IS Chartered Accountant Journal

NOVEMBER 2019

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focus

ISCA ETHICS SEMINAR 2019

Serving The Public Interest – Narrowing The Expectation Gap

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Ethics Is Fundamental To Accountancy, There Is No Compromise

Dear members,

AS A PROFESSION, accountancy has done much to contribute to Singapore's global standing as a preferred business and financial hub, and it continues to do so in ways that matter. In terms of incorruptibility, a recent CPIB report lists Singapore as one of the least corrupt countries in the world. Singapore's anti-corruption efforts have earned it a third place, behind Denmark and New Zealand respectively, in the Transparency International Corruption Index 2018. The city-state has also retained its top position as the region's least corrupt country since 1995, according to the Political and Economic Risk Consultancy. These accolades are hard-earned and no stakeholder can afford to rest on its laurels.

For accountancy, as with other industries, technology brings many advantages that enable us to add value to our clients and to our own organisations. On the flip side, technology has led to a spike in cybercrime, particularly in sophisticated fraud that is difficult to detect.

Notwithstanding the challenges in fraud detection, given the role and skill sets of accountants, such as their analytical minds and access to their clients' finances, they are expected to step forward when encountering or have suspicion of any financial wrongdoings, for example, in instances of money laundering and terrorism financing. Therein lies a dilemma – the balance between acting in the public interest and maintaining confidentiality. This and other issues, such as the additional burden put on professional accountants to whistle-blow, have been extensively discussed in the lead-up to the final pronouncement of the International Ethics Standards Board for Accountants (IESBA)'s International Code of Ethics for Professional Accountants (IESBA Code).

Ethics is the bedrock of accountancy, and the Institute has been keeping up with such developments as they impact the profession and our members. In this respect, over the last three years, the Institute has been sharing insights, at our events and in this Journal, on how to respond when encountering non-compliance with laws and regulations (NOCLAR). The discussion continued at this year's ISCA Ethics Seminar. Themed "Serving The Public Interest – Narrowing The Expectation Gap", a select group of subject matter experts forwarded their perspectives on the ethical areas that influence the accountancy profession. While the main points of the seminar are featured in the cover story, "ISCA Ethics Seminar 2019", it bears reiterating that a distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Professional accountants need to demonstrate ethical behaviour, uphold ethical values and have an inquiring mind; they must also comply with *both* the letter and spirit of the IESBA Code. The article, "Role And Mindset Expected Of Professional Accountants", published in our October 2019 issue, provides a comprehensive profile of a professional accountant.

It is no coincidence that our featured member in this issue's Member Profile column should emphasise high ethical standards as a prerequisite for a trusted finance leader. David Leung, CFO of iFAST Corporation and Best CFO (small-cap companies) award recipient at this year's Singapore Corporate Awards, also cites a "curious mind" as being critical. As he explains, "Accountancy is not just about *what* the numbers are, but *why* they come up." I hope that in the course of their work, members will always commit to do the right thing – behave ethically, ask questions, and act in the public interest.

Digital transformation has produced winners and losers, and some organisations have reported higher return on investment than others. To arm members with the know-how to stay on the right side of the equation are two articles, "Unpacking Digital Transformation" and "One In 700: Where Do You Stand?" The first piece features a framework that senior leaders can use to help them deliver successful digital transformations. The second piece shares five takeaways for small and medium-sized practices as they gear up for the new year; the winning formula is derived from a Xero 2020 Accounting Industry Report supported by ISCA.

The Institute's latest e-learning programme, ISCA Professional Business Accountant (PBA) Programme, is also aimed at enhancing members' competencies and equipping them with the relevant skill sets for the future economy. Launched in October, it is aligned to the ISCA Professional Accountants in Business (PAIB) Framework and covers its five DNAs, namely, Future Finance, Business Acumen, Professional Values and Ethics, Technical Excellence, and Leadership and Personal Empowerment. As the PBA Programme is conducted wholly online, it provides members the ease and flexibility to learn at their own pace. Those who complete the PBA Programme and satisfy the prevailing ISCA Associate membership requirements including acquiring at least three years of post-qualification relevant work experience criteria will be conferred the ISCA PBA designation – a validation of their knowledge and expertise. The hours accumulated for this Programme count towards meeting the CPE requirements. We have more details within these pages, and also an Information Session on November 21. I encourage those who are interested in the PBA Programme to sign up for the Information Session.

There are many other resources in this issue, such as the feud between the US and China, tax sharing schemes, IFRS Interpretations Committee's update on capitalisation of borrowing costs, best CEO-CFO pairing for mergers and acquisitions, and more. Do explore them at your leisure.

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Singapore Tops List Of AI-Ready Large Cities

SINGAPORE IS MOST READY FOR THE NEXT WAVE OF DISRUPTION brought on by technology, according to the inaugural Global Cities' AI Readiness Index by Oliver Wyman Forum. The city-state ranks first in the Large Cities category – for population size of five to 10 million – with a score of 75.8, ahead of Berlin in second place (67.3), and Chicago in third (65.1). In the Asia Pacific, Hong Kong (rank: 6; score: 63.9) and Kuala Lumpur (rank: 14; score: 55) are the next two highest-ranked cities.

Rankings, by Large Cities
Source: Global Cities' AI Readiness Index

City	Overall Rank	Vectors Rank			
		Vision	Activation	Assets	Development
Singapore	1	1	3	3	7
Berlin	2	2	1	11	6
Chicago	3	4	8	4	8
Seoul	4	13	13	1	3
Washington, DC	5	5	6	6	13
Hong Kong	6	7	16	2	2
Toronto	7	10	2	5	25
Dallas	8	3	10	9	24
Houston	9	6	7	10	26
Atlanta	10	14	11	8	20

Rankings in Asia Pacific, by Large Cities
Source: Global Cities' AI Readiness Index

City	Rank	Overall score
Singapore	1	75.8
Hong Kong	6	63.9
Kuala Lumpur	14	55.0
Hangzhou	16	52.5
Nagoya	17	49.8
Bangkok	22	39.2
Hanoi	23	38.5
Chennai	24	37.0
Pune	26	35.7
Ho Chi Minh City	27	33.5

The Forum conducted extensive global research on 105 cities to better understand the potential disruption arising from artificial intelligence (AI), and initiate data-informed conversations about how to address the potential and challenges of AI disruption.

The Readiness Index groups cities by population size, and then ranks them based on an overall readiness score comprising four vectors that assess their ability to adapt and thrive in the coming age of AI. The four vectors analyse each city's vision, priorities, and mindset; activation; asset base, and trajectory and development.

Given the national efforts towards Singapore's transformation into a Smart Nation, its high score of 98.44 for Vision comes as no surprise. This score places Singapore first among the 29 cities in the Large Cities category. In terms of Activation, Singapore scored 78.95 (rank: 3); Assets, 66.9 (rank: 3) and Development, 59.01 (rank: 7). In the sub-vectors, Singapore was recognised for the value propositions which make it a preferred business destination; it came in first in Legal and Governance (under the Activation vector), and Funding (Assets vector).

According to the report, overall, cities – where 55% of the world population resides; the figure will rise to 68% by 2050, according to United Nations – have some way to go, to be fully prepared for Industrial Revolution 4.0. Cities of different sizes can offer useful lessons for each other, and the report highlights three of them.

- **No city is close to being ready for the challenges ahead**
  Some cities are more prepared than others, but all cities need to continue to make substantial improvements to prepare for the impacts of next-generation technology. It is significant that no city ranks among the top 20 across four vectors, and none appears in the top 10 across three vectors.
- **Focus is better than size**
  Mega Cities have well-scaled business communities and talent pools, but smaller cities can be just as competitive. Five of the top 10 cities have populations below five million. Amsterdam and Stockholm, for example, stand among the leaders in embracing technology, and are benefiting from the intangible and mobile nature of the AI economy.
- **City governments need to get real**
  Most cities do not address major societal changes driven by AI and other technologies. They focus on smart city developments and opportunities but ignore or downplay risks. A global Oliver Wyman survey of 10,000 people revealed that city-dwellers have a more balanced view; they are optimistic about what new technologies can offer but they understand the risks as well. Some 45% of respondents, for instance, anticipate job loss due to AI automation.

Four vectors used for the Readiness Index

Vision Does the city demonstrate a good understanding of the potential opportunities and risks around technology disruption and does it have a systematic and integrated plan meeting the challenges?

Activation Does the city and its stakeholders have a demonstrated ability to carry out forward-looking plans, including the cross-stakeholder essential to governance?

Assets Does the city have existing assets that will act as enablers to support enacting its vision? For example, does the city have a reservoir of talent in colleges and universities, an educated workforce, high-quality STEM education in primary and tertiary education, a track record for innovation and attracting pioneering companies, and the necessary infrastructure?

Development Is the city trending in the right direction? In recent years, has the city seen itself improving its ability to execute, and have its assets become better aligned with what is needed to succeed in the future?

Source: Global Cities' AI Readiness Index

Majority Of Workers In Singapore Picking Up New Technology Skills

A new PwC report revealed that about half (54%) the respondents in Singapore believe automation will significantly change or make their job obsolete within the next 10 years. While most admit that technology would change their jobs significantly, 4% still believe that technology would not affect their day-to-day work.

The survey, "Upskilling Hopes & Fears", also indicated a sense of optimism, with 53% of respondents saying that they felt technology would bring about more opportunities than risks in the workplace; 85% felt that technology will change their work for the better. The survey involved 22,000 adults across 11 countries worldwide, and built on PwC's economic analysis on the impact of automation on jobs.

Given the clear recognition of the change that technology will bring, it is unsurprising that 81% of respondents in Singapore were already learning new skills to better understand or use technology. Even if they were not already pursuing opportunities, 92% in Singapore said that they would take the opportunity to better understand or use technology if it were available to them. If their jobs were at risk, 85% of them would learn new skills now or completely re-train in order to improve their future employability. This is a clear reflection that individuals are aware of the necessity of upskilling.

"The world of work is changing rapidly. For Singapore to remain relevant on the world stage, every player must do their part to keep the momentum of digital upskilling going. Employers, industries and government play a significant role in this by partnering and creating opportunities for upskilling, supporting and encouraging Singaporeans to upskill in an effective way," says Fang Eu-Lin, Leader of PwC's Academy in Singapore.

PHOTOS SHUTTERSTOCK

More Women Directors In Board Positions In First Six Months Of 2019

THE COUNCIL FOR BOARD DIVERSITY REPORTED in September that the number of women on boards (WOB) for the first six months of 2019 increased by 0.5 percentage points to 15.7% among the top 100 primary-listed companies on Singapore Exchange (SGX), and by 1.2 percentage points to 24.5% among statutory boards, compared to six months earlier. WOB for the top 100 Institutes of a Public Character (IPCs) remained unchanged at 27.4% (Table 1).

Following the Council's establishment in January 2019 with a wide mandate to cover listed companies, statutory boards and IPCs in Singapore, it has set out a long-term ambition for equal proportion of men and women directors on boards. To create a momentum of change, the top 100 primary-listed companies and IPCs as well as statutory boards have been urged to lead the way. Accordingly, the Council has set multiple WOB targets, taking into consideration the different starting positions in board gender diversity. For the immediate term, the targets are:

- Top 100 primary-listed companies to achieve the first tier of 20% WOB by end-2020; all listed companies to achieve 25% by end-2025 and 30% by end-2030;
- Top 100 IPCs and statutory boards to achieve 30% WOB as soon as possible.

Key highlights of women's board appointments

- **Top 100 listed companies** recorded a 0.5 percentage point increase in WOB to 15.7%. Five of these companies, which are already gender-diverse, further added a woman director each. All-male boards reduced by four, to 21.
- **Statutory boards** made the best progress among the three sectors, with a 1.2 percentage point increase in WOB to 24.5%. This is due to a net increase of 12 women directorships and net decrease of nine male directorships. Fifteen statutory boards, which are already gender-diverse, further added a total of 16 women directors.
- **Top 100 IPCs** remained unchanged in WOB but at 27.4%, it fared the best among the three sectors. Six IPC boards, which are already gender-diverse, further added a total of 11 women directors.
- **More to go across the three sectors, but some have achieved the Council's immediate WOB targets:**
  - 36 of top 100 listed companies have achieved the first-tier target of at least 20% WOB;
  - 15 of 64 statutory boards have reached 30% or more WOB, up from 12;
  - 40 of top 100 IPCs have achieved 30% WOB.

More opportunities to improve diversity through board refreshment

With the nine-year tenure rule for Independent Directors (ID) taking effect on 1 January 2022, the onus is now on Singapore-listed companies with IDs who have served nine years or more to pick up the pace of increasing board independence. As at 30 June 2019, 98 independent directors among the top 100 listed companies have served on the boards for at least nine years.

Companies planning to appoint more women directors on their boards can look at a broader slate of male and female qualified board directors, and search beyond personal networks to enlarge the candidate pool. The Council lists on its website these resources:

- **Business networks**, including women's business groups like International Women's Forum, Women Corporate Directors; business associations like Singapore Business Federation, Singapore Chinese Chamber of Commerce & Industry;
- **Executive search firms** and organisations offering board-matching services, for example, Singapore Institute of Directors, to widen the search;
- **Contact the Council**.

PHOTO GETTY IMAGE

Table 1 Women's participation on boards of top 100 listed companies, statutory boards, top 100 IPCs

Source: Council for Board Diversity

	As at	Top 100 listed companies	Change	Statutory boards	Change	Top 100 IPCs[1]	Change
% of women on board	30 Jun 2019	↑ **15.7%**	**+0.5ppt**	↑ **24.5%**	**+1.2ppt**	**27.4%**	-
	December 2018	15.2%	+0.5ppt	23.3	NA	27.4%	NA
No. of all-male boards	30 Jun 2019	↓ 21	-4	1	-	↓ 4	-1
	December 2018	25		1		5	

[1] IPCs with gender-specific objectives resulting in all-women boards are excluded
NA – information not available

ISCA Professional Business Accountant (PBA) Programme

IN THIS ERA OF DIGITAL TRANSFORMATION, disruptive technologies are changing the business landscape and challenging the way people work. More and more businesses are taking on digitalisation and automation to harness the benefits of new technologies. For finance professionals to stay ahead of the curve amid the digital transformation, they need to keep themselves updated through constant learning.

With the aim to help Professional Accountants in Business (PAIBs) succeed in today's work space, the Institute launched the ISCA Professional Business Accountant (PBA) Programme in October 2019. This Programme is tailored for members to enhance their competencies and keep themselves updated with relevant skill sets for the future economy.

Aligned to the ISCA Professional Accountants in Business (PAIB) Framework, the ISCA PBA Programme provides a comprehensive coverage of the five key DNAs in the Framework, comprising topics in the areas of Future Finance, Business Acumen, Professional Values and Ethics, Technical Excellence, and Leadership and Personal Empowerment.

The key feature of the ISCA PBA Programme is online learning. Keeping up with electronic technologies, the courses in this Programme are run on an e-learning platform. This provides busy finance professionals the ease and flexibility of attaining new skill sets at their own pace.

The e-learning courses come with online assessments and upon completion of the Programme, participants will be awarded the Professional Certificate in Business Accounting. The completion of this Programme also leads to an enhanced Associate membership pathway. ISCA Associate members will be conferred the ISCA PBA designation, subject to fulfilling three years of post-qualification relevant working experience and other eligibility requirements. The ISCA PBA designation validates the expertise and knowledge that our Associate members have acquired as accountancy professionals who are highly valued by employers and the industry.

The hours accumulated for this Programme can be counted towards meeting the CPE requirements.

CONTENT STRUCTURE

Future Finance

As companies invest in technologies to enhance efficiencies in their business processes, finance professionals need to be adaptable and embrace such changes. In this module, finance professionals will be exposed to technologies such as Artificial Intelligence and Automation, Blockchain, Cybersecurity, and Data and Analytics, to understand the potential and challenges of technologies adoption.

Business Acumen

Finance professionals are increasingly involved in important decision-making processes. They are expected to actively engage the business and drive performance. This module aims to build competency in effective business partnering, strategic business planning and analysis, and sustainability reporting.

Professional Values and Ethics

Maintaining strong ethical values is the cornerstone of the accountancy profession. Hence, this module places emphasis on the importance of having strong ethical values to act professionally and ethically to maintain a high level of public trust. The concept of professional scepticism is also introduced to challenge finance professionals to demonstrate curiosity by exploring beyond what is immediately apparent.

Technical Excellence

To successfully navigate the terrains of demanding business and regulatory environments, finance professionals need to be proficient in the knowledge and application of accounting and other professional standards. Above and beyond the financial reporting standards, the courses prepare the finance professionals to be proficient in new areas such as business analytics, financial modelling, corporate governance, corporate finance, business valuation and taxation.

Leadership and Personal Empowerment

With the rapid changes in the global workforce, finance professionals must constantly acquire new skills to differentiate themselves as effective leaders and communicators. The focus here is on effective leadership skills such as delegation and feedback, coaching and conflict management to equip finance professionals to play a more major role in their companies.

As the entire workforce goes through immense transformation, we encourage finance professionals to seize every opportunity to upskill and build new competencies through continuing professional education. It is often said that the secret to lifelong success is lifelong learning, and in this rapidly changing business landscape, lifelong learning is the key to staying competitive.

For more information on the ISCA PBA Programme, please visit http://www.isca.org.sg/PBA or scan the QR code on the left.

WHAT EMPLOYERS SAY...

"As a finance leader, I firmly believe that members of the accounting and finance team need to embrace continuous learning to stay abreast of the constantly changing workplace. Besides on-the-job coaching, undertaking relevant courses will empower accountancy professionals to handle dynamic business situations. The PBA Programme is based on multiple e-learning modules that offer flexibility and encourage participants to learn while managing work and personal commitments."

LELAINA LIM
Group Chief Financial Officer
Eu Yan Sang International Ltd

"Sweeping disruption of the accounting industry is imminent. Technological changes and shifting business trends demand a new approach to how the industry creates value. Increasingly, Financial Controllers and CFOs will use data (structured and unstructured), robotics and predictive analytics to access financial trends and industry information to make insightful forecasts and analysis. The ISCA PBA Programme is designed to enhance the competencies of accountancy professionals by equipping them with emerging skills to do more interesting and rewarding work that will add more value to the bottom line."

NEO SING HWEE
Managing Director
Head, Operations System & Control
Mapletree Investments Pte Ltd

ISCA PROFESSIONAL BUSINESS ACCOUNTANT (PBA) PROGRAMME

The Professional Business Accountant (PBA) Programme has to be completed within six (6) months from the date of registration.

STRUCTURE AND CONTENT

DNAs	Modules
01 FUTURE FINANCE	• AI / Automation • Blockchain • Cyber Security • Data and Analytics
02 BUSINESS ACUMEN	• Business Partnering • Strategic Business Planning & Analysis - Financial Statements Analysis - Risk Management • Sustainability Reporting
03 PROFESSIONAL VALUES & ETHICS	• Ethics • Sceptical Mindset for Accountants
04 TECHNICAL EXCELLENCE	• Business Analytics • Financial Modelling • Corporate Governance • Taxation • Business Valuation • Corporate Finance - Capital Planning - Mergers and Acquisitions - Working Capital and Treasury Management
05 LEADERSHIP & PERSONAL EMPOWERMENT	• Effective Delegation and Feedback • Effective Coaching • Effective Conflict Management • Leadership Workshop

PROGRAMME REQUIREMENTS

a. The ISCA PBA Programme is administered through an e-learning platform and includes the following:
1. An objective-based assessment upon completion of each module
2. Overall objective-based assessment upon completion of all the modules in the PBA programme

b. Participants are permitted unlimited attempts for each module and the overall assessment during the enrolled period of six (6) months.

c. Participants need to complete each module and achieve at least 75% correct answers to pass every assessment.

COMPLETION AND AWARD OF CERTIFICATE

- **Certificate of Completion for each module**
A Certificate of Completion will be awarded to each participant who have completed the objective-based assessment of each module.

- **ISCA Professional Certificate in Business Accounting**
A Certificate of Competency will be awarded to participants who have completed:
1. The objective-based assessment of all the modules; and
2. The overall objective-based assessment in the ISCA PBA Programme

- **ISCA PBA Designation**
The ISCA PBA Designation will be conferred to candidate who have met the following requirement:
1. The objective-based assessment of all the modules; and
2. The overall objective-based assessment in the ISCA PBA Programme; and
3. Satisfy the prevailing ISCA Associate membership requirements and acquire at least three (3) years of post-qualification relevant work experience

INFORMATION SESSION

Join us at our information session to find out more about the **ISCA Professional Business Accountant (PBA) Programme.**

Date: **21 November 2019, Thursday**

Time: **6.30pm - 7.30pm**

Venue: ISCA House, Level 3, 60 Cecil Street, Singapore 049709.

Seats are limited and will be allocated on first-come-first-served basis.

GET IN TOUCH

http://isca.org.sg/PBA 6597 5533 cpdinfo@isca.org.sg isca breakfast talk

Building Internal Partnerships Across Accounting and Finance: Three Tactics To Become A Better Business Partner

WHILE IT IS INARGUABLE that fostering partnerships within and outside your organisation can minimise roadblocks to success, almost every professional has a different idea of what "business partner" means. Most accurately defined in a white paper back in 2011[1], a business partner is "a professional who works alongside other business areas, supporting and advising their strategic and operational decision-making through insights that drive better business performance".

Just as the definition of the term can be obfuscated, the tactics to improve partnerships inside organisations are also less than clear. Erik Saito, General Manager of Asia Pacific, Workiva Inc, shed light on the topic at the ISCA Breakfast Talk session on October 9, where he detailed the three most critical tactics that finance leaders can employ, to become better business partners. They are:

Erik Saito, General Manager of Asia Pacific, Workiva Inc, sharing real-life case studies of how finance employees took the extra step to build relationships outside their own department

Mr Saito advising on the key factors to becoming a business partner

1 Build relationships with key stakeholders

There is no replacement for building personal networks with the people inside your company. Go on a listening tour of departments you are unfamiliar with – marketing, research and development or others – and see what commonalities there are between your role and theirs. Finding that common ground is critical to knowing the business.

2 Learn the business from end to end

On top of financial figures, becoming an effective business partner requires in-depth knowledge of the business. Speak to leaders from each department or region to find out what makes them tick. Invest your time connecting the dots between their needs and the business' needs. Being able to draw a direct correlation between the two is the mark of a true business partner.

3 Increase "assembly" productivity

The finance function can be categorised into four broad phases:

- Assembly: Doing the groundwork;
- Analysis: Determining what it means;
- Advising: Informing stakeholders of findings;
- Driving: Pushing the findings while ensuring follow-through of them.

While "assembly" is important, a finance leader's inputs are most valued in the later three stages. Finding ways to refocus efforts through automation of the "assembly" stage will provide you with more time to become an effective business partner to your organisation.

Concluding his session, Mr Saito reminded the participants that everyone, no matter the position they are currently in, has the power to become an efficient business partner.

[1] "Mastering Finance Business Partnership", KPMG, in association with CIMA, Feb 2011

Membership Suspension and Removal – Bankruptcy

UPON FINDING THAT MR LIM KHAI SENG, Chartered Accountant of Singapore, was adjudged a bankrupt on 23 August 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 8 October 2019.

isca mingles

Creating Optimistic Conversations That Propel People Into Action

THE QUARTERLY ISCA MINGLES SESSION saw more than 50 participants from ISCA, Chartered Accountants Australia and New Zealand (CA ANZ) and The Institute of Chartered Accountants in England and Wales (ICAEW) coming together in a conducive networking environment.

The August 15 event at ISCA House, organised by the three accountancy bodies, provided a collaborative platform for members to interact and establish professional contacts that widen the sphere of opportunities, while picking up a tip or two from the presenter.

Kenneth Kwan, a high-performance strategist and motivational speaker, shared about the "how" and "when" to create "optimistic conversations" that will propel people into action. He elaborated on the various types of questions and how you could position yourself in a situation that can bring about different effects and results.

Motivational speaker Kenneth Kwan sharing strategies on bringing out the best in people

The session actively engaged the participants, who had the opportunity to practise what they learnt at the end of the workshop

For leaders, Mr Kwan shared how they can hold useful conversations with their teams, such as by listening to the story behind each complaint or feedback. By understanding what the employees really want, the leaders can then help direct them to think strategically and focus on problem-solving matters instead of dwelling on the negative aspects of the issue. Small steps in the right direction can lead to a larger change as winning is the best motivation. He suggested that setting lower expectations from the start may motivate an employee more as he experiences a quicker achievement, and that, in turn, creates a forward momentum for him to strive and achieve even more.

Mr Kwan kept the participants riveted through his interesting real-life experiences, and his thought-provoking stories and explanations. He engaged the participants to interact and share their experiences with each other. On a parting note, he urged everyone to take the first step, at the end of the workshop, to identify and amplify useful changes at work that will inspire others to take action.

The networking session included a sumptuous buffet dinner with a selection of wines

MARK YOUR CALENDAR

06 NOV

ISCA Breakfast Talk – Transforming SME Financing using ML and AI

Recent changes in the lending space where MAS has announced it acceptance for digital bank licenses has disrupted the brick and mortar financial space. AI also played an instrumental role in transforming lending to bridge the SME financing gap.

In this session, find out how AI is used and how it affects both lenders and SMEs; why trust is crucial for the future of AI and digital banking. Learn what digital banking license can mean for SMEs and how your role can be a part of the driving force for financial inclusion for them.

15 NOV

Robotic Process Automation (RPA): Impact on Finance Professionals

Robotic Process Automation (RPA) is one of the fastest rising technologies within the spectrum of automation and its pace of adoption is increasing significantly. By embracing RPA through a "virtual workforce", Finance professionals can enhance efficiency, drive performance and move people higher up the value chain to achieve high efficacy in the workforce.

26 NOV

ISCA FRC-AFA Financial Reporting & Business Conference 2019

To fully harness the potential that ASEAN presents as an economic block, businesses should gear up, transform and embrace disruption and technology. In this regard, the "Financial Reporting and Business Conference" would be bringing distinguished leaders from diverse fields to share their insights on the latest developments in financial reporting and business strategies for ASEAN.

Participants will also enjoy opportunities to network, exchange business ideas, and build new professional connections with those who share similar interests.

14 NOV

ISCA Mingles – Thriving in Today's Fragmented Work Environment

In today's work environments, we are expected to work with everyone, from anywhere. It is becoming increasingly challenging to keep up with the complex communication channels with teammates and clients, and the complicated processes needed to execute what used to be much simpler. Find out how to streamline these channels and processes, freeing up your time to focus on what matters most to your clients.

21 NOV

Preparation of Financial Statements: Essential FRSs

SkillsFuture Credit & UTAP approved

This programme provides guidance to prepare financial statements using key Financial Reporting Standards (FRS) and examines the practical issues and challenges associated with the more complex topics on comprehensive income, impairment of assets, accounting for business combinations, consolidated financial statements and accounting for financial instruments and derivatives.

26 NOV

Impactful Presentation Skills for Practitioners

To help you achieve the desired positive impact, this programme provides simple but effective methods to improve your STEAK (structure of contents), SIZZLE (make contents engaging) and STYLE (verbal and non-verbal communication skills).

02 DEC

Business Analysis and Planning: Using Excel What-If Analysis

SkillsFuture Credit approved

Learn to develop interactive models for decision making, perform simulations, sensitivity and scenario analysis for project/investment evaluation and resource planning and allocation.

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

Boosting Tax Excellence Through Collaborations

TO SUPPORT THE ACCREDITED TAX PROFESSIONALS in surfing the waves of tax changes today, the Singapore Institute of Accredited Tax Professionals (SIATP) fortified the already strong bond with the Inland Revenue Authority of Singapore (IRAS), among others, to provide the accredited tax professionals with greater clarity on the latest updates on various tax issues including tax compliance, transfer pricing (TP) documentation, and the impending reverse charge and overseas vendor registration regimes.

Highlighting the common issues and mistakes made by companies, the accredited tax professionals gained a refresher on the dos and don'ts of tax compliance issues relating to deferred income, tax exemptions for foreign-sourced dividends, capital allowances and more, in a session facilitated by the Corporate Tax Division team from IRAS. Held at the start of the tax filing season, the session served as a good reminder of the common errors many make and IRAS' position on various tax areas where misconceptions may exist.

A captive audience at a session helmed by IRAS officers

Participants from the IRAS-SIATP tax compliance session re-connected with peers in the profession during the tea break

Participants from the Reverse Charge and Overseas Vendor Registration session clarified their doubts with IRAS officers Chan Hui Juan, Manager, Wholesale Trade (1st from left) and Samuel Ong, Principal Tax Ruling Officer, Large Businesses (3rd from right)

Beyond tax compliance issues, the complexity and importance of TP risks have also garnered attention over the years. To further support and meet the needs of the accredited tax professionals, a *Tax Excellence Decoded* session was organised together with the IRAS' Corporate Tax – Large Corporations Branch and Transfer Pricing and Dispute Resolutions Branch to touch on the critical aspects of TP. The participants were able to fully grasp the key requirements of TP documentation from the tax authority's perspective and appreciate the diversity and economic value of commodity marketing and trading activities in Singapore and the TP specifics.

Last but not least, to prepare the accredited tax professionals for the GST changes on 1 January 2020, a rerun of the popular Reverse Charge and Overseas Vendor Registration session was conducted by IRAS officers. The fully-booked session covered a comprehensive range of issues from who will be impacted to what services will fall within scope, allowing the participants to effectively discern the implications and considerations of the imposition of GST on imported services for businesses.

All these were above and beyond the ongoing consultations the tax professional body, as the voice of the profession, has with the tax authority on a wide range of areas spanning macro topics such as the tax ecosystem to a wide repertoire of tax administration matters.

If you, too, wish to surf the waves of change and be at the forefront of tax, email enquiry@siatp.org.sg today.

BY LIM JU MAY, ALICE TAN, NG SHI ZHEN AND EVA NG

A The panellists (from left): Tan Seng Choon, Chairman, ISCA Ethics Committee; Kala Anandarajah, Partner, Rajah & Tann Singapore LLP; Sylvie Soulier and Caroline Lee, members, IESBA, and G. Arull, member, ISCA Ethics Committee

ISCA ETHICS SEMINAR 2019

Serving The Public Interest – Narrowing The Expectation Gap

A **DISTINGUISHING MARK OF THE ACCOUNTANCY PROFESSION** is its acceptance of the responsibility to act in the public interest. Professional accountants (PAs) need to conduct themselves with the utmost care when rendering professional services. This goes beyond service excellence because acting in the public interest requires ethical behaviour and sometimes hard decisions contrary to business interest.

With this in mind, the ISCA Ethics Committee (EC) organised its annual Ethics Seminar with the theme "Serving the Public Interest – Narrowing the Expectation Gap" on August 15 at Carlton Hotel Singapore.

An array of prominent subject matter experts spoke on ethical areas that impact the accountancy profession, and questions from the audience were addressed at the Q&A session. Here is a glimpse into some of the salient matters discussed at the Ethics Seminar.

Tan Seng Choon, Chairman of EC, and Partner (Assurance) of Ernst & Young LLP, welcomed participants and shared about the work that the EC does. The EC aims to enhance public trust and confidence in the accountancy profession in Singapore. Its mission is to set up the code of ethics and conduct to promote the profession's reputation in the public arena. In this respect, the EC does

> **"Does the NOCLAR Pronouncement really change how we behave? Our moral compass will dictate that we all serve (especially in the role of professional accountants) in the public interest. It is our duty to respond to NOCLAR."**
>
> **TAN SENG CHOON,**
> Chairman, ISCA Ethics Committee, and Partner (Assurance) of Ernst & Young LLP

not just adopt the International Ethics Standards Board for Accountants (IESBA)'s International Code of Ethics for Professional Accountants (IESBA Code or the Code) directly but looks into how the IESBA Code applies to the local context. Accordingly, the EC comprises various members and observers such as regulators (Monetary Authority of Singapore, Singapore Exchange, Accounting and Corporate Regulatory Authority), practitioners (from small and medium-sized enterprises, and large firms), academia and lawyer.

Mr Tan also set out a report card on what the ISCA EC has achieved and would be working on (Figure 1).

A CLOSER LOOK AT MONEY LAUNDERING AND TERRORISM FINANCING

G. Arull, a member of the ISCA EC, and Partner of Mazars LLP, highlighted key requirements and practical issues relating to money laundering and terrorism financing including the extent of due diligence checks required for customers.

Key requirements of EP 200: Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore

Varying Applicability

Participants were reminded that there is varying applicability of Sections 2, 3, 4 and 5 of EP 200 to each of the three categories of PAs – Professional Accountants in Business (PAIB), Professional Accountants in Public Practice (PAIPP) and Professional Firms providing services other than those described in paragraph 1.5, and PAIPP providing any services in paragraph 1.5.

Services under paragraph 1.5 include (a) buying and selling of real estate; (b) managing of client money, securities or other assets; (c) management of bank, savings or securities accounts; (d) organisations of contributions for the creation, operation or management of companies, and (e) creation, operation or management of legal persons or arrangements, and buying and selling of business entities.

Figure 1 ISCA EC's initiatives
Source: ISCA

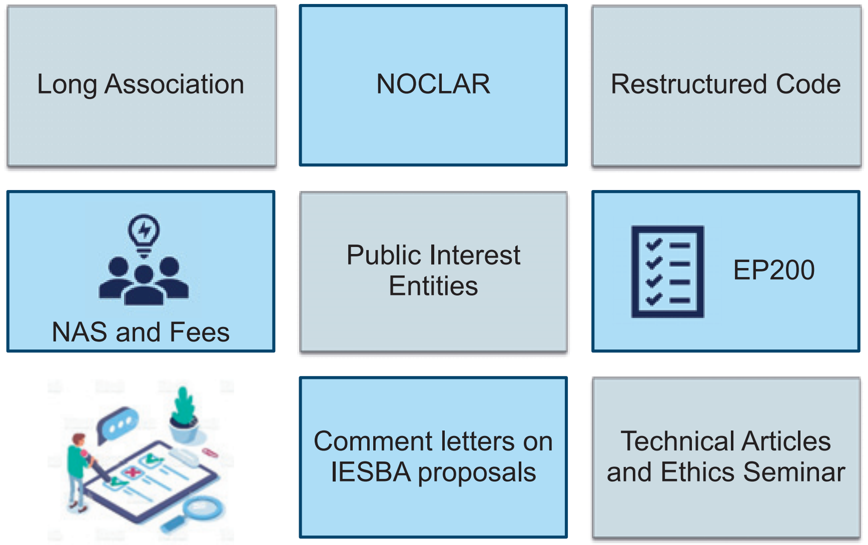


Figure 2 Table illustrating the scope of EP 200
Source: ISCA

Section/ Category of Professional ccountants	Reporting and Tipping-off (Section 2)	Systems and Controls (Section 3)	Customer Due Diligence (CDD) and Records Keeping (Section 4)	Reporting, Training, Compliance, Hiring and Audit (Section 5)
Professional accountants in business	Mandatory	Not applicable	Not applicable	Not applicable
Professional accountants in public practice and professional firms, providing services other than those described in paragraph 1.5	Mandatory	Mandatory	Good Guidance	Good Guidance
Professional accountants in public practice and professional firms, providing any service described in paragraph 1.5	Mandatory	Mandatory	Mandatory	Good Guidance

Section 2 Reporting and Tipping-off

This requirement is applicable to all PAs, who are required to lodge a Suspicious Transaction Report (STR) to the Suspicious Transaction Reporting Office (STRO), Commercial Affairs Department of Singapore Police Force, if they know or have reasonable grounds to suspect transactions related to money laundering or terrorist financing.

Mr Arull stressed that this requirement applies to *all* suspicious transactions, including attempted transactions, regardless of amount. Why is this so?

- PAs, who are service providers, could be of value to a successful criminal transaction;
- PAs could be held liable for assisting in a crime, notwithstanding that this was provided unknowingly, and
- PAs could be held liable by the prosecution merely on the basis of the PA having "reasonable grounds to believe". Hence, suspicious transaction reporting is mandatory even in cases where the PA only has reasonable grounds to believe or suspect that money laundering or terrorism financing has occurred.

However, Mr Arull cautioned participants on keeping the reporting confidential so as not to commit the tipping-off offence. One is also prohibited from disclosing any information to any person if doing so is likely to prejudice an investigation or proposed investigation under the Corruption, Drug Trafficking and Other Serious Crimes (Confiscation of Benefits) Act, Cap. 65 (CDSA) or Terrorism (Suppression of Financing) Act, Cap. 325.

Since August 2018, the STR Online Lodging System has been replaced by STRO Online Notices and Reporting Platform. There have also been amendments to the CDSA which is effective 1 April 2019. Prior to the change, the penalty for failing to report an STR was a S$20,000 fine. This has increased to a S$250,000 fine and three years' imprisonment for individuals, and a S$500,000 fine for entities. The penalty for tipping off another person of a CDSA-related investigation or an STR filed with the STRO has increased from a S$30,000 fine and/or three years' imprisonment, to a S$250,000 fine and three years' imprisonment for individuals, and a S$250,000 fine for entities.

Other aspects of EP 200 shared include internal policies, procedures and controls requirements to address money laundering and terrorism financing, customer due diligence and identification of beneficial owners.

Prior to the conclusion, Mr Arull highlighted some practical issues faced by PAs and how best to address them.

Mr Arull ended his segment with a note that "the line between the criminal and terrorist networks has become increasingly blurred in recent years. Terrorists often finance their operations by selling drugs, poaching rhinos or counterfeiting goods. Singapore, being a financial hub in Asia, is exposed to illegal activities. Hence, the expectation of professional accountants to combat money laundering is also equally rising, as you can witness from the increase in penalties. Therefore, PAs are urged to be more cautious and vigilant in assessing clients and prospects of money laundering and terrorist financing risks, and to report any suspicious transactions without delay".

Professional accountants need to conduct themselves with the utmost care when rendering professional services. This goes beyond service excellence because acting in the public interest requires ethical behaviour and sometimes hard decisions contrary to business interest.

ROLE AND MINDSET OF PROFESSIONAL ACCOUNTANTS

How do we meet our responsibility to act in the public interest? What does it mean to be a PA? IESBA's ongoing project, Promoting the Role and Mindset Expected of Professional Accountants (Role and Mindset Project), describes the role, mindset and behavioural characteristics expected of all PAs when performing their professional activities. Sylvie Soulier, a member of IESBA, shed light on what it means to have an inquiring mindset, how the project serves the public interest and various other aspects of the project. She also shared about IESBA, its composition, due process, global adoption and the Revised and Restructured Code.

What is ethics for the accountancy profession at large? What does it mean for the PA to do the right thing?

The fundamental principles (FP) of ethics (integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour) reflect the profession's recognition of its public interest responsibility and establish the standard and behaviour expected of all PAs.

The conceptual framework (CF) within the Code provides the PA with a framework to identify, evaluate and address threats to compliance with the FP. The framework requires the PA to exercise professional judgement, remain alert for new information and to changes in facts and circumstances, and to use the reasonable and informed third party test.

Hence, the FP and CF effectively guide, steer and direct the PA to act ethically in the public interest.

What are the key changes proposed by the Role and Mindset Project?

Role of PAs

- Highlights the wide-ranging role of PAs in society as a result of the skills and values they bring to their work
- These skills and values are what ultimately underpin the public trust in the profession

Public Interest

- Highlights the importance of compliance with the Code towards the PAs meeting their responsibility to act in the public interest

Spirit of the Code

- All PAs are to comply not only with the letter of the Code but also its spirit, when performing professional activities

Enhancements to the FP

- Integrity – Additional requirement of "having the determination to act appropriately when confronting dilemmas or difficult situations"
- Enhanced the description of "Objectivity" and "Professional Behaviour"
- Reminder of potential impact of technology

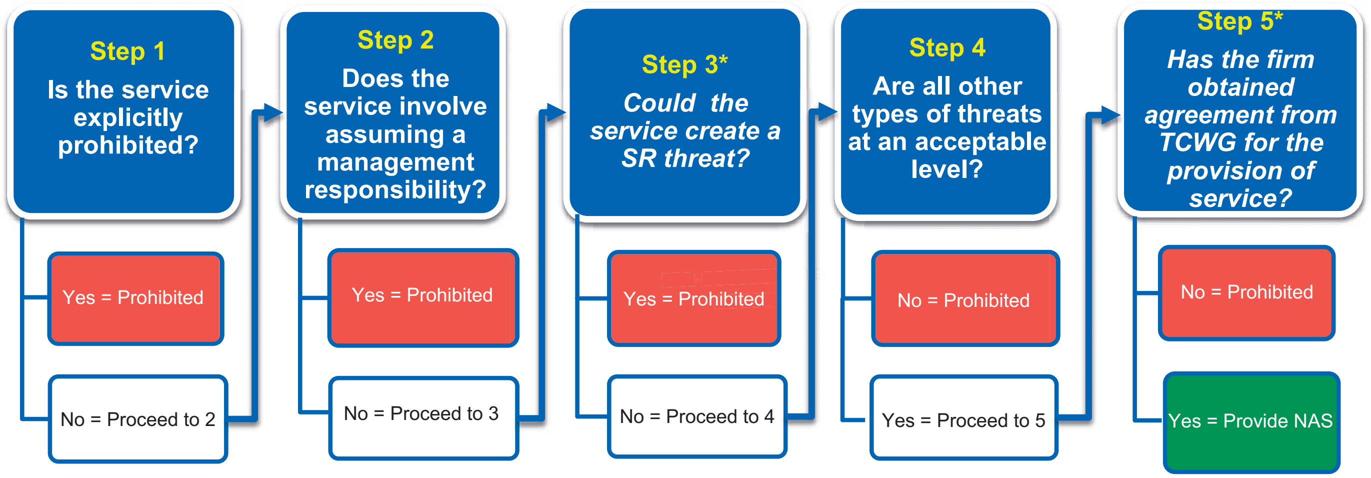
Inquiring Mind

- All PAs are required to have an inquiring mind when applying the CF

New Application Material on Bias and Culture

- Highlights the importance of being aware of bias when exercising professional judgement
- Highlights the importance of a positive internal organisational culture to the effective application of the CF

Figure 3 Determining NAS Permissibility
Source: IESBA



* Significant changes being proposed to current Code

"If a company you are working with is falling foul of something, the directors cannot accuse the auditors of not telling them. **Notwithstanding that the auditors have a duty to inform the directors, the directors also have a duty to reflect and keep themselves informed.**"

KALA ANANDARAJAH,
Partner, Rajah & Tann Singapore LLP

Ms Soulier elaborated on how "we (the IESBA) think that describing what is exactly the role of a professional accountant and what it means to act ethically is very important to be able then to address all other provisions in the Code and ensure compliance with the Code".

Have an inquiring mind

Ms Soulier explained that the Role and Mindset Project started with the suggestion or question, "Why don't we extend the concept of professional scepticism to the entire profession?"

To depart from professional scepticism, a key addition to Part 1 of the Code is the proposal to add the requirement to "have an inquiring mind" when applying the CF. In doing so, IESBA clarified that the term "professional scepticism" should be reserved for use only in the context of an audit, review or other assurance engagement.

The proposal for all PAs to "have an inquiring mind" is an important change because IESBA went beyond alertness in the existing Code – a somewhat passive behaviour "to remain alert for new information and to changes in facts and circumstances" – to require active application of an inquiring mind.

In closing, Ms Soulier shared with participants that what IESBA is proposing is to take some of the characteristics that are pre-existing in the way auditors are behaving, and broadening and expanding that to the entire profession. An inquiring mind would not change due decision for the auditor who is exercising professional scepticism, and the proposed revisions serve to align and facilitate the linkage between the two concepts.

NON-ASSURANCE SERVICES (NAS) AND FEES

Robust and high-quality provisions governing the provision of NAS to audit clients and fees are central to ensure independence of audit firms. Caroline Lee, also a member of IESBA, presented key proposals of IESBA's ongoing projects on NAS and fees. She shared that both projects are still under deliberation by IESBA but the direction of travel should remain unchanged.

NAS

A significant change is the introduction of a five-step model (Figure 3) to determine whether NAS are allowed to be provided to a public interest entity (PIE). Step 3 is a significant change to the Code and Step 5 is new to the Code.

Concerns about a firm's independence are heightened when providing NAS to an audit client that is a PIE.

On the new requirement to enhance communication with those charged with governance (TCWG) about NAS (for PIEs), TCWG concurrence is required.

In conclusion, Ms Lee emphasised the strengthened provisions to provide more clarity to help firms identify threats to independence arising from NAS. The existing materials in the Code for evaluating threats when multiple NAS are provided to the same audit client are now elevated to a requirement. There are also more robust provisions for addressing threats, and the allowance for materiality is no longer allowed (for PIEs).

Fees

On to the Fees Project, Ms Lee highlighted that it is in the public interest that audit is not seen to be a loss leader, that is, the auditor is willing to reduce the audit fee to win other NAS. This heightens not just risks to audit quality but also to independence.

The Fees Project introduces some proposals to ensure that audit firms are satisfied with the level of audit fees and that the fees do not affect the audit firms' ability to perform the audits in accordance with professional standards.

One key proposal is to enhance the requirements for audit firms to assess the fee dependency on their PIE audit clients.

With regard to auditor's communication with TCWG about fees for audit clients that are PIEs, the proposal is for communication with TCWG on the firm's compliance with the required level of fees and other relevant information, to help TCWG understand the fees, threats and safeguards.

The fundamental principles of ethics (integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour) reflect the profession's recognition of its public interest responsibility and establish the standard and behaviour expected of all professional accountants.

NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR) – PROFESSIONAL ACCOUNTANT'S RESPONSIBILITIES

The NOCLAR Pronouncement requires a PA to "act" in a certain way to comply with the fundamental principles of integrity and professional behaviour. ISCA EC Chairman Mr Tan deep-dived into the pain points of the requirements, and shared insights and ways to manage practical issues brought to ISCA's attention through various outreach initiatives.

Here are some highlights from Mr Tan's presentation.

What is NOCLAR? Are all laws and regulations in scope?

- NOCLAR comprises acts of omission or commission, intentional or unintentional, committed by a client or by TCWG, by management or by other individuals working for or under the direction of a client, which are contrary to the prevailing laws or regulations.
- Not every law or regulation is covered. NOCLAR includes those that directly affect the determination of material amounts and disclosures in the financial statements, and those in respect of which compliance may be fundamental to the client's business. Examples of laws or regulations covered are bribery and corruption, fraud, money laundering, terrorist financing, tax evasion, securities market and trading, and public health and safety.

Why is NOCLAR Pronouncement needed when the FP of integrity and professional behaviour already govern how a PA should respond when encountered with a NOCLAR?

- As mentioned earlier in the Role and Mindset section, PAs have a responsibility to act in the public interest. The NOCLAR Pronouncement guides the PA in dealing with a situation involving NOCLAR and in deciding how best to act in the public interest.
- It also puts the spotlight on the PA's responsibility to act in the public interest.

What are the key requirements in the NOCLAR Pronouncement?

- The NOCLAR Pronouncement imposes new duties and responsibilities on the PA. Once adopted into ISCA's Code of Ethics (EP 100), it will be binding on ISCA members.
- Mr Tan cautioned that it covers not just PAIPP but also PAIB such as accountants, group accountants and even tax accountants who are ISCA members.
- It provides a framework to guide PAs on how they should behave when they come across NOCLAR.
- More importantly, it addresses the matter of contractual client confidentiality. For example, audit engagement partners are no longer bound by the principle of confidentiality if it is appropriate to report the NOCLAR to an appropriate authority and they are acting in good faith when doing so.
- Mr Tan reminded the auditors in the audience to ensure that the engagement letter with client has a proviso that allows the disclosure of NOCLAR to an appropriate authority when duty-bound to do so.

What are the responsibilities of auditors?

- The auditor is required to alert management or TCWG of an actual/suspected NOCLAR so as to rectify, remediate or mitigate the consequences, or to defer the commission of the NOCLAR.
- In addition, the auditor is required to take further action as appropriate in the public interest. This further action includes disclosure to an appropriate authority.
- Mr Tan highlighted the overarching principle of acting in good faith.
- Mr Tan also explained the responsibilities of senior PAIBs, other PAIBs and non-auditors.

Mr Tan highlighted ISCA's article, "Singapore Journeys Towards NOCLAR Adoption", published in the May 2019 issue of ***IS Chartered Accountant*** Journal, which addresses some practical challenges of NOCLAR adoption, such as whether there are conflicts between laws and regulations and NOCLAR Pronouncement, what are considered "clearly inconsequential", legal protection available to whistle-blowers, and professional clearance.

Summing up his presentation, Mr Tan had the following message for the participants, "Does the NOCLAR Pronouncement really change how we behave? Our moral compass will dictate that we all serve (especially in the role of professional accountants) in the public interest. It is our duty to respond to NOCLAR."

NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR) – VIEWS FROM A LAWYER

After Mr Tan's in-depth analysis of NOCLAR from an accountant's perspective, Kala Anandarajah, Partner, Rajah & Tann Singapore LLP, discussed NOCLAR from a legal standpoint.

The reasonable person

"NOCLAR actually raises more legal issues – the reasonable and informed third party test. Who is that third party who is a reasonably informed individual?" she asked.

In law, there is also a test called the reasonable man test. Who is this reasonable person? The Merriam-Webster dictionary defines a reasonable person as "a fictional person with an ordinary degree of reason, prudence, care, foresight, or intelligence whose conduct, conclusion, or expectation in relation to a particular circumstance or fact is used as an objective standard by which to measure or determine something (as the existence of negligence)".

With regard to a director's duties, this reasonable director would be the average director. But in reality, it is extremely difficult to pin down who this person would be.

Key duties of directors

Under Section 157 of the Companies Act, directors have the "duty to act honestly and use reasonable diligence in the discharge of the duties of his office".

Ms Kala explained that an officer of a company must always act honestly, and this means acting in the interest of the company, which also includes not acting in violation of any law. Acting honestly captures a whole range of other issues. Acting with due diligence comes down to acting with skills and cares.

What is acting with skills and cares?

Figure 4 A director must keep himself informed
Source: Rajah & Tann Asia

- A director, whether executive or non-executive, should inform himself about the affairs of the company. Ignorance was no longer necessarily a defence.
- He should take reasonable steps to place himself in a position to guide and monitor the management of the company.
- He should acquire a rudimentary understanding of the business of the company, and was under a continuing obligation to keep himself informed about the activities of the company.
- He should maintain familiarity with the financial status of the company by a regular review of its financial statements.
- He has a duty to inquire further where information concerning the company was brought to his attention.
- The standard of duty of care and diligence expected would be raised where the director has specialised skill and experience.
- There was no place for the concept of a sleeping or passive director.

Public Prosecutor v Abdul Ghani Bin Tahir [2016]
(citing Daniels v Anderson [1995]);
Prima Bulkship Pte Ltd (in creditors' voluntary liquidation) and another v Lim Say Wan and another [2016]

Ms Kala shared that the best case to illustrate the above is probably the 2002 Singapore High Court decision by Chief Justice Yong Pung How [*Lim Weng Kee vs Public Prosecutor*] whereby the appellant was a managing director of a pawnshop business. The managing director released S$4 million worth of jewellery prior to the cheque being cleared.

The Court found that as the managing director of a pawnshop business, he had failed to use reasonable diligence in the discharge of his duties by permitting the release of the pawned items without the cheque being cleared. Hence, he did not act with skills and care. Ms Kala explained that this was because of the business he was in. For businesses such as accountancy or legal services, it would not be unreasonable to provide services prior to the clearance of cheques from clients because of the nature of the business. Hence, reasonableness is always a question of the facts at play.

A director must keep himself informed

Ms Kala pointed out that it is the director's responsibility to keep himself updated on what is happening in the company (Figure 4). "If a company you are working with is falling foul of something, the directors cannot accuse the auditors of not telling them. Notwithstanding that the auditors have a duty to inform the directors, the directors also have a duty to reflect and keep themselves informed," she explained.

"Hence, from a PA's perspective, with NOCLAR coming in, it is not always about the burden being on the auditor. The burden is also on the company to take reasonable steps." Ms Kala also provided valuable insights into NOCLAR's role in corporate governance and various other aspects of NOCLAR.

We will continue the discussion on NOCLAR from a legal perspective in our next article, to be published in 2020. ISCA

Lim Ju May is Deputy Director, Technical, ISCA; Alice Tan, Ng Shi Zhen and Eva Ng are from Ethics and Specialised Industries, Technical, ISCA.

MEMBER PROFILE

THE SILVER LININGS PLAYBOOK

JUST BEFORE THE 1930S CLASSIC FILM "GONE WITH THE WIND" ENDS, the protagonist, Scarlett O'Hara, heartbroken but undeterred, says resolutely to herself, "After all, tomorrow is another day." Leung Fung Yat, David, a fan of the movie since boyhood, adopted this maxim as his motto on his way to becoming Chief Financial Officer (CFO) of iFAST Corporation Ltd (iFAST Corp).

Mr Leung has drawn inspiration from this quote time and again, particularly following his move from Hong Kong to Singapore in 1995 and again, in 1999, after leaving the public accounting world. "Before joining iFAST in 2006, I went through ups and downs in my career. There were good days and bad days," he recalls. "To keep me going, I would say to myself, 'No matter how bad the day is, it will be over and tomorrow will be another day. Every cloud has a silver lining.'"

This positive attitude helped him get through the tough times to reach the C-suite at iFAST Corp. And as the icing on the cake, Mr Leung was named Best CFO in the "Companies with less than $300 million in market capitalisation" category at this year's Singapore Corporate Awards (SCA). Co-organised by ISCA, Singapore Institute of Directors and *The Business Times*, SCA is the umbrella award for exemplary corporate governance practices for listed companies in Singapore. For Mr Leung, the award is "a recognition and reward for all my hard work and the effort that I have put in".

FINDING HIS FEET

The first part of Mr Leung's career was spent in the audit business of the Price Waterhouse (now PwC) offices in Hong Kong and Singapore. Moving to Singapore, and adjusting to life in a new country, was daunting enough for him; trying to excel in his career after entering the commercial sector was even more difficult. "As someone who was not born and raised in Singapore, I was completely unfamiliar with the local culture. I had to accommodate and immerse myself in the local environment, establish networks from scratch, and prove that I could do the job as well as a Singaporean," he says.

From 1999 to 2006, Mr Leung held various financial and accounting positions in companies across different industries such as manufacturing, e-commerce, investment holdings and retail. He also obtained an MBA from Imperial College London, United Kingdom, during this period. These diverse experiences were stimulating and challenging in equal measure, tested Mr Leung's mettle, and helped him grow professionally and personally.

Looking back on those years, he reflects, "I had a lot of interesting experiences, and many setbacks as well. At each turn, I just rolled up my sleeves and thought about how to use the situation as an occasion for self-improvement. I learned from my mistakes and setbacks, and tried to find opportunities amid the challenges."

Joining ISCA (then known as Institute of Certified Public Accountants of Singapore) helped make that uphill journey less steep than it otherwise would have been. With the ISCA membership signalling a recognised professional qualification, Mr Leung notes that those who have it are an "attractive asset" to employers. "ISCA also provides plenty of opportunities for members to progress further through access to industry events and training sessions, where members can boost their networks and update their technical knowledge and skills."

Leung Fung Yat, David,
CA (Singapore),
Chief Financial Officer,
iFAST Corporation Ltd

> "... accountancy is not just about *what* the numbers are, but *why* they come up. CFOs should spend most of their time asking questions and performing analysis, rather than crunching numbers. They should demonstrate vision and foresight, develop a holistic view of the issues and have an analytical mindset."

"There will always be a demand for accountants. As long as accountants are flexible in embracing technology, and engage in lifelong learning to become more tech-savvy, technology can be used as a tool to facilitate and improve our quality of work."

CAREER HIGHLIGHTS

1991
Audit Junior, Price Waterhouse Hong Kong

1993
Audit Senior, Price Waterhouse Hong Kong

1995
Audit Supervisor, Price Waterhouse Singapore

1996
Assistant Manager, Price Waterhouse Singapore

1999 to 2006
Various financial and accounting positions in companies across different industries

2006
Financial Controller, iFAST Corp

2014 to Present
Chief Financial Officer, iFAST Corp

IT'S ABOUT THE TEAM

Mr Leung eventually found himself at iFAST Corp, a wealth management fintech platform that provides a comprehensive range of investment products and services to financial advisory firms, financial institutions, banks, Internet companies, multinational companies, as well as retail and high networth investors in Asia. Founded in 2000, the Group is headquartered in Singapore and listed on the Singapore Exchange; it has also expanded regionally to Hong Kong, Malaysia, China and India.

Shortly after being promoted to CFO at iFAST Corp, one of Mr Leung's first major tasks was to spearhead its initial public offering (IPO) process in 2014. "I had to travel extensively for IPO roadshows and dealt with a wide range of stakeholders including merchant bankers, lawyers and auditors," he says. "All in all, I took part in more than 40 roadshows across Singapore, Kuala Lumpur, Hong Kong and London that year. It felt at times as if I were a singer on a concert tour!"

He has also participated in the upheavals taking place in the fintech industry. "The financial sector is undergoing rapid and tremendous changes. Shifts in consumer behaviour and the regulatory landscape have pushed companies to seek ways to innovate so as to serve customers more effectively and efficiently," says Mr Leung. "At iFAST, we have focused on building our fintech capabilities inhouse since the early days. This has benefited us significantly, allowing us to deliver innovative solutions to our clients more quickly and frequently, and making investing more seamless and affordable." For example, in December 2016, iFAST Corp's B2C division, Fundsupermart.com, launched the FSMOne multi-product investment account. This enables investors to invest in multiple products – including unit trusts, bonds, stocks, exchange-traded funds and insurance – via a single account, as well as gain access to online discretionary portfolio management and other services. The fintech solutions created by its inhouse IT teams are now also offered to external business partners through a new business division, iFAST Fintech Solutions, established during 2017.

Mr Leung also emphasised the importance of maintaining physical contact with finance teams in overseas countries. "I've had to recruit local finance people in each country where iFAST operates. This involves assessing their technical capabilities and character traits, teaching them our business model, and training them to handle issues to meet local market needs," he shares. Mr Leung visits all four of iFAST Corp's Asian markets outside of Singapore at least once a year, to understand the local business environment and to maintain connections with the respective finance teams.

"As a finance leader, my role is to connect different talents in the department and provide an environment where they can fully develop their potential and contribute to the Group," he explains. "Understanding the learning abilities of finance staff and supporting their future development is important. This means finding out each individual's strengths and weaknesses, allocating tasks accordingly, and encouraging them to try new challenges."

Hiring the right staff can be tricky, but Mr Leung's people-centric leadership style has enabled iFAST Corp to attract and retain good talent. More than half of iFAST Corp's nine-person finance team in Singapore have been working at the company for over five years, and he credits them with helping him to receive the SCA Best CFO honour.

CURIOUSER AND CURIOUSER

When asked what it takes to be a good CFO, Mr Leung reiterates the need for good people skills. "Nowadays, the speed of technological and business development demands that the CFO has strong and effective leadership skills to build up and motivate the finance team, so that he can act and respond quickly," says Mr Leung. Interacting well with non-finance people is also essential, he adds.

Moreover, high ethical standards must be adhered to at all times. "To be a trusted leader, you have to do more than communicate the desired behaviours – you have to walk the talk and always keep an upright image," advises Mr Leung. Transparency is therefore crucial – not just within the organisation but also to external stakeholders. For example, iFAST Corp goes above and beyond the standard regulatory disclosures in its periodic financial results announcements and annual reports, so that investors can gain a full understanding of the information disclosed in its financial statements.

Another must-have quality, according to him, is "a curious mind". Mr Leung is reminded daily of the value of curiosity by his young son. "He is in kindergarten now. He is very curious about his surroundings and constantly draws my wife and my attention to everything that he is curious about," he says, with a laugh. "Likewise, accountancy is not just about *what* the numbers are, but *why* they come up. CFOs should spend most of their time asking questions and performing analysis, rather than crunching numbers. They should demonstrate vision and foresight, develop a holistic view of the issues and have an analytical mindset."

Whether one is an existing or aspiring CFO or a trainee accountant, the changes currently occurring in the business environment will affect the entire profession. Indeed, smart technologies such as robotics and blockchain are already disrupting traditional accounting functions like bookkeeping, auditing and report generation. Despite this, Mr Leung remains optimistic about the future prospects of accountants.

"There will always be a demand for accountants. After all, there is more to accountancy than bookkeeping or preparing financial statements; you also have to analyse the numbers and apply them to the business," he opines. "As long as accountants are flexible in embracing technology, and engage in lifelong learning to become more tech-savvy, technology can be used as a tool to facilitate and improve our quality of work." ISCA


BY KEVIN FITZGERALD AND ZOEY XIE

ONE IN 700: WHERE DO YOU STAND?

Winning Formula For SMPs

TAN AND CO PAC WAS ONCE LIKE ANY OTHER ACCOUNTING FIRM NEXT DOOR, WITH JUST FIVE STAFF. Over the past five years, it underwent a huge transformation and is now ready to soar with the pacesetters. Today, the firm stands among the top 15% of practices with high growth and revenue, relative to practices of a similar age. What is their winning formula?

THE WINNING FORMULA - 5 KEY TAKEAWAYS

Drawing insights from the 2020 Xero-ISCA Singapore Accounting Industry Benchmarking Study, this article highlights the pivotal observations which may change the way small and medium-sized practices (SMPs) are being run today. Here are the five key takeaways SMPs should take note of as they gear up for 2020 and beyond.

1 AI AND MACHINE LEARNING WILL TRANSFORM PRACTICES

“Artificial intelligence (AI) is set to take the centre stage faster than what you would expect.” Is this a statement of fad or fact?

Harnessing the power of AI, audit procedures such as audit sampling and substantive testing can be executed more efficiently and effectively. The audit team can dive deeper into transactions by focusing only on samples which have a higher risk, leading to better audit quality. As an example, Inflo, a data analytics software, enables the audit team to identify patterns and trends. It draws insights from user behaviour including timing of entries and other pre-set criteria to detect transactions with a higher risk of error or fraud.

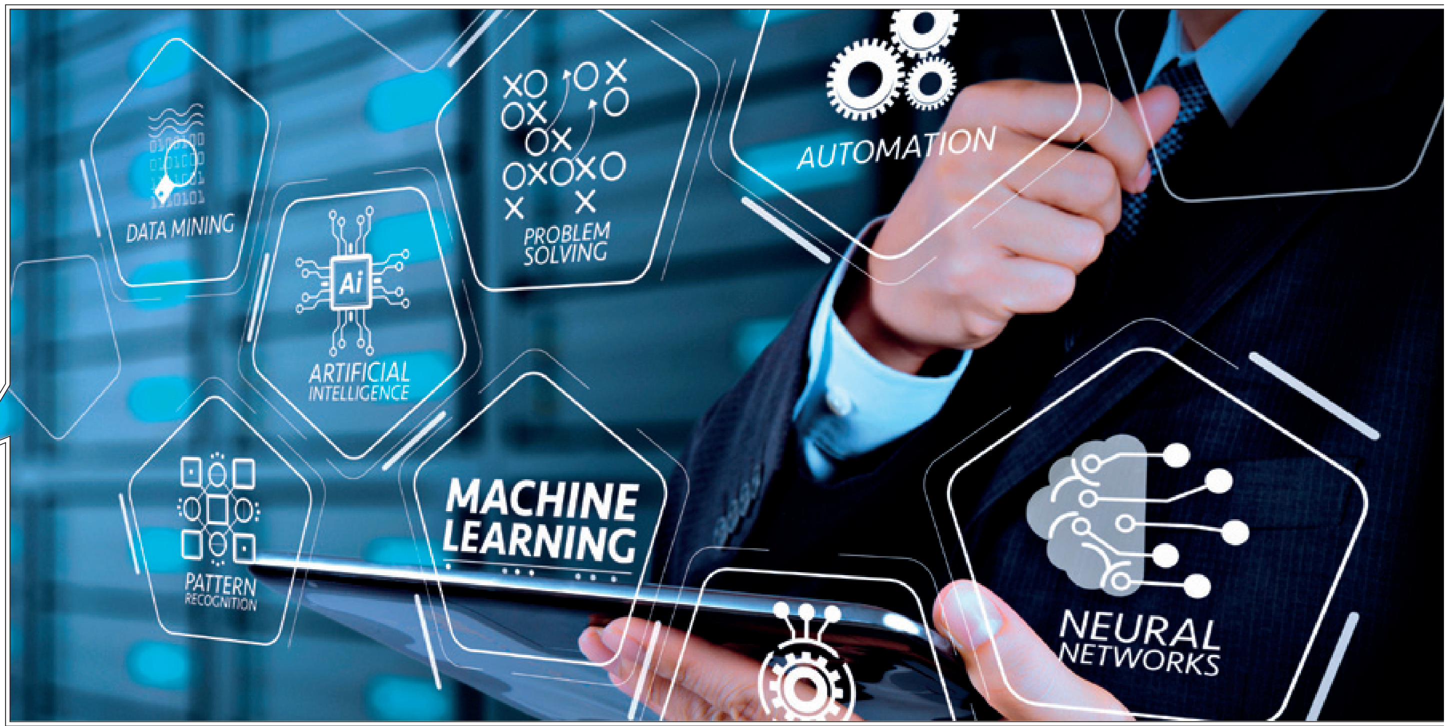


PHOTO SHUTTERSTOCK

Figure 1 More SMPs are using/considering to use data automation apps for complex advisory services

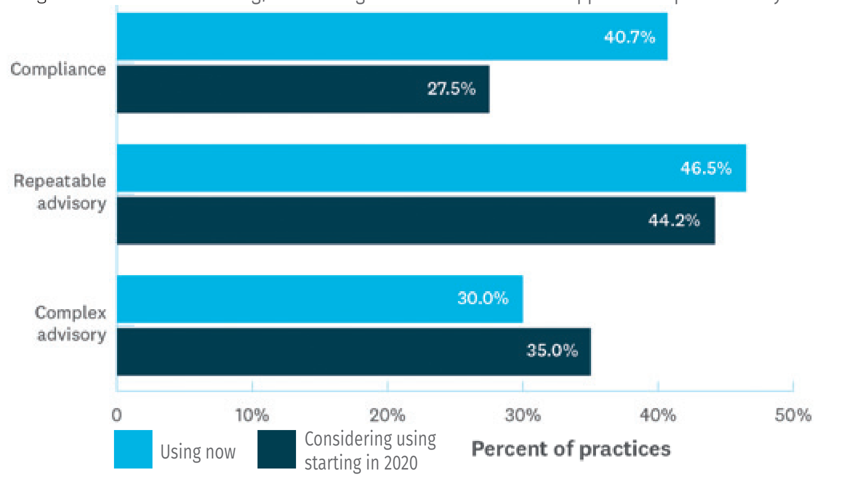
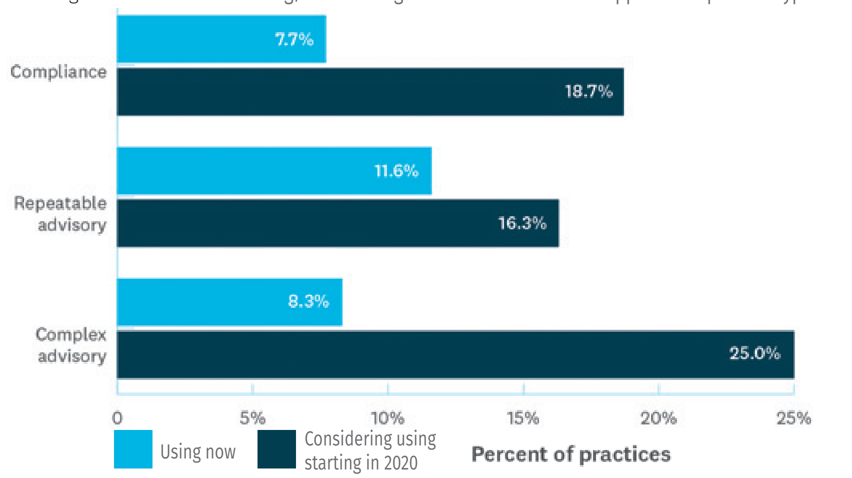


Figure 2 More SMPs are using/ considering to use data automation apps across practice types



On the accounting front, Xero, leveraging machine learning in data extraction technology via its recent acquisition of an optical character recognition (OCR) technology, has since seen a 200% increase in the number of documents processed compared to a year before. Using data and advanced statistical methods, accountants can now have access to an AI-powered cash flow forecasting tool on the Xero cloud accounting platform.

According to the study, the number of complex advisory practices using data automation apps is expected to grow by 35% in 2020, an increase of 30% over this year (Figure 1). It also reveals an upward trend on the automation technology usage across all practice types, namely, compliance (from 7.7% to 18.7%), repeatable advisory (11.6% to 16.3%), and complex advisory (8.3% to 25%) (Figure 2).

Apps powered by AI have become commonplace in pacesetting practices. The study suggests that 66.7% of pacesetting firms use data automation apps, while only 33.9% of the other practices do. Meanwhile, 21.5% of pacesetters use forecasting, budgeting, and reporting apps compared to 6.5% of regular practices.

Since AI-powered automation solutions can be scaled to fit firms of all sizes and needs, firms are encouraged to take the step to start exploring these solutions, thereby harnessing the full benefits of technology and keeping up with technological trends.

2 ADVISORY IS THE WAY TO GO

While many SMPs are wary about the impact of audit exemption, observations from the study indicate that the move to offering advisory services can help alleviate the reliance on compliance revenues. Additionally, immense technological growth has facilitated the creation of new digital tools which aid the delivery of advisory services. These advancements have benefited firms to position themselves to take on more prominent advisory roles with their clients to achieve higher revenues.

While compliance firms still take the lion’s share (72.6%) of industry revenue (Figure 3), repeatable advisory and complex advisory firms are reporting higher revenue growth, at 11.9% and 10.4% respectively (Figure 4), as compared to the 8.6% growth of compliance firms. This trend may continue unabated over the next few years, as digital technologies make manual accounting processes obsolete and encourage firms to move up the value chain towards offering advisory services.

The study also shows that repeatable advisory services has gained prominence over the last decade, led by firms which are avid users of technology and proactively serve the client’s needs beyond compliance-related services. Leveraging technology to automate accounting data has made it possible for firms to provide advisory services such as cash flow forecasting, budgeting and planning at reasonable prices for smaller practices.

Complex advisory services, on the other hand, are more common among larger, well-established practices and boutique firms that employ accountancy professionals who can provide strategic business advice. Complex advisory firms offer specific services which include:

- HR advisory;
- Succession planning;
- Business performance benchmarking;
- Capital raising;
- Business app/software selection, setup, training and maintenance.

Figure 3 Revenue, by practice types

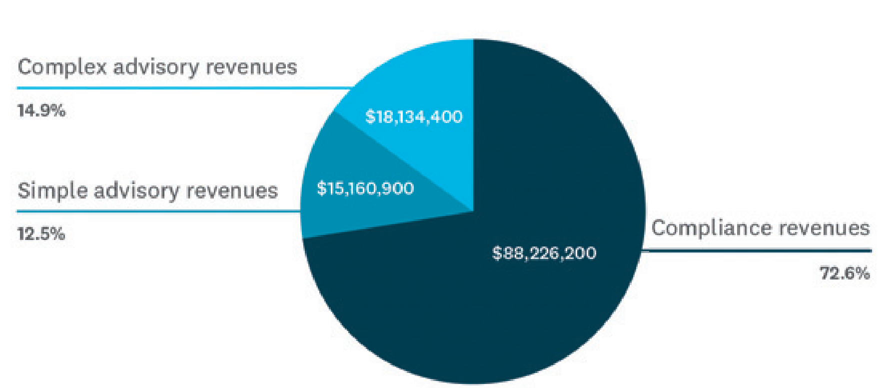
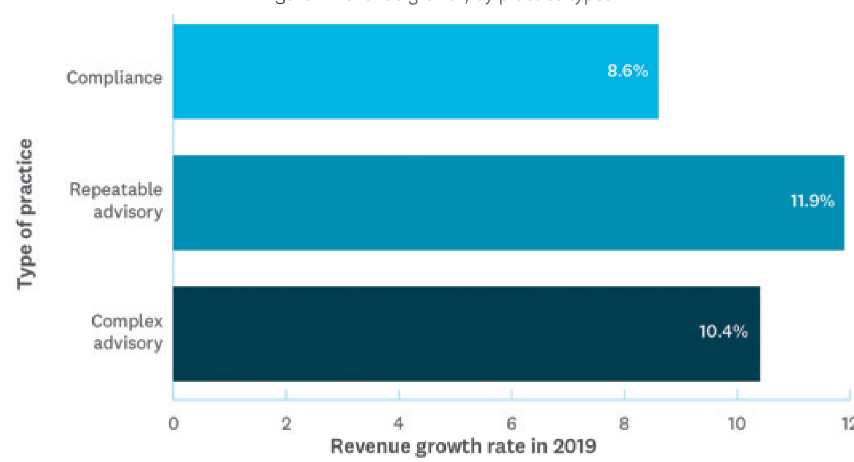


Figure 4 Revenue growth, by practice types



While the demand for compliance services is unlikely to go away any time soon in Singapore, the study highlights a bigger revenue opportunity for practices which offer advisory services — averaging $7,330 per client per year — compared to an average revenue of $5,030 per client per year for compliance-only practices.

Figure 5 provides a guide to help SMPs progress in their practices.

3 EFFECTIVE TALENT MANAGEMENT IS FUNDAMENTAL TO BUSINESS SUCCESS

In all professional services firms, talent is the firm's greatest asset and one of its key differentiating factors towards success. An effective talent management strategy is critical to the growth of practices to remain competitive. When the accounting firms move across the value chain from compliance to advisory services, employees will be required to play a greater role in engaging clients and act as their strategic business advisors.

As employees deal with more complex advisory work, the demand for employees to have specialised experience and skill sets, including forensic accounting, infrastructure finance and digital skills, will naturally increase.

Figure 5 Where do you stand and how do you progress?

Module	Current	AI	AI
Characteristics	Compliance practices focus on helping clients meet their compliance obligations on time, accurately and efficiently.	Leading users of technology who see that their clients need more than compliance. An important precondition is that clients have their core accounting information well organised and available online.	Common in larger, well-established firms and boutique practices which have earned a reputation for being exceptional at steering businesses through the intricacies of business transactions or complex multi-jurisdictional regulations. These practices appreciate and invest in experienced, specialist advisors. Those advisors can be called upon when needed by anyone within their broad client base when unusual or complex challenges arise.
Examples of services	Audit services, accounting, bookkeeping, payroll, tax preparation and accounts receivable management.	Cash flow forecasting, budgeting and planning at reasonable prices, which is made possible with automation of accounting data.	HR advisory, succession planning, business performance benchmarking, capital raising, and advisory on digitalisation.
Success indicators	Gains in process efficiency – ability to deliver a highly repeatable set of services that are firmly rooted in the laws and regulations set out by governing agencies. Applying knowledge of compliance requirements and their application to different types of small businesses.	Providing modern accounting technology and offering services that establish regular, ongoing engagement between clients and accounting staff. Ability to offer superior client experiences easily and efficiently using the latest technology.	Developing streamlined processes and a strong market reputation. This ensures a steady flow of complex, interesting and often related cases where clients value and rely on deep accounting and business knowledge. These practices know that finding, nurturing and retaining experts is the key to their success.
Recommendations for moving across the value chain	Firms with the compliance service model can easily evolve into repeatable advisory service practices if they are willing to invest in learning about new technologies and educate staff on using them.	Employ highly skilled employees capable of the intricate work that makes up complex advisory rather than team members who can do the more routine and automated work involved in compliance.	Explore the use of AI and machine learning-enabled digital solutions for business operations and provision of services.

Figure 6 Marketing investment: others vs pacesetters

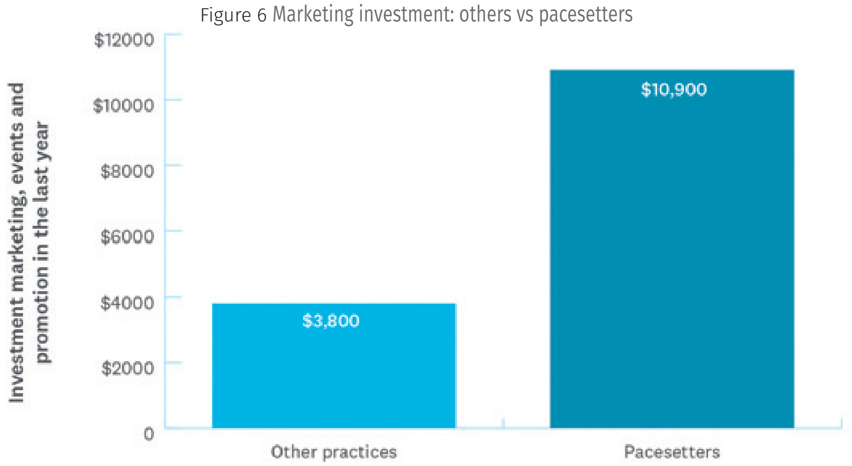
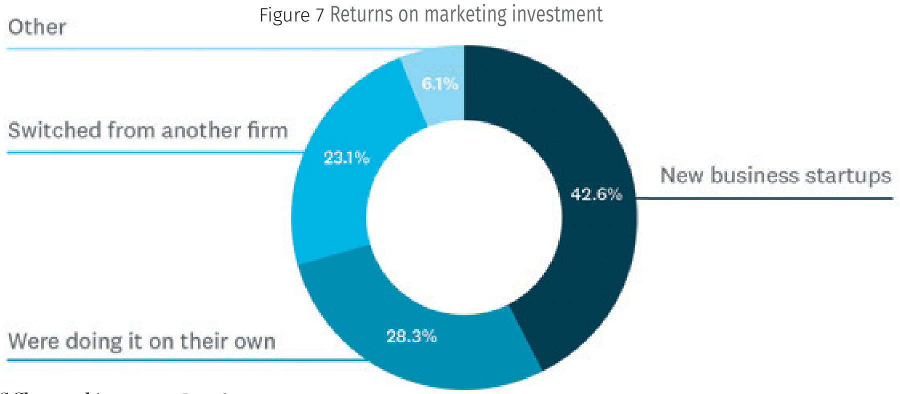


Figure 7 Returns on marketing investment



In order to keep up with the evolution of the accountancy landscape, the role of the accounting entities will likewise have to evolve with new trends. Firms will have to refresh their talent management strategy and ensure that their employees possess the relevant skill sets required to deliver the job. For instance, as firms embark on the digitalisation journey, other than investing in technologies, they should also look into enhancing the digital skills of existing employees to enrich their skills profile. This not only aids talent retention through professional development, it also portrays the accounting profession as a more interesting and attractive career option to the centennials.

4 FIRMS NEED TO TAP ON MARKETING TO DIFFERENTIATE THEMSELVES

When asked about their practices' investment in marketing, events, and promotions to bring in new clients, pacesetters reported spending $11,000 in the previous year on marketing. In contrast, regular firms only spent $3,800 the entire year (Figure 6). This suggests that digital leaders with a growth mindset understand the importance of marketing in attracting new clients for their firm.

PHOTO SHUTTERSTOCK

The returns on marketing investment are further substantiated by the study where 269 firms reported a total growth of 5,700 new clients in the last year. When the results were extrapolated to the market, the estimated total new clients in the last 12 months is 15,000, of which around 3,500 switched firms (Figure 7). This goes to show that Singapore accountancy firms will stand to gain client acquisition opportunities if they:

1. Implement a marketing strategy for new business startups;
2. Position their value-add as an external accounting advisor, and
3. Differentiate themselves against the competition.

5 IMPORTANCE OF MEASURING CLIENT SATISFACTION

The study highlighted another important aspect of a professional services provider – measuring client satisfaction. Out of all the practices surveyed, 8% which routinely collect client feedback saw revenue growth over the last 12 months (Figure 8).

An interesting finding saw the strong link between practices that value client feedback and high employee retention rates. Practices that collect feedback are far less likely to lose high-value employees than practices which do not.

Figure 8 Obtaining client feedback

	Practices which proactively collect client feedback	Practices which feel collecting client feedback is unnecessary	Remarks
Practice revenue growth, last 12 months	8%	3.5%	Across all areas, practices which routinely collect client feedback using surveys or technological platforms are performing much better. The loss of high-value employees suggests that employees generally do not want to work in practices where client feedback is not valued or is ignored.
Regretted client departures (% loss of high-value clients)	5%	9.3%	

Figure 9 Priorities for the year: Digital leaders vs others

	Digital leaders (top 20% leading the way)	Everyone else
Most important objective for the year (picked most often)	Growth (68.1%)	Growth (57.9%)
Most important objective for this year (picked second-most often)	Practice efficiency (15.3%)	Practice efficiency (25.5%)
Most important objective for this year (picked third-most often)	Hire or develop people (11.1%)	Hire or develop people (9.1%)

BE GEN Z READY

It is heartening to note that an overwhelming majority of accounting firms acknowledge the need for change – the change that will prepare them for Gen Z.

All firms, regardless of practice type, albeit with varying degrees of focus, shared similar priorities in recognising the need for improvement (Figure 9), according to the study. Pacesetting firms are far more focused on growing revenue (69.7% vs 56.7%) and investing in hiring and developing employees (12.1% vs 9.2%) than regular practices. In contrast, average firms are more likely to prioritise organisational efficiency, client retention, and maintaining the status quo.

Finally, 86% of firms said they would invest more time and resources in advisory solutions, a promising sign that Singapore's accountancy industry is gearing up, moving from number crunching to providing business strategic advisory services.

We are optimistic that the digital revolution will propel accountants into new and more vital roles, where their skills and experience will directly contribute to enterprise growth and development.

Motivated to be the promising practice of tomorrow like Tan and Co PAC? Take your first step today. For more details of the study, please visit www.xero.com/sg/campaigns/accounting-industry-report/ to download Xero's 2020 Accounting Industry Report, supported by ISCA.

Not sure where to start? Please visit www.SMPcentre.org.sg or contact ISCA at industrysupport@isca.org.sg to have a chat with us. ISCA

Kevin Fitzgerald is Managing Director, Xero, and Zoey Xie is Head of Industry Support, ISCA.

BY EUGENE YAP

UNPACKING DIGITAL TRANSFORMATION

A Framework To Help In Successful Conversion

OVER THE LAST DECADE, digital transformation has become an indispensable part of the corporate lexicon. Read any annual financial report today and you will inevitably come across a line or two about the company's efforts in digitalisation. However, the ubiquitous use of the term "digital transformation" has, in turn, given rise to scepticism about its true value beyond generating work for consultants and demand for more IT solutions. The sceptics have it half right – the global market for digital transformation consulting has almost doubled in size since mid-2016 (US$23 billion) to reach US$44 billion in 2018.[1] In fact, it is expected to grow at a CAGR of 8.2% from 2019 to 2027.[2] At the same time, despite heavy investment into digital by executives, McKinsey estimates that almost 50% of digital initiatives fail to achieve an ROI that exceeds the cost of capital.[3] An older study in 2013 suggests that close to 70% of digital transformations do not meet expectations. But for those that succeed, the rewards are significant. In the Capgemini's report titled "The Digital Advantage: Digital Masters' Strategies For Success", the consulting firm estimates that firms which are more effective at managing digital transformation earn 26% higher profits and 12% higher valuations. At Kantar Consulting, a study conducted by our Institute of Real Growth[4] found that 64% of high-growth organisations put data and analytics at the core of strategic decision-making compared to 35% of low-growth peers. Digitalisation is creating winners and losers, and organisations need to make sure they are on the right side of the divide. The Kantar SPADES framework is a useful tool to help senior leaders think about how to deliver successful transformations. SPADES stands for **S**pot, **P**lot, **A**ssess, **D**esign, **E**xecute, **S**ustain.

SPOT

Digital transformation begins when the organisation spots the right opportunities for digitalisation. Before embarking on any major transformation initiative, organisations need to understand which parts of the business will benefit the most from the use of data and technology. Business leaders need to ask themselves how and where digitalisation will help them create and capture most value, rather than blindly following the next major technology trend. To achieve this, leaders need to look *inward* to where the greatest opportunities are to drive productivity and innovation, *outward* to changes in the market and customer preferences, and *forward* to how macro and technology trends will change the supply and demand of products and services in the future. By taking a holistic perspective, organisations are more likely to identify the right places in the business to introduce transformation, and hence derive the most benefits if the initiative is successful. An example of this is Adobe, which started out as a creative software company but identified cloud-based marketing solutions as the future for the business; it has since seen its stock price more than triple in the past 10 years.

... leaders need to look *inward* to where the greatest opportunities are to drive productivity and innovation, *outward* to changes in the market and customer preferences, and *forward* to how macro and technology trends will change the supply and demand of products and services in the future.

PHOTO SHUTTERSTOCK

PLOT

Identifying the right areas to digitalise only marks the beginning of the transformation process. Organisations need to take time to plot their options for implementing transformation. They could build solutions internally, buy from external vendors, or partner others in the ecosystem to co-create the solution.

The right approach depends on a combination of factors – cost, speed and quality, but also longer-term considerations about capability-building and ownership of any intellectual property. When undertaking an initiative where the company has limited expertise and returns are uncertain, it is often easier to start by partnering others, for example, startups, suppliers or even competitors, to co-create and test solutions. Along the way, the company needs to ensure it learns and develops new capabilities, or risk losing control to its partners in the long term.

Conversely, when potential returns are clear and significant, or contribute to a sustainable competitive advantage, organisations should consider investing in developing solutions inhouse. While this is a more difficult path, it could mean the difference between thriving or becoming irrelevant in a changing world. None of these options – build, buy, partner – needs to be permanent decisions. Rather, organisations need to constantly revisit their decisions and be agile enough to change course when necessary. Apple, for example, started by building most of its iPhone components internally, but as certain technologies mature and become less differentiated in the market, it gradually outsourced their development to trusted partners.

[1] "Digital Transformation Consulting Market Accelerates To $44 Billion", Consultancy.uk

[2] "Digital Transformation Strategy Consulting Market Is Expected To Grow At A CAGR Of More Than 8.2% By 2027 Owing To The Growing Need For Offering Unified Customer Experience In BFSI", Absolute Markets Insights

[3] "The Case For Digital Reinvention", Feb 2018, McKinsey Quarterly

[4] "What Drives Business Growth Today?", Kantar Consulting

ASSESS

Plotting your course effectively requires a structured and data-driven approach to assessing the cost and benefits of each option. While it is difficult to quantify the short-term financial impact of many exploratory digital initiatives in the short term, an organisation needs to establish other measures to gauge its success and whether it is worth further investment. Professor Pisano from Harvard Business School talks about the importance of introducing discipline to the innovation process. While many companies may be keen to emulate the free-wheeling and "fail fast and break things" culture of Silicon Valley, Prof Pisano cautions that the most innovative organisations embrace experimentation, but are also highly disciplined. These organisations set clear innovation objectives and ensure that individuals take personal accountability. They tolerate failure, but only smart failure. For organisations to succeed at digital transformation, they require an entrepreneurial spirit, but one that is well tethered to basic business discipline. For more critical investments, organisations need to build a clear business case for change and allow for robust debate to identify the best way forward and where to prioritise resources.

DESIGN

While plotting and assessing provide a high-level direction for transformation, designing is when organisations get into the details of how to make the transformation work.

When we talk about design, it is not just about the technology but also about how people, processes and organisational resources should be configured in a way to achieve the optimal outcome. This is where most organisations fail – by focusing all their attention on having the best technology without considering how the rest of the organisation needs to change in order to achieve the desired results.

Many banks, for example, have introduced automated phone banking software to reduce reliance on human callers and cut costs. However, this automation fails to account for situations where human contact can make a significant difference in service recovery, or spot opportunities for upselling new services. By just focusing on a "machine-only" solution, rather than a "human-machine" solution, banks may inadvertently encourage customers to switch, or miss opportunities to grow customer lifetime value.

Great designs need to be human-centric, whether we are building technologies for internal users or customers. By leveraging both data science and behavioural science, organisations can maximise the potential of the solutions they deploy.

[5] "The Case For Digital Reinvention", Feb 2018, McKinsey Quarterly
[6] "New Study: Culture Determines Digital Transformation Success", 20 Nov 2018, SMU, Tata Communications, DBS Bank, KPMG

PHOTO SHUTTERSTOCK

Creating excitement and energy around transformation, and sustaining that through constant communication, celebration of early wins and consistent investment of resources, are crucial to success and the core responsibility of project managers, sponsors and senior leadership.

EXECUTE

In the execution phase, organisations need to pay attention to both the development as well as the deployment approaches. While there is an increasing interest in adopting agile methodologies in development, it may not be the best approach in all situations.

Agile approaches require constant engagement of all stakeholders throughout the process, which may be challenging to sustain over extended periods of time. The iterative nature of agile can also create more unpredictability, allowing the scope of work to creep over time with an ever-shifting goalpost. Organisations need to consider trade-offs between time, speed and flexibility in deciding the right development methodology.

Deployment comes with its own separate set of considerations. The extent of testing and the phasing of the rollout all could have an impact on the early success of the digital initiative. In some cases, an "extended beta" rollout may allow organisations to manage user expectations while gathering data to optimise the solution over time.

SUSTAIN

Many digital initiatives start off with great promise but eventually fail to reach their full potential because leaders do not spend enough time thinking about how to sustain them in the long term. There are two natural barriers to sustaining a digital initiative. First, technologies are evolving more rapidly, and a good solution today can very quickly become obsolete tomorrow. Second, humans are inherently resistant to change. New habits require time to form, and without sustained effort, people may return to old ways of working at the earliest opportunity. Creating excitement and energy around transformation, and sustaining that through constant communication, celebration of early wins and consistent investment of resources are crucial to success and the core responsibility of project managers, sponsors and senior leadership.

CONCLUSION

While this article provides a structured framework to think about digital transformation, organisations should be mindful that the most critical ingredient in driving success is good leadership.

According to McKinsey, "digital winners" are 2.4 times more likely to ensure that digital strategy is aligned with corporate strategy[5]; they are also significantly less likely to have siloed mindsets and behaviours. A joint study by the Singapore Management University, Tata Communications, DBS Bank and KPMG also found that effective leadership and culture are instrumental to transformation success.[6] In the study, 87% of respondents agreed that culture has the potential to create bigger barriers to digital transformation than technology. Creating an open, collaborative and agile organisational culture is a prerequisite for leaders pursuing transformation. Furthermore, by adopting the SPADES or other similar frameworks, organisations can cut through the noise surrounding digital transformation and apply a disciplined approach to driving business growth in a data-driven and digital-first world. ISCA

Eugene Yap is Head of Digital and Marketing Effectiveness, Kantar Consulting.

BY GUOLI CHEN AND WEI SHI

THE BEST CEO-CFO TEAM FOR MERGERS AND ACQUISITIONS

A Blend Of Optimism And Pessimism

PHOTO SHUTTERSTOCK

AS THE US-CHINA TRADE WAR DRAGS ON, sirens are going off on sales, earnings and growth forecasts around the world. But one aspect of corporate activity is bucking the gloom: mergers and acquisitions (M&As). Global appetite for M&As is at a 10-year peak, fuelled by years of sustained economic growth and low cost of debt. Announced transaction volumes surged to US$4.1 trillion in 2018, the third highest ever. In Singapore, 14 companies were bought out or privatised in the first half of 2019, more than the 2018 full-year tally.

The froth belies the fact that M&As, which can pave a fast track to future growth if done right, are risky propositions with a failure rate of 80%. Nonetheless, investors and analysts need not rely on guesswork to identify successful deals. Our research points to an optimal combination in the C-suite that increases the odds of M&A success: optimistic CEOs tempered by pessimistic CFOs.

Optimism and pessimism have been shown to be aligned with the roles of CEO and CFO respectively. CEOs are expected to be upbeat and open to taking risks in order to engineer or sustain an upward trajectory for their company. Satya Nadella, Jack Ma and Mary Barra are just a few of the flagbearers.

However, optimistic vision does not automatically translate into healthy post-M&A return on assets (ROA). This is where CFOs come in. They scrutinise target firms, conduct in-depth due diligence and pinpoint the potential risks of any M&A. They are expected to be cautious and attuned to adverse conditions – in other words, pessimistic gatekeepers. Hear it from former Facebook CFO David Ebersman in a 2015 interview, "One of the things I felt responsible for doing was to be a bit of a pessimist – to think about what could go wrong with the investments we were making, and to make sure someone was challenging every dollar we were spending in the business."

> **Buyouts engineered by optimistic CEOs and pessimistic CFOs** have the best odds of success.

THE 'A' TEAM FOR SHOPPING

We studied the level of optimism and pessimism of CEO-CFO pairs at 2,356 US firms, the pairs' influence on 4,529 M&As and, in turn, firm performance. We culled transcripts of conference calls between 2002 and 2013 involving both the CEOs and CFOs, and measured the executives' optimism and pessimism by analysing their use of positive and negative words. Positive words included "achieve", "assure" and "successful"; negative ones covered "flaw", "penalise" and "unavoidable". CEO optimism was calculated as the difference between a CEO's use of positive words and negative words, and CFO pessimism was calculated as the difference between a CFO's use of negative words and positive words.

Our data showed that CEOs generally used more positive words and were more optimistic than CFOs. CFOs used more negative words and were more pessimistic than CEOs. We then used the ratio of CEO optimism to CFO pessimism to derive what we call the CEO-CFO relative optimism. This value is then matched with the firm's number of M&As and operating performance, assessed in our study as ROA a year later.

We found that the more optimistic a firm's CEO-CFO pair was (high-optimism CEO with low-pessimism CFO), the more M&As it undertook. High CEO-CFO optimism also correlated with lower ROA a year after M&As. Conversely, low CEO-CFO relative optimism was associated with fewer M&As but higher ROA.

At Spectrum Pharmaceuticals, for example, where relative optimism of the CEO (Rajesh Shrotriya) and CFO (Brett Scott) was in the top five percentile, ROA was a disappointing -3.4% after the firm made an acquisition in 2012. At the other end of our data set were Gilead Sciences' CEO (John Martin) and CFO (Robin Washington), whose relative optimism ranked in the bottom five percentile. The biotechnology company reported an ROA of 36% a year after making a major acquisition in 2009.

We conclude that in the presence of pessimistic CFOs, optimistic CEOs not only undertake fewer acquisitions, they are less likely to undertake dud acquisitions. This points to an optimal pairing of an optimistic CEO who has a large risk appetite for M&As, and a pessimistic CFO who is sufficiently prudent to alert him or her to potential pitfalls.

OPTIMISM IN TURBULENCE

Our findings may have even more relevance in these turbulent times of trade sanctions and de-globalisation. In our study, companies with high CEO-CFO relative optimism carried out more M&As in a dynamic environment of volatile total industry sales. This suggests that CEOs are more likely to consult CFOs on M&As in times of uncertainty, and when a highly sanguine CEO works with a low-pessimism CFO, the result is likely to be more M&As.

In other words, uncertainty about the operating environment enhances the positive relationship between CEO-CFO optimism and the number of M&As. How optimistic the CEO is and how pessimistic the CFO is in parallel will, under the circumstances, weigh on firms' M&A decisions and their future performance. ISCA

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FROM PERSPECTIVES@SMU

US-CHINA TRADE WAR

Time Is Running Out To End It

THE WORLD WATCHES ON as China's rise and controversial trade practices trigger a US reaction.

The US has viewed China's rapid development into the world's second largest economy as less than benign. Therefore, it unilaterally raised tariffs on Chinese goods to force China to alter its trade practices, believing its position as the world's strongest economy would allow it to set the terms of trade. However, trade negotiations with China grew contentious and threatened to derail global economic growth as both countries imposed escalating tariffs on the other.

The trade dispute escalated into a disagreement over technology. The US flagged the Chinese firm Huawei as a national security threat, alleging that Beijing could spy on countries installing telecommunication equipment from the Chinese maker. Again, China threatened to retaliate in kind.

The feud between the two largest economies has affected the rest of the world. The use of tariffs by the US as a foreign policy tool has led to the unwinding of globalisation. The resulting China growth slowdown has led to less demand for imports from other trading partners. Worse still, the prolonged impasse created the spectre of a new economic cold war era, creating a bifurcated world in which the US coalition and China's trading bloc operate incompatible technologies.

On September 18, *The Wall Street Journal* (WSJ) editorial staff Charles Hutzler, Andrew Dowell, Yumiko Ono and Michael Bird visited Singapore Management University (SMU) for "Breakfast with WSJ Editors" – a breakfast dialogue organised by SMU Libraries. The discussion focused on the rise of China and the consequences of the US-China trade relations on the rest of the world. It was moderated by Gordon Perchthold, Associate Professor of Strategic Management, SMU.

CHINA RISING

China sustained high growth rates since implementing market reforms (改革开放) in 1978 and freed 850 million of its citizens from poverty.[1] China utilised its huge domestic market and economies of scale to provide the world with low-cost manufacturing. Even as China became a bona fide economic juggernaut, Beijing is currently focused on dealing with internal challenges than usurping the US as a global hegemon. Charles Hutzler, China Bureau Chief at WSJ, suggests that their internal economic model has to change to avoid the middle-income trap.

"They're not in this sweet spot anymore of a large and growing young workforce, and they're aging very quickly," he elaborates, while pointing out the country's need to create a more innovative society and develop a more consumer-driven economy. "They have an economic model that has worked for them for the past 20, 30 years, which is heavily dependent on state investment. On the one hand, as the government is talking about changing

... the prolonged impasse created the spectre of a new economic cold war era, creating a bifurcated world in which the US coalition and China's trading bloc operate incompatible technologies.

[1] "The World Bank In China", The World Bank website, 1 October 2019

PHOTO SHUTTERSTOCK

"If you look at the issues around data protection and data localisation, the walls are going up around the world. We are probably going to be moving into a less free and more restricted era, both from the research standpoint and from the product application standpoint."

to a consumer-driven model, it is also doubling down on the influence, within the economy, of state enterprises."

He continues, "Private sector investment has been low; it's a trend that's been happening for a decade. Colloquially, the Chinese refer to it as 'the state advances and the people retreat (国进民退)'."

Despite government intervention stifling innovation and a possible debt crisis on the horizon, perhaps China's biggest issue concerns the issue of Hong Kong. Andrew Dowell, Asia Editor at WSJ, feels the problem could linger. "Unquestionably, economic factors are something that concern people in Hong Kong," Dowell says. "However, it feels to me that it's much more a question of identity and political autonomy. (Young) Hong Kongers see themselves as distinct from China." Yumiko Ono, Asia Digital Editor at WSJ, adds, "People thought that after 1997, there was supposed to be a high degree of autonomy under 'One Country, Two Systems' (一国两制), but at the halfway mark, there are more and more signs that China is taking more and more control."

SUPERPOWER RELATIONS

In 2018, in bilateral trade with the US, China exported US$539 million worth of goods while its imports were worth only US$120 million. Michael Bird, Columnist at WSJ, said trade balance is not necessarily a desirable outcome. "In a reasonable trading system where people play by the same rules, some countries, like China, are going to invest more than others. The difficulty comes not from the imbalance in and of itself, but from what's generating it."

He explains, "For example, Chinese imports are low because the Chinese government is making it difficult to sell into China or is incentivising people to export, unfairly advantaging its own exports over someone else's. The trade imbalance is usually a symbol of something else going on, rather than being wrong itself."

The US has also raised the issue of the Chinese government's ability to use Huawei's position as the leader in 5G technology to abet government espionage. Despite vociferous efforts to fend off Huawei, the US has had little success in getting its allies on board. "The UK is plausibly the closest US ally on foreign policy issues... and if you can't convince the UK not to use Huawei for its 5G networks, then you're not going to convince anyone," Bird says, adding that American claims of European auto exports into the US posing a security threat devalues similar claims over 5G networks.

Dowell offers an alternative viewpoint. "In the US, we see that China is a threat, that the Chinese government might have backdoors into the equipment. But if you are from outside the US and have no preconceptions to deal with, you got the fact that AT&T has a room in its headquarters for the NSA. All these Internet companies that lay cables across the sea have to sign contracts that say the NSA gets listening posts there. The backdoor is built into the US telecom system and US intelligence agencies make active use of it."

In this political climate, other countries have been less willing to cooperate with one another. Hutzler shares, "If you look at the issues around data protection and data localisation, the walls are going up around the world. We are probably going to be moving into a less free and more restricted era, both from the research standpoint and from the product application standpoint."

Despite the public shows of strength from the US and China, there remains hope that a trade deal can be reached. A proposal that allows China to save face could allow them to acquiesce to US demands. Several countries have advocated a multilateral approach to accommodate China's evolution into a developed nation. But if political wills continue to harden, the world may have to get used to a forever trade war. ISCA

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TECHNICAL HIGHLIGHTS

AUDITING AND ASSURANCE

RESEARCH SHOWS BENEFITS OF MULTIDISCIPLINARY FIRM STRUCTURE IN PRODUCING HIGH QUALITY AUDITS

The report "Audit Quality in a Multidisciplinary Firm" looks at what the evidence says about the multidisciplinary model and its relationship with audit quality, and how the current regulatory frameworks internationally manage the risks.

For more information, please visit https://www.ifac.org/news-events/2019-09/research-shows-benefits-multidisciplinary-firm-structure-producing-high-quality

IAASB'S KEY ACHIEVEMENTS, 2016-2019

The IAASB public report "Foundation for the Future" summarises its achievements from 1 January 2016 to 30 June 2019. In line with its 2015-2019 strategy, the IAASB's activities have focused on enhancing audit quality and addressing engagements other than audits of financial statements.

For more information, please visit https://www.ifac.org/news-events/2019-09/iaasb-key-achievements-2016-2019

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ED ON REFERENCE TO CONCEPTUAL FRAMEWORK (AMENDMENTS TO IFRS 3)

We agree with the Board's proposals. However, we highlighted that the proposed amendments to IFRS 3 are a temporary measure. We urge the Board to use its project on provisions to amend IAS 37 (including the requirements in IFRIC 21) so that the principles/requirements in IAS 37 and IFRIC 21 are aligned with the liability definition and supporting concepts in the 2018 Conceptual Framework.

For more information, please read comment letter https://isca.org.sg/media/2823474/isca-cl-for-iasbs-ed-on-ref-to-conceptual-framework_amendments-to-ifrs-3.pdf

ISCA COMMENTS ON IASB'S EXPOSURE DRAFT – AMENDMENTS TO IFRS 17

We appreciate and welcome the proposals from IASB in response to some of the concerns and challenges raised by stakeholders. We believe the proposals will help to ease implementation efforts of IFRS 17 and result in better clarity in the financial information to stakeholders. However, we have noted some areas in the proposals where further clarification or refinement are required. Accordingly, we have provided our recommendations or sought clarification from IASB on those areas.

For more information, please visit https://isca.org.sg/media/2823432/isca-comment-letter-amendments-to-ifrs-17.pdf

SEPTEMBER 2019 IFRIC UPDATE PUBLISHED

This Update is a summary of the decisions reached by IFRIC at the September meeting on topics such as Compensation for Delays or Cancellations (IFRS 15 *Revenue from Contracts with Customers*) and Lessee's Incremental Borrowing Rate (IFRS 16 *Leases*).

For more information, please visit https://www.ifrs.org/news-and-events/2019/09/september-2019-ifric-update-published/

IASB AMENDS IFRS STANDARDS IN RESPONSE TO IBOR REFORM

The amendments are designed to support the provision of useful financial information by companies during the period of uncertainty arising from the phasing out of interest rate benchmarks such as interbank offered rates (IBORs). The amendments are effective from 1 January 2020 and early application is permitted.

For more information, please visit https://www.ifrs.org/news-and-events/2019/09/iasb-amends-ifrs-standards-in-response-to-the-ibor-reform/

BETTER INFORMATION ABOUT BUSINESS COMBINATIONS – GOODWILL AND IMPAIRMENT

In this article, IASB member Tom Scott discusses IASB's preliminary views and how stakeholders can help by commenting on its forthcoming discussion paper on business combinations – goodwill and impairment.

For more information, please visit https://www.ifrs.org/news-and-events/2019/09/better-information-about-business-combinations-goodwill-and-impairment-project-update/

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BY FELIX WONG

TAX EQUALISATION AND TAX PROTECTION

Managing International Mobility Through Tax Sharing Schemes

THE GLOBAL ECONOMY TODAY is more interconnected than ever. To compete on the world stage, businesses are embracing global value chains and aggressively expanding their international footprints. Naturally, this creates a high demand for skilled talents to run their international operations. To address talent crunch in specific countries, businesses often turn to international assignments to bridge these talent gaps.

At a *Tax Excellence Decoded* (TED) session organised by the Singapore Institute of Accredited Tax Professionals (SIATP), Accredited Tax Advisor (Income Tax) Ooi Geok Eng, Director, and Candice Ee, Manager, Global Mobility Services, PwC Singapore, shared their expertise in dealing with international assignments. "Businesses can use a tax sharing scheme to alleviate the additional tax costs that employees may incur as a result of their overseas assignments; this can be modelled either as a tax protection plan or tax equalisation plan," they said.

Accredited Tax Advisor (Income Tax) Ooi Geok Eng, Director (left), and Candice Ee, Manager, Global Mobility Services, PwC Singapore, shared their expertise in dealing with international assignments

TAX PROTECTION PLAN

Under a tax protection plan, the employer would reimburse the employee for actual taxes paid in excess of the amount the individual would have paid in his home country if he had not been posted overseas. If the employee's total actual tax liabilities (in his home and host countries) are less than his hypothetical home country tax, the employee would only be liable to pay for the actual (lower) tax liabilities.

Businesses can use a tax sharing scheme to alleviate the additional tax costs that employees may incur as a result of their overseas assignments.

Essentially, tax protection ensures that the employee does not incur more tax than he would have if he had remained in his home country.

A tax protection plan can be implemented with relative ease as no action is required before and during the overseas assignment. At year-end, the employer prepares the final hypothetical tax and tax protection settlement calculation, and reimburses the employee for any actual tax liability in excess of his hypothetical tax.

TAX EQUALISATION PLAN

In contrast, a tax equalisation plan ensures that the employee's tax burden remains the same (not better off or worse off) as if he had remained in the home country. Employees are responsible for their hypothetical tax, while employers are responsible for the actual tax liability. Consequently, if the actual tax is more than the hypothetical tax, the excess tax burden is borne by the employer. If the actual tax is less than the hypothetical tax, the employee does not enjoy any "windfall gain".

Administratively, it takes considerably more effort to implement a tax equalisation plan than a tax protection plan. In addition to preparing the final hypothetical tax calculation and tax settlement calculation at year-end, the employer is also required to prepare estimated hypothetical tax calculations, generally on an annual basis, to facilitate the withholding of estimated hypothetical taxes from the employee's monthly payroll.

A QUICK COMPARISON: TAX PROTECTION & TAX EQUALISATION

From the employee's perspective, tax protection allows the employee to enjoy "windfall gains" from lower foreign taxes while restricting the maximum tax obligation to his hypothetical tax. On the other hand, tax equalisation provides tax neutrality for the overseas assignment without the potential of "windfall gains" for the individual employee.

The above difference may encourage certain employee behaviour. For example, employees under tax protection schemes may be more motivated to be relocated to a low or no tax jurisdiction to reap the benefit of the lower tax costs. They may also seek ways to lower their actual tax liabilities and pose a non-compliance risk.

In contrast, employees under tax equalisation schemes will not factor in tax costs in choosing their preferred overseas location as they are tax neutral. Employees will, however, be less motivated to help lower the actual tax liability as it has no bearing on them.

TAX SHARING POLICIES IN PRACTICE

In practice, businesses may adopt different approaches in handling international assignments. Some organisations may adopt a *laissez faire* approach with no specific policy in place, that is, each international assignment is assessed on a case-by-case basis.

Other organisations may adopt a partial tax protection or tax equalisation scheme, where certain income items (such as personal income or equity compensation) are excluded from the scheme, or a full tax protection or tax equalisation scheme, where the employee is fully tax protected or tax equalised on all types of income. Organisations may also opt for a hybrid of tax protection and tax equalisation policies, depending on the type of income and assignment policy, to suit specific business needs.

PRACTICAL ISSUES AND CONSIDERATIONS

There are numerous practical issues and considerations in managing international assignments through tax sharing policies.

Lack of policy

Startups or small and medium-sized enterprises (SMEs) typically do not have comprehensive tax sharing policies and tend to handle international assignments on a case-by-case basis. This is understandable as the number of international assignees may not justify the costs of developing full-fledged policies.

Although the case-by-case approach may be practical in the beginning, it will become increasingly inefficient to negotiate with each international assignee as their number grows. In the absence of formal policies, there are also higher risks of inconsistencies in employees' overseas packages, which may lead to staff unhappiness. Startups and SMEs anticipating a rise in international assignments should consider putting in place a comprehensive tax sharing policy.

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Implementation and process

As multiple internal teams are involved in carrying out tax sharing policies, it is important that each team is clear of its respective role. There should also be a monitoring mechanism in place to ensure compliance. In the case of tax equalisation, where multiple estimated hypothetical tax calculations are often performed throughout the assignment period, organisations should decide on the frequency of their hypothetical tax calculations based on their need for accurate estimates and the compliance costs involved.

It is possible to extend tax sharing policies to other areas such as social security.

Policy guidance and interpretation

To prevent misunderstanding and future disputes with employees, it is essential for businesses to ensure that their tax sharing policies have clear guidance and interpretation. For example, each tax sharing policy should clearly state the types of income covered under the policy, specifically excluded income items, and applicable personal reliefs for the purpose of calculating hypothetical tax. For further clarity, it is also good practice for the policy to address specific employment scenarios, such as mid-year resignation and localisation.

Cash flow

The ability to pay one's individual tax through GIRO instalment plans in Singapore may create a unique cash flow issue for outbound Singaporean assignees under a tax equalisation plan. In the year of transfer, the Singaporean assignees may still be paying the instalment for their prior year's tax liability, while simultaneously be subject to monthly hypothetical tax deductions.

As tax equalisation plans are internal policies, employers may consider whether monthly salary withholding is necessary. To the extent that the policies are consistent and fulfil the organisation's objectives, employers may decide to collect the hypothetical tax at a later date to ease employees' cash flow (for example, when the final hypothetical tax calculations are performed at year-end).

Employee communication

Communication is vital to the success of tax sharing schemes. If lengthy disputes are to be avoided, employers must ensure that employees understand the fundamental concepts of the tax sharing scheme from the very beginning to align expectations.

Other areas

It is possible to extend tax sharing policies to other areas such as social security. Consider Singapore's Central Provident Fund (CPF) Board, which mandates compulsory CPF contributions for locally employed Singaporeans and Singapore Permanent Residents. If a Singaporean is sent on an overseas assignment, then his CPF contributions become voluntary (for both employee and employer).

Employers can choose to compensate for this difference and compute the amount of CPF contributions for the employee had he remained in Singapore, and reconcile it with the amount of actual CPF contributions (as well as contributions to host country's social security, if applicable). The employee can then be equalised or protected from a social security perspective.

Ultimately, tax sharing schemes are internal policies and there is no one-size-fits-all way to do it. Organisations must think through their business objectives and limitations: Are there adequate resources and internal processes to implement a tax sharing scheme? Should the policy be kept simple and easy to understand, or be comprehensive and detailed? Should the organisation apply different policies for different types of assignments?

Only when organisations are able to answer these questions will they be able to arrive at an appropriate tax sharing scheme. ISCA

Felix Wong is Head of Tax, SIATP.



BY LAU CHEW KING, LOW KIN YEW AND TONG YEN HEE

DON'S COLUMN

IFRIC UPDATE ON CAPITALISATION OF BORROWING COSTS

PART 1

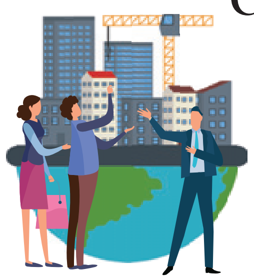
More Deliberation Required

IN MARCH 2019, THE IFRS INTERPRETATIONS COMMITTEE (COMMITTEE) issued an IFRIC Update in which the Committee examined the scenario of a multi-unit real estate development, and concluded that borrowing costs should not be capitalised for a good (or an asset) that is being constructed and transferred over time to customers. The key basis of the Committee's conclusion resides on the fact that there is no qualifying asset per IAS 23 *Borrowing Costs* when a good is being constructed and revenue is recognised over time as control is transferred to customers.

In this first of a two-part article, we examine the conceptual support for the Committee's conclusion, find it to be lacking, and recommend that more deliberation is necessary.

CAPITALISATION OF BORROWING COSTS UNDER IAS 23 *BORROWING COSTS*

IAS 23 requires an entity to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. A qualifying asset is defined in IAS 23 para 5 as an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs include eligible borrowing costs of funds raised either specifically for, or generally and used for, obtaining a qualifying asset. Eligible borrowing costs of funds raised specifically for obtaining a qualifying asset refer to the actual borrowing costs incurred less any income derived from temporary investment of those funds



> CIP relating to units sold before the commencement or completion of construction is a contract asset… CIP relating to units that are not yet sold before the completion of construction is an inventory.

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> We believe it is necessary to revisit the Committee's conclusion to allow for the continued capitalisation of eligible borrowing costs until an asset is fully acquired, constructed or produced to be more congruent with the general principle underlying the measurement of asset cost espoused in the Framework and several financial reporting standards (that is, IAS 2, IAS 16, and IAS 38).

during the period. Eligible borrowing costs of funds raised generally and used for obtaining a qualifying asset are computed based on the entity's weighted average of the borrowing costs applicable to the outstanding general borrowings, and the capitalised borrowing costs cannot exceed the actual borrowing costs incurred during the period (IAS 23 paras 12 and 14). All other borrowing costs are accounted for as an expense in the period in which they are incurred.

COMMITTEE'S CONCLUSION ON CAPITALISATION OF BORROWING COSTS

When a real estate developer takes up a specific loan or uses its existing borrowings to finance the construction of a multi-unit building, whether the developer can capitalise the eligible borrowing costs to the building will depend on whether there is a qualifying asset. The accounting of the ongoing construction results in the developer recognising two assets – accounts receivable and construction-in-progress (CIP). Accounts receivable, a financial asset, is not a qualifying asset as it does not require any time to get ready for its intended use or sale (say, through collection, factoring or as collateral).

IFRS 15 *Revenue from Contracts with Customers* Appendix A defines a contract asset as an entity's right to consideration in exchange for goods or services transferred to a customer and the right is not conditioned on the passage of time. CIP relating to units sold before the commencement or completion of construction is a contract asset. This is because under IFRS 15, a developer recognises revenue over time for such units and thus, the CIP represents an asset that is continuously transferred to customers as it is being constructed. As such, the Committee concludes that a developer's CIP relating to such units is not a qualifying asset as it is an asset for which sale has occurred rather than *getting ready for intended sale.*

CIP relating to units that are not yet sold before the completion of construction is an inventory. The Committee also concludes that such inventory is not a qualifying asset because the developer is prepared to sell any remaining unsold units in the same project while under construction to potential buyers. Hence, such CIP is ready for sale rather than *getting ready for intended sale.*

ASSET COST

Following the Committee's conclusion that both CIP contract asset and inventory are not qualifying assets per IAS 23, related eligible borrowing costs should not be capitalised as part of CIP cost *when revenue is recognised over time.* This conclusion is intriguing. The CIP is not fully constructed and usually costs, including eligible borrowing costs, incurred in the acquisition, construction or production of an asset will be capitalised as part of asset cost. For example, the IFRS Conceptual Framework para 6.5 (Framework) states that the "historical cost of an asset when it is acquired or created is the value of the *costs incurred in acquiring or creating the asset,* comprising the consideration paid to acquire or create the asset plus transaction costs" (emphasis added). The Framework para 6.7 further states that the historical cost of an asset is to be updated over time for accrual of interest to reflect any financing component of the asset, if applicable.

Similarly, IAS *16 Property, Plant and Equipment* (PPE) defines the cost of an asset as "the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction".

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IAS 16 para 16(b) further states that the cost of an item of PPE includes "any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management". Hence, eligible borrowing costs related to the loans for or used to finance the construction of an asset up to the time when it is capable of operation are part of the asset cost. IAS 16 para 22 explicitly states that the cost of self-constructed asset is determined using the same principles as for an acquired asset, and if an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale. Consistent with IAS 16 requirements, IAS 38 *Intangible Assets* also requires initial measurement of an intangible asset on recognition *at cost, and* cost is similarly defined. Furthermore, IAS 2 *Inventories* also provides jurisdiction to include all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location

and condition. This includes any relevant borrowing costs under limited circumstances per IAS 23.

All the standards discussed above require inclusion of all costs of acquisition or creation in an asset cost. Hence, in our opinion, to not capitalise borrowing costs will understate the carrying amount of a developer's CIP, leading to an unfaithful representation of an asset cost in the developer's statement of financial position.

CONCLUSIONS

The Committee's conclusion mainly relies on the definition of a qualifying asset as "an asset that necessarily takes a substantial period of time to *get ready for its intended use or sale*", which leads to the cessation of borrowing cost capitalisation once the asset is ready for sale. We believe it is necessary to revisit the Committee's conclusion to allow for the continued capitalisation of eligible borrowing costs until an asset is fully acquired, constructed or produced to be more congruent with the general principle underlying the measurement of asset cost espoused in the Framework and several financial reporting standards (that is, IAS 2, IAS 16, and IAS 38). ISCA

In the second of this two-part article, to be published in the December issue of this Journal, we will examine the implications of the Committee's conclusion on the matching of construction contract revenue with contract costs, and the resulting impact on the statement of comprehensive income. We will also propose a revised definition of qualifying asset in IAS 23 that can facilitate a more faithfully representative and relevant set of financial statements.

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INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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