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JUNE 2020

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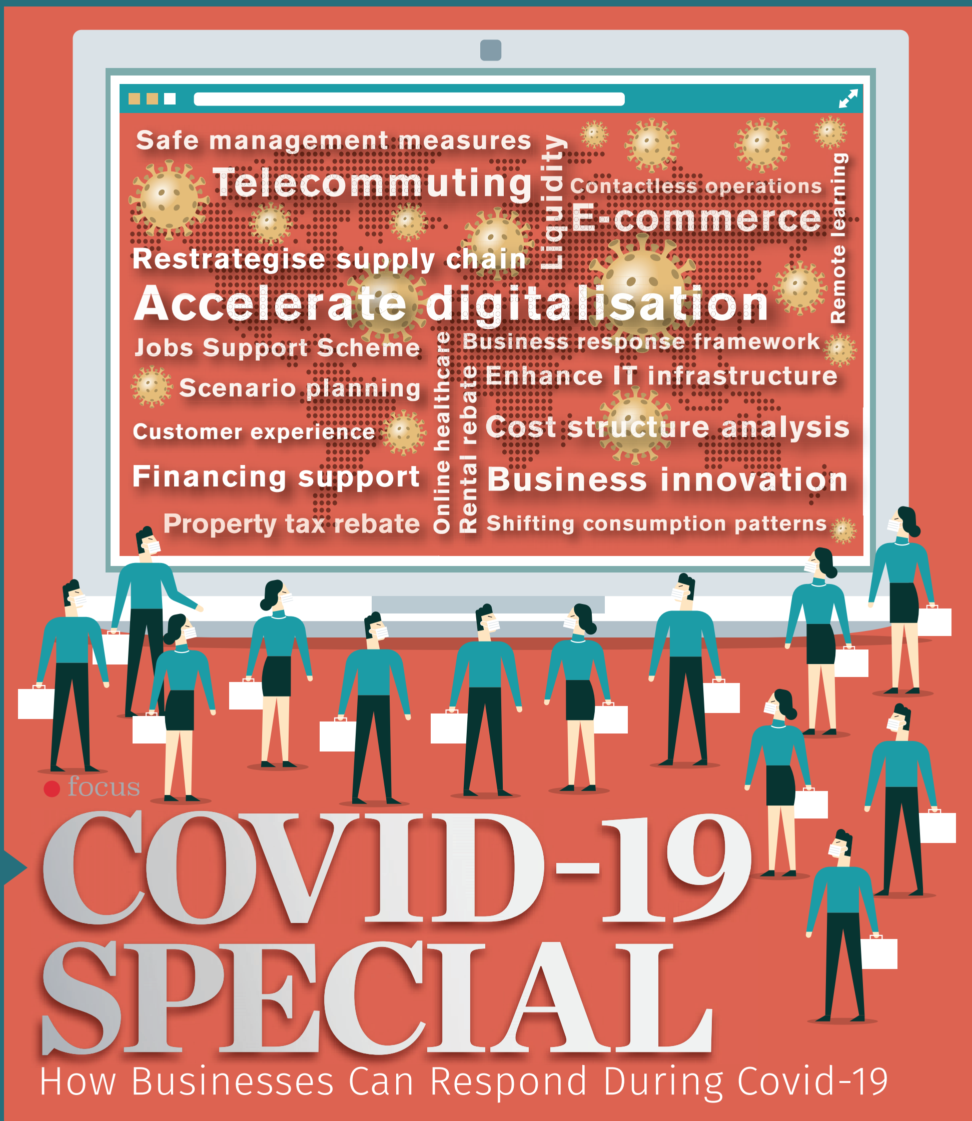
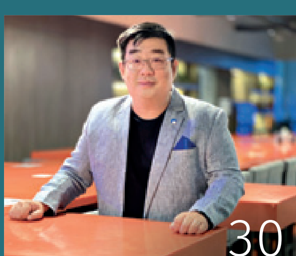
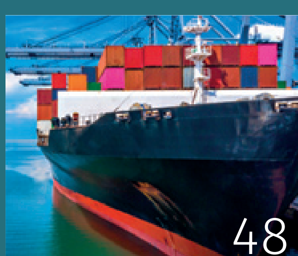


focus

COVID-19 SPECIAL

How Businesses Can Respond During Covid-19





ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Dear members,

THE INTERNATIONAL MONETARY FUND, in its April world economic outlook, had projected a global economic contraction of 3% for 2020. This is a substantial downward revision of 6.3 percentage points from its January forecast of 3.3% growth this year. In Singapore, the Ministry of Trade and Industry has downgraded the country's GDP forecast for the third time, to between -7% and -4%. These stark figures are another reminder to companies that their business strategies must be very deliberate – they must focus on today's challenges, as well as prepare for an extended tough time ahead.

In this June issue, we continue the discussion on the coronavirus in the second edition of the Institute's "Covid-19 Special". Given the crippling effects of the pandemic, the pressing task for businesses is to ensure survival, and key to this is managing the cash flow and conserving cash to maintain liquidity. To determine the efficacy and progress of any action steps, a company should take its own "temperature" and monitor it at appropriate intervals. Such screening will give the company essential oversight of its operational and financial well-being, and highlight areas that require further investigation.

In parallel with the masked superheroes of the Marvel and DC comics, accountants and finance professionals – now in their mandatory masks – possess special abilities that can be used to help others. Although they may not have Superman's "heat vision", they have the specialised skills, knowledge and experience to "see" and interpret financial figures. These insights are then shared with management, to help develop plans for the present and strategies for the future.

The first article in this issue's "Covid-19 Special" guides companies on the immediate actions they can take to shore up liquidity. From conserving cash to accessing financing support and scenario planning, the article offers applicable advice and a business response framework to Covid-19 that members will find useful. The second article looks at a post-pandemic business landscape that will be different from the pre-pandemic days, and proposes a crisis-action plan framework for companies so that they can start preparations now, in order to move swiftly when the time is right. The third article provides accounting guidance on the property tax rebate and Jobs Support Scheme (JSS) announced in the Budgets. With the latest S$33-billion Fortitude Budget which includes an enhancement of the JSS, it looks like our masked accountants and finance professionals will have to continue using their special abilities to assess the implications, study the numbers and do their part to add value to their organisations and clients.

"Fortitude" is defined as courage in adversity, and Richard Koh, our featured member this month, is no stranger to adversity. An accountant-turned-technopreneur, the Group CEO and Founder of M-DAQ Group shares that the company had once run out of cash for almost a year, and he himself went without a salary for a year. Things have since turned around and he was eying a public listing before Covid-19 struck. While some companies have cut costs through layoffs or enforced leave, Richard chose to pay his 60-strong team three weeks ahead of the normal payroll cycle. As he puts it, he is "putting cash in the hands of employees to reassure them". People are the company's assets, and this is how he does his part to help his staff in a time of adversity.

The Fortitude Budget is so named because, in the words of Deputy Prime Minister and Finance Minister Heng Swee Keat, "the coming months will test our resolve as a society and as a people. We will need to adapt, and stay resolute and resilient amidst a rapidly evolving, uncertain situation". Yes, it will be a taxing time for all of us. I urge members to stand strong, dig deep, and find the strength within yourselves to do the best that you can. Be the much-needed masked superheroes. The Institute stands ready to walk with you every step of the way.

As Singapore's economy reopens in phases with the conclusion of the circuit breaker, businesses will be able to gradually resume operations. The Institute reopened on June 2 and we will continue our activities predominantly in a virtual manner for now. We will also resume some key events which have been postponed due to the circuit breaker, such as our Annual General Meeting (AGM).

The adjourned 2020 ISCA AGM will be held virtually on Saturday, June 20, at 11 am. The proceedings of the AGM will be broadcast through a live webcast comprising both audio-visual and audio-only feeds. If you have not yet signed up for the AGM, online registration is open till June 16 via this link: https://www.isca.org.sg/the-institute/agm/agm-registration/.

I hope to "see" many of you at the AGM. In the meantime, continue to stay safe and healthy.

When Businesses Take Temperatures, And Accountants Wear Masks

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

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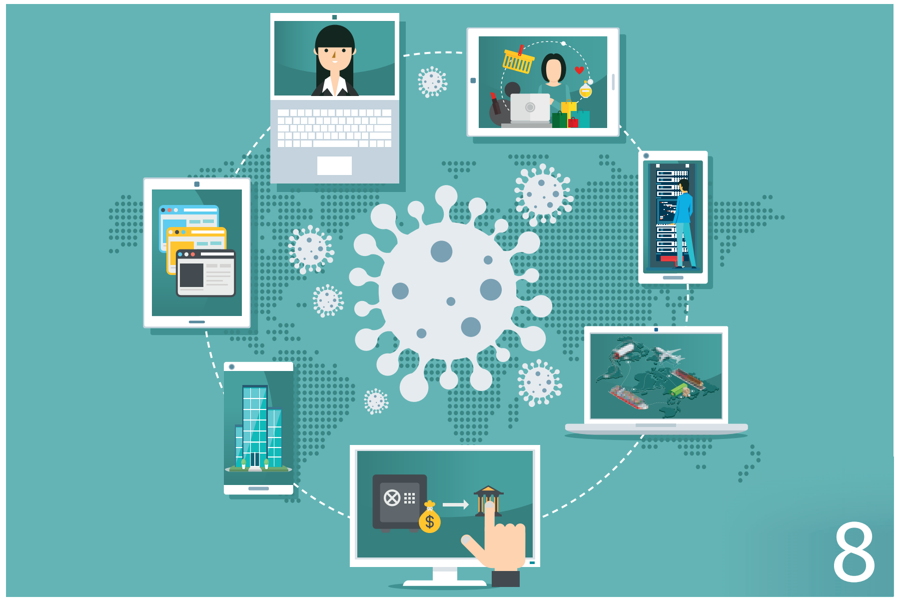

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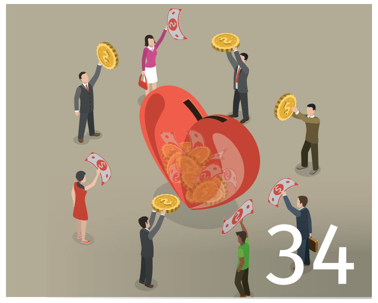

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Covid-19 Economic Impact Could Reach US$8.8 Trillion Globally: ADB Report

IN A NEW REPORT FROM ASIAN DEVELOPMENT BANK (ADB) RELEASED ON MAY 15, the global economy could suffer between US$5.8 trillion and US$8.8 trillion in losses – equivalent to 6.4% to 9.7% of global gross domestic product (GDP) – as a result of the Covid-19 pandemic.

The report, "Updated Assessment Of The Potential Economic Impact Of Covid-19", finds that economic losses in Asia and the Pacific could range from US$1.7 trillion under a short containment scenario of three months to US$2.5 trillion under a long containment scenario of six months, with the region accounting for about 30% of the overall decline in global output. The People's Republic of China (PRC) could suffer losses between US$1.1 trillion and US$1.6 trillion. The new analysis updates findings presented in the "Asian Development Outlook 2020" ("ADO 2020") published on April 3, which estimated Covid-19's global cost to range from US$2 trillion to US$4.1 trillion.

Governments around the world have been quick in responding to the impacts of the pandemic, implementing measures such as fiscal and monetary easing, increased health spending, and direct support to cover losses in incomes and revenues. Sustained efforts from governments focused on these measures could soften Covid 19's economic impact by as much as 30% to 40%, according to the report. This could reduce global economic losses due to the pandemic to between US$4.1 trillion and US$5.4 trillion.

"This new analysis presents a broad picture of the very significant potential economic impact of Covid-19," said ADB Chief Economist Yasuyuki Sawada. "It also highlights the important role policy interventions can play to help mitigate damage to economies. These findings can provide governments with a relevant policy guide as they develop and implement measures to contain and suppress the pandemic, and lessen its impacts on their economies and people."

Under the short and long containment scenarios, the report notes that border closures, travel restrictions, and

lockdowns that outbreak-affected economies implemented to arrest the spread of Covid-19 will likely cut global trade by US$1.7 trillion to US$2.6 trillion. Global employment decline will be between 158 million and 242 million jobs, with Asia and the Pacific comprising 70% of total employment losses. Labour income around the world will decline by US$1.2 trillion to US$1.8 trillion – 30% of which will be felt by economies in the region, or between US$359 billion and US$550 billion.

Apart from increasing health spending and strengthening health systems, strong income and employment protection are essential to avoid a more difficult and prolonged economic recovery. Governments should manage supply chain disruptions; support and deepen e-commerce and logistics for the delivery of goods and services, and fund temporary social protection measures, unemployment subsidies, and the distribution of essential commodities – particularly food – to prevent sharper falls in consumption, the report says.

Since the situation is rapidly evolving, ADB will update its impact assessment considering additional spillover channels as needed.

	Estimated global and regional economic losses of Covid-19				Estimated global and regional economic losses of Covid-19 with policy measures			
	$'billion		As % of GDP		$'billion		As % of GDP	
Containment period (month)	3	6	3	6	3	6	3	6
Global	-5,796.9	-8,789.9	-6.4	-9.7	-4,095.8	-5,387.8	-4.5	-5.9
Asia	-1,667.8	-2,529.1	-6.2	-9.3	-1,328.6	-1,854.3	-4.9	-6.8
Australia/New Zealand	-91.2	-139.5	-4.6	-7.0	-81.0	-119.1	-4.1	-6.0
Central Asia	-21.1	-34.0	-3.4	-5.5	-11.4	-14.8	-1.8	-2.4
East Asia ex-PRC	-164.1	-256.7	-6	-9.3	-145.6	-220.0	-5.3	-8.0
PRC	-1,083.1	-1,623.4	-7.5	-11.2	-833.8	-1,126.8	-5.8	-7.8
Southeast Asia	-163.2	-252.9	-4.6	-7.2	-119.6	-166.3	-3.4	-4.7
South Asia	-141.9	-217.6	-3.9	-6.0	-134.3	-202.9	-3.7	-5.6
Pacific	-3.3	-5.0	-4.6	-7.0	-2.9	-4.3	-4.1	-6.0

Note: The three-month and six-month containment periods assumed in the scenarios are country-specific. They are the assumed time needed for a country to get a domestic outbreak under control from when the outbreak intensifies, and to start normalising economic activity.

Source: ADB staff estimates

PHOTOS **SHUTTERSTOCK**

AIIB Scales Up Infrastructure Investment

COVID-19 HAS REVEALED GAPS IN COUNTRIES' ABILITY TO COPE WITH THE PANDEMIC. Countries with a fragile infrastructure have less capacity to handle a health crisis of such scale, according to the Asian Infrastructure Investment Bank (AIIB).

Recent analysis by AIIB[1] highlights a direct correlation between quality of overall infrastructure and health security, indicating that infrastructure development is a key part of health security and epidemic preparedness. The Covid-19 virus has exposed the critical need for countries to also ensure preparedness for the needs of an aging population.

Lower-income countries are particularly vulnerable as they are already struggling to keep up with their infrastructure needs. With the impending economic downturn and more fiscal stresses from Covid-19, many of them will fall short of the 6% to 10% GDP investment[2] needed to maintain economic growth.

AIIB is working to scale up infrastructure investment, including in public health, healthcare and information and communications technology (ICT), to better serve members impacted by Covid-19. "There has never been a greater need for a multilateral and truly global coordinated effort to ease the economic burden experienced by all," said AIIB President and Chair of the Board, Jin Liqun. "We will work with our Board of Directors, members and partners to adjust to this new reality, providing scaled up and targeted investment in critical sustainable infrastructure to protect the people we serve and the generations that follow."

The burgeoning infrastructure development in Asia will offer new opportunities for professionals with the ISCA Infrastructure & Project Finance Qualification, the first qualification leading to the conferment of the ISCA Infrastructure & Project Finance Professional (ISCA IPFP) credential by a professional body in Asia.

Singapore is a founding member of AIIB, a multilateral development bank with a mission to improve social and economic outcomes in Asia. AIIB began operations in January 2016.

[1] "Impact Of The Coronavirus (Covid-19) And Its Implications For Infrastructure Priorities" (25 March 2020), AIIB press release

[2] "Impact Of Infrastructure Investment On Developed And Developing Economies" (October 2019), AIIB working paper

MARK YOUR CALENDAR

15 JUN

Operational Risk Management - It's Not Just About Compliance NEW! (Live Webinar)

This workshop takes a pragmatic approach to comprehend the expansive scope of operational risks encountered in various industries and the evolving disruptive nature of the business landscape in the light of rapid technological and changing production/consumer behaviours.

26 JUN

Financial Planning & Analysis Methodologies – A Practical Approach NEW! (Live Webinar)

This hands-on workshop equips you with portable FP&A skills based on accounting and finance knowledge, market data and data visualisation using charts using Microsoft Excel spreadsheet to demonstrate how it works in practice!

29 JUN

ISCA Breakfast Talk – Lease Accounting Implementation and Post-Compliance Insights (Live Webinar)

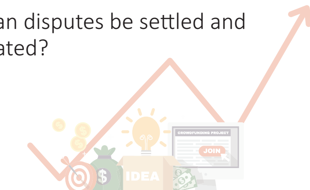
In this Live Webinar session, experts will be sharing on how organisations have progressed on IFRS 16 and an analysis of the implementation challenges faced, opportunities to optimise leases processes and the benefits beyond compliance with the standard.

Join us as we will discuss the key challenges you face in the implementation of IFRS 16, and how to use data analytics to extract business value for more informed decision making, reduce costs and better manage risks from leasing.

30 JUN

New COVID-19 (Temporary Measures) Act - Legal Implications and Contractual Obligations NEW! (Live Webinar)

- The seminar will examine the objective of the Act and the outcome
- What are the types of relief granted to the different types of contracts and the legal implications?
- How can disputes be settled and negotiated?



In Focus Monthly Talk Series (July - December 2020)

Do you know the latest hot business topics such as digital banking and sustainability? Post COVID-19, what are the current market trends and what is Singapore's economic outlook for 2021? Join us at this popular monthly talk series to hear experts share their insights on the latest business issues.

This series is jointly presented by Institute of Singapore Chartered Accountants (ISCA) and CPA Australia.

Due to the current COVID-19 situation, the mode of delivery of each monthly talk will be advised at a later date subject to safe distancing measures.

Enrol before 29 May 2020 to enjoy the early bird rate.

ISCA PAIB Virtual Conference 2020

With 2020 being an unprecedented year for Singapore (and the rest of the world), this year's virtual conference aims to reposition accountants to rebound from COVID-19 whilst reiterating the changing role the sector will play as we gear up to reboot in the new world. In a condensed half day live stream, it is an action-packed conference covering hot topics including technical reporting standards, ethics, governance, and enterprise risk management.

Join us in the first ever Virtual PAIB Conference to be part of the largest chartered accountants community in Singapore.

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

BY STELLA LAU

HOW BUSINESSES CAN RESPOND DURING COVID-19

Actions That Companies Can Take

THE CORONAVIRUS DISEASE (COVID-19) HAS INFECTED PEOPLE IN 216 COUNTRIES AND TERRITORIES, sent stock markets crashing to new lows, caused unemployment to spike to record highs, and is likely to send many advanced economies into recession this year. The International Monetary Fund (IMF) calls it the "worst recession since the Great Depression". Apart from the health emergency, extreme but necessary measures from closing borders to shutting down businesses have plunged many countries into deep economic crisis and uncertainty. In its April world economic outlook, IMF had projected a global growth in 2020 to fall to -3%, a downward revision by a substantial 6.3 percentage points from its January forecast[1].

Not only is Covid-19 harder hitting than the Severe Acute Respiratory Syndrome or SARS in 2003, it is likely to be more prolonged. With a global recession looming, businesses are faced with a marathon of challenges. Beyond the performance of their domestic economies, they will be affected by international demand that has nosedived and disrupted supply chains. In a highly interconnected world, countries cannot fully recover as other nations continue to struggle to cope with the virus. Overall recovery will take time. Even in an optimistic scenario that the pandemic fades in the second half of 2020, IMF expects any economic recovery in 2021 to only be "partial"[2].

Apart from responding to immediate challenges, businesses must plan for an extended difficult period ahead, at least beyond a year[3]. Scenario planning can help businesses spot possible pitfalls so that rational and preventative steps can be taken to mitigate any uncertainty. Action plans can include defensive strategies such as cost cutting and retaining existing customers, as well as offensive strategies such as selling online and innovating product and service offerings.

ADDRESSING LIQUIDITY FIRST AND FOREMOST

The immediate challenge for businesses is to ensure survival. Managing cash flow and conserving cash to maintain liquidity will be key.

First, to have clarity on the current status, businesses must keep a close eye on their cash flow and position through monitoring working capital needs and updating cash flow forecasts regularly. Accountancy and finance professionals should flag any warning signs such as deviations between actual and forecasted cash flows, and investigate these deviations to improve accuracy in future projections. In addition, with their relevant skill sets, they are well-equipped to play a central role in helping their employers manage cash flows in a crisis. We map out a three-pronged approach that businesses can use as a guide, namely,

- conserve
- access financing support
- worst-case planning

This approach is adapted from a Deloitte white paper on managing cash flow during a period of crisis[4].

... businesses should collect receivables that are due. This is the most direct way of bringing liquidity back into the system. Businesses can consider leveraging good working relationships to request for timely payments to meet immediate cash needs.

[1] https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

[1] https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/

[3] https://www.straitstimes.com/politics/pm-lee-to-address-nation-on-covid-19-situation-at-8pm

[4] https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-COVID-19-managing-cash-flow-in-crisis.pdf

PHOTO GETTY IMAGES

(A) Conserve

One of the first things is to reprioritise expenditures so that money is spent only on items which are absolutely necessary to support or grow the business. This entails analysing the cost structure of the business, and was discussed in the article, "Implications Of Covid-19 On Businesses", published in the May issue of the ***IS Chartered Accountant Journal***. In a nutshell, cost structures are expected to change with Covid-19. Some costs will necessarily increase to address certain issues. Hence, it is important for businesses to know where they should spend their every single dollar.

Having said that, businesses can still explore cost-cutting measures. A quick way is to reduce variable costs such as imposing a hiring freeze and restricting discretionary spend on travel, entertainment and training. Before resorting to laying off employees, businesses should consider longer-term benefits of retaining existing employees for the rebound, and first explore other options such as redistributing outsourced or contract work to permanent employees.

Secondly, businesses can revisit their capital investments. Identify investments that can be postponed or reconsidered. Also, review investment plans, to better position for recovery, that can help the company establish a competitive advantage.

Conserving resources also lies in good inventory management. The key is to strike the right balance between having enough inventory to sustain production needs and order fulfilment, and ensuring cash flow from sale of finished goods inventory. Making significant cuts to inventory levels may seem the most obvious solution but could backfire to severely impact production and customer service. Therefore, it is critical that businesses know which of their products are more in demand vis-à-vis those which are less popular, to help in their inventory management. Another way to better manage this is to increase visibility of the supply chain, which will enable better planning and enhance inventory management. This will be further discussed later in this article.

Lastly, as far as possible, businesses should collect receivables that are due. This is the most direct way of bringing liquidity back into the system. Businesses can consider leveraging good working relationships to request for timely payments to meet immediate cash needs. Accountancy and finance professionals can forecast cash collections based on sales projections to help their businesses quantify available cash on hand. To further help the business gain better visibility of its cash flow position, they can put in place controls to prioritise payments and establish real-time reporting of key metrics[5].

(B) Access financing support

The next important thing to do is to map out available financing options such as emergency credit lines and overdraft facilities with banks. Businesses should also tap into available subsidies and financing support from the government. Singapore businesses can benefit from schemes announced in the four Singapore Budget 2020 packages, such as the Temporary Bridging Loan Programme, the Enterprise Financing Scheme (EFS)–SME Working Capital Loan, and the EFS–Trade Loan. However, businesses should take note of the eligibility conditions which apply for these schemes.

For example, the Jobs Support Scheme (JSS) requires that employers do not retrench employees or put them on no-pay-leave to be entitled to the JSS payout. For an overview of the support measures, please refer to "ISCA Covid-19 Navigator", which was published in the May issue of this ***IS Chartered Accountant Journal***; the Navigator is also available on the ISCA website (https://isca.org.sg/media/2824549/covid-infographic-21-april.pdf). Finally, businesses may wish to claim business interruption insurance if these policies are in place. Accountancy and finance professionals can help to evaluate and advise on the different financing options available if their employers wish to go down this route.

PHOTO **SHUTTERSTOCK**

[5] hhttps://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/the-cfos-role-in-helping-companies-navigate-the-coronavirus-crisis

[6] https://www.livemint.com/companies/news/amid-liquidity-crisis-some-developers-sell-assets-to-fund-projects-1565350174405.html

[7] https://www.bain.com/insights/ceo-plan-for-coronavirus-actions-to-take-now/

(C) Worst-case scenario planning

In the worst-case scenario where various efforts to generate liquidity have proven futile, such as when clients are not paying or are in trouble, businesses may be forced to resort to worst-case options. This can include cutting fixed costs and downsizing the business to raise funds. Businesses can explore entering into partnerships to enhance their attractiveness to investors[6]. Even though it may seem pessimistic, it is worthwhile to plan for less favourable scenarios, so that the business can stay focused on a rational course of action and do its best to turn things around.

It is important for businesses to make well-considered decisions focused on their people, apart from being concerned with the balance sheets, as this also shapes the future of their organisations.

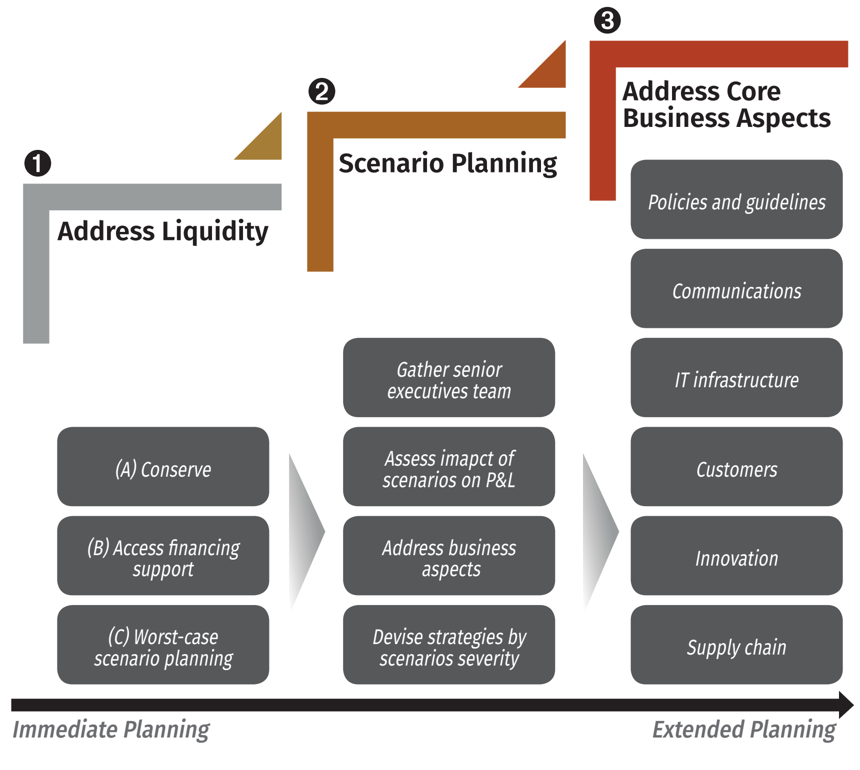
SCENARIO PLANNING

Once there is some assurance of liquidity and business viability, it is essential to expand on scenario planning. This is the time to fight a winning war.

First, businesses should gather a team of senior executives to assess the impact of various scenarios and risk factors on the profit and loss account, across revenue, cost, cash and operations[7]. Then, establish a framework of all the business aspects to be addressed. Against each aspect, they should outline best practices and devise strategies relevant to varying levels of severity of scenarios.

In general, there are core business aspects that businesses will need to address with importance, as laid out in the next section. Figure 1 summarises a business response plan and checklist that businesses can use to change or adapt to the evolving circumstances during these challenging times.

Figure 1 Summary - Business Response Framework to Covid-19



CORE BUSINESS ASPECTS TO ADDRESS

(1) Policies and guidelines

As the coronavirus is highly contagious, the priority must be to protect the health and safety of employees by implementing organisation-wide policies and arrangements. According to a survey by global professional services firm Aon released on 13 May 2020, protecting "health, safety and welfare" of employees as work resumes was the top priority for nine out of 10 businesses surveyed in Singapore. It is important for businesses to make well-considered decisions focused on their people, apart from being concerned with the balance sheets, as this also shapes the future of their organisations[8].

As cases of local community transmission have been coming down in Singapore, restrictions will be gradually relaxed so that economic activities can resume. However, it is still necessary to put in place measures at the workplace to provide a safe working environment and prevent the reemergence of community infections.

To resume operations, all businesses should implement safe management measures at the workplace. Details on these measures have been issued by the tripartite partners comprising Ministry of Manpower (MOM), National Trades Union Congress (NTUC) and Singapore National Employers Federation (SNEF)[9].

Businesses should communicate and explain these measures to employees prior to resuming work, and put up signs where necessary to ensure strict adherence. Businesses should also keep in mind that these measures must be implemented in a sustainable manner for as long as necessary. The following is an extract of official requirements for safe management measures at the workplace[10]:

- Reduce physical interaction and ensure safe distancing at workplaces. For example, implement telecommuting and conduct meetings virtually where possible. Employers must also cancel and defer all events or activities that involve close and prolonged contact among participants, for example, conferences, seminars, exhibitions and social gatherings and interactions.
- For job roles or functions where employees cannot work from home, stagger working and break hours or implement shift or split team arrangements.
- When physical interaction is required at the workplace, always ensure at least one-metre physical distance between persons.
- Support contact tracing requirements. For example, employers should encourage all employees to download and activate the TraceTogether app (www.tracetogether.gov.sg).
- Employers must limit access to the workplace to only essential employees and authorised visitors.

(Businesses) should maintain open communication channels between management and team members to align and adjust to changes in work expectations and build mutual understanding. It is important to keep morale up, assure employees that their welfare is taken care of and address any concerns.

PHOTO SHUTTERSTOCK

- Require use of personal protective equipment (example, masks) and observe good personal hygiene, such as washing hands regularly and refraining from touching the face.
- Ensure cleanliness of workplace premises by stepping up the cleaning of workplace premises.
- Implement health checks and protocols such as regular temperature screening and declarations for all onsite employees and visitors.
- Adhere to travel advisories from the Ministry of Health (MOH) (https://www.moh.gov.sg/covid-19). At the time of writing this article in mid-May, Singaporeans are advised to defer all travel abroad. Businesses should refer to the MOH website for the latest updates.
- Have a plan for unwell cases. For example, employees feeling unwell must report to the employer, leave the workplace and consult a doctor immediately.
- Have a followup plan to manage confirmed cases, including vacating and cordoning off the section of the workplace where the confirmed case worked, and carrying out thorough cleaning and disinfecting.

For more details, refer to https://www.mom.gov.sg/covid-19/requirements-for-safe-management-measures.

(2) Communications

With clear policies laid out, it is also vital to have a sound internal communications plan. Communicating changes in policies and guidelines and explaining how and why decisions are made, so that employees understand what is going on, is important for adherence and implementation.

Furthermore, keeping employees informed of the ongoing situation in a timely and open manner establishes an official source of reliable information within the organisation, and trust that management is acting on the necessary. This can reduce uncertainty and anxiety overall[11].

As work norms are changing, such as with telecommuting, businesses should share tips and resources to ease employees into these changes. They should maintain open communication channels between management and team members to align and adjust to changes in work expectations and build mutual understanding[12]. It is important to keep morale up, assure employees that their welfare is taken care of and address any concerns[13].

There should also be communications to shareholders on the financial position and priorities of the business. This can also include the financial impact and resultant changes to earlier earnings projections, as well as action plans to mitigate risks. Such communication during a time of uncertainty can be extremely valuable. Informing shareholders of the planned next steps to cope with the current situation provides assurance and retains confidence[14].

In addition, businesses should also establish communications with customers to keep them updated on the status of the operations especially if this will impact them. This is further explained in the "Customers" section below.

[8] https://rewards.aon.com/en-us/sites/reports/covid-19-pulse-survey-3

[9] https://www.mom.gov.sg/covid-19/requirements-for-safe-management-measures

[10] https://www.mom.gov.sg/covid-19/requirements-for-safe-management-measures

[11] https://hbr.org/2020/03/communicating-through-the-coronavirus-crisis

[12] https://www.mckinsey.com/~/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20march%2030/covid-19-briefing%20note-march-30-2020.ashx

[13] https://www.mckinsey.com/~/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20march%2030/covid-19-facts-and-insights-april-3.ashx (slide 38)

[14] https://www.irmagazine.com/covid-19/how-global-companies-communicate-covid-19-investors

(3) IT infrastructure

An extended period on telecommuting can strain remote connectivity networks due to higher traffic[15]. Enhancing IT infrastructure, both hardware and software, to boost remote connectivity and facilitate access to shared databases, and communication and virtual meeting apps can minimise disruption to business activity and productivity.

More crucially, businesses must not lose sight of cybersecurity risks. Recently, a live stream of a geography lesson to a group of students in Singapore on video-conferencing platform Zoom was hacked with obscene pictures[16], reflecting the risk of the online platform. Hackers can cripple any business, and stepping up on cybersecurity and prevention of data breaches must be high on the agenda of management personnel.

In Singapore, the government has listed certain sectors or areas as essential services that remain accessible to the public and businesses during the circuit breaker period. In the area of information and communications, these include ICT (information and communications technology) and support tools, software and services for businesses and individuals to enable telecommuting, video-conferencing, e-commerce, finance, enterprise networks/systems and IT (information technology) services. Cybersecurity services in support of other essential services and the digital economy are also listed as essential services[17]. Even if the circuit breaker is switched on again in the near future, businesses should be able to find vendors who can help them enhance their IT infrastructure. They can also approach the Infocomm Media Development Authority and SGTech which have curated resources, including digital solutions, grants and training courses, that businesses can tap on to help them during such trying times[18].

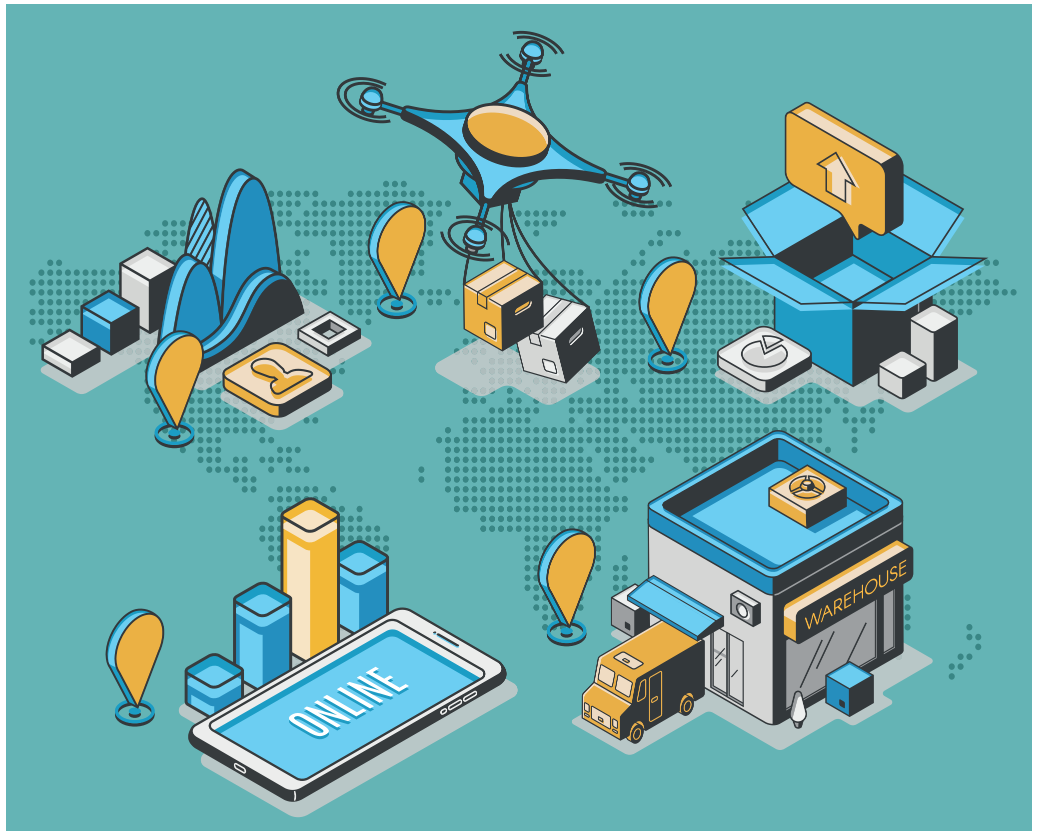


PHOTO SHUTTERSTOCK

(4) Customers

Customers are the lifeblood of business. Businesses must protect their relationships with customers. Looking out for one another in difficult times strengthens relationships. Hence, businesses should continue engaging their customers[19]. For example, in a business-to-business (B2B) setting, informing corporate clients of any delays in order fulfilment will greatly aid their inventory management and production planning. This is particularly important for non-essential businesses which have been required to stop operations during the circuit breaker (if it is reactivated) and no longer be able to fulfil orders. Their customers will need to be informed of the disruptions accordingly and in a timely manner, if possible.

Also, businesses can exercise more flexibility with customers[20], such as by not imposing minimum order requirements or accommodating requests to change delivery dates. Maintaining service standards even in difficult times by providing cancellation refunds or offering goodwill gestures to support customers' end needs can be a major differentiation that makes companies stand out from their competitors. For example, confectionaries that were closed on short notice due to tightened circuit breaker measures can provide refunds to customers who had placed advance orders, and put up cake recipes on their websites so that customers can try them at home.

During hard times, businesses must be prepared to go the extra mile or think out of the box to find new sources of revenue.

Businesses should train frontline service staff to deliver consistent treatment, so customers are not hung out to dry and left to their own devices.

For businesses that have the additional means to help, showing solidarity in crisis situations by offering free services can be advantageous for brand reputation and visibility. For example, Singtel is offering a care package of free entertainment to business solutions for SMEs[21].

(5) Innovation

Other than defensive strategies, businesses need to consider going on the offensive. During hard times, businesses must be prepared to go the extra mile or think out of the box to find new sources of revenue. For instance, focus on higher-value customers who may still retain a higher propensity to spend, and reward them for their loyalty[22], such as offering loyalty discounts or freebies.

Businesses can also explore expanding service offerings to generate new revenue streams. For example, taxi and private car hirers were redirected to deliver food and groceries due to the reduction in demand for passenger service[23].

Establishing an online presence in the current outbreak, with restrictions on movements and social distancing, will also be instrumental to access domestic demand and possibly even overseas demand. Many businesses in Singapore had to ramp up their e-commerce presence quickly; some even had to set up one immediately (albeit a simple e-storefront) before the circuit breaker kicked in, changing their traditional brick-and-mortar businesses to adapt to changes in the environment. This is especially important for non-essential businesses which had to close their physical stores during the circuit breaker. In the first article of this series, it was shared that the government is providing strong support to help businesses digitalise. For instance, Enterprise Singapore (ESG) launched a scheme to subsidise up to 90% of the costs of selling online.

(6) Supply chain

Due to the coronavirus, more than nine out of 10 Fortune 1000 companies had reported a disruption in their supply chains[24]. To mitigate the impact and manage risks, businesses need to review their supply chain and restrategise. Here are extracted highlights of KPMG's recommendations for businesses to assess supplier risks[25]:

- Establish a team to focus on supply chain assessment and risk management. This team can work to reconfigure global and regional supply chain flows where possible, utilising alternative modes of transportation and conducting tradeoffs according to needs, cost, service and risk scenario analysis of all viable options.
- Map criticality of sourced materials to high-value products and revenue streams. Identify the components and raw materials that have the highest impact on revenue streams, and help to ensure scarce capacity is allocated wisely.
- Determine exposure by identifying current and buffer inventory, building tier transparency and short-term action plans.
- Conduct a value chain assessment of other risk factors that may escalate costs (example, transportation shortages may increase cost as transport companies see an opportunity to raise margins) and impact service and inventory capabilities. Take proactive action to address anticipated shortages, such as possibly pre-booking freight.

CONCLUSION

Despite the bleak current situation, businesses are not sitting ducks. In this rapidly intensifying setting, speed is of the essence. Businesses must make full use of resources and access financing support from government schemes while deploying resources strategically – being clear of must-haves and good-to-haves. To stand a better chance of withstanding the blows from Covid-19, businesses must act quickly, now. ISCA

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[15] https://www.ey.com/en_sg/covid-19/covid-19-and-pandemic-planning--how-companies-should-respond#chapter-1964280102

[16] https://www.straitstimes.com/singapore/no-more-zoom-for-home-learning-after-hacking-incident

[17] https://covid.gobusiness.gov.sg/essentialservices/informationandcommunications/

[18] https://www.imda.gov.sg/for-industry/Digital-Solutions-Package-For-Companies

[19] https://www.ey.com/en_sg/covid-19/covid-19-and-pandemic-planning--how-companies-should-respond#chapter-1964280102

[20] https://www.mckinsey.com/~/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20march%2030/covid-19-facts-and-insights-april-3.ashx (slide 37)

[21] https://www.singtel.com/about-Us/news-releases/singtel-ralies-singapore-against-covid-19

[22] https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/about-deloitte/sea-about-heart-of-resilient-leadership-responding-to-covid-19.pdf (page 3)

[23] https://www.straitstimes.com/singapore/taxi-and-private-hire-car-drivers-to-help-make-grocery-deliveries-to-address-shortage-of

[24] https://fortune.com/2020/02/21/fortune-1000-coronavirus-china-supply-chain-impact/

[25] https://home.kpmg/sg/en/home/insights/2020/03/immediate-actions.html

BY PERRINE OH

REPOSITIONING FOR THE NEW REALITY

Coming Back Stronger Post-Crisis

WHEN THE DUST FINALLY SETTLES ON THE CORONAVIRUS DISEASE (COVID-19), the pandemic will leave behind an indelible mark in the history of mankind. The world will change. Healthcare systems will be revamped or at the very least, improved, in many countries. People will behave differently – they may still avoid crowds post-pandemic. The way we work will change too. While businesses tackle the immediate challenges, those with an eye on the future as well will be the ones who can keep ahead of the competition.

The best approach to navigate the Covid-19 crisis and subsequent recovery will differ according to the unique circumstances of each business. One thing is for sure – businesses need to be very deliberate in planning for recovery. In this article, we explore how businesses can re-think assumptions regarding business practices, prepare themselves to bounce back stronger in the new business environment, and consider how their business and/or operating model would change given the new reality.

PLANNING AHEAD

Consulting firm McKinsey & Company advocates forming a "Plan-Ahead Team" which is made up of a few small but scalable planning groups. The team must be adaptable and be able to work with uncertainty. This is because as new information surfaces, it has to adjust and adapt its crisis-action plan accordingly.

Using the McKinsey framework[1] as one possible guide (Table 1), the team can develop a crisis-action plan by going through the following five stages across multiple time frames, ranging from the immediate to longer term after two years, to cope with the new reality.

In this aspect, accountancy and finance professionals can play a key role in supporting their employers in the development of the crisis-action plans. They can work closely with the various business units to take stock of the business' financial assumptions, determine key financial performance drivers and estimate the buffer or shortfall of capital needed when performing multiple scenarios planning.

Table 1 McKinsey Strategic Crisis-Action Plan Framework

Stage 1 *Gain a realistic view of the starting point*
Take stock of the business' financial assumptions, ongoing initiatives, and major strategic choices. A three-year plan with the planning assumptions will help determine what drives the financial performance of the business. It would also be useful to perform a quick sensitivity analysis to assess which assumptions matter most.

Stage 2 *Develop multiple scenarios planning*
Stress-test your business' performance and strategy against each scenario by modelling the various business outcomes. Identify the areas of business which would be most at risk and where it is most resilient, while estimating the buffer or shortfall of capital in the worst-case scenario. Thereafter, assess the current slate of strategic initiatives against each scenario to determine whether each initiative should continue as planned, accelerate or stop.

Stage 3 *Establish your posture and broad direction of travel*
One notable feature of the Covid-19 crisis is a radical shift to distance business models. Overnight, people have massively stepped up their use of technologies that enable remote learning, working, services and consumption. While it is challenging to determine whether such massive digital adoption would continue in the new reality, it would be useful to concur on the fundamental shifts and future themes before defining any initiatives.

Stage 4 *Determine actions and strategic moves which would work across scenarios*
In extreme uncertainty, a rigid plan would not work. On the other hand, a very flexible plan which allows for different scenarios may be too expensive and come to naught. To seek a balance between benefit and cost, businesses should develop strategic moves that will perform relatively well as a whole across all likely scenarios.

Stage 5 *Determine trigger points to act when needed*
Determine a set of trigger points for when the business should begin detailed planning and execution for that move. Once the necessary move becomes highly likely, make the necessary investment to ensure that the business can act swiftly.

[1] https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/getting-ahead-of-the-next-stage-of-the-coronavirus-crisis

PHOTO SHUTTERSTOCK

THE NEW REALITY

What is the new reality or next normal? No one knows for sure. However, with expected changes in the business environment, businesses would have to assess whether their existing business model is sustainable in the long run.

For example, businesses which previously relied heavily on cheap foreign labour may find that post-Covid-19 crisis, there may be more stringent health checks and certification requirements. There could also be greater regulations on a higher quality of welfare and accommodation expected to be provided by businesses for the foreign labour, which would be more costly. The cost structure and ultimately, profitability, would change for these businesses.

For the rest of this article, we will make reference to Porter's Five Forces[2], namely the bargaining power of suppliers, bargaining power of customers, threat of new entrants, threat of substitutes and industry rivalry (Figure 1), to explore how the business environment would change after Covid-19.

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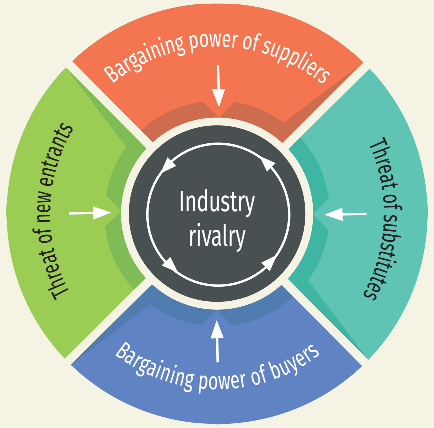
... businesses (should) re-think assumptions regarding business practices, prepare themselves to bounce back stronger in the new business environment, and consider how their business and/or operating model would change given the new reality.

Figure 1 Porter's Five Forces Framework



(1) Bargaining power of suppliers

We have seen the devastating impact of Covid-19 on the supply chain when there is a concentration risk of limited suppliers from specific countries. As highlighted in the first article of this Covid-19 Special, titled "Implications Of Covid-19 On Businesses", published in the May issue of this ***IS Chartered Accountant Journal***, many countries shut down their economies and ordered their residents to stay home for a period of time to minimise community spread of the virus. These stringent lockdown measures were enforced swiftly, which impacted businesses that had little time to react, and significantly disrupted supply chains. It will not be surprising to see changes to how businesses manage their supply chains going forward.

This will likely take the form of a risk assessment and risk management approach. Businesses will have to know their supply chains inside out to identify all possible risk areas. They will need to consider many factors including costs and related charges pertaining to transport and logistics, stability of supply of input materials, reliability and reputation of suppliers, geographical locations of suppliers, their proximity to where the final product will be put together and quality of their input materials, among others.

For example, according to a McKinsey report, a leading consumer company has sped up the outsourcing of manufacturing and logistics for some products to specialised vendors in different regions. This approach has not only improved the security of supply by increasing the local content, it also enabled the company to reduce costs and adjust the production volumes swiftly[3].

As businesses relook at their supply chains, one consideration is how much bargaining power each supplier has with them. To manage the bargaining power of suppliers, businesses should consider two key aspects in their supply chains[4] — resilience and digitisation.

Resilience

Businesses should place greater emphasis on the risk management of their supply chains by quantifying the risks and identifying vulnerable spots. If they stick to only one major supplier, they would be at the mercy of their supplier. Suppliers will not be able to increase their costs so easily if their customers have other options to fall back on.

Where possible, business should consider diversifying their supplier base in order to limit the bargaining power of their suppliers. At the same time, businesses must recognise that there will be a cost if they want to diversify from the lowest cost supplier in return for other critical benefits. For example, if businesses work with suppliers further away from their primary manufacturing facilities, additional transport costs will need to be factored in. The cost structures of the suppliers can also be a factor. If the cost structures of the alternative suppliers are higher than the existing vendors, businesses will likely see a higher cost being charged to them if they change suppliers. Consequently, businesses may have to be prepared to forgo short-term gains to build long-term earnings and supply chain resilience.

In order for businesses to optimise their cash position post-Covid-19, having an increased visibility of their operation's cost structure and those of their suppliers is key. For example, to proactively manage potential supply-demand imbalances, a key chemicals player has leveraged on analytical tools to anticipate changes in raw material prices. Also, as liquidity is paramount, a major automotive player has established a permanent unit within its finance function to monitor liquidity across the business[5]. These are areas where the finance function can play an important role in helping businesses manage their cost structures.

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[2] https://hbr.org/1979/03/how-competitive-forces-shape-strategy

[3] https://www.mckinsey.com/business-functions/operations/our-insights/jump-starting-resilient-and-reimagined-operations

[4] https://www.mckinsey.com/~/media/mckinsey/business%20functions/risk/our%20insights/covid%2019%20implications%20for%20business/covid%2019%20march%2030/covid-19-facts-and-insights-april-3.ashx (slide 64)

[5] https://www.mckinsey.com/business-functions/operations/our-insights/jump-starting-resilient-and-reimagined-operations

Digitisation

Businesses can enhance resilience in supply chains using technology. Through more extensive use of technology, businesses can work towards full transparency of their entire supply chains as part of enhanced risk management. Businesses would need to encourage their suppliers to be on board this digitalisation journey with them. Otherwise, they may have to find other suppliers who are more progressive in their digitalisation efforts.

Accenture recommends that organisations build in adequate flexibility to protect against future disruptions by developing a robust framework that includes a responsive and resilient risk management operations capability. This would involve a continuous cycle of mobilising the relevant team with its initial response, sensing and prioritising new risks and implications, analysis of what-if scenarios, configuring the networks and protocols, and executing the plan to strengthen the supply chain. This enhanced capability should be primarily driven by technology, leveraging platforms that support applied analytics, artificial intelligence and machine learning. It should also ensure end-to-end transparency across the supply chain[6].

If businesses can build resilience in and digitalise their supply chains, the power of suppliers may be reduced. This would help the business keep its costs low and enhance its profits.

(2) Bargaining power of buyers

Covid-19 has also generated a massive shift towards online shopping and deliveries as people spend more time working and staying at home. The changes in the way we work and live impact the way we consume products and services in future. In Singapore, this surge in demand has caused havoc for online supermarket platforms such as RedMart, FairPrice and Amazon Prime, which scrambled to bring on additional capacity to fulfil orders[7].

Having experienced the convenience and other benefits of online purchase of products and services, after the Covid-19 crisis, there could be a shift in buying behaviour as a new reality. A recent study highlighted that in China, there was a 55% increase in consumers who plan to move to online grocery shopping for good, and an estimated growth of between three to six percentage points in overall e-commerce penetration after Covid-19[8].

When people can once again enjoy the dine-in experience and shop in physical malls, the tide of online purchases that we witness now may somewhat subside. However, it is unlikely to be totally eradicated. Instead of brick-and-mortar stores or online shopping prevailing over each other, the new reality could see tactile consumption and online shopping blending together as a dual channel strategy[9]. While regular retail is unlikely to totally disappear, it will evolve if takeaway and/or home delivery becomes a shift in consumer behaviour[10] as there would be increased focus on how businesses can add value to their customers who will be spoilt for choice. The power of customers could possibly increase, which would make the business environment more competitive for certain industries.

... organisations (should) build in adequate flexibility to protect against future disruptions by developing a robust framework that includes a responsive and resilient risk management operations capability.

PHOTO GETTY IMAGES

(3) Threat of new entrants

After Covid-19, there would be the rise of some profitable industries, which will attract more competitors looking to achieve profits. Such industries may face the threat of new entrants hoping to get a share of the pie.

For example, if more businesses continue work-from-home arrangements after Covid-19, learning as part of employees' professional development will in tandem go online. Businesses in the training industry will have to keep online learning sustainable with a full suite of e-programmes to meet their clients' needs. Businesses will have to be innovative in coming up with the progammes. This may see them working with partners such as professional bodies, industry associations or academic institutions. Ultimately, learning may be profoundly transformed[11].

Against the backdrop of the pandemic, the Linux Foundation saw an increase of more than 40% enrolments for its free online training courses over an average week[12]. As

[6] https://www.accenture.com/sg-en/about/company/coronavirus-supply-chain-impact

[7] https://www.channelnewsasia.com/news/covid-19-coronavirus-groceries-supermarkets-delivery-slots-full-12592900?cid=h3_referral_inarticlelinks_24082018_cna

[8] https://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/adapting-customer-experience-in-the-time-of-coronavirus

[9] https://www.channelnewsasia.com/news/commentary/coronavirus-covid-19-online-grocery-shop-e-commerce-digital-12606982

[10] https://www.boardofinnovation.com/low-touch-economy/

[11] https://www.forbes.com/sites/jeannemeister/2020/03/31/the-impact-of-the-coronavirus-on-hr-and-the-new-normal-of-work/#12272fdb2b60

[12] https://www.techrepublic.com/article/enterprise-elearning-uptick-in-education-demand-during-coronavirus-outbreak/

PHOTO SHUTTERSTOCK

In order to capitalise and seize the opportunities in this new reality, businesses must prepare themselves and make plans now for the future.

people experience for themselves the benefits of e-learning, they may become more willing to pay for e-learning in the future. The e-learning market is forecasted to reach US$325 billion in 2025, and this was pre-Covid-19[13]. Post-Covid-19, the e-learning market is expected to grow even bigger. Potential new entrants to the e-learning sector will have to consider the barriers to entry such as contents, delivery platforms, trainers, etc.

(4) Threat of substitutes

A substitute product is a product from another industry that offers similar benefits to the customer as the product produced by businesses within the industry[14]. The threat of substitutes affects the competitive environment of businesses. As customers have a choice to purchase the substitute instead of a business' product, this could influence its ability to generate profits.

As an example, Covid-19 has substantially slowed international travel as many countries have imposed travel bans or restrictions for fear of imported infections. Although business partners cannot travel or meet in person, cross-border meetings via video-conferencing tools is proving to be a viable substitute during this time. If limitations in business travel continue, and people become more accustomed to using such tools in their work, remote meetings may well become a standard practice. After all, it costs much less than the airfare, accommodation and incidental expenses of business travel. This potential shift could lead to a decline in international business travel – particularly to hubs like London and Tokyo – and impact the aviation and hospitality industries; hospitality spans five sub-sectors, namely, lodging, events, food and beverage, tourism and transport.

Although businesses may be organising more virtual meetings as an alternative form of communication, the value of face-to-face meetings with the human touch cannot be replaced by technology. Thus, while video-conferencing is a viable substitute, it is unlikely to completely replace business travel in the medium to long term[15].

(5) Industry rivalry

Competition among existing businesses in the same industry will get more intense during challenging times. To fight for every available consumer dollar, businesses will attempt to outdo one another with more innovative products and services.

Take the automotive industry as an example. It is likely to see an increase in bankruptcies and consolidations as the Covid-19 crisis impacts the global new vehicle production. According to Accenture, the decrease in market capitalisation will likely accelerate automotive industry consolidation and without additional funding, some players risk going bust[16]. Small and medium-sized suppliers which face a credit crunch and cannot weather the storm will be hardest hit. This could open up opportunities for stronger and bigger suppliers to buy up some of these distressed assets, thus adding to the industry consolidation. This could also facilitate the capital expenditure investments needed to make the shift toward new technologies, such as electrification and autonomous vehicles[17].

Businesses must adopt a future-oriented outlook by thinking strategically and identifying financial leverage, divestitures and acquisition opportunities, as well as strategic partners. In the aftermath of a crisis, resilient players are the ones who can provide more value to customers, outperform rivals and consolidate power by gaining greater market share[18].

MOVING FORWARD

When the curtain eventually falls on the Covid-19 crisis, it will also mark the dawn of a new reality. The competitive environment of businesses will be impacted by some of the trends highlighted in the article. In order to capitalise and seize the opportunities in this new reality, businesses must prepare themselves and make plans now for the future.

As the saying goes, time is money. While planning must be done, what is equally important is the speed of execution. Businesses must act fast and be ready to strike when the time comes. ISCA

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[13] https://www.forbes.com/sites/tjmccue/2018/07/31/e-learning-climbing-to-325-billion-by-2025-uf-canvas-absorb-schoology-moodle/#6808368e3b39

[14] https://strategiccfo.com/threat-of-substitutes-one-of-porters-five-forces/

[15] https://www.nytimes.com/2020/04/20/business/business-travel-coronavirus.html

[16] https://www.accenture.com/_acnmedia/PDF-121/Accenture-COVID-19-Impact-Automotive-Industry.pdf

[17] https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/auto-suppliers-see-spike-in-probability-of-default-during-covid-19-pandemic-58356791

[18] https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/its%20time%20to%20rewire%20the%20fashion%20system%20state%20of%20fashion%20coronavirus%20update/the-state-of-fashion-2020-coronavirus-update-vf.ashx


BY LIM JU MAY AND FELICIA TAY

GUIDING THE PROFESSION THROUGH CHALLENGING TIMES

Accounting Guidance On Property Tax Rebate And JSS

IN HIS BUDGET SPEECH IN FEBRUARY 2020, Deputy Prime Minister Heng Swee Keat referred to 2020 as one that is marked by tectonic shifts in Singapore's operating environment, and major uncertainties. At that time, Covid-19 was just starting to spread globally but the impact on Singapore's economy was already felt. Fast forward to April 2020, the pandemic has swept through the world and wreaked havoc socially and economically.

To steer Singapore through these challenging times, the Singapore government has launched the Unity, Resilience and Solidarity Budgets totalling a staggering S$160 billion[1], which is 32% of Singapore's gross domestic product. Of this sum, S$60 billion[2] is set aside to fund a slew of Covid-19 support packages including the Jobs Support Scheme (JSS), Enhanced Wage Credit Scheme and Property Tax Rebate for 2020. These support packages are geared towards combating Covid-19 through protecting livelihoods, stabilising businesses, supporting households and building resilience.

For businesses, two of the key support packages are the JSS and the Property Tax Rebate for 2020 (that is, the property tax rebate that is granted by the government on qualifying non-residential properties for the period from 1 January to 31 December 2020).

ISCA, with the support of its Financial Reporting Committee (FRC), has issued Financial Reporting Bulletin 5 (FRB 5) and some Technical FAQs to address the questions which entities may have in the accounting for the property tax rebate granted by the government. Key questions addressed include:

- How should landlords and tenants account for the property tax rebate given by the government to landlords, which must be fully passed on to their tenants under the Unity Budget and Resilience Budget announced by the government on 18 February 2020 and 26 March 2020 respectively?
- Why is the property tax rebate given by the government to the landlord that is passed on to their tenants not accounted for in accordance with SFRS(I) 16 *Leases*?

On the JSS, ISCA has received feedback that there is uncertainty on the accounting of JSS payouts by entities, in particular by entities with a financial reporting period ended 31 March 2020. ISCA's FRC and FRC Core Sub-Committee have deliberated on this issue and their views are shared in the FRB 6 that was issued on 7 May 2020.

In this article, we will be highlighting key salient points from the aforementioned technical guidance that were issued to steer the profession through these challenging times.

... property tax rebate is given independent of the commercial terms of the individual lease agreements and is clearly not intended to modify the existing terms of the leases... Accordingly, the property tax rebate... and the related rental rebate... are both in substance government grants and should be accounted for in accordance with SFRS(I) 1-20 rather than SFRS(I) 16.

[1] https://www.singaporebudget.gov.sg/budget_2020/budget-measures/budget-booklet/budgets-of-2020

[2] https://www.straitstimes.com/singapore/singapore-sets-aside-60-billion-for-fight-against-virus-dpm-heng

PHOTO: SHUTTERSTOCK

ACCOUNTING OF PROPERTY TAX REBATE GRANTED BY THE GOVERNMENT

The government has given remission of property tax ("property tax rebate") to qualifying non-residential properties for the period from 1 January 2020 to 31 December 2020 in response to the Covid-19 pandemic.

For the portion of a non-residential property leased out to a lessee ("tenant"), the owner of the property ("landlord") must transfer the benefit from the property tax rebate to the tenant without any changes to any term or condition of the lease agreement.

FRB 5 provides accounting guidance and key considerations on how to account for the property tax rebate granted by the government to the landlord (from the landlord's perspective) and how to account for the related rental rebate granted by the landlord to the tenant ("related rental rebate")(from the tenant's perspective).

FRB 5 also makes it clear that the property tax rebate is given independent of the commercial terms of the individual lease agreements and is clearly not intended to modify the existing terms of the leases. Under the law, the landlord must pass the benefit to the tenant without attaching any condition. Accordingly, the property tax rebate to the landlord and in turn the related rental rebate to the tenant are both in substance government grants and should be accounted for in accordance with SFRS(I) 1-20 *Accounting for Government Grants and Disclosures of Government Assistance* rather than SFRS(I) 16 *Leases*.

When developing FRB 5, ISCA received feedback that a landlord may provide an additional rental rebate (in excess of the quantum of the property tax rebate) to a tenant. Although the accounting of the additional rental rebate is not covered under FRB 5, the following considerations should be noted:

- The additional rental rebate does not represent an assistance by the government. Hence, it does not meet the definition of a "government grant" under SFRS(I) 1-20. The additional rental rebate will be accounted for under SFRS(I) 16 by both the landlord and the tenant.
- It is highly likely that the additional rental rebate will be deemed to be a "lease modification"[3] under SFRS(I) 16. For the landlord (assuming that the lease is an operating lease), it is required to account for the additional rental rebate on a straight-line basis over the remaining lease term. For the tenant, it is required to account for the additional rental rebate by remeasuring the lease liability using a current discount rate and making a corresponding adjustment to the right-of-use asset.
- The International Accounting Standards Board (IASB) has provided a practical expedient to exempt lessees from assessing Covid-19-related rent concessions as lease modifications under IFRS 16[4] (please see below for details).

PHOTO SHUTTERSTOCK

IASB's practical expedient for Covid-19-related rent concessions

IASB has received feedback[5] that applying the requirements in IFRS 16 on lease modifications to a potentially large volume of Covid-19-related rent concessions could be complex, particularly in light of the many other challenges stakeholders are facing during the pandemic.

In response to the feedback, IASB issued an exposure draft[6], "Covid-19 Related Rent Concessions (Proposed amendment to IFRS 16)" on 24 April 2020. The proposed amendment provides lessees with an exemption from assessing whether a Covid-19-related rent concession is a lease modification (that is, a practical expedient). Entities applying the exemption would account for the changes as if they were not lease modifications.

ISCA has submitted a comment letter[7] to IASB on the above exposure draft. Generally, ISCA agrees with the proposals and has put forth the following key recommendations for IASB's consideration:

- Extend the practical expedient to rent concessions that affect payments beyond 2020, as the Covid-19 impact on lessees' financial statements is difficult to predict and may stretch beyond 2020;
- Extend the practical expedient to lessors, as lessors also face significant operational challenges in accounting for Covid-19 rent concessions due to the large volume of contracts that needs to be assessed.

At its supplementary meeting on 15 May 2020, IASB deliberated on the recommendations received (including ISCA's) and has agreed to extend the practical expedient to rent concessions up to 30 June 2021. However, IASB has maintained its stance of not extending the practical expedient to lessors on the basis that the lease modification accounting required by IFRS 16 is not expected to be complicated. IASB has issued the finalised amendments to IFRS 16 on 28 May 2020[8]. Similar amendments to SFRS(I) 16 *Leases* and FRS 116 *Leases* have been issued[9] by the Accounting Standards Council. The amendments are effective for annual reporting periods beginning on or after 1 June 2020; an entity may apply the amendments in financial statements not authorised for issue at 28 May 2020.

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[3] "Lease modification" is defined as "a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term)" (Appendix A of SFRS(I) 16)

[4] IFRS 16 *Leases* is identical to SFRS(I) 16 *Leases*

[5] https://cdn.ifrs.org/-/media/feature/meetings/2020/april/iasb-supplementary-meeting/ap32b-impact-of-covid-19-on-board-timelines.pdf

[6] https://cdn.ifrs.org/-/media/project/ifrs-16-covid-19/ed-covid-19-related-rent-concessions.pdf

[7] https://isca.org.sg/media/2824584/isca-comment-letter-for-iasbs-ed-on-covid-19-related-rent-concessions.pdf

[8] https://www.ifrs.org/news-and-events/2020/05/iasb-issues-amendment-to-ifrs-standard-on-leases/

[9] https://www.asc.gov.sg/current-news

ACCOUNTING OF JSS PAYOUTS RECEIVABLE BY EMPLOYERS

The JSS was first announced at the Budget 2020 ("Unity Budget") on 18 February 2020. The purpose of JSS is to provide wage support to employers to help them retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty. Employers who have made CPF contributions for their local employees will qualify for the payouts under JSS.

The JSS was enhanced[10] subsequently in the two supplementary budgets ("Resilience Budget" and "Solidarity Budget") and at the Multi-Ministry Taskforce on Covid-19 press conference announced on 26 March, 6 April and 21 April 2020 respectively. The government will co-fund the wages of local employees for nine months.

The summary of JSS and its subsequent enhancements are shown in Table 1.

The summary of the timing of JSS payouts[11] is shown in Table 2.

As stated on IRAS' webpage on JSS, "JSS payouts are intended to offset and protect local employees' wages. Employers must act responsibly and fairly, taking reference from the tripartite advisory on salary and leave arrangements during the circuit breaker period. Where there is evidence of irresponsible and unfair treatment, employers may be denied employment support (including JSS) and have their work pass privileges curtailed. Please refer to MOM's advisory on Salary and Leave Arrangements". Entities should treat employees fairly and retain their local employees (Singapore Citizens and Permanent Residents) during this period of economic uncertainty.

The key issues arising from the accounting of JSS payouts include the appropriate accounting standard to be used, and when and how JSS payouts should be recognised in the entity's financial statements. Below is a summary of the guidance provided in FRB 6 to these issues.

Table 1 Summary of JSS and its subsequent enhancements

Unity Budget	Resilience Budget	Solidarity Budget	Multi-Ministry Task Force Press Conference
18 February 2020	26 March 2020	6 April 2020	21 April 2020
Employers will receive an 8% cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for 3 months computed based on October 2019 to December 2019 monthly wages, subject to a monthly wage cap of $3,600 per employee.	The JSS has been enhanced as follows: Employers will receive a 25%* cash grant on the gross monthly wages of each local employee (applicable to Singapore Citizens and Permanent Residents only) for 9 months computed based on October 2019 to July 2020 (exclude January 2020) monthly wages, subject to a monthly wage cap of $4,600 per employee. *75% for companies in the Aviation and Tourism sectors; 50% for companies in the Food Services sector.	The JSS payout for wages in April 2020 has been increased to 75% for all companies. The first tranche of JSS payout is brought forward from May 2020 to April 2020.	The JSS payout for wages in May 2020 has been increased to 75% for all companies.

Table 2 Summary of timing of JSS payouts

Payout	When will firm receive the payout?	JSS will cover wages paid in:	Wages will be derived based on CPF contributions paid by:
1st payout	April 2020	• Oct 2019 x 75%; *(of which 50% (in absolute) is an advance recoverable in Jul 2020)* • Nov 2019 x 25%; and • Dec 2019 x 25%	14 February 2020
Additional payout	May 2020	• Nov 2019 x 75% *(the entire amount is an advance recoverable in Oct 2020)*	14 February 2020
2nd payout	July 2020	• Feb 2020 x 25%; • Mar 2020 x 25%; and • Apr 2020 x 75%; Less: Oct 2019 x 50% *(advance given in Apr 2020)*	31 May 2020
3rd payout	October 2020	• May 2020 x 75%; • Jun 2020 x 25%; and • Jul 2020 x 25%; Less: Nov 2019 x 75% *(advance given in May 2020)*	14 August 2020

1) Do the payouts receivable under JSS meet the definition of government grants?

Given that JSS is a cash grant from the government, it qualifies as a government grant because there is a transfer of resources from the government to entities in return for meeting the stipulated conditions related to the operating activities of the entity and there is no service or goods provided back to the government by the entities. Therefore, SFRS(I) 1-20 should be applied in accounting for the JSS payouts.

2) How does the employer account for the JSS payouts receivable under JSS in its financial statements?

An entity shall not recognise government grants until there is reasonable assurance that it will comply with the conditions attached to them and the grants will be received (SFRS(I) 1-20, paragraph 7).

The conditions for the JSS payout are that the entity is required to pay salaries to local employees for the period mentioned in the announcements, and that the related CPF contributions on those salaries have been paid. This scheme is administered automatically without the need for application by the entity.

Accordingly, there is reasonable assurance that the grant conditions are satisfied when salaries and related CPF contributions are incurred by the employer, and a grant receivable is recognised. The timing and manner in which the grant will be received should not affect the accounting for the grant.

The JSS grant is recognised in profit or loss on a systematic basis over the periods in which the entity recognises the related costs for which the grant is intended to compensate (SFRS(I) 1-20, paragraph 12).

In ISCA's view, the "related costs" for which the JSS grant is intended to compensate are the salary costs incurred by the entity during the nine-month period of economic uncertainty in 2020.

3) What are the "related costs" for which the JSS grant is intended to compensate?

While the payouts are calculated with reference to wages paid in certain months, they are meant to support businesses during the period in which the payouts are received.

In ISCA's view, the "related costs" for which the JSS grant is intended to compensate are the salary costs incurred by the entity during the nine-month period of economic uncertainty in 2020. Judgement is involved in determining the appropriate period. For most companies, the nine-month period of economic uncertainty is likely to commence in April 2020. However, for some companies in the more affected sectors, the period of economic uncertainty may commence earlier.

4) How should the JSS grant income be recognised by an entity?

Recognition of grant income:

The JSS grant income should be recognised in the profit or loss on a systematic basis over the nine-month period of economic uncertainty in which the entity recognises the related salary costs in the calendar year 2020 (but not earlier than the date of the Unity Budget which was announced on 18 February 2020).

The determination of when the period of economic uncertainty commences and how the systematic basis is applied by the entity will be an accounting estimate. If the grant amount is material, disclosures on the assumptions made and on the effects of the grant will be required in the entity's financial statements (SFRS(I) 1-1 *Presentation of Financial Statements*, paragraph 125 and SFRS(I) 1-20, paragraph 31).

Presentation and disclosures:

According to SFRS(I) 1-20 paragraph 29, the grant income can be presented either (1) separately as grant income or under "other income", or (2) deducted against the salary costs.

Greater transparency will be achieved if the JSS grant income is presented as "grant income" or under "other income" in the financial statements, instead of as a deduction against the salary costs. Disclosure requirements of SFRS(I) 1-20 should also be considered.

5) How should the JSS grant income be recognised by an entity with a financial reporting period ended 31 March 2020?

To aid in the understanding of the principles being applied, an example illustrating the recognition of JSS grant income by an entity with a financial reporting period ended 31 March 2020 is included in FRB 6.

CLOSING REMARKS

For the entire suite of ISCA Covid-19 technical resources, please refer to https://isca.org.sg/covid-19-series/resources/technical-resources/.

We encourage and welcome members to share technical issues relating to Covid-19 developments as well as any other implementation/application issues through ISCA Technical Helpdesk. In the meantime, we will continue to issue technical guidance to support the accountancy profession through these challenging times. ISCA

Lim Ju May is Deputy Director, and Felicia Tay is Manager, Technical, Institute of Singapore Chartered Accountants.

[10] Please note that FRB 6 (issued in May 2020) does not take into account the JSS enhancement announced at the Fortitude Budget on 26 May 2020. FRB 6 may be updated in future to reflect the latest enhancements to JSS in the Fortitude Budget.

[11] FAQ 2 (https://www.iras.gov.sg/irashome/Schemes/Businesses/Jobs-Support-Scheme--JSS-/)

FROM ACCOUNTANT TO INVENTOR

EVERY TIME A CONSUMER MAKES AN ONLINE PURCHASE FROM AN OVERSEAS WEBSITE, he pays more than the prevailing market rate – typically up to 4% more. At the same time, the seller receives less. This 4% constitutes foreign exchange (forex) conversion costs, but through ingenuity and technology, a Singaporean startup has brought this rate down to a fraction, making cross-border transactions cheaper and less risky. To date, the point-of-sale home currency pricing solution, aptly named "Aladdin", has processed nearly S$20 billion in transactions, saving shoppers over $160 million while creating additional risk-free revenue of over $130 million since its launch on the AliExpress platform.

Richard Koh, FCA (Singapore), Group CEO And Founder, M-DAQ Group of Companies

Aladdin is the flagship product of Singaporean financial technology (fintech) company, M-DAQ Pte Ltd, which may just be the most promising startup you've never heard of. But that's how CEO and Founder Richard Koh, 48, likes it. An accountant by training but a technologist at heart, Mr Koh is not a fan of splashy headlines and even flashier lifestyles. Instead, it is his brand of level-headedness and conservatism that has led M-DAQ to become one of ASEAN's biggest fintech firms, currently valued at between $0.5 billion to $1 billion. How did an accountancy professional find himself at the helm of what has been pegged as Singapore's next billion-dollar company?

COMING FULL CIRCLE

Born into a working-class family, Mr Koh, an only child, recalls spending his teenage years tinkering with technology and at age 14, built his own gaming software. The budding inventor, however, failed to secure a spot at the junior college of his choice to study computer science by one point, and found himself studying accountancy at another school instead. It was a mentor he met at the Singapore Computer Society, an accountancy veteran, who advised the 17-year-old Koh to stick to accountancy and pursue his passion on the side; IT wasn't yet a "mainstream" profession at the time. Little did he know that this stumbling block was actually a stepping stone in disguise.

After his "A" levels, the young Koh won a scholarship from PricewaterhouseCoopers (PwC) to study for his Bachelor of Accountancy at Nanyang Technological University, and subsequently worked as an auditor at PwC for a couple of years, before opportunity came knocking. A client, JPMorgan Chase, was setting up its e-forex business in Asia, and needed someone with business savvy and technological proficiency – someone exactly like Mr Koh. With the blessings of his former employer, he joined the bank and dived into the "opaque" world of investment banking, which opened his eyes to what seemed to be glaring market gaps in the forex industry. Surely there must be a solution to help make cross-border transactions less costly, more transparent and less risky?

After an intense decade in forex in an investment bank, in 2010, Mr Koh

> "I think my accountancy experience has been a key reason why we have not failed. It gave the grounding we needed as a startup to build a solid foundation before scaling up."

CAREER HIGHLIGHTS

1986 to 2000
Various tech startups and stints with Credit Suisse, KPMG and PwC

2000 to 2010
Regional Head of eChannels (Asia Pacific), Global Markets, JPMorgan Chase Bank, and a short stint at Standard Chartered Bank in a Regional Head and Global Co-head role

2010 to Present
Group CEO and Founder, M-DAQ Group of Companies

struck out on his own with his former colleagues and clients at JPMorgan. To say that the next 10 years were some of the most exciting times of his life is probably an understatement. In 2012, the company ran out of cash for about 11 months due to a fallout between two potential blue-chip investors; Mr Koh himself went without a salary for a year. On top of that, the Koh family expanded – by one headcount each year – for four consecutive years.

In 2013, M-DAQ launched its first over-the-top (OTT) application, Trading the Right Chart™, powered by proprietary data technology. "Imagine you want to buy some Apple shares, but they're in US dollars. You are planning your retirement income, time horizon and such, based on Singapore dollars (SGD). Wouldn't it be nice if you could buy Apple shares in SGD, track them in SGD and sell them in SGD?" he asks rhetorically. In 2015, the company launched Aladdin, an e-commerce pricing solution which enables customers to do their online shopping in their home currency, while allowing merchants to receive payments in their desired currency; the product won in the Open category at the inaugural Singapore MAS FinTech awards in 2016. "Who says you can't start your dream business, jump into a new life, and have a big family – all at the same time?" the doting father says with a chuckle.

The award-winning innovation helped propel an explosive 1,000-fold growth over the next four financial years. M-DAQ reported its first-ever profitable quarter in 2018 and has maintained nine successive profitable quarters to date – an especially notable achievement considering that some of the biggest tech giants around are still in the red despite having burned through hundreds of millions of investor

"It wasn't just about me and my job and my own effort. **It was the conviction of a calling to enrich communities, to build wonderful companies and create jobs, and to inspire others to do the same.** Conviction is a powerful thing."

money. M-DAQ's cash burn – the amount a startup spends before starting to make a profit – is "one of the lowest in the world" at \$25 million, shares Mr Koh. While original plans for an initial public offering this year or the first half of next year have been shelved due to Covid-19, the company has continued its growth streak, reporting a "miraculous" first-quarter profit this year. "I think my accountancy experience has been a key reason why we have not failed. It gave the grounding we needed as a startup to build a solid foundation before scaling up," says Mr Koh. He credits his ISCA membership since 1997 as a source of professional recognition and technical expertise that has buoyed his career pivot from accountancy back to his first love, technology.

Mr Koh hopes that the path he has charted as an accountant-turned-technopreneur will inspire others to dream big. "Our last tech success story was Creative Technology and Sim Wong Hoo, which inspired my generation, but that was about 30 years ago." While firms like Razer and Grab have associations with Singapore, Mr Koh's hope is that truly Singapore-based, locally-listed firms, founded by homegrown talent, will rise to fill the gap in tech innovation. (Razer, although established by Singaporean Tan Min-Liang, is based in the US, and Grab was initially established in Malaysia by Malaysian founders.)

"Singapore, with all its limitations and lack, is a country that could not have survived, much less succeed; yet we have. In the world of business, only technology innovation has the ability to create a 10- to 100- to 1000-fold impact. It's critical that we embrace the idea of Singapore-born-and-bred innovation and enable a world-class startup ecosystem to flourish here."

He continues, "Our education system has brought us up as a nation of engineers and professional managers, but not entrepreneurs. We at M-DAQ hope to show that Singapore has what it takes to nurture the next wave of innovators and entrepreneurs." He credits his family and faith as his bedrock of support through the early days. "It wasn't just about me and my job and my own effort. It was the conviction of a calling to enrich communities, to build wonderful companies and create jobs, and to inspire others to do the same. Conviction is a powerful thing."

SHATTER THE GLASS CEILING

For all the momentum it's enjoying now, Mr Koh, who has three patents to his name, believes that the company's best product is the fifth – the one that has yet to be created. "Who says an accountant cannot be an inventor?" he quips. "We are constantly creating new things that meet a real need in the industry. We don't want to just go into a crowded space and be just a bit better, faster or cheaper." Underpinning this spirit of innovation is the people culture at M-DAQ. "Most of a tech company's assets are tied up in its talent – not in physical inventory, distribution systems, manufacturing and such. Our true strength lies in our people; we treat them as family," he says.

The man walks the talk. At the time of this interview, Singapore – along with pretty much the rest of the world – was grappling with the economic ravages of Covid-19. Bucking the trend of enforced leave, pay cuts or layoffs, M-DAQ did the opposite, paying its 60-strong staff three weeks in advance of normal payroll cycle. "In a climate of uncertainty, we wanted to put cash in the hands of the employees to assure them, providing psychological defence," Mr Koh explains. This people-first approach has earned M-DAQ the accolade of Best Technology Company to work for by Singapore Computer Society in July 2019.

His advice for young accountants facing a world marked by both challenges and opportunities is to dream big. While the traditional bookkeeping function (of an accountant) is being increasingly automated, the other function – being a strategic business partner – is becoming more important. "The earlier you realise that becoming a Chief Financial Officer or partner (at an accountancy firm) is not the glass ceiling, the earlier you can learn to add value and strategically co-pilot a business." The one caveat Mr Koh sounds is that one must be prepared for failure. "We hope that by being as successful as we can, at the same time being transparent about our failures, we can give a glimmer of hope to others who are afraid, or have failed, to be even more successful than us." ISCA

BY DR ANG HAK SENG

GOOD GOVERNANCE IN CHARITIES

Do The Right Thing, Do Things Right, Nothing To Hide

GOOD GOVERNANCE IS FUNDAMENTAL TO THE SUCCESS OF CHARITIES. Charities are entrusted with the money that individuals, corporates, and grantmakers have donated to further their charitable cause. Charities are seen to be the guardians of public monies and people trust charities to use them to impact the lives of beneficiaries. Consequently, the public has high expectations of charities and expect them to be well governed.

WHAT IS GOOD GOVERNANCE?

I posit that good governance for charities can be grouped under two categories:

Compliance

Compliance is usually associated with the law (that is, Charities Act and legislations), as well as best governance practices stated in the Code of Governance for Charites and Institutions of a Public Character (IPCs). However, not everything can be covered by the law or be clearly stated in black and white. Sometimes, there are grey areas, and in these instances, trustees (that is, board members) of charities are expected to make decisions for the beneficiaries and the charity, based on ethics and values.

Performance

Charities must also ensure superior performance with high productivity. This means to deliver services through activities and programmes of high quality, at affordable rates, efficiently. Performance is ultimately measured by the impact that it makes to the beneficiaries and the community.

HOW TO ACHIEVE GOOD GOVERNANCE?

Good governance can be summed up in the following simple and catchy tagline: Do the right thing, do things right, nothing to hide.

(1) Do the right thing

Doing the right thing is about taking responsibility to ensure that the charity organisation achieves both high compliance and superior performance.

Compliance

The charity should always ensure compliance with rules and regulations. In addition to the law, all charities are driven by their charitable purpose which is written in the charity's constitution. The charity should strive to further the charitable objectives that it had set out to do. That said, to prevent mission creep, charities must ensure that everything they do, such as their programmes and activities, must comply with the primary purpose of the charity.

Charities must also ensure that they are led by values and ethics. This goes beyond rules and regulations; this is about doing the right thing with integrity. It is doing the right thing as it is in the best interest of the charity, and also because it upholds the charity's reputation. This is doing good right, and it is the moral compass of an organisation to always be steered in the right direction. Ethical culture and tone are set from the top – by the board members of the charity.

Performance

In addition to staying true to your purpose, trustees are also expected to drive performance of the charity organisation. Performance is about the sustainability of a charity, with a focus on strategy and clear understanding of risk management. Performance entails having the clear direction and understanding

Dr Ang sharing about good governance at a session organised by the Singapore Institute of Directors, March 2020

PHOTO SHUTTERSTOCK

of the effectiveness and impact of the charity's work, and the values that will be delivered in the long term.

Charities need to increase productivity of your organisation. This would mean taking time to re-evaluate the processes of your operations and eliminate redundant steps that are creating unnecessary waste. One way of doing so is through lean management and process re-engineering. This will make the production of services cheaper, better and faster. With greater productivity, the charity is also able to lower costs.

Performance is also measured by the impact that a charity organisation makes on the beneficiaries and the community. Impact is usually intangible and requires some longitudinal tracking. That said, one can measure more tangible results such as output (example, the number of programmes developed) and outcome (example, increase in the number of beneficiaries served). Low-level impact can be communicated through testimonials from beneficiaries, and even their friends and family who have been impacted by the charity.

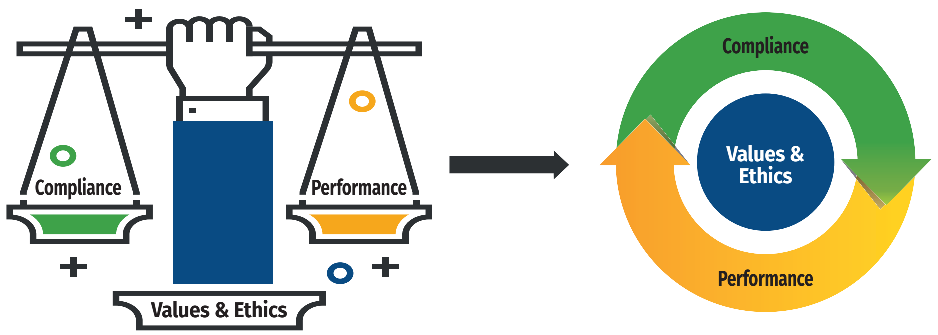
Doing the right thing is usually seen as a balance between compliance and performance, and driven by values and ethics. However, this means there is always a trade-off. Instead, a more accurate way of looking at it is a reinforcing loop. This means better compliance will also lead to better performance of the organisation, driven by values and ethics.

(2) Doing things right

Good governance is also about doing things right. This section touches on the fiduciary duties of the board members. Governing board members have the responsibility, and accountability, to ensure that processes are in place and that they can stand up to scrutiny.

Based on the Code of Governance for Charities and IPCs, the board is collectively responsible to ensure compliance with the charity's governing instrument and all relevant laws and regulations. The board makes sure the charity is run well and operates responsibly, so that the charity would continue to be effective, credible and sustainable.

Board members' responsibilities in a charity cover a wide spectrum of things. These are broadly categorised as Strategy, Assurance, Risk and People (Table 1); this list is non-exhaustive.



A The Commissioner of Charities and Charity Council have developed guides and templates, sometimes with partnering agencies, to assist the charity sector to do things right; these guides are publicly available on the Charity Portal and Charity Council website

Table 1 Board members' responsibility (charity)

Strategy	Decision-making: Board members should have good decision-making processes to ensure the best outcomes, and act in the best interest of the charity. There should also be a strong due diligence process.
Assurance	Internal controls: A set of measures to ensure quality assurance, this includes processes such as Appointment, Procurement, and Payments. Conflicts of interest: There should be clear policies and procedures set and measures taken to declare, manage and address conflicts of interest. Special procedures should be in place to deal with conflicts of interest, for example, when board members have any interest in business transactions or contracts that the charity may enter into.
Risk	Risk management: The Board should regularly identify, review and manage the possible risks that a charity may face. The risk identification process, assessment and reporting should be formalised in the form of a risk management framework. Risk management should not just focus on the negative but also on where opportunities may lie. This is a trade-off in risk management that should be adopted.
People	Code of conduct: Roles and responsibilities of board members, management team and volunteers should be clearly communicated to ensure that the charity is well-managed and fulfils its objectives. Competency: Board members should have the relevant and necessary skill sets to lead a charity, adequate knowledge on what their board duties are and how to discharge them. Appropriate training should be provided. Succession planning: For the sustainability of the charity, the board should have a strategic plan to ensure succession for board members. It is also encouraged for board members to have term limits.

Transparency is having the openness to disclose relevant information in a timely and accurate manner to the organisation's internal stakeholders such as board members and staff, as well as external stakeholders, such as donors, volunteers, the regulator and the community.

A To guide charities to improve transparency and disclosure practices, the COC has developed the PARENT framework, Annual Report Illustrative Template Guide and Charity Transparency Framework

Table 2 Charities' external stakeholders

Donors	It is important to be transparent and accountable in the fundraising activities, such as disclosing the fundraising target, the amount of funds raised and the amount of funds that has been disbursed. It is also important for charities to thank donors and close the feedback loop with the donors. This is a shift from a transactional to a relational association, and the potential for donors to become regular givers.
Volunteers	Volunteers expect the charity that they are serving to be above board, open to sharing about charity matters, and also to ask and receive critical feedback from the volunteers who are on the ground. With the right amount of openness and trust, volunteers will be more willing to be committed to a longer period.
Regulator	For charities, the regulator is the Commissioner of Charities (COC). Transparency, to the COC, usually comes in the form of annual submissions of the charity's financial statements, annual report as well as compliance to the Governance Evaluation Checklist. However, rather than just seeing the regulator as the "police", charities should also be willing to step forward and be open to seeking advice from the COC.
Community	The community refers to the members of the public, and public trust is of the utmost importance in the charity sector. Hence, all necessary information should be made available for accountability, and to show that the charitable assets are being used for the greater good.

(3) Nothing to hide

Transparency is the last key item to achieving good governance. Transparency is having the openness to disclose relevant information in a timely and accurate manner to the organisation's internal stakeholders such as board members and staff, as well as external stakeholders, such as donors, volunteers, the regulator and community. The information should also be comprehensive and easily accessible.

Disclosure to internal stakeholders

Certain information should be made transparent and open to board members and staff, as part of the charity's internal process.

For example, to manage any perceived conflict of interest, in addition to setting clear policies and procedures, the declaration of any conflict of interest should be made to the board at the earliest opportunity. The declaration should also be recorded and communicated internally if required. Where a conflict of interest arises at a board meeting, the individual concerned should not vote on the matter nor participate in the discussions; instead he or she should recuse from the meeting.

This is to ensure openness within the organisation, and for the proceedings and processes to be able to stand up to scrutiny should anyone ask, for example, on the procurement and approval processes.

Disclosure to external stakeholders

Charities should also ensure clear reporting to external stakeholders who are involved in the charity ecosystem. These are the donors, volunteers, regulator and community (Table 2).

CONCLUSION

Governance is the cornerstone of how a charity is properly managed and run. It enables the charity to be sustainable and well-functioning in both the long and short term. With good governance, there is greater trust at three levels – the charity level, the sector level and the national level where no one is left behind.

With good governance, the charity sector will be a thriving and trusted one for many years to come. ISCA

Dr Ang Hak Seng, FCA (Singapore), is Deputy Secretary (Singapore Cares), Ministry of Culture, Community and Youth; Commissioner of Charities, and Adjunct Professor, Nanyang Technological University.

BY ZIV CARMON, ROM SCHRIFT, KLAUS WERTENBROCH, AND HAIYANG YANG

CONSUMER AUTONOMY VIOLATIONS AND THE COMING AI BACKLASH

Recommended Actions For Big Tech

THE PROFOUNDLY BENEFICIAL IMPACT OF ARTIFICIAL INTELLIGENCE (AI)-BASED SYSTEMS may be blunted in the 2020s, if Big Tech isn't careful.

Looking ahead to the next decade, we see plenty of reason for optimism. Rapid advancements in big data analytics, AI and machine learning are set to benefit humankind dramatically in the next 10 years, making us safer (that is, less prone to destructive human error) and happier (due to less time spent on tedious tasks such as driving and shopping). Businesses, too, are poised to profit hugely – AI-based additions to global GDP growth could reach US$22 trillion by 2030[1].

The consumer platforms powered by this new technology have been massively popular. Netflix's 158-million-strong global subscriber base and Amazon's US$233 billion in net sales for 2018 are but two of many examples that attest to this popularity.

Yet, algorithmic systems remain controversial. Worldwide media have chronicled their rise with a constant undertone of suspicion, punctuated by eruptions of scandal that may well prefigure a full-blown backlash. The most familiar objection against AI centres on privacy – the widespread perception that tech companies know more about us than we have assented to, and doubts about whether these companies can be trusted to use our data responsibly.

In a recent article for *Sloan Management Review*[2], we discuss another important risk to consumer acceptance of AI. The very ease and predictive accuracy of algorithmic platforms could backfire, if they lead users to feel their autonomy, or free will, has been compromised. Tech companies should not confuse the popularity of their offerings with *carte blanche* to automate and optimise the entire customer journey. As much as people appreciate algorithms making seemingly unnecessary choices for them, they will react negatively when their compliance is considered a *fait accompli*.

EVIDENCE OF AUTONOMY THREAT

This phenomenon, which we call *autonomy threat*, shows up in a variety of research studies, many of which are discussed in the 2017 review paper[3] on which our *Sloan* piece is based. For instance, in a recent study, two of us found that when customers believed their future choices could be predicted based on past patterns, they gravitated away from their most preferred option and chose differently. In other words, consumers violated their own preferences in order to re-establish their sense of autonomy.

We also suspect that autonomy threat plays a hidden role in the ongoing AI backlash. For example, the Cambridge Analytica scandal of 2018, in which that firm targeted Facebook users precisely for deceptive political ads, was manifestly about privacy. Yet the stakes involved – the 2016 United States presidential election

[1] "The Impact Of Artificial Intelligence On The World Economy" (16 Nov 2018), The Wall Street Journal
[2] "Designing AI Systems That Customers Won't Hate" (16 Dec 2019), MIT Sloan Management Review
[3] "Consumer Choice And Autonomy In The Age Of Artificial Intelligence And Big Data" (19 Dec 2017), SpringerLink

The most familiar objection against AI centres on privacy – the widespread perception that tech companies know more about us than we have assented to, and doubts about whether these companies can be trusted to use our data responsibly.

PHOTO GETTY IMAGES

– raised questions about ads affecting the outcome of the election, therefore threatening the voter autonomy on which democracy depends. Concerns about privacy and autonomy dovetailed to produce an especially ferocious market response – wiping nearly US$40 billion from Facebook's market value in a single day[4].

For tech companies, buffering against autonomy threat requires understanding three different points:

- Uniqueness and autonomy,
- Predictability and autonomy, and
- Overlapping privacy and autonomy.

Encroaching too far into any one of these areas could trigger consumer backlash. There are also measures firms can take to bolster users' sense of autonomy and therefore reduce the likelihood of an adverse reaction.

UNIQUENESS AND AUTONOMY

First, people want to be seen as unique individuals and not interchangeable with others. This becomes an issue when, for example, customer service chatbots give advice in lieu of human agents. Even if the chatbot dispenses first-rate advice, users may resent being treated as though their problems were not special enough to command a person's individual attention.

Academic research finds that this holds true even in high-stakes situations, such as a medical diagnosis. Patients will choose to see a human doctor even when they are told a robot would provide a more statistically accurate diagnosis[5], out of a deep-seated belief that the robot will not be able to account for their unique situation.

In addition to performing simple tweaks such as chatbots addressing customers by name, companies can respond to such autonomy threats by ensuring that consumers always have a voice in curating their experience. Though this will at times run counter to convenience, it's important to remember the "IKEA effect", in which the sweat equity of personally assembling their own flat-packed furniture helps buyers feel more bonded to their purchases. Studies have found that consumers will create more mental work for themselves[6] when an important decision (example, between two products) seems too easy. A "perfect" choice-making process that eliminates all mental labour may thus provoke consumer rebellion.

[4] "Facebook Sheds Nearly $40 Billion Of Market Cap As Investors Flee Stock" (19 March 2018), MarketWatch

[5] "Theory Of Machine: When Do People Rely On Algorithms", Harvard Business School Working Paper No.17-086, March 2017, Scholarship at Harvard

[6] "Complicating Choice" (revised 1 Feb 2014), Journal of Marketing Research, Vol.48, No.2, pp308-326, 2011

[7] "Consumer (Mis)Behavior And Public Policy Intervention" (8 Dec 2016), INSEAD working paper Series 2017/14/MKT

[8] "Your Apps Know Where You Were Last Night, And They're Not Keeping It Secret" (10 Dec 2018), The New York Times

[9] "YouTube Fined $170m In US Over Children's Privacy Violation" (4 Sept 2019), BBC News

[10] "Privacy And Human Behavior In The Age Of Information" (30 Jan 2015), Science, Vol.347, Issue 6221, pp509-514

[11] "Misplaced Confidences: Privacy And The Control Paradox" (9 Aug 2012), SAGE Journals

[12] "Tech Experts Agree It's Time To Regulate Artificial Intelligence – If Only It Were That Simple" (12 Dec 2019), GeekWire

[13] "The Complex Nature Of Regulating AI" (27 Dec 2019), TechTarget Network

PHOTO GETTY IMAGES

If changes aren't made to appease consumers' pervasive sense of autonomy and privacy violations, the likely result will be mounting public outrage, probably followed by regulatory crackdown.

PREDICTABILITY AND AUTONOMY

Second, people want to be able to change their minds. If data-driven platforms leave them feeling locked into their past choices, autonomy threat may be triggered and shoppers may make sub-optimal choices, as in the abovementioned "predictability" study.

Interestingly, however, in that same study, consumers felt less threatened when the word "consistent" rather than "predictable" was used to describe their choices. Through shifting their messaging, companies can promote the continuance of desired consumer behaviour, for example, by framing marketing messages as invitations to deepen expertise or complete a task.

Moreover, enabling consumers to change what they choose creates opportunities that few AI-driven companies have exploited. Helping people improve their lives – for instance, by eating better, quitting smoking, etc – is quite feasible for these companies, as algorithms can be developed to identify tell-tale signs of customers who may be ready to choose differently. Such consumers may, as one of us has shown, buy smaller packages of unhealthy snacks rather than the more cost-effective jumbo sizes to make sure that they cannot give in to the temptation to overeat, an example of a self-control strategy called "precommitment"[7].

Companies can then offer precommitting consumers options to help them realise large-scale lifestyle changes – a possible win-win for business and public health. That is, as long as companies respect consumers' autonomy by offering them precommitment options, which they can accept, reject or delay as they see fit, rather than choosing for the consumer.

WHERE PRIVACY AND AUTONOMY OVERLAP

Third, we must remember that privacy and autonomy are partly overlapping concepts. A critical part of free will is deciding which of our behaviours and preferences we would like to share with others, and which we want to keep private. When privacy is taken away, part of our autonomy goes with it.

The precariousness of Internet privacy[8] is becoming difficult to ignore. Big Tech's laxity on the issue has implications not only for adult consumers but the next generation as well – the US Federal Trade Commission recently fined YouTube US$170 million[9] for collecting data on children under 13 years old.

Clearly, many companies believe they have no choice but to play fast and loose with privacy so that they can harvest the consumer data they need to train their algorithms. But research suggests that more rigid and transparent privacy policies may produce better results for users and firms alike, perhaps because reinforcing autonomy helps soothe sensitivities regarding privacy. A 2015 paper in *Science*[10] argued, "Control (over personal information) can reduce privacy concern, which in turn can have unintended effects." The paper goes on to cite a finding that people were surprisingly willing to have their private information posted online[11] when they felt the decision to do so was in their hands. Paradoxically, when explicitly given the option not to divulge, participants opted to reveal more instead of erring on the side of caution.

Autonomy and privacy interact in other ways too. Research by one of us suggests that companies create less autonomy threat when they track consumers' existing preferences rather than those that are still being formed. We surmise that this distinction would apply to e-commerce – purchase histories would be fair game for algorithmic tracking, while preparatory activity for a purchase (search history, price comparisons, etc) should be off-limits.

THE SPECTRE OF REGULATION

Our *Sloan* article was written out of serious concern that the profoundly beneficial impact of AI solutions may be blunted by backlash, if Big Tech isn't careful.

As the new decade begins, media reports warn of a "rising tide of AI regulation"[12], possibly including an outright ban on data collection[13] by chatbots or even transparency requirements for algorithms. If changes aren't made to appease consumers' pervasive sense of autonomy and privacy violations, the likely result will be mounting public outrage, probably followed by regulatory crackdown.

We believe regulatory action represents a far greater threat to innovation than our rather modest autonomy-related recommendations. Let's hope the tech industry takes heed so we don't have to find out. ISCA

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TECHNICAL HIGHLIGHTS

PHOTO SHUTTERSTOCK

ISCA ISSUES COVID-19 TECHNICAL FAQS

These new Technical FAQs include guidance on:

- Accounting for property tax rebates, including why the rebate is not accounted for in accordance with SFRS(I) 16 *Leases* by landlords
- Audit considerations of the impact of Covid-19 on going concern assessments

New FAQs will continue to be issued to address challenges faced arising from the evolving Covid-19 situation.

For full list of FAQs, please visit https://isca.org.sg/covid-19-series/resources/isca-covid-19-technical-faqs/

ETHICS

FATF PAPER ON COVID-19-RELATED MONEY LAUNDERING AND TERRORIST FINANCING – RISKS AND POLICY RESPONSES

The Financial Action Task Force (FATF) paper identifies challenges, good practices and policy responses to new money laundering and terrorist financing threats and vulnerabilities arising from the Covid-19 crisis.

For more information, please visit https://www.fatf-gafi.org/media/fatf/documents/COVID-19-AML-CFT.pdf

IESBA STAFF RELEASE COVID-19 Q&AS – ETHICS AND INDEPENDENCE CONSIDERATIONS

IESBA Staff released a Question and Answer (Q&A) publication to highlight aspects of the Code of Ethics that might be relevant in navigating ethics and independence challenges and risks as a result of the Covid-19 crisis.

For more information, please visit https://www.ifac.org/system/files/publications/files/IESBA-Staff-Q-A-COVID-19-Ethics-Independence-Considerations.pdf

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ED ON COVID-19-RELATED RENT CONCESSIONS

We agree with the Board's proposals. However, we recommend for the practical expedient to be extended to lessors and also extended to rent concessions that affect payments beyond 2020. Our other main suggestions are for the Board to include selected wordings from the Basis of Conclusions and a definition of "rent concessions" in IFRS 16, provide clarity on the relationship with other requirements in IFRS 9 and IFRS 16, and consider providing the option of prospective application.

For more information, please visit https://isca.org.sg/media/2824584/isca-comment-letter-for-iasbs-ed-on-covid-19-related-rent-concessions.pdf

ISCA ISSUES FRB 6 ON ACCOUNTING OF PAYOUTS RECEIVABLE BY EMPLOYERS UNDER JOBS SUPPORT SCHEME

The Jobs Support Scheme (JSS) was put in place to help employers retain their local employees during this period of economic uncertainty. ISCA has received feedback that there is uncertainty on the accounting of JSS payouts by entities, especially by entities with a financial reporting period ended 31 March 2020.

FRB 6 "Covid-19 Government Relief Measures: Accounting for the grant provided by the Singapore Government for wages paid to local employees under the Jobs Support Scheme" was issued to address the above uncertainty. It also includes an illustrative example to aid in the understanding of the principles applied.

For more information, please visit https://isca.org.sg/tkc/fr/financial-reporting-bulletins/

ISCA INVITES COMMENTS ON IASB DISCUSSION PAPER, "BUSINESS COMBINATIONS – DISCLOSURES, GOODWILL AND IMPAIRMENT"

ISCA seeks comments on IASB's Discussion Paper, "Business Combinations – Disclosures, Goodwill and Impairment". Please send comments to technical@isca.org.sg by 15 September 2020.

For more information, please visit https://isca.org.sg/tkc/fr/exposure-drafts-comment-letters/iasb-exposure-drafts-comment-letters/

NEW EFFECTIVE DATE FOR IFRS 17

IASB has decided to defer the effective date of IFRS 17 to annual reporting periods beginning on or after 1 January 2023, and to extend the exemption for some insurers regarding the application of IFRS 9 to enable them to implement both IFRS 9 and IFRS 17 concurrently. The amendments to IFRS 17 are expected to be issued in the second quarter of 2020.

For more information, please visit https://www.ifrs.org/news-and-events/2020/03/ifrs-17-effective-date/

BY ANGELA EE

SINGAPORE'S RESTRUCTURING AND INSOLVENCY LANDSCAPE

Impending Changes And Implications

THE NEW SINGAPORE INSOLVENCY, Restructuring and Dissolution Act 2018 (IRDA) was passed by the Singapore Parliament on 1 October 2018 but has yet to come into force. What are some of the key changes and the implications for corporates who wish to restructure their debts, particularly against the backdrop of Covid-19 and the consequential economic repercussions?

THE LEGAL REGIME

The restructuring and insolvency regime in Singapore, which was historically modelled on English law, had undergone various amendments to streamline its laws. Introduced as the final phase, IRDA aims to further modernise and strengthen the legislation relating to debt restructurings, and to position Singapore as an international hub for cross-border debt restructuring.

In a nutshell, IRDA consolidates the personal and corporate laws relating to insolvencies and restructuring into a single statute, and incorporates concepts imported from Chapter 11 of the US Bankruptcy Code and adoption of UNCITRAL Model Law on cross-border insolvency.

Together, the key amendments increase Singapore's attractiveness as a venue for cross-border restructuring by including provisions relating to debtor-in-possession rescue financing, a cross-class "cram down" mechanism and a worldwide stay on proceedings, not only for Singapore-incorporated debtors but also foreign debtors.

IMPLICATIONS OF SELECTED KEY AMENDMENTS

The key amendments are summarised below:

(1) Enhanced schemes of arrangement

(a) Automatic moratorium

Upon the filing by a debtor of an application under section 211B of the Companies Act (section 64 of IRDA), (with demonstration of, inter alia, creditor support), an automatic 30-day moratorium is granted, which restrains parties from commencement and continuation of any proceedings against the debtor. This moratorium may be extended by the Court. Courts can also order the moratorium to have extraterritorial effect. The moratorium provides much needed breathing space for debtors to engage in rehabilitative efforts.

(b) "Super priority" rescue financing

An order can be granted for rescue financing to be afforded super priority over, inter alia, statutorily preferred creditors, provided that reasonable efforts were made to secure rescue financing without super priority. If certain requirements are met, it is also possible for the rescue financier to be given priority security interest over assets that are not subject to existing security interests, a subordinate security interest in property that is subjected to an existing security interest or in certain circumstances, equal or higher priority to existing security interests. This amendment is especially helpful for vulnerable companies that are already in financial difficulty and unable to otherwise secure new funding that would be critical to providing a lifeline for its survival.

(c) Cross-class "cram down"

This allows the Court to approve a scheme where there are multiple classes of creditors and the requisite majorities of at least one class of creditors have voted in favour of the scheme, in circumstances where one or more classes have not done so. The Court has to be satisfied that the scheme

> ... companies in foreign jurisdictions (have) the option of conducting their restructuring in Singapore, where the restructuring laws are more developed, and the outcome less uncertain.

PHOTO ERNST & YOUNG SOLUTIONS LLP

does not unfairly discriminate between classes and is fair and equitable to each dissenting class and that overall, a majority in number of all the creditors holding three quarters of the value of the debt approved the scheme. These provisions prevent a minority dissenting class of creditors from unreasonably frustrating a restructuring that benefits creditors as a whole.

(d) Pre-packaged (pre-pack) schemes

The Court has the power to approve schemes without a meeting of creditors being called. In such an instance, a pre-pack plan will be negotiated between the debtor and its creditors, before presentation to the Court. The core benefit of using a pre-pack plan is that a number of requisite formal hearings can be skipped, offering considerable time and cost savings for the company in distress.

(2) Increased accessibility for foreign companies

Historically, there was some uncertainty whether foreign companies could restructure their debts in Singapore, and whether it was sufficient if the company's centre of main interests (COMI) is in Singapore. Foreign companies can now avail themselves to restructuring options in Singapore as long as a "substantial connection" to Singapore can be demonstrated. This can be achieved by, inter alia, having the COMI in Singapore, conducting some business in Singapore, having substantial assets in Singapore, being registered in Singapore as a foreign company, or even having Singapore law as the governing law for its loan documents. This gives companies in foreign jurisdictions the option of conducting their restructuring in Singapore, where the restructuring laws are more developed, and the outcome less uncertain.

(3) Restricting the operation of ipso facto clauses (not yet in force)

An ipso facto clause allows one party to terminate a contract upon the occurrence of an insolvency-related event. A new provision in IRDA restricts the ability of parties to terminate or claim an accelerated payment or forfeiture of the term under any agreement with the company by reason **only** that specified proceedings (for instance, for a scheme of arrangement or judicial management) have commenced in respect of the company or that the company is insolvent. It should be highlighted that parties are not precluded

> It is hoped that with the new provisions, including those that are currently not yet in force, local and foreign debtors seeking to restructure their indebtedness will avail themselves of the tools and techniques available under the new regime in Singapore at the earliest possible stages of stress and distress, in order to increase their chances of achieving a successful turnaround.

from exercising their contractual rights on other grounds such as non-performance by the company. This provision aims to preserve the business of the corporate and hence its value.

(4) Directors' duties: introduction of wrongful trading

A key provision in IRDA that should be highlighted is the new "wrongful trading" provision. Under the existing insolvent trading regime, civil liability for insolvent trading only arises where there has been a criminal conviction. As such, insolvent trading liability was seldom pursued historically.

Under the new provision, a company is deemed to trade wrongfully if it incurs debt or liabilities when insolvent (or becomes insolvent as a result of incurring such debt or liability), without reasonable prospect of meeting them in full. There is no longer a requirement for a criminal conviction before one may be liable for wrongful trading. This would result in a big shift in terms of directors' duties and potential liabilities and as such, would urge directors of distressed companies to pay close attention to this new provision once it is in force.

GLOBAL UNCERTAINTIES, CHALLENGING ECONOMIC OUTLOOK AMID THE COVID-19 PANDEMIC: WHAT DOES THIS MEAN FOR STAKEHOLDERS AND COMPANIES FACING DIFFICULTIES?

The present climate which companies are operating in continues to be extremely challenging. With the global economy almost at a standstill as a result of the Covid-19 outbreak, even when lockdowns in various countries ease and businesses commence operations again, how long will it take for companies to get back to their pre-pandemic level of operations?

On 7 April 2020, the Singapore Parliament passed the Covid-19 (Temporary Measures) Act, which is aimed at providing protection from winding-up applications for companies unable to fulfil certain contractual obligations due to Covid-19, giving these companies an opportunity to "trade out" of their financial difficulties. Notably, the reliefs afforded included increasing the thresholds for insolvency from S$10,000 to S$100,000, and increasing statutory demand time limits from 21 days to six months. The interim reliefs will apply for an initial period of six months (till 19 October 2020), unless extended. It should be noted that the reliefs do not stop liabilities from accruing, nor absolve companies of their debt obligations. What can be done to prepare companies for the time when the interim reprieve is lifted and a wall of debt looms?

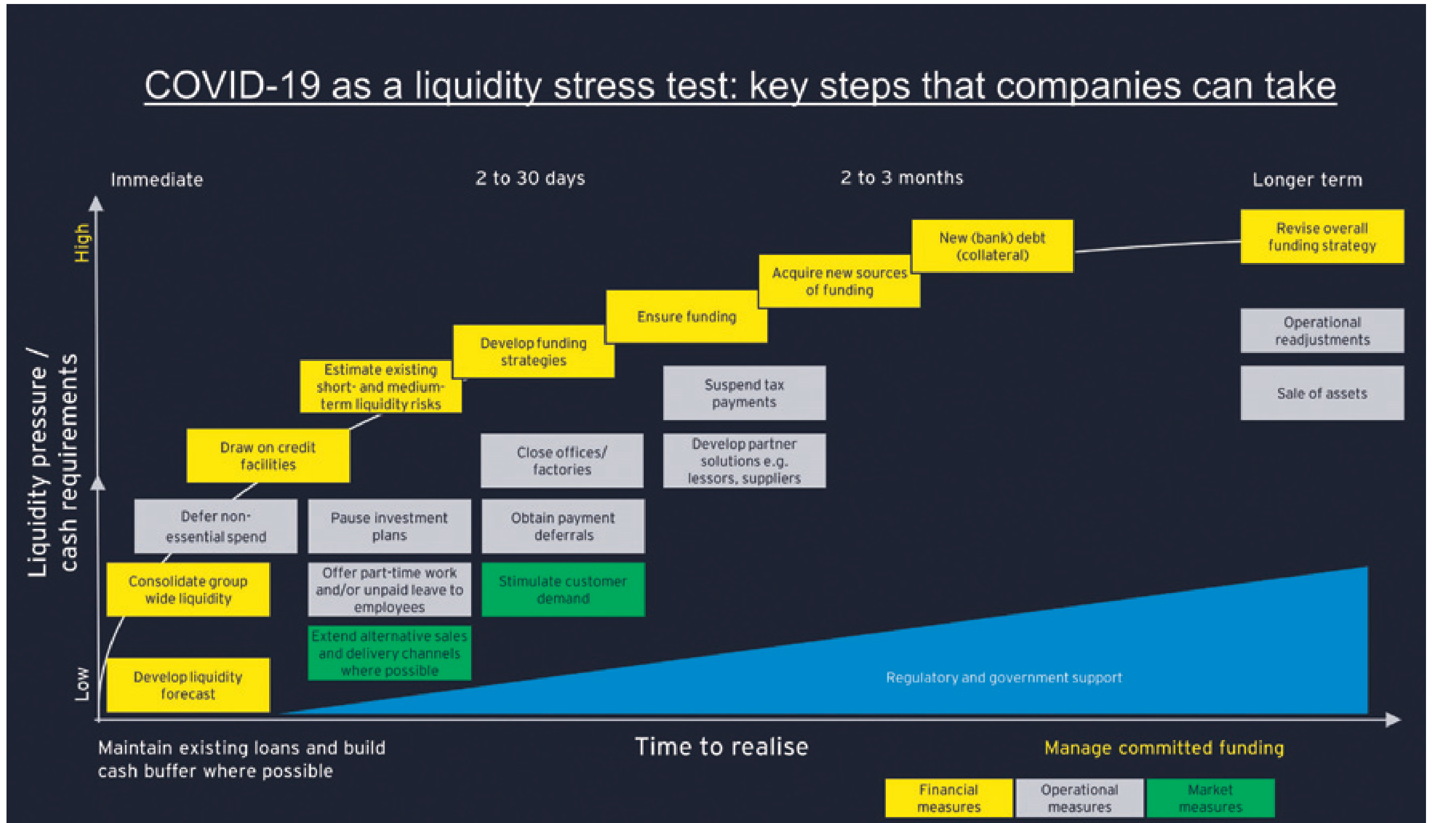
Suggested preparatory steps

Stakeholders and companies can consider taking these steps (Figure 1) to navigate the current challenging times and potentially stave off a winding-up:

(1) Focus on cash

To survive in the short term, companies should focus primarily on cash. This would involve closely managing liquidity using short-term cash flow forecasts to quantify short-term liquidity needs, evaluating sources to potentially free up cash, drawing on credit lines and realising near-liquid assets. Having visibility on a 13-week cash flow runway will assist companies in proactively managing imminent liquidity issues, which will

Figure 1



Source: Ernst & Young Solutions LLP

in turn help maintain relationships with stakeholders including employees, suppliers, customers and financiers.

(2) Consider an application for debt moratorium

Highly leveraged companies or companies in distressed sectors are likely to encounter challenging circumstances even after emerging from the temporary relief period of six months. These companies may consider availing themselves to the enhanced scheme of arrangement framework.

(3) Early sourcing for white-knight investors, alternative capital providers, distressed funders

Continued access to new funds and raising capital may be critical for companies' survival in the longer term. If traditional avenues of obtaining new financing may not be available, companies should explore alternative sources of funds early. For distressed companies, it is likely that financiers may require super priority status. This is available under the enhanced debt restructuring provisions.

Typically for family-run companies in Asia, one of the key concerns when considering bringing in new investors is the fear of "loss of control". However, in a situation where the survival of a company is in question, delaying such a decision could result in severely destroying the company's value.

CLOSING THOUGHTS

The new law reforms were introduced with the aim of offering rehabilitation and protection for companies, and facilitating restructurings. To further facilitate the ease of restructuring from a practical perspective, could a concession be made in relation to preparing the accounts and requirement for audit during the period of restructuring?

One of the key bases for preparing accounts is the going concern assumption. During the period of the moratorium, where a company is trying to restructure its debts, this will only be known with certainty when the scheme that is being proposed is approved by creditors and sanctioned by the Court. Could an automatic deferment to a specified number of months after the restructuring completion be considered? Could a similar concession to the reporting requirements under the Stock Exchange of Singapore Listing Manual Rules (Listing Manual) be considered for listed companies? It is encouraging that under IRDA (section 103), a company under judicial management is not required to comply with the requirements of holding annual general meetings and filing annual returns.

It is hoped that with the new provisions, including those that are currently not yet in force, local and foreign debtors seeking to restructure their indebtedness will avail themselves of the tools and techniques available under the new regime in Singapore at the earliest possible stages of stress and distress, in order to increase their chances of achieving a successful turnaround. ISCA

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PHOTO SHUTTERSTOCK

 

BY FELIX WONG AND ANGELINA TAN

TRANSFER PRICING IN COMMODITIES

An Analysis On Commodity Marketing And Trading Activities

DUE TO THE DEPTH OF ITS TRADING MARKET AND ITS CLOSE PROXIMITY TO KEY MARKETS, Singapore has been the preferred location for commodity marketing and trading activities. Given the importance of the trading industry, the Inland Revenue Authority of Singapore (IRAS) released its first specialised e-Tax guide, covering transfer pricing (TP) for commodity traders engaged in marketing and trading activities. The e-Tax guide explains in detail the economic and commercial drivers for commodity trading in Singapore, including what Singapore has to offer as a prime destination for reasons other than tax.

Homing in on TP for commodity marketing and trading activities in Singapore, businesses should know that commodity marketing and trading activities involve a wide spectrum of activities, over and above the actual acquisition and sale of commodities. The crux of TP issues often lies with the functional analysis and characterisation of the commodity marketing and trading entity in Singapore.

Adriana Calderon, Director, Transfer Pricing Solutions Asia, brought participants through the intricacies of TP for commodity marketing and trading entities in Singapore

"When comparing prices, bear in mind that indices indicate the price to the final customer and would be difficult to use for commodity marketing and trading entities that act as intermediary entities and do not sell to end customers," highlighted Adriana Calderon, Director, Transfer Pricing Solutions Asia, as she shared her insights at an event by the Singapore Chartered Tax Professionals (formerly Singapore Institute of Accredited Tax Professionals).

"When comparing prices, bear in mind that indices indicate the price to the final customer and would be difficult to use for commodity marketing and trading entities that act as intermediary entities and do not sell to end customers."

FUNCTIONAL ANALYSIS OF COMMODITY MARKETING AND TRADING ENTITIES

To better appreciate pertinent TP issues for commodity marketing and trading entities, it is useful to first understand their typical business models and the way they conduct their business. The functional profile of the entity is dependent on the nature of activities performed, taking into account the assets used and risks assumed, which in turn defines its contribution to value. Emphasis must be placed on the entity's decision-making capacity and capacity to exercise authority. The most common types of commodity traders in Singapore are:

1) Marketers/Distributors responsible for selling commodities sourced from related parties to third parties;
2) Procurement entities responsible for sourcing commodities for a related party from third parties, and
3) Full-fledged traders that may operate as full risk-taking entrepreneurs.

Commercial Objectives and Functions Performed by Commodity Marketing and Trading Entities

Commodity marketing and trading entities undertake a wide spectrum of activities with varying levels of intensity. Such commodity marketing and trading entities may adopt a variety of business models, whether as a service entity, an agent, a marketer, a distributor, or a full-fledged trader, depending on the type of commodities they deal with and their specific business needs.

A commodity marketing and trading entity may act as a service provider that gathers and provides market intelligence to a supplier, without assuming any risk relating to the commodity. It may also act as an agent on behalf of the supplier to develop and service a market by providing market intelligence, building up a customer base, managing customer relationships, negotiating with customers, and providing other services.

Alternatively, the commodity marketing and trading entity may take on the role of a marketer, handling freight and logistics, credit management, formulation of strategies and more, but without the obligation to buy and sell the commodity. Unlike the marketer, a commodity marketing and trading entity that acts as a distributor mainly focuses on the purchase and sale of commodities, bridging the gap between suppliers and customers. They may range from limited risk distributors (performing all sales and distribution functions and have limited risk profile) to full-fledged distributors (bearing the principal responsibility in transactions, including inventory risk and customer credit risk, and setting the price of transactions).

Finally, there are commodity marketing and trading entities that choose to act as full-fledged traders and engage in all activities – ranging from the purchase and trading of commodity, the central management for shipping, storage and risk management, to market maintenance for the commodity on its own account.

Assets and Risks of Commodity Marketing and Trading

Besides taking into account the nature of the commodity marketing and trading activities an entity performs, it is also important to consider the assets used and risks assumed when determining the economic value created by the entity.

In considering the assets used to determine the arm's length price for Singapore TP purpose, it should be noted that IRAS is interested in not only tangible assets (such as warehouse and equipment) but also intangible assets (such as knowhow and customer relationships). In practice, the challenge is to price in such intangible assets due to the difficulties in finding reliable comparables.

In order to assume a risk for TP purpose, the commodity marketing and trading entity must be able to control the risk and has the financial capacity to assume the risk.

In determining the transfer price, consideration must be given to the contribution made by the commodity marketing and trading entity to the overall value creation in the group supply chain. As value creation is based on the economic significance of the functions (and not simply on the number of functions performed), taking title to commodity alone is not sufficient to determine the overall function profile of the entity.

PHOTO SHUTTERSTOCK

TRANSFER PRICING METHODS

Various TP methods may be used to price related party commodity transactions. The following five TP methods are set out in IRAS' e-Tax guide.

Comparable Uncontrolled Price (CUP) Method

Under the CUP method, the arm's length price for commodities may be made with reference to either the comparable independent party transactions or the quoted price (which is the price of the commodity in the relevant period obtained in an international or domestic commodity exchange market).

Care must be taken to ensure that the economically relevant characteristics of the transactions are comparable. For commodities, the economically relevant characteristics include physical features and quality of the commodity, and the contractual terms of the related party commodity transaction (such as volumes traded and the period of the arrangements).

When using a quoted price, talking to traders and operations personnel would be best in identifying the most relevant index to use. It should be noted that indices indicate the price to the final customer and as such, they are difficult to use when setting the price for commodity marketing and trading entities that act as intermediary entities and may not sell to end customers.

Resale Price Method

This method is appropriate where parties are remunerated by reference to sales values and earn a percentage discount (or resale price margin, or gross margin) from a sale price. Commodity marketing and trading entities that are involved in marketing operations, such as marketers or agents, may prefer to use this method. The resale price method may be applied by comparing gross margin of the commodity marketing and trading entity with internal or external comparables. Alternatively, the comparable independent commission rates can be used as a reference to determine the appropriate percentage discount.

> The functional profile of the entity is dependent on the nature of activities performed, taking into account the assets used and risks assumed, which in turn defines its contribution to value. Emphasis must be placed on the entity's decision-making capacity and capacity to exercise authority.

Cost-Plus Method

The cost-plus method is appropriate where costs are a relevant indicator of the value of the activities performed by the entity, such as in contract or toll manufacturing; its reliability is reduced considerably where the entity performs activities which contribute significant value. In the case of commodity marketing and trading entities, the use of the cost-plus method is mostly restricted to services which do not require significant specialised expertise, risks assumption, or risk control functions relating to the commodity. An example is market research services.

Profit Split Method

This method is generally appropriate where the commodity marketing and trading entity's interaction with its related parties and their contributions to the related party commodity transaction are highly interrelated and integrated. This method may be appropriate for global trading of commodities.

Transactional Net Margin Method (TNMM)

TNMM compares the net profit earned by a taxpayer from a related party transaction with the net profit earned by independent parties in a comparable transaction. It requires the selection of a profit level indicator, and is the most commonly used TP method for entities involved in commodity marketing and trading.

The comparisons at the net profit level can be made on a single transaction, an aggregation of transactions or at the whole of entity level. When applying this method, there are various profit level indicators that can be used; care must be taken to select the appropriate indicator to ensure the appropriate profitability measure. Examples of profit level indicators are the operating margin, net cost-plus, Berry ratio and return on assets.

While selecting the appropriate TP method is key in pricing related party transactions, the biggest challenge is often in ensuring access to reliable data to support the appropriate TP method.

FINAL TIPS

Commodity trading and marketing entities may tend to focus on the gross profit (rather than the net profit) as industry practice. From a TP perspective, it would be advisable to monitor the net profit of the trader, as it would be hard to justify consistent losses arising from a low gross profit allocated to the commodity trader. Commodities trading and marketing entities should bear in mind whether gross profit allocation makes commercial sense from a net profit perspective. If compared with a third-party arrangement, it is unlikely that a third-party trader would be willing to accept a commission or gross profit that does not allow it to earn a net profit. ISCA

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, Singapore Chartered Tax Professionals (formerly Singapore Institute of Accredited Tax Professionals).

BY NG ENG JUAN

DON'S COLUMN

IAS 36: IMPAIRMENT OF ASSETS

Allocation Of Goodwill Impairment Loss

IAS 36 *IMPAIRMENT OF ASSETS* provides that goodwill impairment loss should be "allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated" (paragraph C6).

The purpose of this article is to discuss the appropriateness of the above provision of IAS 36.

BACKGROUND INFORMATION

IFRS 3 *Business Combinations* provides that goodwill at the acquisition date (assuming no step acquisition) should be measured as the excess of the aggregate of the consideration transferred and the amount of non-controlling interest over the fair value of identifiable net assets of subsidiary acquired (paragraph 32).

In mathematical formula, the requirement of paragraph 32 above may be presented as follows:

Goodwill at acquisition date = parent's cost of acquisition *plus* non-controlling Interest *less* fair value of identifiable net assets of subsidiary acquired

In the above formula, there are three dependent variables, namely, (i) parent's cost of acquisition, (ii) non-controlling interest, and (iii) fair value of identifiable net assets of subsidiary acquired. While the quantum of variables (i) and (iii) may be quite objectively determined, the quantum of variable (ii) (that is, non-controlling interest) is dependent on the basis used to measure the non-controlling interest at acquisition date.

IFRS 3 provides for two measurement bases for non-controlling interest at acquisition date. Specifically, IFRS 3 provides that non-controlling interest at acquisition date (assuming it comprises only ordinary shares) may be measured at either (i) its proportionate share of the fair value of identifiable net assets of subsidiary acquired, or (ii) its fair value (paragraph 19).

Thus, the quantum of goodwill at acquisition date is very much dependent on the basis used to measure non-controlling interest at acquisition date. To illustrate, assume the following case:

CASE 1

P Ltd acquires 60% of S Ltd for $300 million. At the acquisition date, S Ltd's balance sheet comprises Land carried at cost of $200 million, Share capital of $100 million (comprising 100 million ordinary shares issued at $1.00 per share) and Bank loan of $100 million.

Assume that on the acquisition date, the fair value of S Ltd's land is $500 million, and the fair value of the shares held by non-controlling interest is $4.50 per share. (It may be noted that P Ltd's cost of acquisition is more than the fair value of shares acquired, due to payment for, inter alia, control premium.)

In the above case, the non-controlling interest at acquisition date may be measured based on "its share of the fair value of identifiable net assets of subsidiary acquired" of $160 million (40% x ($500 million for Land - $100 million for Bank loan)), or based on "its fair value" of $180 million (40 million shares x $4.50).

If the non-controlling interest is measured based on "its share of the fair value of identifiable net assets" of $160 million, and applying the formula in paragraph 32 of IFRS 3, goodwill may be calculated as equal to $60 million ($300 million + $160 million - $400 million).

If the non-controlling interest is measured based on "its fair value" of $180 million, and applying the formula in paragraph 32 of IFRS 3, goodwill may be calculated as equal to $80 million ($300 million + $180 million - $400 million).

It may be noted from the above that the quantum of goodwill at acquisition date may differ as the result of the use of the different measurement basis for non-controlling interest.

To better understand the effect of the use of the different measurement basis for non-controlling interest on the quantum of goodwill, the formula in paragraph 32 may be re-phrased as follows:

Goodwill at acquisition date = (parent's cost of acquisition *less* parent's share of the fair value of net identifiable assets of subsidiary acquired) *plus* (non-controlling interest *less* non-controlling interest's share of the fair value of identifiable net assets of subsidiary acquired)

With reference to Case 1 and applying the above formula:

- If the non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired" of $160 million, goodwill will be $60 million, being parent's share of the goodwill of $60 million (parent's cost of acquisition of $300 million *less* parent's share of the fair value of identifiable net assets of $240 million (60% x ($500 million for Land - $100 million for Bank loan)) *plus* non-controlling interest's share of goodwill of $0 (non-controlling interest of $160 million *less* non-controlling interest's share of the fair value of identifiable net assets of $160 million (40% x ($500 million for Land - $100 million for Bank loan))), and


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If the non-controlling interest is measured based on "its fair value" of $180 million, goodwill will be $80 million, being parent's share of the goodwill of $60 million (parent's cost of acquisition of $300 million *less* parent's share of the fair value of identifiable net assets of subsidiary of $240 million) *plus* non-controlling interest's share of goodwill of $20 million (non-controlling interest of $180 million *less* non-controlling interest's share of the fair value of identifiable net assets of $160 million).

From the above, it may be noted that (i) if non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired", there is no goodwill element in non-controlling interest; only the parent's share of the goodwill will be accounted for in the consolidated financial statements, and (ii) if non-controlling interest is measured based on "its fair value", there is both the parent's share and the non-controlling interest's share of goodwill to be accounted for in the consolidated financial statements, except that the parent share and the non-controlling share of the goodwill may not be reflective of their respective equity interest (example, in the above case, parent share of goodwill is $60 million and the non-controlling share of goodwill is $20 million, which does not reflect their 60%:40% equity interest).

ALLOCATION OF GOODWILL IMPAIRMENT LOSS

IAS 36 provides that goodwill impairment loss (assuming a less-than-100% held subsidiary is by itself a cash-generating unit) should be "allocated between the parent and the non-controlling interest on the same basis as that on which profit or loss is allocated" (paragraph C6).

It is contended that the above provision is appropriate (but not necessary) for a case where non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired", but is inappropriate for a case where non-controlling interest is measured based on "its fair value".

To support the above contention, assume the following case:

CASE 2

Same facts as in Case 1. Assume that S Ltd is by itself a cash-generating unit, and that subsidiary acquired, at the date of acquisition, S Ltd's recoverable amount is $420 million.

(a) Non-controlling interest measured based on "its share of the fair value of identifiable net assets of subsidiary acquired"

Where non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired", paragraph C4 of IAS 36 provides that "an entity shall gross up the carrying amount of goodwill allocated to the unit to include the goodwill attributable to the non-controlling interest… this adjusted carrying amount is then compared with the recoverable amount of the unit to determine whether the cash-generating unit is impairment", and paragraph C8 of IAS 36 provides that, if there is goodwill impairment, "only the impairment loss relating to the goodwill that is allocated to the parent is recognised as a goodwill impairment loss".

To illustrate the provisions of paragraphs C4 and C8, refer to Case 2 above. To test for goodwill impairment under paragraph C4, the non-controlling interest's notional share of the goodwill should first be computed as equal to $40 million (40% x ($60/60%) = $40), and then added to the carrying amount of S Ltd. The carrying amount of S Ltd (now inclusive of non-controlling interest's notional share of goodwill) will then be compared with the recoverable amount of S Ltd to determine the amount of impairment loss. Subsequently, applying paragraph C8, only the amount of impairment loss allocated to parent's goodwill will be recognised. The calculations are shown below.

As illustrated, where non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired", paragraphs C4 and C8 provide adequately on how to measure and recognise goodwill impairment loss in the consolidated financial statements. Paragraph C6, even though is appropriate, is not necessary.

			$'million
Net identifiable assets (Land of 500 – Bank loan of 100)			400
Goodwill			60
Non-controlling interest's notional share of goodwill			40
Notionally adjusted carrying amount			500
Recoverable amount			420
Impairment loss			80
Allocated as follows:			
Parent's goodwill (60% x 80)	48		
Non-controlling interest's goodwill (40% x 80)	32		
The consolidation adjustment required to recognise goodwill impairment loss will be as follow:			
Dr Goodwill impairment loss		$48 million	
Cr Accumulated impairment loss: Goodwill			$48 million

Notes:

1) The amount of goodwill impairment loss to be recognised in the consolidated financial statements is $48 million (ignoring the non-controlling interest's notional allocation of $32 million, as non-controlling interest notional share of the goodwill of $40 million is not recognised)

2) If the impairment loss amount exceeds the total goodwill of $100 million, the excess will be allocated to other identifiable assets of S Ltd.

(b) Non-controlling interest measured based on "its fair value"

Where non-controlling interest is measured based on "its fair value", it is contended that the provision of paragraph C6 is not appropriate.

The main reason for the above contention is that where non-controlling interest is measured based on "its fair value", both the parent share of goodwill and the non-controlling share of goodwill have to be accounted for, but the parent share and the non-controlling share of the goodwill may not be reflective of their respective equity interest.

To illustrate, it may be noted that in Case 1 above, where parent acquires a 60% equity interest in subsidiary, the parent's and non-controlling interest's equity interest is respectively 60% and 40%, and the basis on which the subsidiary's profit or loss is allocated is therefore 60%:40%. However, parent share of goodwill is $60 million and the non-controlling share of goodwill is $20 million, which does not reflect their 60%:40% profit or loss allocation basis.

That being so, then applying the provision of paragraph C6 to a case where non-controlling interest is measured based on "its fair value" will be inappropriate.

To illustrate, refer to Case 2 again. To recap the facts of the case, (i) parent has a 60% equity interest and non-controlling interest has 40% equity interest in the subsidiary, and therefore the profit or loss allocation will be based on the ratio of 60%:40%; (ii) the goodwill at acquisition date is $80 million, comprising parent's share of $60 million, and non-controlling interest's share of $20 million, and (iii) the goodwill impairment is $60 million, computed as shown below.

In this case, applying the provision of paragraph C6 that the goodwill impairment should be allocated based on the basis the profit or loss is allocated (that is, 60%:40%), the goodwill impairment loss allocated to parent will be $36 million (60% x $60 million), and the goodwill impairment loss allocated to non-controlling interest will be $24 million (40% x $60 million). This will result in non-controlling interest carrying a goodwill at a negative figure of $4 million ($20 million - $24 million), which obviously is inappropriate.

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It is contended that, maybe the goodwill impairment loss should be allocated based on parent's and non-controlling interest's proportionate share of goodwill (and not based on the parent's and non-controlling interest's proportionate share of profit or loss).

If, in the above case, the goodwill impairment loss were to be allocated based on the proposed "parent's and non-controlling interest's proportionate share of goodwill", the goodwill impairment loss allocated to parent would be $45 million ($60 million/ $80 million x $60 million), and the goodwill impairment loss allocated to non-controlling interest would be $15 million ($20 million/$80 million x $60 million). Consequently, after the goodwill impairment loss allocation, parent share of goodwill will be $15 million ($60 million - $45 million), and non-controlling interest share of goodwill will be $5 million ($20 million - $15 million). The issue of carrying goodwill at a negative figure will not arise.

[1] In general, the auditor and the preparer of financial statements need to comply with IFRS standards. Deviations from them should be jointly resolved between auditors and preparers. At the minimum, the audited financial statements should also include disclosures on deviations from IFRS.

	$'million
Net identifiable assets (Land of 500 – Bank loan of 100)	400
Goodwill	80
Carrying amount	480
Recoverable amount	420
Impairment loss	60

However, it should be noted that IAS 1 *Presentation of Financial Statements* requires financial statements to comply with all extant IAS/IFRS so as to present a true and fair view (paragraph 15). Deviation from the extant IAS/IFRS is allowed only under extreme rare circumstances (paragraph 19) and proper disclosures have to be made (paragraphs 20 and 23).[1]

CONCLUSION

This article contends that paragraph C6 of IAS 36 is (i) appropriate, but not necessary, in cases where the acquisition-date non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired", and (ii) inappropriate in cases where the acquisition-date non-controlling interest is measured based on "its fair value".

In cases where the non-controlling interest is measured based on "its share of the fair value of identifiable net assets of subsidiary acquired", paragraphs C4 and C8 should be applied.

In cases where the non-controlling interest is measured based on "its fair value", it is contended that goodwill impairment loss should be allocated based on the parent's and non-controlling interest's proportionate share of goodwill (and not on the basis as that on which profit or loss is allocated, as required by paragraph C6). However, the requirement of IAS 1 to comply with extant IAS/IFRS should be noted. ISCA

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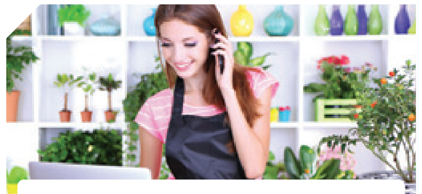

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