HQ), and Pioneer Service Incentive (PC-S).

Writing-down allowance

Writing-down allowance is granted on capital expenditure incurred in acquiring qualifying IP rights under Section 19B of the Income Tax Act (ITA). This is essentially a tax depreciation for the purchase of certain IP assets as defined by the ITA, such as patents and copyrights. Other IP assets, such as customer list and information on work processes, are not covered under the ITA and hence no writing-down allowance may be claimed.

Approved royalties incentive

The Approved Royalties Incentive reduces the withholding tax rate on royalty payments to foreign parties to access advanced technology and know-how.

DEI-HQ and PC-S

The DEI-HQ was introduced with the objective of encouraging businesses to use Singapore as a base for conducting headquarters management activities to oversee, manage and control their regional and global operations and businesses. Businesses would generally require a substantial level of regional or global headquarters activities in Singapore to apply for this incentive. Similar to the DEI-HQ, the PC-S was also introduced to attract MNEs to place a significant level of activities in Singapore, although it is typically reserved for first movers in the relevant industry.

Both the DEI-HQ and PC-S offer tax concessions for supported projects. The DEI-HQ provides a concessionary tax rate of 5% or 10%, while the PC-S provides a tax exemption on qualifying income. Prior to 1 July 2018, IP income can be covered under both the DEI-HQ and PC-S.

NEW IP INCENTIVE IN SINGAPORE

It was announced in Budget 2017 that IP income would be removed from the scope of DEI-HQ and PC-S for new incentive awards approved on or after 1 July 2018. IP income derived from 1 July 2018 could be covered under the new IP Development Incentive (IDI).

IP income carve-out from DEI-HQ and PC-S

Under the legislation, IP is defined as a right conferred by any patent, copyright, trademark, registered design, geographical indication, layout-design of integrated circuit or the grant of protection of a plant variety, while IP income is defined as royalties or other income derived from an IP right if it is receivable as consideration for the commercial exploitation of the right.

To assess whether they are impacted by the IP income carve-out from DEI-HQ and PC-S, businesses need to consider the following:

- Is the company currently enjoying (or applying for) the DEI-HQ or PC-S?
- When was the DEI-HQ or PC-S incentive award (or extension) approved?
- Does the company own any IP (including licensing-in of IP)?
- Does the company derive IP income?
- Is the IP income attributable to new or existing IP assets?

Essentially, for companies whose DEI-HQ or PC-S awards were approved or extended before 1 July 2018, income from existing IP rights will continue to be covered under the scope of the respective incentives until 30 June 2021 or upon expiry of the incentives, whichever is earlier. However, any IP rights that come into ownership of the company on or after 1 July 2018 (or after 16 October 2017 but before 1 July 2018 as a result of an acquisition by the company from a related party where the main purpose or one of the main purposes of the IP acquisition is to avoid income tax in Singapore or elsewhere) will be carved out and IP income derived effective 1 July 2018 and onwards from such IP rights (termed as "new IP assets") will not be covered under the DEI-HQ or PC-S.

For companies with PC-S or DEI awards approved or extended on or after 1 July 2018, IP income derived on or after the first day of the incentive, whether from existing or new IP assets, will be excluded.

> Under the IDI, a concessionary tax rate of 5% or 10% (subject to step-up) will be granted on specified income derived from qualifying IP assets, after applying a modified nexus ratio.

Ascertaining IP income: Existing or new IP

For companies whose DEI-HQ or PC-S awards were approved or extended before 1 July 2018, during the transitional period, businesses would need to ascertain whether their IP income arises from existing IPs or new IPs. Depending on the type of information available, the company may choose the most appropriate of the three methodologies – the direct identification method, the predominance test and the proxy test.

The direct identification method is suitable when the company is able to distinguish the income streams arising from the new IP or existing IP. If the company is unable to do so, a predominance test may be used to determine whether the IP income is predominantly derived from an existing or new IP. Under the predominance test, the entire IP income will be covered under the existing incentive if the IP income is predominantly derived from existing IP. Conversely, the entire IP income will be excluded if the IP income is predominantly derived from new IP.

If neither the direct identification method nor the predominance test is feasible, a proxy test may be used. If the percentage of the new IP rights owned by the company in the basis period is 80% or more (of the total IP rights for that specific IP income stream), all of such income is treated as derived from the new IP. On the other hand, none of such income will be treated as derived from new IP if the percentage of the new IP owned by the company in the basis period is less than 20%. Should the percentage of the new IP owned by the company in the basis period is 20% or more but less than 80%, that same percentage of such income is treated as derived from new IP (and the remainder is treated as derived from existing IP).

IDI

Based on the draft Income Tax (Amendment) Bill 2018 that was released for public consultation, under the IDI, a concessionary tax rate of 5% or 10% (subject to step-up) will be granted on specified income derived from qualifying IP assets, after applying a modified nexus ratio. Based on the OECD's guidelines, a modified nexus ratio is the amount of qualifying R&D expenditure incurred in proportion to overall R&D expenditure.

The scope of qualifying IP is expected to be narrower under the IDI (as compared to the definition previously used in DEI-HQ and PC-S) as this would be aligned with the OECD BEPS Action 5 report. Accordingly, IP income that was previously incentivised under the PC-S or DEI may or may not be covered under the IDI.

Given the recent changes to IP incentives in Singapore, companies (particularly those that are currently enjoying incentives on their IP income or have new IP assets) should evaluate early the potential impact to their organisations. In aligning with international developments, businesses must be mindful that their IP structures are supportable by genuine commercial substance. 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 Tan Bin Eng, Partner, Business Incentives Advisory, Stephen Lam, Partner, Transfer Pricing, and Johanes Candra, Associate Director, Business Incentives Advisory, Ernst & Young Solutions LLP. For more tax insights, please visit www.siatp.org.sg.

BY PEARL TAN

DON'S COLUMN

REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

PART 1

Redefining Focus And Boundaries

IN MARCH 2018, the International Accounting Standards Board (IASB) issued the revised Conceptual Framework for Financial Reporting (CF 2018) after five years of deliberation since the Discussion Paper was first issued. CF 2018 is immediately applicable to the IASB and International Financial Reporting Standards (IFRS) Interpretations Committee.

We need to understand that CF 2018, like the preceding conceptual framework, is not a standard and does not override standards. It guides the IASB in setting new standards and provides principles that assist all parties to understand and interpret standards. The framework also assists preparers in making informed judgements when no standard exists. In this respect, it takes effect for preparers with effect from 1 January 2020.

Although the International Accounting Standards Committee (predecessor of IASB) was formed in 1973, the first conceptual framework was issued only in 1989. The second framework issued in 2010 was a joint project with the Financial Accounting Standards Board of the United States and was largely similar to the 1989 version. The conceptual framework of 2018 has a bit more bite than the 2010 version, with significant changes.

The purpose of this article, presented in two parts, is to highlight changes in the framework and to explain their implications for practice. The changes in the framework must first change accounting standards before they impact practice. However, it is useful to understand the developments in the framework to prepare us for future changes.

... definition of assets and liabilities have been changed to focus on the existence of rights and obligations rather than their outcomes.

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RETURN TO HISTORY: MANAGEMENT'S STEWARDSHIP OF ECONOMIC RESOURCES

Management's stewardship is given a more prominent focus in CF 2018. The stance is that users' expectations about returns would depend not simply on their assessment of future cash flows but also on their assessment of management's stewardship of the entity's economic resources (Figure 1). The focus on management's stewardship reminds reporting entities that the process of managing the resources are as important as the outcomes of the process (that is, future cash flows). CF 2018 introduces a new resource allocation decision – that of making decisions on the exercise of rights to vote on or influence management's actions[1].

Clearly, this is a very lofty reporting goal. To be able to assess management's stewardship in resource allocation, one must virtually be able to take a peek into the internal environment of an entity. Is this even possible or will the efforts for greater transparency result in more "boilerplate reporting"? It is not surprising that some of the more immediate projects on the IASB's plate relate to disclosures. Examples include the "Disclosure Initiative – Principles of Disclosure" and "Management Commentary"[2].

CLARIFICATION: PRUDENCE IS NOT ASYMMETRIC

CF 2018 clarifies that to achieve faithful representation of financial information in conditions of uncertainty, caution must be exercised when making judgements. Caution should be exercised such that there should be neither overstatement nor understatement of assets, liabilities, income or expenses[3]. It is interesting to note that prudence was featured in the original conceptual framework in 1989, removed in 2010 and reinstated in 2018. However, the examples of prudence in the conceptual framework of 1989 were removed in the 2018 version, with emphasis given on the principle instead.

UPDATED DEFINITIONS OF AN ASSET AND A LIABILITY

One of the most significant changes in CF 2018 relates to the definition of an asset and a liability. The previous definitions have endured for almost 30 years. We are familiar with the three conditions of an asset or a liability – the occurrence of a past event that leads to the existence of present control or present obligation and the expectation of future benefits for an asset and future outflow for a liability. The three dimensions of "past", "present" and "future" in an asset and a liability strike an intuitive chord with generations of accountants.

The key difference between CF 2018 and the earlier framework relates to the "future" dimension. The requirement for expected future benefits or expected future outflows in the previous framework implies the ability to measure the probability and the amount of those benefits and outflows. CF 2018 removes the expectation of future benefits or future outflows from the definition statements.

CF 2018 introduces a new concept – "economic resource". Under CF 2018, an entity has an asset if it controls a present economic resource as a result of past events[4]. An economic resource has two important attributes – (a) it is a right, and (b) has the potential to produce economic benefits. However, it is not necessary for the future benefits to be certain or even likely[5]. It is only necessary for the right to exist, and in at least one scenario, be able to produce economic benefits solely for the entity.

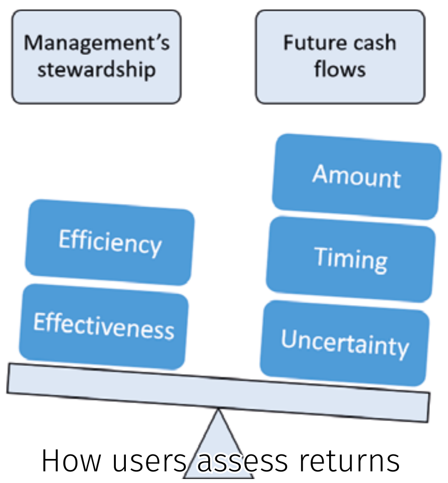
What was the reason for the change? The incorporation of recognition and measurement criteria at an early stage clouds the identification process. For example, an out-of-the-money option has no future benefit to the investor and no future outflow to the writer, but technically, it is an asset to the investor and a liability to the writer. In at least one situation (when the option is "in-the-money"), the right leads to future benefits. With the revised definition of an asset, the focus is on the capability that generates the benefits rather than the benefits themselves. The low probability of the benefits or the difficulty of measuring the benefits is a recognition and measurement issue and should not be evaluated at the point of identifying if an asset exists. We have to answer "what" first before proceeding to the "when", "where" and "how much" questions.

With respect to a liability, CF 2018 states that the reporting entity must have a present obligation to transfer an economic resource as a result of past events[6]. The existence of a present obligation is the first criterion; it typically arises from contracts, legislation or is a constructive obligation, and is such that the entity has no practical ability to avoid a transfer. The second criterion is that there must be a transfer of an economic resource. As with an asset, the transfer only needs to be potential and does not need to be certain or even likely. For example, an acquisition contract may require the seller to refund cash to the buyer in certain pre-specified conditions, resulting in a liability for the seller even if the probability is low. In another example, a company may be a defendant in a legal case that is pending judgement. In this situation, there is uncertainty about the existence of the obligation[7] and is not a liability. Hence, while outcome uncertainty is not relevant to the definition of a liability (asset), there should not be existence uncertainty of the obligation (right).

Hence, CF 2018 takes great effort in separating the definition of an asset and a liability from their recognition and measurement. The IASB also highlights that disclosure of unrecognised assets and liabilities may provide useful information to stakeholders. Users of financial statements are better off with the information in the footnotes about these assets and liabilities than none at all.

The updated definitions have a significant impact in extending our understanding of what an asset and liability is. For example, executory contracts with their contractual rights and obligations (often interdependent) fall within the definition of assets and liabilities. However, whether an asset or liability should be recognised depends on the recognition and measurement criteria of specific standards. The second article in this two-part series will explain how CF 2018 impacts recognition and measurement criteria.

Figure 1 Information needed for resource allocation decisions



PHOTOS SHUTTERSTOCK

With a renewed focus on management stewardship, CF 2018 points the way towards eliciting richer and more complex information that stakeholders need in their resource allocation decisions.

BOUNDARIES OF REPORTING ENTITY

CF 2018 also includes a new chapter on the reporting entity where it explains the differences in three statements – consolidated financial statements, unconsolidated financial statements and combined financial statements. CF 2018 reinforces the stand in IFRS 10: Consolidated Financial Statements that unconsolidated financial statements typically are not sufficient to meet the information needs of the stakeholders of the parent.

CONCLUSION

CF 2018 includes interesting new components. In particular, the definitions of assets and liabilities have been changed to focus on the existence of rights and obligations rather than their outcomes. There is a strong intentionality in the framework to separate definition from recognition and measurement criteria. There is also a strong underlying tone to avert asymmetric prudence or a bias towards conservatism. Disclosures also feature prominently in the new framework as a means to enhance better communication to stakeholders. With a renewed focus on management stewardship, CF 2018 points the way towards eliciting richer and more complex information that stakeholders need in their resource allocation decisions. ISCA

The second article in this two-part series will explain how CF 2018 impacts recognition and measurement criteria.

Pearl Tan is Associate Professor (Education), Singapore Management University. She has co-written two textbooks on IFRS standards as well as cases and opinion pieces on accounting issues.

[1] Conceptual Framework for Financial Reporting – March 2018, International Accounting Standards Board, paragraph 1.2
[2] https://www.ifrs.org/projects/work-plan/
[3] Conceptual Framework for Financial Reporting – March 2018, International Accounting Standards Board, paragraph 2.16
[4] Ibid, Paragraph 4.3
[5] Ibid, Paragraph 4.14
[6] Ibid, Paragraph 4.26
[7] Ibid, Paragraph 4.35

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ED ACCOUNTING POLICY CHANGES (PROPOSED AMENDMENTS TO IAS 8)

ISCA appreciates and supports the Board's intention to lower the impracticability threshold for retrospective application of voluntary change in accounting policy to facilitate greater consistency in the application of IFRS standards.

However, we do not agree with the inclusion of "agenda decisions issued by the IFRS Interpretations Committee" (agenda decisions) in IAS 8 and the introduction of the proposed benefits-costs threshold specifically for voluntary changes in accounting policies that result from agenda decisions. Our reasons are as follows:

- The proposals effectively codifies agenda decisions as authoritative guidance, which is not the intention;
- Gives rise to increased complexity in practice;
- Difficulties in applying the assessment of benefits and costs in practice.

For more information, please visit https://isca.org.sg/media/2240281/comment-letter-accounting-policy-changes.pdf

ASC ISSUES NARROW-SCOPE AMENDMENTS TO PENSION ACCOUNTING IN SFRS(I) 1-19 AND FRS 19

The amendments specify how companies determine pension expenses when changes to a defined benefit pension plan occur, and are effective for annual periods beginning on or after 1 January 2019.

For more information, please visit www.asc.gov.sg/CurrentNews

ASC ISSUES GUIDANCE ON MAKING MATERIALITY JUDGEMENTS

The guidance encourages entities to apply judgement instead of using SFRS(I) or FRS requirements as a checklist, so that financial statements focus on information that is useful to investors. The guidance may be applied to financial statements prepared from 1 August 2018.

For more information, please visit www.asc.gov.sg/CurrentNews

ETHICS

ISCA COMMENTS ON IESBA'S PROFESSIONAL SCEPTICISM CONSULTATION PAPER

ISCA has concerns with the proposal to include "impartial mindset" as a behavioural characteristic expected of professional accountants, as "impartial mindset" may not be universally applicable to the different roles played by professional accountants.

We note that it is unclear what behavioural characteristic is expected of the professional accountant, as required by "impartial mindset". "Impartial mindset" could be interpreted as requiring the professional accountant to execute his professional activities or to exercise his professional judgement on a neutral premise for areas where there could be a range of possible approaches or solutions. This would be a more stringent requirement than the fundamental principle of "objectivity" in the Code.

"Impartial mindset" also sets a higher bar on professional accountants than "professional scepticism" as defined by IAASB. In addition, unlike "professional scepticism", it would be very difficult for a professional accountant to demonstrate that he has applied an impartial mindset.

On the question of whether the fundamental principles of the Code are sufficient to support the behaviours associated with the exercise of appropriate "professional scepticism", we are of the view that the ethical behaviour (as prescribed by the fundamental principles of the Code) is disparate or essentially different from the behaviour associated with "professional scepticism". Attempting to amalgamate the two behaviours would be confusing and may result in unintended consequences.

ISCA supports an overarching statement which captures the ethical behavioural expectations/requirements of all professional accountants on a high and broad level and addresses public expectations of what it means to be a professional accountant. ISCA also recommends that IESBA prioritise the development of a "public interest" framework for the accountancy profession.

For more information, please visit https://isca.org.sg/media/2240416/isca-comment-letter-on-iesba-cp-professional-scepticism-meeting-public-expectations.pdf

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CFO
Chubb Insurance Singapore Limited

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