IS Chartered Accountant Journal

JULY 2019

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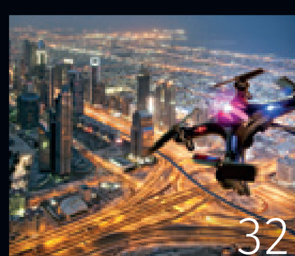
focus

# SERVICES 4.0

Digitalising The Services Sector



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# Seamless, End-To-End, Empathic Services; Powered By Emerging Technologies

Dear members,

**LIKE ALL BUSINESSES**, accountancy is feeling the impact of emerging technologies. Daily, new business models are replacing traditional ones, and new norms are taking the place of existing practices. ISCA is fully cognisant of the changes in the business environment and for some years now, the Institute has been preparing our members for the new economy.

Our initiatives range from seminars and workshops to learning roadmaps, insights, guidances and publications, CPE courses and industry events which focus on the opportunities as well as challenges arising, and how members can manage and also benefit from them to gain a competitive edge. A case in point is the Institute's Financial Forensic and Cybersecurity (FFC) Conference, which takes place on July 18. The theme this year, "Enhancing Resilience In The Digital Era", emphasises the urgent need for organisations to fortify themselves against the challenges posed by new technologies. If you want to keep up with the important developments in digital forensics, data analytics, and cyber and data security, this event is for you. Do register at https://isca.org.sg/ffcc if you have not already done so.

Financial forensics itself is not new to the accountancy profession, but when financial fraud is perpetuated online with the application of technology, the sophistication of cybercrime is elevated, making it all that much harder to detect and combat. New, deeper skills are needed to address the issues and to this end, the Institute has introduced the ISCA Financial Forensic Accounting Qualification (ISCA FFA Qualification), a specialisation pathway that equips professionals with the expertise required for this nascent area of high demand.

Accountancy, an integral part of Singapore's predominantly services economy, is expected to evolve in tandem with the macro services sector in the city-state. Already, the government has identified Services 4.0 as the growth engine for Singapore's digital economy and, in this month's cover story titled "Services 4.0" – the first of a four-part series on Services 4.0 and the accountancy profession – we have an overview of nine key technology trends that will move the digital economy significantly in the next three to five years. The article looks at the evolution of the services sector to what it is today, and what it will become. Services 4.0, accelerated by emerging technologies, is envisioned to comprise services that are end-to-end, frictionless, anticipatory and empathic to customer needs in an unprecedented way.

Active steps have been taken to help the accountancy sector progress towards Services 4.0. The Accountancy Roadmap, which charts the direction for the sector over the next five to 10 years, was unveiled at last year's ISCA Practitioners Conference. The Professional Conversion Programme for Financial Forensic Professionals and a S$2.4-million Digital Transformation for Accountancy Programme to help firms adopt technology are part of this Roadmap.

The cover story also describes an exciting development relevant to accountancy – cloud native architecture, which has been identified as one of the building blocks of Services 4.0. Find out how this system, which is built with small "parts", offers users the agility, flexibility and scalability that legacy systems lack, to deliver enhanced efficiencies.

Emerging technologies are contributing to accountancy in different ways. Drone technology, for example, has experienced breakthroughs in the area of stock counting. In "Ready For Takeoff", the Big Four firms share how they are tapping on artificial intelligence, blockchain, big data, robotics and drone in their audits and inspections. What comes across clearly is that skilled professionals are still needed to interpret the data and relate them to their clients' businesses. Creativity, analytical thinking and emotional intelligence to create value remain the purview of accountants.

My advice is for members to commit to continuous professional development, and keep up with evolving technological changes, to maintain a competitive advantage. This is what ISCA member Alex Phua has been doing since he joined the accountancy profession. Alex, who is Finance Director for Zouk Group, is the featured member in the Member Profile column. His broad know-how has enabled him to manage the organisation's functions spanning Finance, Procurement, IT and HR. Notably, he is the digital transformation lead for the Group, driving the adoption of new technologies to boost business productivity and improve the clubbing experience.

ISCA, as the national accountancy body, has the responsibility to nurture a pipeline of talents. In March this year, we added a new membership category for accountancy students in the tertiary institutions. Recently, a group of our ISCA Youth Associates saw for themselves how technology is used to enhance productivity when they visited Decathlon Singapore Lab. Through a behind-the-scenes tour and staff presentations, they gained a better understanding of the functions of the Finance Team. More activities will be organised for student-members to prepare them for the dynamic business environment.

For readers of the digital Journal, look out for a new quarterly column starting this month, where we highlight the five most popular articles in our recent past issues, tracked using technology. The feedback informs us what our readers find most relevant, which in turn helps us to deliver better membership service. If you have not transited to the digital Journal, maybe this is a good time to do so.

I hope you enjoy this resource-filled issue!

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

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2017 APEX AWARDS FOR PUBLICATION EXCELLENCE

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# The 10 Golden Finance Jobs In Singapore

**SINGAPORE'S FINANCE PROFESSIONALS** are finding themselves in high demand as company expansion within the city-state over the past 12 months is leading to a recruitment drive for commercially savvy finance talents who can give businesses a competitive edge. However, the top positions in demand, as published in the newly released "2019 Robert Half Salary Guide", will prove difficult for local hiring managers to source as Singapore grapples with an ongoing skills shortage. Indeed, more than eight in 10 (83%) of Singapore's Chief Financial Officers (CFOs) currently find it challenging to find qualified finance professionals, with the number rising to 85% who predict it will become even more challenging in the coming five years, says the Guide from the recruitment firm.

"Digitisation, automation and artificial intelligence initiatives are placing additional pressure on financial employers to recruit technologically adept candidates. Combined with new regulations and the skills shortage, finance leaders are struggling to find the talent they need to face commercial challenges in 2019," says Matthieu Imbert-Bouchard, Managing Director of Robert Half Singapore.

Finance candidates in the areas of risk, auditing, financial and client management are "particularly in high demand" as financial institutions and private banks continue to expand their footprint across Asia. Meanwhile, the rise of e-payments is creating "strong demand for accountants and credit controllers who are able to efficiently streamline strategic responsibilities for businesses," he adds.

In the fight for talent, companies need to be proactive in not only enticing new talent to their organisation with a competitive salary but also incentivising their top performing staff to stay. In this respect, training and development is another vital component in the overall remuneration package.

The "2019 Robert Half Salary Guide" identifies the top 10 finance positions in demand in Singapore for 2019, and their respective salaries. The salary ranges are presented in percentiles. These percentiles are determined by a candidate's skill set and experience level, as well as the complexity of their role – the higher the percentile, the more complex the role and the greater skill set and experience level required.

| (1) CREDIT RISK OFFICER Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $80,000 | $100,000 | $115,000 | $130,000 |

| (2) INTERNAL AUDITOR (FINANCIAL SERVICES) Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $80,000 | $100,000 | $115,000 | $130,000 |

| (3) RISK SPECIALIST Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $80,000 | $100,000 | $115,000 | $130,000 |

| (4) FINANCE MANAGER Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $120,000 | $130,000 | $150,000 | $170,000 |

| (5) RELATIONSHIP MANAGER Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $60,000 | $80,000 | $95,000 | $110,000 |

| (6) TAX MANAGER Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $100,000 | $130,000 | $160,000 | $175,000 |

| (7) INTERNAL AUDITOR (COMMERCE AND INDUSTRY) Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $120,000 | $150,000 | $180,000 | $200,000 |

| (8) FINANCIAL ANALYST Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $55,000 | $70,000 | $85,000 | $100,000 |

| (9) CREDIT CONTROLLER Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $120,000 | $135,000 | $150,000 | $170,000 |

| (10) ACCOUNTANT Salary range | | | | |
|---|---|---|---|---|
| Percentiles | 25th | 50th | 75th | 95th |
| | $50,000 | $57,000 | $65,000 | $75,000 |

PHOTO: SHUTTERSTOCK

## Updated, Niche Skills And Relevant Experience

Digitalisation will remain a major focus of many organisations in Singapore in 2019, according to "Salary Survey 2019: Greater China & Southeast Asia" by recruitment firm Robert Walters.

Therefore, talent with strong industry experience and the relevant digital skills will remain highly sought after.

In the financial services sector, companies may struggle to recruit high quality candidates for business and corporate banking roles as banks continue to grow their front offices. The advice is for companies to consider "hiring candidates who may not fulfil all the requirements but demonstrate high potential, as the best candidates look for roles they can grow into," says Rob Bryson, Managing Director, Robert Walters Singapore, in the survey report. Streamlining the recruitment process to six to eight weeks is recommended, as the shorter timeframes ensure that candidates remain engaged and committed throughout.

The rise of e-commerce and fintech startups is putting pressure on financial, insurance and banking firms to improve their digital propositions. Consequently, last year saw continued investments in innovation centres to leverage the latest technologies such as automation, Internet of Things and machine learning, to create enhanced customer experiences.

### Highlights of hiring trends and expectations

Jobs are evolving to become more analytical and data driven, increasing demand for candidates who can marry digital skills with industry expertise to drive business. Accountancy professionals will be sought after but like other professions, upskilling is a necessity. Here are some of the hiring trends, according to the survey report:

- The growth in mergers and acquisitions will drive demand for candidates with strong corporate finance experience both within advisory and inhouse corporate finance functions.
- With the growth in commercial finance for finance/business planning and analysis roles in insurance and asset management organisations, hiring managers will seek candidates who have the ability to act as a partner to the business to drive decision making and business objectives.
- While many transactional finance roles have been offshored, there is a continued demand for highly technical and niche roles such as tax, treasury and technical accounting.
- New regulations across markets means employers will want candidates who have a strong technical understanding and familiarity of rules and regulations set by the global and local authorities.
- Given the global focus on data privacy, online warfare and the growing sophistication of cyberattacks, the demand for cyber security professionals will continue to grow.
- There is greater traction for advisory, assurance, review and testing roles, particularly within the financial crime compliance areas. The General Data Protection Regulation implementation by the European Union and closer to home, the Personal Data Protection Act saw more companies hiring compliance professionals with data protection expertise last year. This trend is expected to continue.
- Professionals with product compliance and tax compliance will also be in demand.

# Singapore Ranks As World's Most Competitive Economy

**FOR THE FIRST TIME SINCE 2010,** Singapore has topped the world's most competitive list, according to the IMD World Competitiveness Rankings (Rankings) while the US loses its first spot. Singapore's rise was driven by its advanced technological infrastructure, the availability of skilled labour, favourable immigration laws, and efficient ways to set up new businesses. Hong Kong held on to second place, helped by a benign tax and business policy environment and access to business finance.

The initial boost to confidence from President Donald Trump's first wave of tax policies appears to have faded in the US, according to the Rankings. While still setting the pace globally for levels of infrastructure and economic performance, the competitiveness of the world's biggest economy was hit by higher fuel prices, weaker high-tech exports and fluctuations in the value of the dollar.

"In a year of high uncertainty in global markets due to rapid changes in the international political landscape as well as trade relations, the quality of institutions seems to be the unifying element for increasing prosperity. A strong institutional framework provides the stability for business to invest and innovate, ensuring a higher quality of life for citizens," says Arturo Bris, IMD Professor and Director of IMD World Competitiveness Center, the research centre which compiles the Rankings. Economists regard competitiveness as vital for the long-term health of a country's economy as it empowers businesses to achieve sustainable growth, generate jobs and ultimately, enhance the welfare of citizens.

The Rankings, established in 1989, incorporate 235 indicators from each of the 63 ranked economies. It takes into account a wide range of quantitative and qualitative data which feeds into four categories – economic performance, infrastructure, government efficiency and business efficiency – to give a final score for each country. The best performing countries tend to score well across all four categories.

Central Business District, Singapore

**IMD World Competitiveness Ranking 2019 vs 2018**
Top 10 global highlights; other regional highlights

| 2019 | Country | 2018 | Change |
|---|---|---|---|
| 1 | Singapore | 3 | +2 |
| 2 | Hong Kong | 2 | - |
| 3 | US | 1 | -2 |
| 4 | Switzerland | 5 | +1 |
| 5 | UAE | 7 | +2 |
| 6 | Netherlands | 4 | -2 |
| 7 | Ireland | 12 | +5 |
| 8 | Denmark | 6 | -2 |
| 9 | Sweden | 9 | - |
| 10 | Qatar | 14 | +4 |
| 14 | China | 13 | -1 |
| 16 | Taiwan | 17 | +1 |
| 18 | Australia | 19 | +1 |
| 21 | New Zealand | 23 | +2 |
| 22 | Malaysia | 22 | - |
| 25 | Thailand | 30 | +5 |
| 30 | Japan | 25 | -5 |
| 32 | Indonesia | 43 | +11 |
| 43 | India | 44 | +1 |
| 46 | Philippines | 50 | +4 |

## Asia Pacific: Beacon of competitiveness

The Asia-Pacific region emerged as a beacon for competitiveness, with 11 out of 14 economies either improving or holding their ground, led by Singapore and Hong Kong at the top of the global chart.

Indonesia leapt 11 places to 32nd, enjoying the region's biggest improvement, thanks to increased efficiency in the government sector as well as improvement in infrastructure and business conditions. The southern Asian country is characterised by the lowest cost for labour across the 63 economies studied.

Thailand, driven by an increase in foreign direct investments and productivity, advanced five places to 25th position in 2019.

Japan fell five places to 30th, hampered by a sluggish economy, government debt and a weakening business environment.

PHOTOS SHUTTERSTOCK

# Singapore Is Preferred Regional Treasury Location

Jewel Changi Airport, Singapore

**ACCORDING TO A RECENT EY REPORT,** "Singapore: A Strategic Regional Treasury Location", with the growing treasury demands and as global economies become increasingly influenced by the "Asian century", multinational corporates (MNCs) are more focused on expanding their global or regional treasury footprint within Asia, typically in locations where they can meet the needs of business operations in a cost-efficient and time-critical manner. Singapore and Hong Kong, as renowned business hubs, are the leading preferred locations.

While the Finance and Treasury Centre (FTC) tax incentive in Singapore had played a key role in attracting treasuries to set up their regional centres in the city-state, the report interviewees – comprising treasurers and strategic stakeholders with regional and global treasuries based in Singapore – said that this was a secondary factor. In any case, a similar incentive introduced by Hong Kong in 2015-2016 had levelled the playing field.

## Primary drivers for location

Being close to the regional business headquarters (HQ) and having access to a well-developed, well-regulated and open financial ecosystem were key in driving the decision on regional treasury locations. Proximity to the regional HQ allows for better engagement with the management, particularly in running the long-term treasury plans and investment requirements more effectively. Treasurers can also better work with the business to balance intercompany lending and borrowings across different markets, achieve shorter response time on critical funding decisions, and manage central and in-country banking relationships more effectively.

"Singapore is home to the largest number of regional HQs in Asia Pacific, followed by Hong Kong," explains Seah Li Yun, Partner, Financial Services, Ernst & Young LLP. Generally, Hong Kong is a preferred regional business HQ location for companies that have a heavy focus on China and North Asia, while "Singapore is preferred by those looking to serve the wider Asia-Pacific region. The regional business HQs are usually established much earlier, and the treasury operations naturally followed them," she adds.

The depth and breadth of the financial ecosystem in the treasury location is also critical as regional treasuries seek to tap on solutions for funding and hedging needs, and advisory for managing investments and cross-border flows. Respondents highlighted that the integration and interaction with the wider finance ecosystem is important and valuable, as it promotes the conduct of more sophisticated treasury activities in hedging, risk management and foreign exchange transactions.

Singapore, which has an abundance of financial and professional services organisations, can provide treasuries ample support in financial advice and consultancy services, says Ms Seah. "The incentives and initiatives to drive fintech adoption in Singapore and Hong Kong have also spurred the establishment of innovation labs by financial institutions. These innovation and digitalisation efforts reshape businesses and treasury functions", and the more sophisticated and robust financial ecosystems allow for the "transformation and optimisation of treasury processes to better serve the evolving needs of treasury centres".

## Secondary drivers for location

Secondary drivers that steer decisions on treasury locations include a strong legal and regulatory system; political stability; an efficient tax system and availability of incentives; a diverse and talented workforce, and the country's liveability.

The primary and secondary factors also helped propel Singapore to the top position in the IMD World Competitiveness Rankings this year. (Also read "Singapore Ranks As World's Most Competitive Economy".)

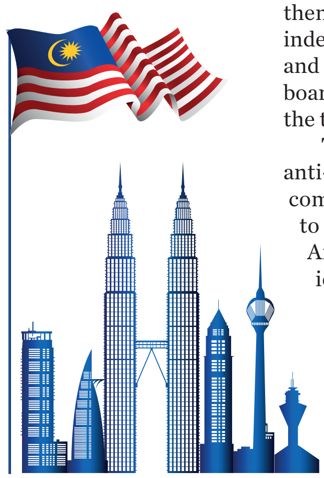
# Malaysia Releases Inaugural Corporate Governance Monitor

**THE SECURITIES COMMISSION MALAYSIA (SC)** has released its inaugural Corporate Governance Monitor (CG Monitor) on May 6. The CG Monitor highlighted positive levels of adoption for a majority of the practices recommended in the Malaysian Code on Corporate Governance (MCCG), with improvement opportunities in the quality of disclosures.

Minister of Finance YB Tuan Lim Guan Eng said, "We have seen progress in the area of gender diversity on boards, with Malaysia recording a seven percentage point increase in women participation on the boards of the top 100 listed companies, from 16.6% in 2016 to 23.68% in 2018. Women also account for 28% of senior management positions for all listed companies – higher than the Asia Pacific average of 23%. I'm encouraged by the fact that since February 2019, there are no more all-male boards for our top 100 listed companies, and this indeed sets the tone for other PLCs to follow. I would like to congratulate the SC on the first edition of this report and we look forward to future editions."


Kuala Lumpur, Malaysia

Apart from the encouraging progress in greater women participation on boards, SC Chairman Datuk Syed Zaid Albar said that among the 36 best practices outlined in the MCCG, 27 had an adoption level of over 70%. "In fact, mid- and small-cap companies are among the trailblazers in the adoption of the CG best practices. Many of them have put in place good CG practices such as disclosing remuneration of senior management, introducing a nine-year tenure limit for independent directors, and having a wholly independent audit committee. This shows that we are moving towards the right direction with greater appreciation of the value of adopting good CG practices, even among the smaller companies."



The release of the CG Monitor was made possible by leveraging advanced analytics in line with the SC's Corporate Governance Priorities (2017-2020). This has enabled the SC to have greater insights into the progress made and challenges faced by listed companies in implementing corporate governance best practices. These observations will inform future policy recommendations and interventions in promoting corporate governance in Malaysia.

The CG Monitor 2019 presents observations on three thematic reviews on long-serving independent directors (policies and practices), gender diversity on boards and CEO remuneration of the top 100 listed companies.

This year, the SC will review the anti-corruption measures of listed companies as part of its effort to implement the National Anti-Corruption Plan, which identified corporate governance as one of the six priority areas. Findings of the review will be released in the 2020 edition of the CG Monitor.

The Corporate Governance Monitor is available at the SC website.

PHOTO SHUTTERSTOCK

### Code Of Corporate Governance: Singapore

For Singapore, the Code of Corporate Governance (the Code) came under the purview of the Monetary Authority of Singapore (MAS) and Singapore Exchange (SGX) with effect from 1 September 2007. The Code was first issued by the Corporate Governance Committee on 21 March 2001. Listed companies are required under the SGX Listing Rules to disclose their corporate governance practices and give explanations for deviations from the Code in their annual reports. The Code was subsequently revised on 14 July 2005 and again on 2 May 2012.

On 28 February 2017, the Corporate Governance Council (Council) was established to conduct a comprehensive review of the Code. On 6 August 2018, the Council submitted its recommendations to MAS. MAS accepted all the recommendations and issued a revised Code (2018 Code) and accompanying Practice Guidance.

The 2018 Code supersedes and replaces the Code that was issued in May 2012. The 2018 Code applies to annual reports covering financial years commencing from 1 January 2019.

Source: MAS website



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# Exchanging Knowledge and Experience In Yangon, Myanmar

**ON MAY 13 AND 14,** ISCA delivered a two-day seminar on the Institute's "Audit Manual for Group Entities" (AMGE) to 81 Burmese accountancy professionals in Yangon, Myanmar. This came after a successful first run of the ISCA "Audit Manual for Standalone Entities" training in December last year.

The AMGE is an illustrative guidance developed by the Institute to help auditors understand and apply Singapore Standard on Auditing 600 [equivalent of International Standard on Auditing (ISA) 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*] in group audits.

The training was facilitated by ISCA members Magdalene Ang, Director, R Chan & Associates PAC, and Eric Tan, Founder, SPT Advisory. Through the use of examples and actual scenarios shared by the trainers, participants learned about the key considerations involved in group audits and how they can effectively use AMGE to address some of the challenges, including identifying key components and significant risks, determining group and component materiality and communication between group auditor and component auditor. The Burmese participants were impressed with the quality of the trainers and found the real-life case studies particularly useful in enhancing their understanding.


The Burmese participants with trainers Magdalene Ang, Director, R Chan & Associates PAC (front row, 7th from left), and Eric Tan, Founder, SPT Advisory (front row, 8th from left)

Mr Tan sharing how auditors can effectively use AMGE to understand and apply ISA 600 in group audits

More than 80 Burmese accountancy professionals attended the training session

Ms Ang interacting with the Burmese participants to understand some of the challenges they face for group audits

This second training arose from a Memorandum of Understanding (MOU) signed by ISCA and Myanmar Institute of Certified Public Accountants (MICPA) in November 2017, to develop and enhance the capabilities of the Burmese accountancy sector through the exchange of expertise, experiences and best practices between Myanmar and Singapore.

ISCA is privileged to share in the excitement of contributing to the development of the accountancy profession in ASEAN.

We encourage and welcome members to volunteer their professional expertise for future training programmes in ASEAN countries. Interested members may contact ISCA at isca@isca.org.sg.

## Membership Suspension and Removal – Bankruptcy

**UPON FINDING THAT MR HONG KEAH HUAT**, Fellow Chartered Accountant of Singapore, was adjudged a bankrupt on 17 April 2019 and is still an undischarged bankrupt, his name has been removed from the register in accordance with Rule 46.4 of the Institute (Membership and Fees) Rules. Accordingly, he ceased to be a member of the Institute with effect from 9 May 2019.

# A Boost To Tax Excellence Amid A Storm Of New Developments

**SINGAPORE'S TAX LANDSCAPE HAS BEEN STIRRING,** and the implementation of GST charges on imported services from 1 January 2020 via the Reverse Charge (RC) and Overseas Vendor Registration (OVR) mechanisms, along with the signing of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) have upped the dynamics of the tax landscape.

To facilitate the profession in heightening their appreciation of these developments and boost tax excellence, Singapore Institute of Accredited Tax Professionals (SIATP) organised a *Tax Excellence Decoded* (TED) session to illustrate the tax risks involved following the release of e-Tax guides for RC and OVR. Led by Accredited Tax Advisor (GST) Richard Mackender, Indirect Tax & Business Process Solutions Lead, Deloitte, participants received an overview of the key concepts and mechanisms involved in RC and OVR.

Not forgetting the Multilateral Instrument that entered into force on April 1, accredited tax professionals were able to beat the haze on MLI and hear directly from the Policy Branch officers in a session jointly organised with the Inland Revenue Authority of Singapore (IRAS).

Going beyond the regular TED sessions, SIATP also kickstarted the journey towards tax excellence with the tax majors from the Singapore Institute of Technology undergraduate accountancy programme. Featuring Accredited Tax Advisor (Income Tax) Sam Sim, Board member, Tax Executives Institute Asia, the session enthralled students with the highs and lows of a career in transfer pricing (TP) and digital tax with the world as the playing field.


Accredited Tax Advisor (GST) Richard Mackender shedding light on the key considerations of Reverse Charge and Overseas Vendor Registration


A participant from the session "See the Unseen in Intercompany Loans" seeking clarification from Transfer Pricing Solutions Asia Director Adriana Calderon

IRAS Senior Tax Specialist Teng Bee Suan discussing the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting

Still on the hot topic of TP, SIATP rounded the month off with a session on intercompany loans to help tax professionals appreciate the finer points of this aspect of related party transactions. The case of Chevron Australia and the finer points of TP analysis, among other pertinent areas, peppered the session helmed by Adriana Calderon, Director, Transfer Pricing Solutions Asia.

Major changes are always daunting. SIATP continues to support accredited tax professionals as the profession charges ahead in tax excellence amid the winds of change. If you, too, wish to keep abreast of new tax developments and attain tax excellence, email enquiry@siatp.org.sg.

# ISCA Youth Associates Get A Behind-The-Scenes Tour Of Decathlon Singapore Lab

**ISCA YOUTH ASSOCIATES GOT AN "INSIDER" LOOK AT DECATHLON SINGAPORE LAB,** the sports retailer's newest and largest store which spans over 5,000 square metres.

Company visits such as the one hosted by Decathlon would allow ISCA Youth Associates to gain valuable insights into the company, the nature of the business, the industry as a whole as well as the Finance Team functions in the organisation. This is part of the Student Membership benefits that accountancy undergraduates enjoy when they join the Institute as ISCA Youth Associates. The membership will prepare them early for the dynamic business environment after graduation while they are still in school.

Decathlon is the world's largest sporting goods retailer, with six outlets in Singapore. Managing Director Nils Swolkien and Chief Financial Officer Tang Poh Lu, an ISCA member, were among the many Decathlonians who spoke to the ISCA student members at their Decathlon Singapore "Lab". Besides sharing about the company's structure and future plans, they also shared their interesting career journeys.

As the name suggests, the "Lab" is where the company tests and refines its new systems before implementation across its other outlets. For example, to improve in-store efficiency, it is currently testing a robotic solution developed by an employee, where a robot can complete a full-store inventory check in six hours.

To fulfil its promise of a two-hour delivery time for online orders, the outlet employs an in-store conveyor belt system that transports products from the retail floor to the packing station, effectively reducing lead time, and raising overall accuracy and efficiency. These digital transformations showcase Decathlon's commitment to adopt technologies to enhance business productivity.

The global business environment is evolving every day and becoming more dynamic and disruptive than ever before. In his sharing, Mr Tang said that the Finance Team needs to initiate value creation through process optimisation, proactive analytics and invest in technology innovation to help businesses stay ahead of the game.

To provide a customer-centric shopping experience, four of the Decathlon stores host a variety of "experience zones". An example includes a walking trail that features four different terrains, allowing customers to try out related products such as shoes and trekking poles before purchase.

Decathlon's E-commerce Leader Lee Wantian (centre) explaining the conveyor belt system to the visiting ISCA Youth Associates

A participant's hands-on attempt to pack an actual online order for delivery

A fun and fulfilling outing for participating ISCA Youth Associates


The store's B2B Manager Maddie Low (speaking), and HR and Training & Development Leader Annatasia Juhari (left), introducing one of the many "experience zones" to the visitors

The ISCA Student Membership, launched in March this year, is open to all local accountancy undergraduates. It aims to prepare students early for the dynamic business environment while they are still in school. Through the programme, ISCA Youth Associates will enjoy a range of benefits through their affiliation to the national accountancy body, and be better prepared for their career through ISCA's array of talks, workshops as well as networking opportunities and company visits. To join as an ISCA Youth Associate, please visit https://eservices.isca.org.sg/youth_app.

# MARK YOUR CALENDAR

## 21-CPE Hour Training Package 2019

**EXCLUSIVELY FOR ISCA MEMBERS**

As part of the Institute's aspiration to encourage ISCA members to embrace professional development and plan their CPE training needs early, this 21-CPE Hour training package gives you everything you need to get started.

21-CPE hour training package at $838 nett, exclusively for ISCA members to enjoy a subsidized rate of up to 30%. More than 150 courses for you to choose from!

Register early to secure your seats! Seats are available on a first-come-first-served basis.

### 05 JUL — Introduction to Cybersecurity & Data Privacy NEW!

This programme provides Financial Professionals with a good overview and understanding of how cybersecurity, especially data privacy, affects organisations and prevailing laws for their compliance.

### 17 JUL — ISCA PAIB Conference 2019: Opportunities Amidst Transformations

Join us to be part of the largest accounting and finance conference attended by finance professionals in Singapore to take home the key trends you need to know in one day!

Curated specially for the accountants in business, the PAIB Conference will discuss the opportunities amidst transformations from a global perspective, the implementation challenges of new accounting standards, and hot button issues affecting finance professionals in Singapore, as well as out of the region!

### 10 JUL — ISCA Mingles – More than just a trade war: What the US-China stoush means for ASEAN's economic outlook

Even if a trade deal can be reached, wider tensions between the two largest economies in the world are set to remain. This is "America First" versus the "China Dream". For the region, which has benefited from globalisation, frictions in the global trading system poses a challenge for growth. But there will also be opportunities that will emerge, as economies adjust to adapt to the new environment.

### 19 JUL — M&A journey and the BEPS Era

The laws of one country can differ from that of another country. Now with the BEPS era, it is important to see how M&A decisions may be affected.

This course will give the participants an understanding of the framework of M&A, the process and stages of M&A and practical insights on the legal and tax impact in the BEPS era.

### 18 JUL — ISCA Financial Forensic and Cybersecurity Conference 2019 - Enhancing Resilience in the Digital Era

Forensic accountants in the private sector and investigators in law enforcement agencies are facing increasingly sophisticated white-collar crimes that require greater application of forensic technology and data analytics techniques. As the gatekeeper of financial crimes, accounting professionals need to expand their capabilities to stay ahead in this digital age. Featuring speakers and panellists from accounting firms, financial institutions and the public sector, such as IRAS, CID, CPIB, CSA and MAS, the Conference will explore how accounting professionals could partner with relevant stakeholders to detect and prevent financial crimes and enhance cybersecurity in their organisations.

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

isca breakfast talk

# Financial Reporting Fraud In China


KPMG Forensic China national leader Mark Bowra giving the participants an overview of financial reporting fraud in China

KPMG Forensic China partner Kevin Jin sharing real-life case studies of fraud in China

**FRAUD – THE TABOO WORD IN THE FINANCIAL SPACE IS MORE PREVALENT THAN WE WOULD LIKE TO ADMIT.** At the ISCA Breakfast Talk titled "Financial Reporting Fraud In China" on June 12, Mark Bowra, national leader of KPMG Forensic China, and Kevin Jin, partner of KPMG Forensic China, shared the growing trend of the pervasive and sophisticated financial reporting fraud in China.

Using the fraud triangle (Figure 1), Mr Bowra explained China's rising risk of fraud as follows:

1) **Pressure** Even with the slowing economic growth, companies are still expected to achieve higher financial growth;
2) **Opportunity** Due to China's penchant for using instant messaging tools to conduct business activities, a lack of proper internal controls with unverifiable correspondences and transactions increases the risk of undetected fraud;
3) **Rationalisation** Self-belief that what was done is acceptable under the circumstances.

Using examples of common schemes in China, Mr Bowra described the rampant petty fraud occurrences in China. Through his candid sharing, participants gained a better understanding of the culture and risk appetite in China.

Mr Bowra emphasised the importance for companies to detect red flags of financial reporting fraud at an early stage. He explained that despite the rapidly changing forms of fraudulent behaviour and misconduct in financial reporting, the majority of cases still share classic early warning signs like unusual sales trends, irregular stock levels of distributors or even uncharacteristic acquisitions/divestitures.

Concluding the session, Mr Jin went on to share interesting real-life cases of financial reporting fraud in China, from both the manufacturing and retail sectors. He pointed out that fraud in China can be kept under wraps by pre-planned annual stock takes and falsified internal documents.

Figure 1 China trends causing the rising risk of financial fraud

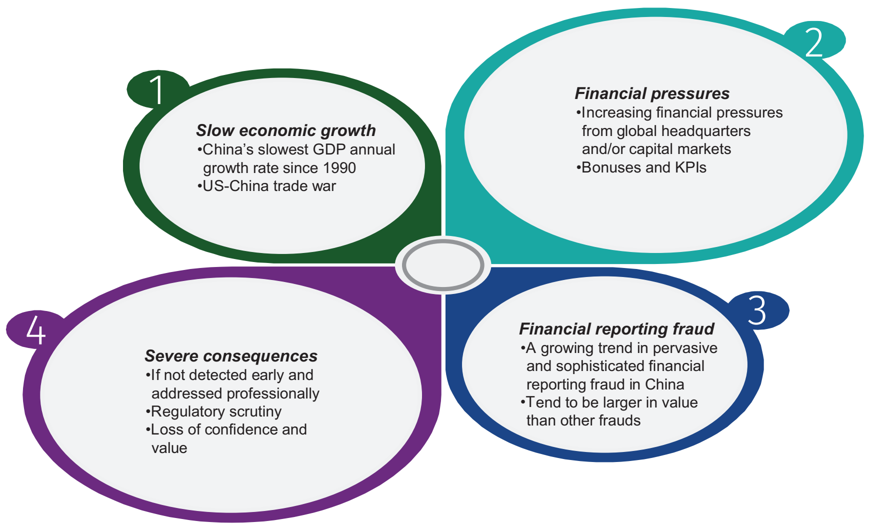
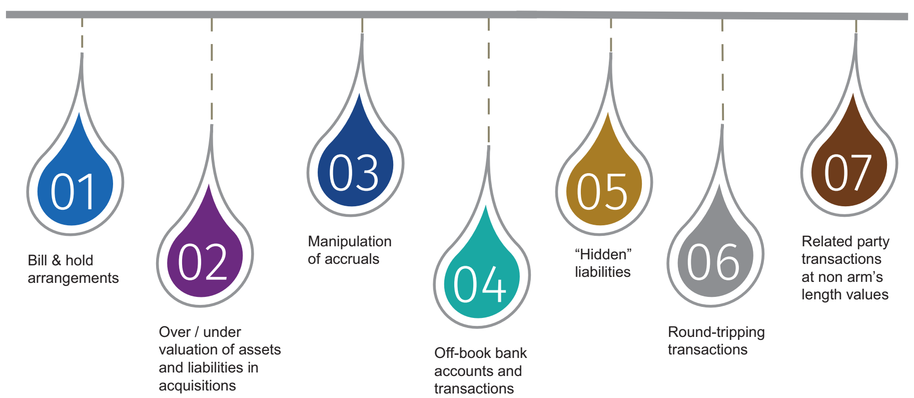



Figure 2 Rising risk of financial fraud: Common schemes in China



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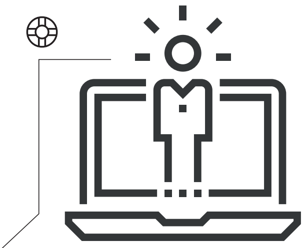


# SERVICES 4.0

## PART 1

## Digitalising The Services Sector

**AGAINST A BACKDROP OF GEOPOLITICAL TENSIONS** and economic uncertainties beyond Singapore's shores, it is ever more pressing for the city-state, as a knowledge-intensive economy, to brace itself for the notable changes in the shifting business landscape. Simultaneously, the emergence of "new" and "disruptive" technologies over the last few years and their resultant impact on every aspect of work, life and play cannot be ignored. Domestically, Singapore is at the crossroads of its economic transformation. The services sector has been increasingly contributing the lion's share of nominal gross domestic product (now at 70%) and accounts for around 74% of total employment, according to the latest figures from the Department of Statistics and Ministry of Manpower, respectively.

These figures, which are up from the 66% and 69% respectively in 1996[1], indicate the growing importance of services to the Singapore economy as well as in the lives of Singaporeans. Given the prominence and ubiquity of technological changes, the services sector will be impacted in one way or another. Hence, the accountancy sector, which is a part of the services sector, should think more deeply about its future. This includes how it can harness the new technologies and take advantage of the opportunities arising to create more value for stakeholders, and also to enhance the skill sets of individuals.

This is the first article of a four-part series by the Info-communications Media Development Authority (IMDA), Institute of Singapore Chartered Accountants (ISCA) and Singapore Accountancy Commission (SAC) for the accountancy profession in Singapore, on Services 4.0 and the future of accountancy. Here, we focus on the overarching concept of Services 4.0 and use one of its building blocks, cloud native architecture, to illustrate how it can facilitate and enhance the promulgation of Services 4.0.

**While Services 4.0 will transform the services economy, its impact will be felt at every level from the economy to businesses, and ultimately, the workforce.**

[1] "The Future Of Services: Services And Digital Economy Technology Roadmap", SG:D IMDA, in partnership with Monitor Deloitte

PHOTO SHUTTERSTOCK


PHOTO SHUTTERSTOCK

## INDUSTRIES GO DIGITAL

At the national level, Singapore's digital journey was accelerated when in May 2018, the Digital Economy Framework for Action was launched to steer Singapore towards becoming a leading digital economy. This Framework complements the work undertaken for the 23 Industry Transformation Maps (ITMs) and Industry Digital Plans (IDPs), which are designed to enable industry-wide transformation. The Professional Services ITM, to which accountancy belongs, was launched in January 2018. In November 2018, the Services and Digital Economy Technology Roadmap (SDE Technology Roadmap) was unveiled with the objective to help Singapore capture opportunities created by emerging technological trends, and this article draws on the most salient points.

The purpose of the SDE Technology Roadmap is three fold[2]:

1) **Identify key trends that will impact the digital economy**, to help Singapore stakeholders formulate appropriate responses;
2) **Refresh the existing Technology and Research & Development roadmaps**, to guide Singapore's technology development, and
3) **Recommend the support needed for the digital transformation of industry sectors**.

Services 4.0 has been identified by the government as the growth engine for Singapore's digital economy. While Services 4.0 will transform the services economy, its impact will be felt at every level from the economy to businesses, and ultimately, the workforce. As announced by IMDA[3], the SDE Technology Roadmap continues the emphasis on harnessing technologies so that the profession can focus on higher value areas that demand creativity, analytical thinking and emotional intelligence. With this added impetus and the ongoing ITM and other initiatives, over time, Singapore can expect an enhancement in the skill sets of its workforce and a strengthening of its services economy. To better appreciate the expected transformation, it will be necessary to understand the drivers in technology.

[2] "Services 4.0: The Future Of Services In A Digital Economy", IMDA online
[3] "Services 4.0: New Digital Capabilities To Prepare Businesses For The Future Of Services", IMDA online

**The next phase (Services 4.0) will be one of seamless services that are end-to-end, frictionless, empathic, and can anticipate customers' needs in an unprecedented way using emerging technologies.**

## NINE KEY TECHNOLOGY TRENDS

The SDE Technology Roadmap has identified nine key trends (Figure 1) that will move the digital economy significantly over the next three to five years.[4] Not all these trends are totally new, nor are they exhaustive, but there are some solutions that tap on the latest technologies which were not available before.

### 1) Pervasive adoption of artificial intelligence

In the next three to five years, we can expect an exponential increase in commercial artificial intelligence (AI)-based application across three major categories:

- Product applications that embed AI in products and services to provide end-customer benefits;
- Process applications that incorporate AI into an organisation's workflow to automate processes or improve them by augmenting worker effectiveness;
- Insight applications that harness advanced capabilities such as machine learning to uncover insights that inform operational and strategic decisions across an organisation.

### 2) More empathic, cognitive and affective AI

Machine intelligence represents the next chapter in advanced analytics. Its algorithmic capabilities augment employee performance, automate increasingly complex workloads, and develop "cognitive agents" that can simulate human thinking and engagement. Already, higher level AI is deployed in several sectors. For example, in financial services, cognitive sales agents can initiate contact with promising leads, qualify them against set criteria and do the necessary follow-up.

Figure 1 SDE Technology Roadmap: Nine key trends

Source: SG:D IMDA


### 3) More man-machine collaborations

With technological advancements such as AI and sensor technology, robots have become more human-like with the ability to respond to ambient cues and movements, analyse moods and sentiments, and even identify lies. Such progress will drive the adoption of robots, such as humanoid robots and cobots, as well as human-machine collaboration, across industries.

[4] "The Future Of Services: Services And Digital Economy Technology Roadmap", SG:D IMDA, in partnership with Monitor Deloitte

### 4) More natural technological interfaces

Mixed reality elevates the potential of augmented reality, virtual reality and the Internet of Things by combining the best of digital and physical realities, and adds intelligence to digital content. It takes into account physics, gravity, dimensions and personality, blurring what is real and what is imagined. Market leaders are heralding a new era of engagement by integrating experiences with connectivity, cognition and analytics.

### 5) Greater use of codeless development tools

Previously, coding knowledge is a requirement for web development efforts. However, with technological tools such as Squarespace and Wix, anybody can build websites. The democratisation of technology has given the man in the street the power to accomplish tasks as if they were technology experts, making applications and services creation a breeze.

### 6) More seamless services enabled by XaaS

At the core, every service delivery model aims to satisfy different customer needs and deliver a seamless experience across the customer journey. Technologies today are realising such goals by harnessing the convergence of emerging technologies, most notably digital platforms and anything "as-a-service" (XaaS) architectures.

### 7) Cloud deployment matures with hybrid and multi-cloud

Hybrid and multi-cloud, the future of cloud computing, combine multiple public and private cloud capabilities to create a flexible ecosystem. Cloud computing benefits business in many ways. They can plan for seasonal upswings, support sustained growth, collaborate with partners, launch new business models, support business continuity plans, and make acquisitions and divestiture activities seamless.

### 8) Blockchain decentralises trust

Trust is the foundation of all business dealings. Maintaining it in a digitalised global economy, however, can be expensive, time-consuming and inefficient. Blockchain offers a solution by assuming the role of a trusted gatekeeper and the purveyor of transparency in a "trust economy" where a company's assets or an individual's online identity and reputation are equally valuable and vulnerable. In this respect, blockchain's value lies in its traceability and immutability.

### 9) API economy takes off

Application programming interface (API) has made it possible for solutions and systems to communicate with one another. More recently, companies are repurposing this technology for reuse across and beyond themselves to drive higher return on IT investments, and ignite creative new ways for businesses to use existing data, transactions and products.

**In the area of enterprise IT development, cloud native architecture is, put simply, more than being cloud-ready. Significantly, it has been identified as one of the building blocks of Services 4.0.**

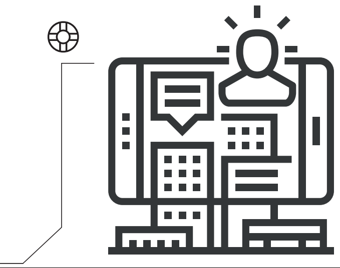
## JANIO: A CLOUD NATIVE ARCHITECTURE SUCCESS STORY

Janio was formed in Singapore in early 2018 when a group of young logisticians spotted a gap in the Southeast Asian ecosystem for simple, seamless logistics solutions. It set out to build Asia's leading logistics network by providing an integrated cross-border delivery solution for merchants across the globe. At its core, Janio operates as a technology platform serving some of the biggest e-commerce marketplaces, business owners and logistics partners alike, connecting these key players across Southeast Asia's e-commerce ecosystem.

Janio's goal was to create an integrated network that would shrink Asia's supply chain onto a single platform, and become the backbone that would support the region's growing e-commerce environment.

Janio built its business on cloud services. This approach has given it speed and flexibility in its operations. In particular, there were three benefits. The first benefit was the ease of use that was enabled by the cloud-based web service that greatly simplified the set-up and reduced the set-up time. The second was rapid development that was brought about by the cloud development tool that enabled auto-deployment without disrupting operation. The last, but certainly not the least, was the ability to scale that was enabled by cloud resources that could be sized easily according to order and query loads. Cloud services from Google, AWS, Heroku and Semaphore – just to name a few – supported important functions in Janio's operation pipeline and gave Janio its business cutting edge. As Nathaniel Yim, Chief Marketing Officer of Janio, puts it, "Cloud services allowed Janio to launch in just three months, scaling from just 10 to thousands of orders per day!"

Source: IMDA



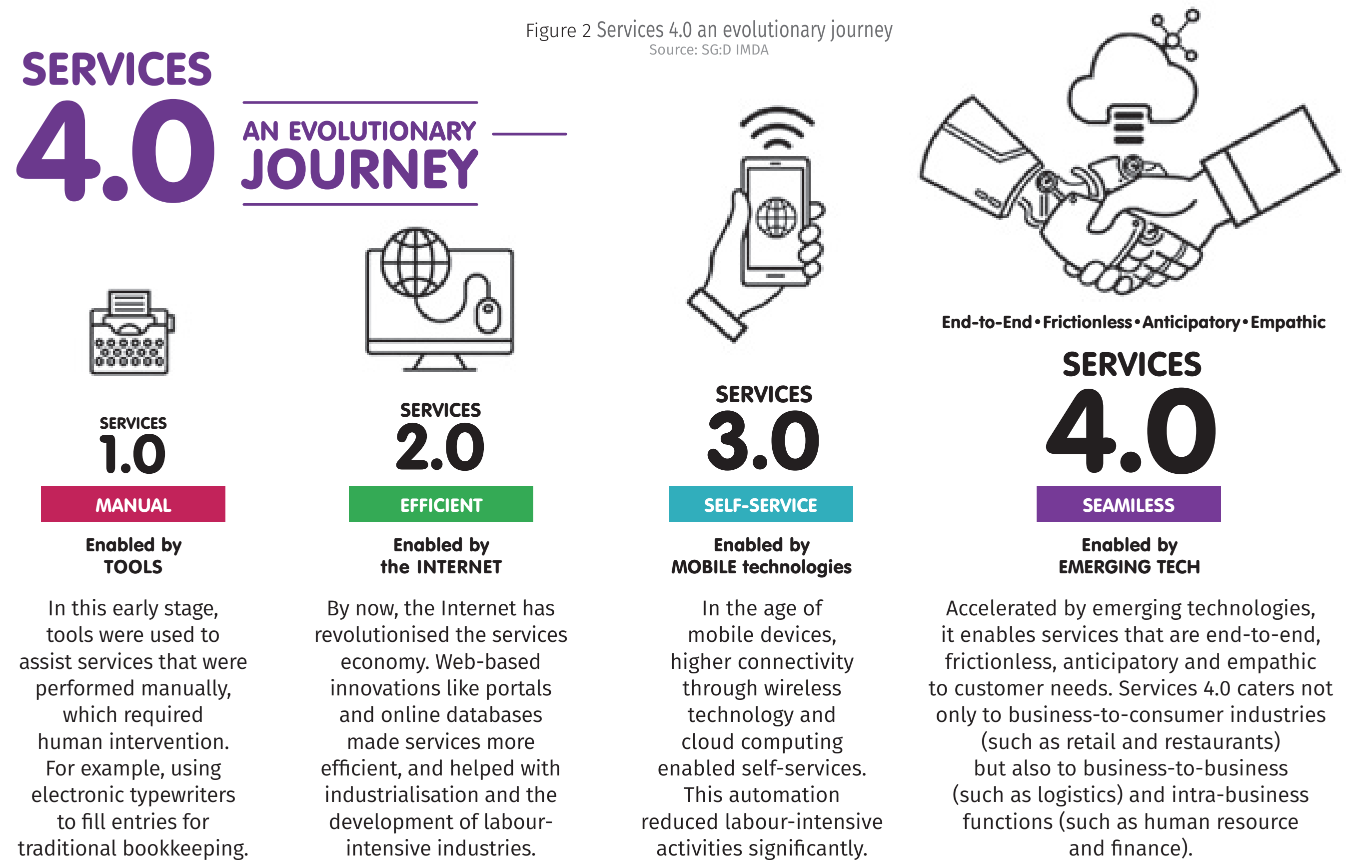



Figure 2 Services 4.0 an evolutionary journey
Source: SG:D IMDA

## SERVICES 4.0 AND THE ACCOUNTANCY SECTOR

Just like how the manufacturing industry has experienced three complete revolutions in the past centuries, the services industry, too, is experiencing rapid changes. Services 4.0 is the vision that charts Singapore's response to capitalise on opportunities available in the various sectors (Figure 2).

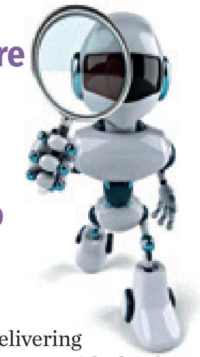
The services economy has evolved from the era of manual services (Services 1.0) to the era of efficient, Internet-enabled services (Services 2.0), and subsequently to self-services enabled by mobile, wireless and cloud technologies (Services 3.0). The next phase will be one of seamless services that are end-to-end, frictionless, empathic, and can anticipate customers' needs in an unprecedented way using emerging technologies (Services 4.0).

Active steps have been taken to help the accountancy sector progress eventually towards Services 4.0. In June last year, the Accountancy Roadmap and new initiatives to develop the sector to be future-ready was launched at the ISCA Practitioners Conference 2018. This included a new S$2.4-million Digital Transformation for Accountancy Programme to help firms adopt technology, and the Professional Conversion Programme for financial forensic professionals. The Accountancy Roadmap charts the direction for the sector over the next five to 10 years, to develop Singapore into a leading global accountancy hub.

Advancing into the era of Services 4.0, businesses will need to meet evolving customer needs quickly, as well as innovate and create new value in order to differentiate themselves from competitors beyond price. Modern technologies will make it possible for businesses to automate repetitive tasks and achieve higher productivity. However, as customers still demand human interactions, businesses should unlock maximum growth by offering human-centric services enabled by those technologies. Skilled professionals and automation tools will ultimately lead to the creation of new and enhanced jobs for the workforce.

The accountancy sector is no exception, being an important part of the professional services industry. Accountants are rendering their professional services to their employers or clients, as the case may be. The advent of Services 4.0 will undoubtedly be relevant to accountants who are witnessing the growing impact that technology is having on the work they do. Already, robotic process automation is used to perform high volume, repetitive and rules-based work such as accounts payable processing, basic report generation, and bank and intercompany reconciliations. Automating these tasks have freed up more manpower to focus on higher value work. As more solutions powered by emerging technologies are made available, accountants can look forward to more exciting, relevant developments. One such technological advancement is cloud native architecture.

**... the accountancy sector needs to think more deeply about its future. This includes how it can harness the new technologies and take advantage of the opportunities arising to create more value for stakeholders, and also to enhance the skill sets of individuals.**



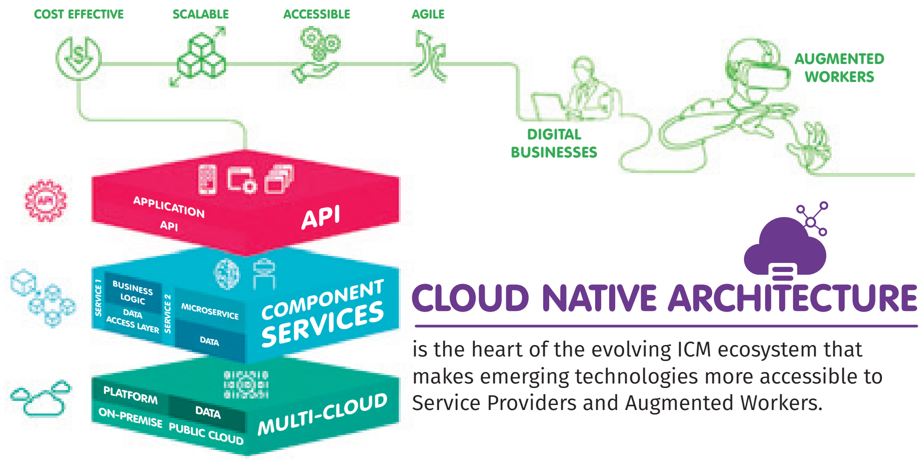
## A NEW DEVELOPMENT: CLOUD NATIVE ARCHITECTURE

Cloud technology offers many advantages, but it is a mature and established technology with limitations. In the area of enterprise information technology (IT) development, cloud native architecture is, put simply, more than being cloud-ready. Significantly, it has been identified as one of the building blocks of Services 4.0.

Cloud native architecture is a reference architecture or system that embraces multiple technology stacks, such as the Singapore Government Technology Stack, where applications are built using component services (Figure 3). As the architecture is made up of different "parts", improvements in one part of the code will not require code changes in other parts, unlike in monolithic applications; this makes it easier for IT departments or vendors to update their software quickly, when required. Being API-enabled, updated solutions will automatically communicate with each other, which boosts efficiency and minimises errors arising from manual updates.

Services 4.0 involves delivering seamless services to consumers. With cloud native architecture, industry players can benefit from agility, flexibility and scalability to respond to fast-changing customer, worker and market demands. The resultant shorter time to market, potential for innovation, and cost efficiencies will make a difference to the bottom line.

Figure 3 Cloud native architecture
Source: SG:D IMDA




## CONCLUSION

There is a pressing need for businesses of every kind and not just in the accountancy sector to adapt to a new technology ecosystem, one that will help them evolve from rigid legacy systems to a more nimble, scalable microservices architecture such as cloud native architecture. Only by doing so can they accelerate the adoption of emerging technologies and facilitate access for all stakeholders.

With both accountants and their clients making a concerted effort to tap on the powers of technology, we are hopeful that the accountancy ecosystem is moving away from a paper-intensive business towards a knowledge- and insight-intensive one, to be aided tomorrow by advanced analytics and visualisation capabilities to further improve speed, accuracy and quality, as encapsulated by Services 4.0. ISCA

The second article of this series will discuss how Services 4.0 has enabled workforce augmentation in the accountancy and finance sectors. It will be published in *IS Chartered Accountant* Journal, August 2019.

This article was written by Info-communications Media Development Authority, Institute of Singapore Chartered Accountants and Singapore Accountancy Commission.

"Business synergies are important in that the companies we acquire need to align with the Group's growth strategy... The franchises or brands we acquire must be the best in their respective industries and have positive consumer perception, in a manner consistent with Zouk's long history of success."

**Alex Phua,** CA (Singapore), Finance Director, Zouk Group

MEMBER PROFILE

# TRANSFORMING THE CLUB

**BEHIND THE GLITZ AND GLAMOUR,** away from the world-renowned DJs and the party crowds, there is a lot going on in and around famed Singapore nightclub Zouk. The 28-year-old institution is part of Zouk Group, a lifestyle destination group which currently operates nightclubs, bars as well as food and beverage (F&B) establishments in Singapore and Malaysia, and onboard cruise ships sailing Asian waters. As Finance Director of Zouk Group, Alex Phua, 35, is keeping tabs on the financial health of these nightlife and dining concepts, and also eyeing business expansion through mergers and acquisitions (M&As). "Most of my office hours are spent developing growth strategies and opportunities, which involve liaising with potential partners and acquisition targets; exploring ways to maximise revenue and optimise the different business unit's EBITDA margins, and managing new revenue streams for our clubs, bars, restaurants, music festivals, events and merchandise," says Mr Phua. "Partying" is serious business, and Mr Phua visits the Zouk club once or twice a week to "walk the floor", so as to keep an eye on operations and entertain guests, which is indicative of his hands-on management style.

## IN M&A MODE

Recently marking the first decade in his career, Mr Phua has followed up his audit career at KPMG by taking on finance leadership roles – first at F&B Asia Ventures (a pan-Asian F&B business platform controlled by private equity firm Everstone Capital), and since last October, at Zouk Group.

Mr Phua joined Zouk at an exciting time, as the Group is in the midst of organisational change. In 2015, Zouk was acquired by Genting Hong Kong, a leading global leisure, entertainment and hospitality provider listed in Hong Kong, which is also part of the Genting Group that currently has four other listed companies across Singapore and Malaysia. Since then, Genting Hong Kong has been directing efforts to expand the Zouk brand internationally and move beyond the nightlife market by leveraging the parent company's cruises and Genting Group's global infrastructure and integrated resorts.

To date, new Zouk clubs have been launched in Malaysia's Resorts World Genting and onboard two cruise liners owned by Genting Hong Kong – Genting Dream (homeported in Singapore) and World Dream (homeported in Hong Kong). A Zouk Las Vegas beach club and night club are slated to open at the upcoming Resorts World Las Vegas in 2021, while a new mega cruise ship (to homeport in China) and which will feature a third Zouk At Sea, is under construction.

Zouk Group has also entered the F&B space with an innovative F&B concept called "vibe dining", which will soon debut in Genting Highlands. It also owns a social gaming bar concept, Redtail, located in Singapore and Genting Highlands. The Group is sourcing prospective acquisition opportunities to bring international F&B franchises to Singapore – as signalled by its latest acquisition of Five Guys, an American specialty burger chain and one of the world's biggest burger franchises.

As part of the deal, announced recently on June 12, the Group plans to open the first-ever Five Guys outlet in Singapore by the end of this year. The acquisition, which is expected to double the Group's revenue, was spearheaded by Mr Phua, who looks forward to helping Zouk diversify further into the F&B and other lifestyle industries and become an all-encompassing lifestyle group. "Business synergies are important in that the companies we acquire need to align with the Group's growth strategy," says Mr Phua, of Zouk's M&A strategy for growth. "All the stars have to be aligned for a successful acquisition, whether in terms of company values, long-term vision or chemistry with the existing management; also, every acquisition comes with a different set of challenges. The franchises or brands we acquire must be the best in their respective industries and have positive consumer perception, in a manner consistent with Zouk's long history of success."

**CAREER HIGHLIGHTS**

**2010**
Audit Associate, KPMG Singapore

**2011**
Audit Senior Associate, KPMG Singapore

**2014**
Audit Manager, KPMG Singapore

**2016**
Director of Finance, F&B Asia Ventures (subsidiary of Everstone Capital)

**2018**
Finance Director, Zouk Group


## RINGING IN THE CHANGES

One major distinction between Mr Phua's current and previous employers is the nature of the business. "Compared to KPMG's audit services and Everstone as a private equity firm, Zouk is competing much more actively in the commercial marketplace," says Mr Phua. He adds that the composition of internal stakeholders is also different at Zouk. "Zouk comprises people from very diverse backgrounds, so I have to vary my approaches in managing them. I have to explain decisions in a way that everyone can understand."

Some of these decisions stem from the ongoing change management process as the Group works to align its policies with those of its present owner, Genting Hong Kong. "Transforming Zouk from a family-owned business to a professionally managed corporate environment involves changes to our processes and controls, as well as how the various departments are run. Because Genting Hong Kong is listed on the Stock Exchange of Hong Kong, our financial reporting requirements are also different from before," notes the Finance Director.

His leadership role at Zouk in fact transcends the Finance function and carries over into other areas of the company. This broader job scope is something Mr Phua appreciates. "Working at Zouk has given me the opportunity to manage different functions such as Finance, Procurement, Cost Control, IT, Operations, Marketing and HR," he says. "About 10% of my workload involves managing people issues and trying to interconnect people across different departments."

From an HR angle, improving the welfare of staff is crucial for employee retention. It was with this in mind that Mr Phua – formerly President of KPMG's Recreation Club, which runs a variety of social and sports activities for its staff – decided to set up the same initiative for Zouk Singapore's 300-strong staff shortly after joining the company. Already, the club committee has organised weekly exercise classes, movie screenings, bartender contests and a variety of sports, all of which have proven popular with the Zouk staff.

> **"ISCA has provided me with a strong foundation and a good network of people to help me in my role. ISCA's training programmes and the support from different ISCA committees have given me the technical know-how and tools to perform my job better."**

Mr Phua also serves as the digital transformation lead for Zouk Group, by driving the adoption of new technologies to boost business productivity and improve the clubbing experience. For example, when deciding which DJs to book for repeat gigs, data analytics helps the Finance team identify which DJs have brought in more money for the club.

"Since I joined Zouk, we have scaled up our IT network infrastructure; automated our inventory management to reduce manpower costs, and rolled out an e-menu equipped with artificial intelligence in one of our restaurants, to enable the prediction of repeat customers' menu choices," says Mr Phua. Other technologies soon to be piloted at the Zouk Singapore club include an automated ticketing system to shorten waiting times in queues; a self-ordering system to solve the problem of long lines at the bar, and facial recognition software for enhanced customer relationship management, particularly for VIP customers.

## STAY IN THE KNOW

"The accounting function is always evolving, not just in terms of the Financial Reporting Standards but also through the introduction of new technologies and the digitisation of our function," highlights Mr Phua. Speaking from experience, he elaborates, "I believe Finance Directors and CFOs will be among the biggest users and enablers of technology. Our role has evolved from managing the accounts and preparing financial reports to being business leaders. We are now expected to use technology and data analytics to connect the dots across different functions and provide informed business decisions." Finance professionals must therefore embrace and keep up with these changing job demands to stay relevant in the workplace. This is where an ISCA membership provides great value. "ISCA has provided me with a strong foundation and a good network of people to help me in my role. ISCA's training programmes and the support from different ISCA committees have given me the technical know-how and tools to perform my job better," says Mr Phua, who sits on ISCA's CFO Committee.

There are also other benefits to joining ISCA, one being the camaraderie among members. Every year, Mr Phua teams up with former KPMG colleagues for the Inter-Professional Games and ISCA Games' basketball event, savouring the chance to catch up with old friends. Another advantage is the built-in level of trust that comes with being a qualified Chartered Accountant. "It provides a sense of credibility or assurance to the industry that we have high standards when carrying out our work, and proper regard for the ethos of our profession," he adds.

Mr Phua's parting advice for aspiring and existing professional accountants? "Commit a portion of your day to develop yourself, and be resilient in the face of change. Delve into the business holistically, look beyond your scope, get some experience in non-finance functions and understand how they operate. You will be the one whom CEOs rely on to make business decisions, so know what impacts your industry and leverage your financial know-how to drive business transformation." ISCA


PHOTO SHUTTERSTOCK

BY BALA VISSA

# GETTING INVESTMENTS FOR STARTUPS

## A Three-Part Formula

**ACCORDING TO PSYCHOLOGIST JOHN GOTTMAN**, six factors, such as whether a couple immediately use a harsh tone when discussing a conflict, can predict divorce with 86% accuracy. However, few couples could save a failing relationship just by learning about these factors. The key is to understand the processes and steps involved in resolving the differences that will inevitably crop up during a marriage.

Similarly, to best understand how a new venture can succeed, it is important to go beyond correlations. While it is undoubtedly helpful to know that entrepreneurs who do (or who are) X tend to obtain Y results, appreciating the intermediate steps and processes that lead to these results could propel us forward. Currently, these steps and processes remain a kind of black box.

In our paper, "Turning Lead Into Gold: How Do Entrepreneurs Mobilise Resources To Exploit Opportunities", my co-authors David Clough (from University of British Columbia); Tommy Pan Fang and Andy Wu (both from Harvard) and I reviewed 150 leading empirical papers on how founders secure the various forms of capital they need to launch their startup. While the purpose of our paper was to suggest a path ahead for future academic research, our work allowed us to recap what is known – and yet unknown – on the subject.

### THREE STEPS TO MOBILISE BUSINESS RESOURCES

One of our key insights is that mobilising resources is itself a process involving three successive steps.

#### Step 1 Search for resources

To execute on an opportunity, entrepreneurs need much more than just financial resources, such as cash, venture capital or bank loans. They also need to gather human capital, usually co-founders or employees. Additionally, their success will depend on their social capital, that is, the social ties, networks and connections that grease the wheels of business. Beyond those, they may still need to worry about increasing their legitimacy as founders and building a compelling narrative for their ventures. With so much to think about, many budding entrepreneurs don't know where to start. The very first step consists of identifying who has the required resources. Where to find suitable employees? Where to get funding? How to build connections, fast?

According to our review of the literature, only 20% of papers examined the art of searching for business resources, leaving new entrepreneurs with much to figure out on their own. That is regrettable, because research has shown that too many entrepreneurs remain solely within the

**Research also shows that storytelling matters a lot for entrepreneurs.** Building a compelling narrative can go a long way towards persuading investors that a founding team can execute on a given idea.

confines of the world they know. For instance, when looking for human and social capital, entrepreneurs tend to limit their search to their immediate social networks, such as family, friends and former co-workers. As a result, individuals who start from privilege – thanks to being born in a wealthy family or having received a top college education – tend to do better than average.

Not all is lost for the less privileged entrepreneurs, but they must compensate by becoming proactive networkers. They can't rely on serendipity to form new, helpful connections. Another avenue consists of first building a large portfolio of organisational accomplishments. Research also suggests that entrepreneurs with higher initial aspiration levels are less likely to be satisfied with their original set of options and therefore, are more likely to seek new ties with indirect contacts and strangers.

If you are a new entrepreneur, you may want to ask yourself, "Am I proactive in my search for resources, including new social ties?" "Am I limiting myself to what I know exists or do I seek help in exploring the wide world of available options and resources?"

### Step 2 Persuade those with relevant resources to come on board

Once you have probed the full menu of potential resources for your venture, the next step consists of acquiring those you feel are the best fit. This is the most abundant stream of research in our review, accounting for some 55% of papers. In this loot, we found an (over)abundance of research on how entrepreneurs can secure financial support. However, accessing resources means a lot more than just making a successful pitch before a banker or venture capitalist. For instance, a crucial task may be to persuade potential employees to join your new company – a huge challenge for many startups in the ongoing war for talent.

It may also involve forming an alliance with an established company in order to piggyback on its social capital. In fact, connections and affiliations with people or entities of "high status" can act as endorsements. For example, once a venture secures backing from a well-known venture capitalist, the remaining resources, such as employees, partners and additional financial support, tend to come more easily.

If you are struggling, do not underestimate the power of word of mouth in attracting the right resources. Your new Board of Directors may be able to refer great employees or partners, just like the venture capitalists you meet may have suitable co-founders to recommend.

Research also shows that storytelling matters a lot for entrepreneurs. Building a compelling narrative can go a long way towards persuading investors that a founding team can execute on a given idea. While this is true for all startups, social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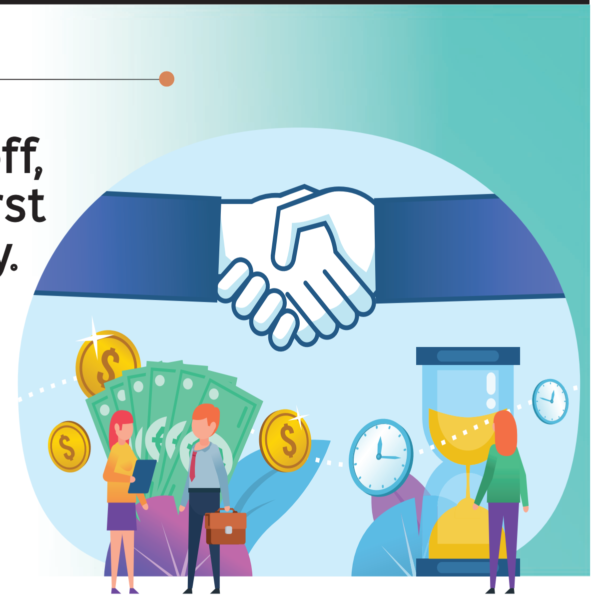
**For a venture to take off, entrepreneurs must first spot a good opportunity.** Just as critically, they must then mobilise the resources required to execute on that opportunity.



or hybrid ventures face a special dilemma – should their story emphasise the potential for financial or social returns? What we know is that women founders may particularly benefit from talking about their proposed social impact.

Here are some questions that may require your careful consideration:

- If I decide to rely heavily on family members, am I clear on the pros and cons of this approach? They may be able to help strictly based on solidarity, but this may come with hiring expectations down the line.
- Have I considered getting formal qualifications and certifications? By signalling an entrepreneur's quality, it can help dispel uncertainty about the venture in the mind of potential backers.

### Step 3 Deploy the acquired resources

Even after resources are agreed upon in principle, entrepreneurs may face issues in deploying them. For example, financial backers may have their foot on the brake if they worry about founders ceasing effort or overpaying themselves after receiving an influx of cash. A variety of governance mechanisms can mitigate risks of opportunistic behaviour and reduce friction. Such mechanisms can be based on formal contracts and authority, but also consist of informal arrangements. About 31% of the papers we reviewed dealt with that resource-deployment step.

Like it or not, nascent entrepreneurs are often far more dependent on resource holders they work with than the other way around. The good news is that this power imbalance can help with the transfer of resources, as it naturally lessens the concerns that the entrepreneur might try to take advantage.

The downside is that founders can sometimes be vulnerable. For example, tech founders are often wary of accepting investments from corporate venture capitalists that occupy a similar product space, as their intention might be to quash the up-and-coming competition. Getting a high-status venture capitalist to also come on board may help keep such threats in check.

Here is some additional food for thought:

- Have I carefully aligned my incentives with those of the resource holders who have agreed to participate in my venture?
- Am I aware that founders are more likely to be replaced when they sell large portions of their equity to investors?

### THE FOUNDERS' LONG QUEST

For a venture to take off, entrepreneurs must first spot a good opportunity. Just as critically, they must then mobilise the resources required to execute on that opportunity. Our bird's eye view of the research on entrepreneurs' resource mobilisation shows that it is a three-step process. Getting financial capital, often seen as the holy grail of the operation, is only the middle step. First, a proper founding team must coalesce. The venture is also more likely to get funding if it already has some initial ties to suppliers, customers and strategic partners. Founders must orchestrate a proper search for all of these resources, casting their net as wide as possible. After securing the required resources, they need to ensure that trust flows in both directions so that resources can be deployed smoothly. It is a long journey which, by comparison, can make marriage seem like a walk in the park. ISCA

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BY APLUS

# READY FOR TAKEOFF

## How Drone Technology Can Benefit Audit

**CONDUCTING AN AUDIT STOCK COUNT** for a coal-fired power station is no easy matter. It involves physically traversing the coal pile and using a two-metre GPS tracking pole to measure its area and elevation from the ground at more than 1,200 different points. In the case of the coal reserve at German energy company RWE's power station in Aberthaw in South Wales, the whole process takes around four hours. But last month, PwC in the United Kingdom (UK) reduced this time to just 30 minutes, when, in a first for its global network, it used a remote-controlled drone to capture more than 300 images of the coal reserve. These images were "stitched together" using software that recreated the stockpile in 3D, which is used to calculate the volume of the coal pile to over 99% accuracy.

"The drone trial was conducted to explore ways of challenging the traditional method of stock counting. It was a classic example of new technology challenging the old and, based on our results, the potential is groundbreaking," Richard French, Audit Partner at PwC UK, told the media last month (January 2019).

Drones, or unmanned aerial vehicles, are everywhere. From capturing stunning bird's eye view video footage to delivering packages and causing airport chaos in London last December, they are now being seen in the world of audit, with the Big Four firms increasingly exploring the potential that drones have in improving the audit process.

EY is currently carrying out a pilot programme in the UK using drones for audit stock counts across a range of sectors, having successfully completed a proof of concept in the spring of last year. "Our initial findings show observation efficiency increases up to 300 times by utilising drones for these repetitive tasks," says Hermann Sidhu, Global Assurance Digital Leader at EY.

KPMG has also trialled using drones in stock counts for mining companies and in warehouses in Australia, while Deloitte has been trialling using drones in audits since 2016 as part of a wider move to reimagine the way it does audits in the light of new technologies, including artificial intelligence (AI), blockchain, big data and robotics.

"We have been using drones to audit and inspect land, agriculture, vehicles and facilities as a safer and more cost-effective alternative to manual inspections," explains Jay Harrison, Deloitte China's Audit and Assurance Transformation Leader.

### SKY'S THE LIMIT

PwC identified a number of advantages in using a drone to do the stock count in its trial, not least of which was time. The drone also enhanced accuracy by capturing around 900 data points per cubic metre, enabling the volume of the coal reserve to be calculated to within two centimetres.

Other benefits included safety, with the drone flight posing less of a health and safety risk

**The fact that drones are able to capture higher volumes of data than traditional sampling techniques** also enables accountants to offer greater insights to companies, particularly when the images are combined with analytics and AI.

PHOTO GETTY IMAGE

compared with clambering over piles of coal, which may be unstable in places. It was also less disruptive as it did not require machinery to be moved. As well as the stock count, PwC said drones could also be used to provide more efficient monitoring and management of sites, as well as giving insights into the health and maintenance of other assets, such as buildings.

Sidhu at EY points out that increasing the efficiency of an audit stock take frees up auditors' time to focus on other areas, such as building a relationship with the business, risk identification, project management and the detailed scrutiny that mainly experienced auditors can do.

The fact that drones are able to capture higher volumes of data than traditional sampling techniques also enables accountants to offer greater insights to companies, particularly when the images are combined with analytics and AI. "If we can use drones to undertake inventory observations and repetitive tasks, frequently and consistently across all of a client's warehouses and sites, with the potential to station hundreds of them around the world, then we can also provide enhanced perspectives," says Sidhu. He thinks that in the future, drones may even be able to conduct an audit stock take without human assistance. "Drones will potentially have the ability to simply receive a meeting or calendar request to automatically go and conduct their work on a regular cadence."

Daniel Lam, Managing Director of Hong Kong-based drone services company Prospero Aerial Solutions, thinks they could also be used to offer value-added services. He has come across examples where drones have not only been used to undertake livestock counts, the images captured by them have then been run through intelligent software that picks out certain characteristics to identify which animals are sick, or to predict which ones may become unwell in the coming days, so that they can be separated from the rest of the herd. "Drones are simply the tool to extract the data, but the real power is interpreting the data to make it meaningful," he says.

## A MULTIDISCIPLINARY TEAM

PwC UK formed a specialist team around 18 months ago with the aim of helping clients take advantage of drone technology and the data it can provide. The team combined people with aviation, engineering, data management and machine learning experience with those from an auditing background. But it did not include drone operators, with the drone used in the audit of RWE owned and operated by UK-based drone manufacturer QuestUAV.

Elaine Whyte, Drones Leader at PwC UK, does not expect this to change, explaining that a very different skill set is needed to operate a drone in the air, compared with interpreting the data it captures. She adds that it is relatively inexpensive to hire someone to fly a drone. "For us, the capturing of the data isn't the most important part of what needs to

PHOTO SHUTTERSTOCK

**"Drones are simply the tool to extract the data,** but the real power is interpreting the data to make it meaningful."

happen. It is what we then do with that data that is important and how we integrate it back into the clients' business," she says.

But Lam says, while it depends on the frequency and nature of the use of drones, he does expect audit firms to build up their own drone teams in the future. "It makes sense to have a dedicated inhouse drone team. Most construction companies have their own inhouse teams now," he says. "There is plenty of proprietary software out there which comprises machine learning algorithms to speed up the data processing and capture, which is super exciting to see."

## OVERCOMING CHALLENGES

Sidhu says one of the major challenges EY has encountered is the average flight time of the drones currently being used in the industry. "A standard enterprise-grade drone will achieve up to 40 minutes maximum flight time. Obviously for smaller sites, this is not a problem, but for the vast areas we also work in, such as automotive counts, having a drone that needs to have a battery swapped frequently removes the benefits of autonomous flight." This issue has led EY to explore pioneering work with hydrogen fuel cells that can potentially increase the flight time up to four hours.

Harrison at Deloitte thinks cost could also be a barrier, pointing out that the price of drones and accessories means it would not be easy to quickly deploy them on a large scale, especially as stock-taking activities are seasonal in the audit process. He also expects regulations like no-fly zones or the need for preapproved access to discourage the use of drone in some scenarios.

Drones are well suited to stock counts in certain sectors, such as mining and agriculture, where the client has large, external assets that need to be measured volumetrically. But Harrison points out that the limitation of current drone technology means they may not work well for indoor warehouses or stock that is stored in a way that is not easily visible.

KPMG has found a way around this problem, by using drones to scan barcodes on concealed stock. Scott Guse, Senior Audit Partner at KPMG Australia, explains, "Sometimes, in warehouses, you have lots of pallets stacked behind other pallets, and you have to get forklifts in to move things out of the way to physically verify the existence of those pallets of materials. We have used drones to fly across the top of all of these pallets and scan barcodes to validate that that stock actually exists and is accurately recorded in the client's general ledger."

Lam thinks education and awareness of the benefits of drones is also a factor holding back their use. "You'll find that in less developed parts of the world, drones are really taking off, but in more developed places, less so. Regulatory issues and the stigma surrounding privacy is a concern for some organisations," he says. He adds that legal issues can also be a challenge, particularly in places like Hong Kong. "At the moment, operators in Hong Kong are bound by something called 'visual line of sight', meaning, the operator must keep a visual unassisted line of sight of the drone at all times," he explains. "For surveying highway routes and such like, then 'beyond visual line of sight' is necessary and not all jurisdictions are allowing that yet."

Joanne Murray, Senior Manager at PwC UK and Drones Assurance Lead, points out that while using a drone is more efficient than doing a manual stock count on the day, it requires important preparation work. "There is quite a lot of planning to do in terms of the risk assessment, the flight plans and engaging with the drone operators. This planning time needs to be factored into all engagements," she explains. She adds that auditors also need to consider whether the drone company can do the work that a traditional approach would cover, such as accessing concealed stock that the drone cannot photograph. "We need to look at the balance of what the drone can do, versus what the human can do."

## FUTURE ADOPTION

Despite the success of its trial, PwC will still use information gathered using the traditional manual stock count method for RWE's formal year-end financial statements. "We are currently working with our internal quality teams and establishing the methodology on how we can formalise this," says Murray.

Although PwC has since carried out another audit stock count using a drone for a different client, Murray thinks they are still some way off large-scale adoption. She explains that if a drone is going to be used by PwC, it must meet at least one of four key metrics – quality and whether it will provide improved results; increased efficiency, meaning using a drone must be quicker or cheaper; whether there are health and safety benefits for the audit team and the client, and whether it is less disruptive on the day of the stock count. "If we don't hit at least one of those… the traditional method is probably the best approach," she says.

KPMG's Guse does not expect using drones in audit to become the norm. He says, "It is still very early in the process, but I don't see it becoming really widespread at this stage. We will continue to use drones to validate information that is hard for employees to get to but there is a limit to some of their uses and there are other technologies that are more valuable than drones in certain places." For example, he says it can be more cost-effective to use satellite images from government bodies or private organisations, which give larger areas of coverage, for verification processes in certain circumstances, such as counting cattle in a paddock or checking the acreage over which crops are being grown by agribusinesses. "There are going to be more and more uses for drones, but these will need to be assessed against what other technologies exist and could make our processes more efficient."

Sidhu says EY is currently working with a range of clients in sectors including retail, manufacturing, construction and agriculture, to gain an understanding of the size of the opportunity, before deciding how to scale its capability in this area. "What we are seeing is a real enthusiasm from many businesses," he says.

Even so, PwC estimates that by 2030, the drone ecosystem in the UK alone will be worth £42 billion and employ 630,000 people. "While today, we are still having some of these elementary questions over how it compares to traditional methods from an auditing perspective, from a much broader society side, this will become business as usual for many different industries moving forward," says Whyte.

PwC already has a number of specialist teams across its network, including in the United States, Australia and Poland, exploring the use of drones in a number of different use cases, including audit. "As a company, we recognise that our clients are going to be disrupted by this technology, so it is really important that we also disrupt ourselves and understand how it works," says Whyte. Guse agrees, "Technology is changing the way we do our business every day. It is a great time to be an auditor because these technologies enable us to enhance the work that we do and provide even better audit quality." ISCA

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

# Recognising Excellence

A leading professional accountancy body in ASEAN, we have gained recognition for our efforts in promoting the growth and development of the profession in the region. As globally recognised Chartered Accountants, our members are known for embodying excellence in accountancy and business.

BY LOKE HOE YEONG

# E-PAYMENTS AND CASHLESS SOCIETIES

## PART 2

### Alipay And WeChat Pay: From China To Southeast Asia

**AS LATE AS 2012,** before mobile payments took off in earnest, 96% of payments transacted in China were in cash.[1] Today, China's Alipay, the largest such system globally, has one billion users around the world. That prompted Singapore Prime Minister Lee Hsien Loong to acknowledge in his 2017 National Day Rally speech that China has been leading the way in the e-payment space, even as the Singapore government was rolling out the Smart Nation initiative.

Beyond all the hype however, are we distilling the correct lessons from China's dominance in the e-payment market? What are the implications for Southeast Asian markets, if any?

In this second article of a three-part series on e-payments, we trace the origins and growth of Alipay to WeChat joining the fray, and finally to their expansion into Southeast Asia. In doing so, we delve deeper into the usual media headlines to get a more accurate understanding of how China's two giants of the e-payment landscape have developed and expanded, and to get an early sense of the implications for the region.

#### THE ORIGINS OF ALIPAY

How did Alipay become so big? The answer lies in e-commerce.

The story began in 2003 with Taobao, the e-commerce website launched by the Chinese entrepreneur Jack Ma and his Alibaba Group; the Alibaba Group was in the business-to-business commerce sector. Alipay was created for Taobao, a consumer-to-consumer e-marketplace, as an escrow payment service – where a third party holds the funds from a buyer, and only transfers them to the seller after contractual requirements are completed. This played a crucial role in reducing transaction risk at a time in China when mutual trust between consumers and businesses was still low. The first mobile version of the Alipay application was launched in 2009.

Up to this point, the story sounds similar to that of PayPal's, which processes payments for the US e-commerce site eBay, except that the critical mass of the Chinese economy was the game-changer.

By 2014, Taobao could boast of having 300 million users, creating an overwhelming base of as many

**... the particular attraction of Southeast Asia for Alipay and WeChat is the low penetration rate of credit and debit cards** – at just around 2% in countries such as Indonesia and the Philippines – while mobile penetration and Internet connectivity are rapidly on the rise.

[1] "China's Cashless Society: What It Means For The Future Of Payments", HZ Capital Group online, 4 Feb 2019

PHOTO SHUTTERSTOCK

Alipay users. Alipay had overtaken PayPal as the world's largest mobile payment platform. That same year, the Alibaba Group was listed on the New York Stock Exchange, and Alipay, which had been spun off from Taobao to become a separate company under the Alibaba Group, was rebranded as Ant Financial Services.

Yu'ebao, an online money market fund linked to Alipay, was launched in 2013 and soon became the largest of its kind in the world. Affiliated products like Yu'ebao, praised as an "investment fund for the masses" which other similar payment providers like PayPal lack, have helped make Alipay more attractive to ever more users.

By 2018, Ant Financial was valued at US$150 billion, far exceeding the valuation of US$88 billion by the US investment bank Goldman Sachs, which incidentally was one of the first investors in Alibaba back in 1999.[2]

## DON'T FORGET UNIONPAY

There are many factors for Alipay's overwhelming success, but one which relates to UnionPay and the relatively lower rates of credit and debit card usage in China stands out.

Much has been made of how China's spectacular success in the e-payment space is the result of leapfrogging the stage of credit and debit card usage, which more mature economies like Singapore, Japan and the US are still in. Researchers have theorised that Chinese culture frowns on the notion of debt, and therefore, credit cards were less appealing to Chinese consumers.

It is more plausible that China "missed" the stage of widespread credit and debit card usage in its financial development as a result of heavy-handed state intervention. That in turn benefited Alipay in gifting it an empty slate of foreign competitors within China.

The People's Bank of China (PBOC), the central bank, has kept Visa and Mastercard out of the Chinese market in spite of China's obligations under its World Trade Organization membership to open up its financial services industry. Visa and Mastercard are accepted for use in China, but they cannot process payments in yuan nor issue cards in the country. It was only in November 2018 that American Express became the first US card company to gain approval to process yuan payments – and even that was with a 50-50 joint venture with a Chinese partner.

In place of foreign cards, PBOC and the Chinese government launched UnionPay back in 2002, with five of China's biggest state-owned banks among its founding shareholders. UnionPay, the only issuer of bank cards in China and the largest in the world, works just like Visa and Mastercard in its fee structure, where merchants rather than users are charged the fee. However, UnionPay cards have to be linked to a bank account in China.

As the classic theory goes, monopolies would become complacent over time and would lose out

to the entrepreneurial streak of disrupters. Alipay would soon give the state monolith UnionPay a run for its money.

While UnionPay boasted of an impressive 35% year-over-year growth as of 2017, mobile payment methods grew an estimated 85% during the same period. Although UnionPay was among the first to develop the mobile payment QR code technology, it has perhaps irreversibly relinquished its advantage to Alipay and WeChat.[3] And because Alipay and WeChat bypass UnionPay's network when processing mobile payments to offline merchants, they are essentially diverting billions of yuan in fees away from UnionPay.

## ENTER WECHAT

It is not surprising at all that Alipay's success fuelled competition from a rival. Just as what e-commerce was to Alipay, social and gaming was to Tencent. In 2013, the latter launched WeChat Pay as the


**It is more plausible that China "missed" the stage of widespread credit and debit card usage as a result of heavy-handed state intervention.** That in turn benefited Alipay in gifting it an empty slate of foreign competitors.

mobile wallet inside the Chinese social messaging application WeChat.

In making up for lost time in building up its user base, WeChat Pay capitalised on Chinese tradition with the introduction of its virtual red packet where users can send up to US$29 to their WeChat friends. Around 16 million red packets were exchanged on Chinese New Year's Eve in 2014, according to Tencent. One year later, that figure jumped to one billion. Soon, Alipay followed suit.

As of the last quarter of 2018, Alipay still has the lion's share of the e-payment market in China at 53.8%, compared to WeChat's 38.9%.[4] At this point, naturally, the battle between the two giants extended abroad.

## EXPANDING INTO SOUTHEAST ASIA

Given its proximity to mainland China, Southeast Asia is a popular holiday destination of choice for many Chinese tourists who are users of Alipay and WeChat.

To be sure, Southeast Asia is not the only battleground for Alipay and WeChat as Chinese tourists do not only spend their holidays in Southeast Asia. Northeast Asia and Europe are popular destinations too, perhaps with even bigger expenditure potential.

Rather, the particular attraction of Southeast Asia for Alipay and WeChat is the low penetration rate of credit and debit cards – at just around 2% in countries such as Indonesia and the Philippines – while mobile penetration and Internet connectivity are rapidly on the rise.[5] Moreover, the region's cashless payment market is highly fragmented with no dominant player in sight, which presented both an investment and an expansion opportunity for Alipay.

In 2017, Ant Financial announced the merger of Alipay and helloPay, a year after Alibaba took control of Lazada Group, the e-commerce site that is also the parent of helloPay, with a US$1-billion investment. All the operations of helloPay, which was the payment platform of Lazada, have since been rebranded as Alipay.

Ant Financial has also entered into joint ventures with local partners in the region to offer Alipay products to Chinese tourists. It has teamed up with Touch'n Go in Malaysia, Kasikornbank in Thailand, Pi Pay in Cambodia and CCPay in Singapore.

## ALIPAY AND WECHAT IN SOUTHEAST ASIA: STILL TOO MANY LIMITATIONS?

Despite the impressively growing number of e-payment users, there are still considerable limitations on the use of Alipay and WeChat Pay. For a start, a bank account in mainland China is required for Alipay usage. WeChat Pay accepts users of foreign bank cards, but user comments on online forums claim that would only work if the WeChat app is downloaded while in China.[6] While there are various reported ways to get around these restrictions, such as anecdotes of foreigners getting the help of friends in mainland China to top up their Alipay and WeChat wallets, all of these mean that China's mobile payment apps are essentially only for Chinese citizens' use for the foreseeable future. Another drawback is that the payments made through Alipay and WeChat Pay can only be processed in Chinese yuan, which makes it less attractive for other users who will be more inclined to pay in their home currency.

This may change incrementally through the partnerships forged by the two payment providers in the local markets. Last year, Malaysia became the first country outside China – that is, aside from the Special Administrative Region of Hong Kong – to have WeChat Pay enabled in a local currency. One key consideration for Tencent is the size of the ethnic Chinese population in Malaysia, in addition to the existing 20 million WeChat users.

But WeChat has since announced its intention to focus on the Chinese tourist as a matter of business strategy. So aside from its presence in Malaysia, WeChat Pay is not likely to have much impact on other Southeast Asian markets.[7]

On the other hand, Alipay still has no plans for local currency Alipay services in the region, but is working with merchants supplying services to Chinese tourists and forming joint ventures with local partners for e-wallets using their brands. This is because Alipay has found that local currency-supported solutions "take more time and resources to develop", aside from problems in obtaining government approval to handle local currency transactions.[8]

Given these limitations of Alipay and WeChat Pay, it is still too early to tell what implications China's mobile payment apps will have on the Southeast Asia market beyond catering to Chinese tourists. Of course, with Alipay's ambitions to grow its acquisition of local payment providers in the region, the dominance of China's mobile payment apps will likely be exerted and felt in various ways. It could potentially influence what will become the predominant technological infrastructure for e-payments, as well as the related data privacy regimes.[9] Alternatively, it may result in the consolidation of e-payments in the region comprising the Chinese payment services providers on the one hand, and a fragmented field of local ones on the other.

As competition intensifies, the mobile payment ecosystem will continue to develop and change. ISCA

[2] "How Ant Financial Grew Larger Than Goldman Sachs", CNBC online, 8 June 2018
[3] "UnionPay's Cashless Headache", Pymnts.com, 9 Aug 2017
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Loke Hoe Yeong was Manager, Insights & Publications, ISCA. He has since left the Institute.

# TECHNICAL HIGHLIGHTS

## ETHICS

### IESBA RELEASES UPDATED FAQS ON LONG ASSOCIATION

This publication supports the implementation of IESBA's revised long association provisions. It is relevant to the application of the long association provisions in EP 100 which was effective on 15 December 2018.

For more information, please visit https://www.ifac.org/news-events/2019-05/iesba-staff-release-updated-faqs-long-association

### ISCA COMMENTS ON IESBA'S PROPOSED REVISIONS TO PART 4B OF THE CODE TO REFLECT TERMS AND CONCEPTS USED IN ISAE 3000 (REVISED)

We question the appropriateness of only requiring the professional accountant to be independent of the assurance client when the client takes responsibility. To address this, we have recommended that the professional accountant should also be independent of the measurer or evaluator.

For more information, please visit https://isca.org.sg/media/2823003/comment-letter-proposed-revisions-to-part-4b-of-the-code.pdf

## FINANCIAL REPORTING

### ISCA COMMENTS ON IASB'S ED INTEREST RATE BENCHMARK REFORM

We broadly support and agree with IASB's proposals in the ED except for the following concerns:

- need for expedition of the Board's work relating to phase two
- principle on when to cease the application of reliefs is unclear
- lack of clarity on what entities should do in the event of a failure of retrospective assessment due to mismatch between the hedged item and the hedging instrument
- limited circumstances for retrospective application of proposed amendments
- potential risk of having to terminate hedging relationships due to inability to complete hedge documentation in a timely manner

Please see comment letter for more details.
https://isca.org.sg/media/2823005/isca-comment-letter-ibor-final.pdf

### FINALISED AGENDA DECISIONS ON HOLDING OF CRYPTOCURRENCIES AND COSTS TO FULFIL A CONTRACT

IFRIC has issued two finalised Agenda Decisions relating to (i) how IFRS Standards apply to holdings of cryptocurrencies and (ii) the IFRS 15 issue of whether an entity recognises an asset/expense cost incurred to fulfil a performance obligation as the entity satisfies that performance obligation over time.

For more information, please visit https://www.ifrs.org/news-and-events/updates/ifric-updates/june-2019/#3

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## AUDITING AND ASSURANCE

### ISCA COMMENTS ON IAASB'S PROPOSED STRATEGY FOR 2020–2023 AND WORK PLAN FOR 2020-2021

ISCA supports IAASB's overall direction and shared our observations on changing stakeholder expectations and developments on the technology front, for IAASB's consideration.

For more information, please visit https://isca.org.sg/media/2822928/comment-letter-iaasb-proposed-strategy-for-2020-2023-work-plan-for-2020-2021.pdf

### ISCA COMMENTS ON IAASB'S CONSULTATION PAPER ON EXTENDED EXTERNAL REPORTING (EER) ASSURANCE

We highlighted that there could be challenges in applying the draft guidance on EER reports in practice; for example, it could be conceptually challenging to identify subjective narrative information in an EER which requires testing. We recommended for IAASB to give greater consideration to the practical application of the draft guidance in addressing all the key challenges, and provide more direction in these areas in phase 2.

Please see comment letter for more details.
https://isca.org.sg/media/2822991/comment-letter-eer-cp-final.pdf

### COMMENTS SOUGHT FOR IAASB'S DISCUSSION PAPER, AUDITS OF LESS COMPLEX ENTITIES: EXPLORING POSSIBLE OPTIONS TO ADDRESS THE CHALLENGES IN APPLYING THE ISAS

ISCA seeks comments on IAASB's Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*. Please send comments to technical@isca.org.sg by 23 July 2019.

For more information, please visit https://isca.org.sg/tkc/aa/current-issues/standards-alert/standards-alert/2019/june/discussion-paper-audits-of-less-complex-entities-exploring-possible-options-to-address-the-challenges-in-applying-the-isas/




PHOTO SHUTTERSTOCK

BY ABHIJIT GHOSH & GARY FOO

# SINGAPORE'S INTELLECTUAL PROPERTY TAX REGIME

## An Overview Of The Now And Beyond

**IN TODAY'S MODERN ECONOMY,** intellectual property (IP) is becoming increasingly important as a strategic asset due to its inherent ability to create wealth and thereby enhance shareholders' value. As more multinationals have started to shift from brick-and-mortar business to online business, there is an increased awareness and usage of different forms of IP rights across the entire business value chain. Such awareness has led multinational businesses to start protecting their intangible assets, spending more on research and development (R&D) capabilities, developing brands, technical abilities and know-how. The idea is to stay ahead of the competition.

This probably explains why global patent filings have increased by 8.3% and global trademark filing activity has increased by 13.5% over the last seven years [based on the "World Intellectual Property Indicators 2017" report published by World Intellectual Property Organisation (WIPO)].

Figure 1 Three distinct phases of a typical IP management lifecycle


### BROAD OVERVIEW OF IP MANAGEMENT LIFECYCLE AND APPLICABLE TAX INCENTIVES IN SINGAPORE

A typical IP management lifecycle involves three distinct phases (Figure 1).

### IP creation and acquisition phase

Businesses can deploy resources to carry out R&D on their own to create new IP. Alternatively, they may, for better access to resources and better management of costs, engage third parties or other group entities to carry out the R&D project on their behalf under a "contract R&D arrangement".

Besides investing in the creation of IP, businesses may also invest in acquiring IP to build up their IP inventory. Broadly, such IP acquisition may involve:

- Outright purchase of legal ownership of IP rights, or
- Acquisition of economic ownership of IP rights under a licensing/royalty arrangement.

Below is a range of tax incentives available for IP creation and acquisition in Singapore:

#### a) Enhanced tax deduction

Companies that perform qualifying R&D projects in Singapore can enjoy a tax deduction of up to 250% for staff costs and consumables. This includes expenditure incurred for contract R&D arrangement performed in Singapore. This additional perk is in line with the R&D practices of regional economies, with Thailand and Hong Kong offering deduction of up to 300% (subject to caps). That said, given that Singapore has one of the lowest corporate tax rates in the region, it still remains as one of the most competitive locations for IP hosting.

#### b) Research Incentive Scheme for Companies (RISC) grant

Companies investing in approved R&D projects in Singapore can enjoy cash grants of up to 30% of qualifying R&D project costs such as manpower, training, consultancy, equipment,

> ... given that Singapore has one of the lowest corporate tax rates in the region, it still remains as one of the most competitive locations for IP hosting.

software, IP and material costs, and up to 50% of local manpower costs.

### c) Writing-down allowance (WDA)

Companies can claim automatic WDA on capital expenditure incurred to acquire legal and beneficial ownership of specified IP rights[1] on a straight-line basis over a choice of five, 10 or 15 years, subject to the conditions under Section 19B of the Singapore Income Tax Act (SITA). Approval from the Singapore Economic Development Board (EDB) is required where only the economic ownership of such IP rights is acquired.

In addition, the Inland Revenue Authority of Singapore (IRAS) requires a valuation report from an independent third-party valuer in respect of:

- Capital expenditure incurred in acquiring the IP rights from a related party where the value is greater than or equal to S$500,000, and
- Capital expenditure incurred in acquiring the IP rights from an unrelated party where the value is greater than or equal to S$2 million.

## IP protection phase

Following the creation or acquisition of IP rights, businesses should set up the necessary legal platforms to protect themselves from various risks, including the risk of losing out to the competition. The ability to protect the IP inventory and defend the IP rights against infringement is extremely important.

Companies that incur patenting costs for an invention can claim an automatic tax deduction on the patent costs which otherwise would be regarded as non-deductible expenses, provided the legal and economic ownership of the resulting IP lies with the Singapore companies claiming it. The 2018 Budget also provides for 200% tax deduction for the first S$100,000 of qualifying IP registration costs.


IRAS does not provide any prescribed valuation methodologies to be adopted to value an IP as it acknowledges that the appropriateness of the valuation approach and method generally depends on the nature of the IP rights, the strength and weakness of the possible valuation approaches and methods, and the availability and reliability of information applicable to the method.

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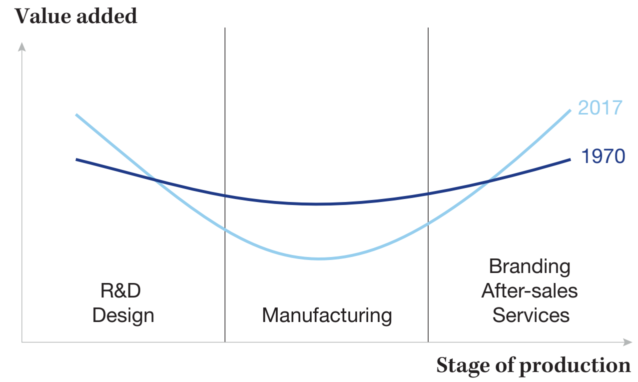
Figure 2 The production cycle of the 21st century

Source: "World Intellectual Property Report 2017: Intangible capital in global value chains", WIPO 2017, p.10




## IP exploitation phase

Successful exploitation of IP rights helps to generate revenue, raise capital, strengthen competitive positioning or reduce costs.

With effect from 1 July 2018, companies that derive qualifying IP income[2] from the commercial exploitation of qualifying IP projects can qualify to apply concessionary corporate tax rates of 5% or 10% on a percentage of the qualifying IP income under the Intellectual Property Development Incentive (IDI). The percentage is determined by the modified nexus approach.[3] This benefit is available on application to EDB and subject to meeting qualifying conditions such as making incremental specified fixed asset investments or incurring incremental specified annual business spending and creating specified incremental skilled job opportunities.

In addition, taxpayers using or exploiting their IP inventory to earn other forms of business income (by supplying goods or providing services) may, subject to meeting specified conditions, qualify for concessionary corporate tax rates under the Development and Expansion Incentive (DEI) programme, which is also administered by EDB.

## VALUATION OF IP FOR SINGAPORE TAX PURPOSES

A valuation report from a third-party independent qualified valuer[4] is required if a company intends to claim WDA on capital expenditure incurred in acquiring a qualifying IP.

IRAS does not provide any prescribed valuation methodologies to be adopted to value an IP as it acknowledges that the appropriateness of the valuation approach and method generally depends on the nature of the IP rights, the strength and weakness of the possible valuation approaches and methods, and the availability and reliability of information applicable to the method. As such, one may rely on any or combination of the following most common valuation methods:

1) **Market-based approach:** Determines the value of the IP based on the estimate of the price at which it can be sold, that is, the present market value of the future economic benefits which could be derived by the owner of the IP.
2) **Cost-based approach:** Measures the economic benefits of ownership by estimating the amount of money that would be required to replace the future service capability of the subject IP.
3) **Income-based approach:** Determines the value of the IP based on the income generating capability of the IP.

Interestingly, IRAS reserves the right to seek a second independent valuation report or adjust the amount eligible for WDA, if it has reason to believe that the true value of the IP rights is materially different from that presented in the valuation report.

## OUR SWEET SPOT

Given Singapore's land and labour constraints, it will be more relevant for us to focus on IP assets that zoom in on intangible attributes (example, product design, brand, aftersales services and customer experiences). In the new world, customers will continue to seek products that are not only value for money, but also products with high intrinsic quality that induce the "feel good" factor. Singapore as a country should be geared up to offer not only goods and services but experiences to the global market. Singapore Airlines is a case in point. To achieve this, we need to encourage more investments in R&D, design, branding and after-sales services (Figure 2).

## THE WAY FORWARD

The Singapore government has long recognised that a strong IP environment is absolutely necessary for sustained economic progression in the new world, and IP will continue to be a strong driver for the country's business growth. In addition to all the IP legal and tax measures unveiled over the years, it may be timely for our policymakers to also consider the following suggestions to retain Singapore's shine as a favourable IP holding-cum-commercialisation location:

- Introduce automatic double tax deduction for design and brand development expenses incurred by local companies;
- Renegotiate old tax treaties for more preferential treaty rates applicable to royalties;
- Build and nurture a financial ecosystem (could be under a public-private partnership) which will help businesses to access sources of capital using their IP inventories as valuable collateral assets.

Needless to say, in this world of shifting sands, continuous monitoring and actions are required to modernise and enhance Singapore's attraction as a favourable IP holding-cum-commercialisation location. ISCA

**Abhijit Ghosh is an Accredited Tax Advisor (Income Tax) of SIATP and International Tax Partner and Tax Market Leader of PwC Singapore, and Gary Foo is Tax Manager of PwC Singapore.**

[1] Specified IP rights include patents, copyrights, trademarks, registered designs, geographical indications, layout designs of integrated circuits, trade secrets or information with commercial value and plant varieties.

[2] "Qualifying IP income" refers to royalties or other income receivable as consideration for the commercial exploitation of qualifying IP rights (that is, patent and copyrights subsisting in software).

[3] The modified nexus approach is an international standard set by OECD, which allows jurisdictions to provide benefits to the income arising from exploitation of an IP right, so long as there is a direct nexus between the income receiving benefits and the expenses contributing to that income.

[4] "Qualified valuer" refers to Chartered Valuer and Appraiser, Chartered Financial Analyst and Chartered Accountant.

BY FELIX WONG

# OPERATIONAL TRANSFER PRICING

## Organise, Comply, Document

**TRANSFER PRICING (TP) REMAINS A MAIN FOCUS AREA** of tax authorities around the world today. While groups like the Organisation for Economic Co-operation and Development (OECD) have been trying to seek international consensus and have issued various TP guidance, country tax authorities may choose to administer TP differently, leading to more tax controversies and increased risks of double taxation for companies. Companies can no longer rely on a patchwork of enterprise systems and ad hoc, manual activities to capture, calculate, monitor, and manage TP.

In a timely *Tax Excellence Decoded* session organised by the Singapore Institute of Accredited Tax Professionals (SIATP), Accredited Tax Practitioner (Income Tax) Elis Tan, Executive Director, Transfer Pricing, BDO Singapore, shared her expertise on how a well-constructed and executed operational TP framework is crucial for companies seeking to manage TP challenges in the current international environment.

**Accredited Tax Practitioner (Income Tax) Elis Tan, Executive Director, Transfer Pricing, BDO Singapore, emphasised the importance of a well-constructed and executed operational TP framework**

### OPERATIONAL TP: WHAT IT IS AND WHAT THE CHALLENGES ARE

Operational TP is the application of data management and analytics to manage TP data and processes, so as to enable effective and continuous implementation and monitoring of TP policies throughout the entire organisation.

Take, for example, a residual profit split TP model between an overseas head office and a Singapore subsidiary where the two entities are first allocated routine profits for routine functions, and then the residual profit (after deducting

> To adequately tackle TP issues, a unified effort across various business functions is necessary.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routine profit from total operating profit) is split among the two entities based on appropriate profit allocation drivers.

While such profit allocations may look straightforward on paper, they may not be so in practice as numerous operational TP challenges await. At the most basic level, data retrieved from the management information system (MIS) may not tie to the statutory or tax numbers based on which tax returns are prepared. Data may also change during the year (for example, headcount costs) and affect TP policy parameters. Additional efforts are often required to identify discrepancies and to adjust or update the data before it can be used.

Apart from data, another common challenge that companies face is the lack of ownership of TP issues within their organisations. This is partly contributed by the common misconception that TP concerns only the tax and finance functions.

To adequately tackle TP issues, a unified effort across various business functions is necessary. All business units must be cognisant that the transfer price of an intercompany transaction may require reassessment if the level of involvement of any group company is materially changed. Accordingly, each business unit must take up the responsibility to update the tax and finance functions in a timely manner to avoid exposing the organisation to unnecessary TP risks.

## AN INTEGRATED OPERATIONAL TP APPROACH

While operational TP is clearly relevant in the current business landscape, how can companies put in place a framework to address real-life TP challenges? The answer lies in adopting an integrated operational TP approach.

An integrated operational TP approach encompasses people utilising technology and processes to plan TP policies, set up financial system infrastructures, monitor and analyse transactions, and scale up operational TP solutions to identify TP risks, determine TP adjustments and avoid large year-end adjustments. It can benefit an array of companies, especially companies with significant intercompany transactions, inconsistent TP results and companies that rely on manual processes for calculating TP.


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### Planning

Effective operational TP planning starts with a robust global TP policy that is supported by appropriate economic analyses consistent with the functional and risk characterisations of the local underlying entities.

Intercompany agreements that are aligned with the substance of the transactions are important, together with a global governance model with clearly defined roles and responsibilities which monitors for compliance and consistency. There must also be contemporaneous TP documentation demonstrating that the TP outcomes are at arm's length.

### Systems

TP policies, no matter how well prepared, will be meaningless if they are not supported by an adequate financial system infrastructure. Setting up the financial system infrastructure, however, is not an easy task as the financial system needs to fulfil two disparate needs. On the one hand, management demands line reporting at both global and divisional levels. On the other hand, statutory requirements (including legal, tax and accounting needs) need to align at legal entity and geographical levels. Ideally, the financial system should be robust enough to capture information to fulfil both management and statutory needs, and flexible enough to incorporate adjustments where necessary.

### Monitoring

Different organisations adopt different approaches to monitoring. Some choose to "firefight", only resolving TP issues as they crop up. Others are more proactive, continuously monitoring the TP process throughout the year. Yet others may prefer a middle-of-the-road approach by performing ad hoc analysis on entities based on their risk levels, with riskier entities receiving greater attention.

The exact approach that an organisation adopts generally depends on its risk appetite and the resources it has. While continuous monitoring (often with the use of data analytics tools) is the least risky option, it is also resource intensive and may not be viable for every organisation.

### Scalability

Scalability is an important consideration when implementing operational TP solutions. Ideally, the operational TP solution should be transferable and equally applicable to a range of entity characterisations. In addition, it should also remain relevant as the business environment changes and complexities grow.

Ultimately, the whole organisation should be able to rely on the same set of tools to leverage a standard dataset to perform the same types of analytics, while at the same time maintaining the flexibility to customise the solution based on unique country requirements.

It is paramount that management recognises the heavy costs of inappropriate TP positions and that employees do not see TP as a mere compliance requirement.

As an illustration of a scalable operational TP framework, consider a global service fee model. Here, the regional cost centres charge their expenditures to the global headquarters. These costs (sans shareholder costs) are then pooled with global headquarters' expenditures and allocated to the group entities based on the time spent by global and regional personnel in supporting each group entity. A scalable operational TP framework must be able to extract cost centre information consistently to arrive at an accurate cost base. The organisation must also standardise its definitions for each type of costs (for example, what is shareholder cost) to minimise subjectivity in questionnaires.

Local country regulations are also pertinent and must be catered for in the framework; for example, in Korea, overseas entities cannot provide certain functions to local entities. Separately, organisations should also consider keeping a mechanism to disallow costs if certain service charges are not made for commercial reasons (for example, global headquarters may have a policy not to allocate costs to the smaller subsidiaries).

## BEST PRACTICES ACROSS THE TP LIFE CYCLE

Key stakeholders, particularly those knowledgeable about the organisation's intercompany transactions, should be involved right from the start at the planning stage. Committees may also be established to identify cross-border activities and develop strategies to address new intercompany transactions. In addition, formal communication, training and management programmes may be introduced to the wider audience within the organisation if necessary.

At the implementation stage, organisations need to ensure that there are sufficient systems and proper TP processes are in place. Sophisticated and expensive systems are not a necessity, so long as TP calculations and reconciliation can be performed effectively. Organisations should also ensure that the form and substance of their intercompany transactions align.

Monitoring of TP positions is best done through an automated monitoring process where the organisation is also able to adjust discrepancies in the transfer price in a timely manner. As a best practice, a responsibilities matrix can also be established.

It is paramount that management recognises the heavy costs of inappropriate TP positions and that employees do not see TP as a mere compliance requirement. To emphasise the importance of TP, management could identify the departments responsible for monitoring, escalating, modifying and evaluating TP, and could even consider adding TP as a key performance indicator (KPI) to influence employee behaviours.

Finally, companies must also be able to articulate business realities and substantiate the arm's length nature of related party transactions in their TP documentation. It is also important to ensure that the TP positions as stated in the TP documentation are coherent with the actual intercompany transactions and other statutory filings (such as the local tax returns). Any discrepancies should be explained.

As TP remains an important focus area by tax authorities, it is up to companies to manage their TP risks. Operational TP may just be the answer. ISCA

**Felix Wong is Head of Tax, SIATP.**


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BY KOH WEI CHERN AND CHOO TECK MIN

DON'S COLUMN

# FRS 115: ACCOUNTING FOR "FREE" ITEMS THAT ARE NOT AN OUTPUT OF AN ENTITY'S ORDINARY ACTIVITIES

## Clarifying The Grey Areas

**THE INTERNATIONAL ACCOUNTING STANDARDS BOARD** issued International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* on 28 May 2014. Singapore adopted it as Financial Reporting Standard (FRS) 115 *Revenue from Contracts with Customers* on 19 November 2014. Both have equivalent effective dates, that is, they are effective for annual periods beginning on or after 1 January 2018.

One of the key improvements of FRS 115 over FRS 18 *Revenue* is that based on the five-step model under FRS 115, step four requires the allocation of the transaction price to all performance obligations on the basis of the relative standalone selling prices of each distinct good or service promised in the contract. As a result, regardless of how entities package their multiple deliverables arrangements, the revenue recognition practices for these arrangements across entities within each industry is likely to become more consistent and comparable with one another.

[1] "Seeing Revenue In A Different Light", *IS Chartered Accountant Journal*, Sept 2015

### AN EXAMPLE FROM THE TELCO INDUSTRY

In a commonly cited example of a telco company – it was also discussed in an earlier article in this Journal back in September 2015[1] (reiterated here for ease of exposition) – customers can enter into a two-year contract plan for a monthly subscription fee of $20 and receive a free handset. Under FRS 18, most telco companies would recognise the entire contract value as revenue over the two-year service period without allocating any revenue for delivering the handset at the beginning of the contract. The cost of the handset would be treated as the cost of acquiring the customer. However, under FRS 115, the transaction price of $480 would be allocated to the handset and the two-year contract plan accordingly.

This is not a controversial example if we look at the scope of FRS 115. It is clearly stated in FRS 115 paragraph 6 that an entity shall apply FRS 115 to a contract (other than a contract listed in paragraph 5) only if the counterparty to the contract is a customer. It is further clarified in the

## One of the key improvements of FRS 115 over FRS 18 *Revenue* is that based on the five-step model under FRS 115, step four requires the allocation of the transaction price to all performance obligations on the basis of the relative standalone selling prices of each distinct good or service promised in the contract.

same paragraph that a customer is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

FRS 115 does not define what an entity's ordinary activities are. Nevertheless, we would believe that an entity's ordinary activities should arise from the "ordinary course of business". We examine further how various dictionaries define "ordinary course of business". The online BusinessDictionary defines the phrase as "a term for activities that are necessary, normal, and incidental to the business. These are common practices and customs of commercial transactions". The online Merriam-Webster dictionary provides the following legal definition – "the usual manner and range of a business especially considered in relation to the amount, circumstances, and validity of a particular transfer".

Coming back to the telco example, selling the handset would likely fall under the usual business transaction of a telco and hence, an output of the entity's ordinary activities and thus within the scope of FRS 115.

In this article, we would like to take this example further by adding one more "free" item; customers would enter into a two-year contract plan for a monthly subscription fee of $20 and receive a free handset and a free rice-cooker. The pertinent question then becomes, "How would one account for the rice-cooker?"

### VIEW 1: NOT WITHIN SCOPE OF FRS 115

Strictly speaking, a telco would not ordinarily be selling rice-cookers. This would not be a usual or normal part of its business and so, the rice-cooker is not an output of the entity's ordinary activities. Hence, the provision of the rice-cooker falls outside the scope of FRS 115 and should not be a performance obligation. This view is also taken by some respondents to the exposure draft of IFRS 15. In IFRS 15 paragraph BC88, "some respondents suggested that some promised goods or services should be excluded from the scope of IFRS 15 and accounted for as marketing expenses or incidental obligations..." Under this view, the transaction price of $480 would be allocated to the handset and the two-year contract plan accordingly. The cost of the rice-cooker would be treated as the cost of acquiring the customer.

### VIEW 2: WITHIN THE SCOPE OF FRS 115

The accounting standards boards, however, take a different view. In IFRS 15 paragraph BC89, it is stated that "the boards observed that when a customer contracts with an entity for a bundle of goods or services, it can be difficult and subjective for the entity to identify the main goods or services for which the customer has contracted. In addition, the outcome of that assessment could vary significantly depending on whether

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the entity performs the assessment from the perspective of its business model or from the perspective of the customer. Consequently, the boards decided that all goods or services promised to a customer as a result of a contract give rise to performance obligations because those promises were made as part of the negotiated exchange between the entity and its customer. Although the entity might consider those goods or services to be marketing incentives or incidental goods or services, they are goods or services for which the customer pays and to which the entity should allocate consideration for purposes of revenue recognition".

IFRS 15 paragraph BC90 goes on to elaborate further that "the boards decided not to exempt an entity from accounting for performance obligations that the entity might regard as being perfunctory or inconsequential. Instead, an entity should assess whether those performance obligations are immaterial to its financial statements as described in IAS 8..."

In other words, the accounting standards boards recognise the difficulties in assessing what constitutes the output of ordinary activities of an entity. To reduce the subjectivity and judgement calls that entities have to make, the boards have taken a stand to say that all goods and services promised to a customer would give rise to performance obligations. This reduces the judgement calls that entities have to make and should aid in enhancing consistency in revenue recognition policies and aid in comparability across entities. Under this view, the transaction price of $480 would be allocated to the rice-cooker, the handset and the two-year contract plan accordingly. However, in such a case, the entity does have the option to invoke FRS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and argue that the performance obligation of the rice-cooker is immaterial to its financial statements and hence, is exempt from being regarded as a separate performance obligation under FRS 115.

... the accounting standards boards recognise the difficulties in assessing what constitutes the output of ordinary activities of an entity. To reduce the subjectivity and judgement calls that entities have to make, the boards have taken a stand to say that all goods and services promised to a customer would give rise to performance obligations.

## SUMMARY AND CONCLUSIONS

In a scenario where an entity provides a "free" item that is not an output of an entity's ordinary activities, it was initially unclear whether it is within the scope of FRS 115. However, to avoid such ambiguity, the accounting standards boards have taken the stand that all goods and services promised to a customer would give rise to performance obligations. Hence, even if it is a "free" item that is not an output of an entity's ordinary activities, it will still fall within the scope of FRS 115 and is one of the performance obligations to which the transaction price has to be allocated to. ISCA

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