IS Chartered Accountant Journal

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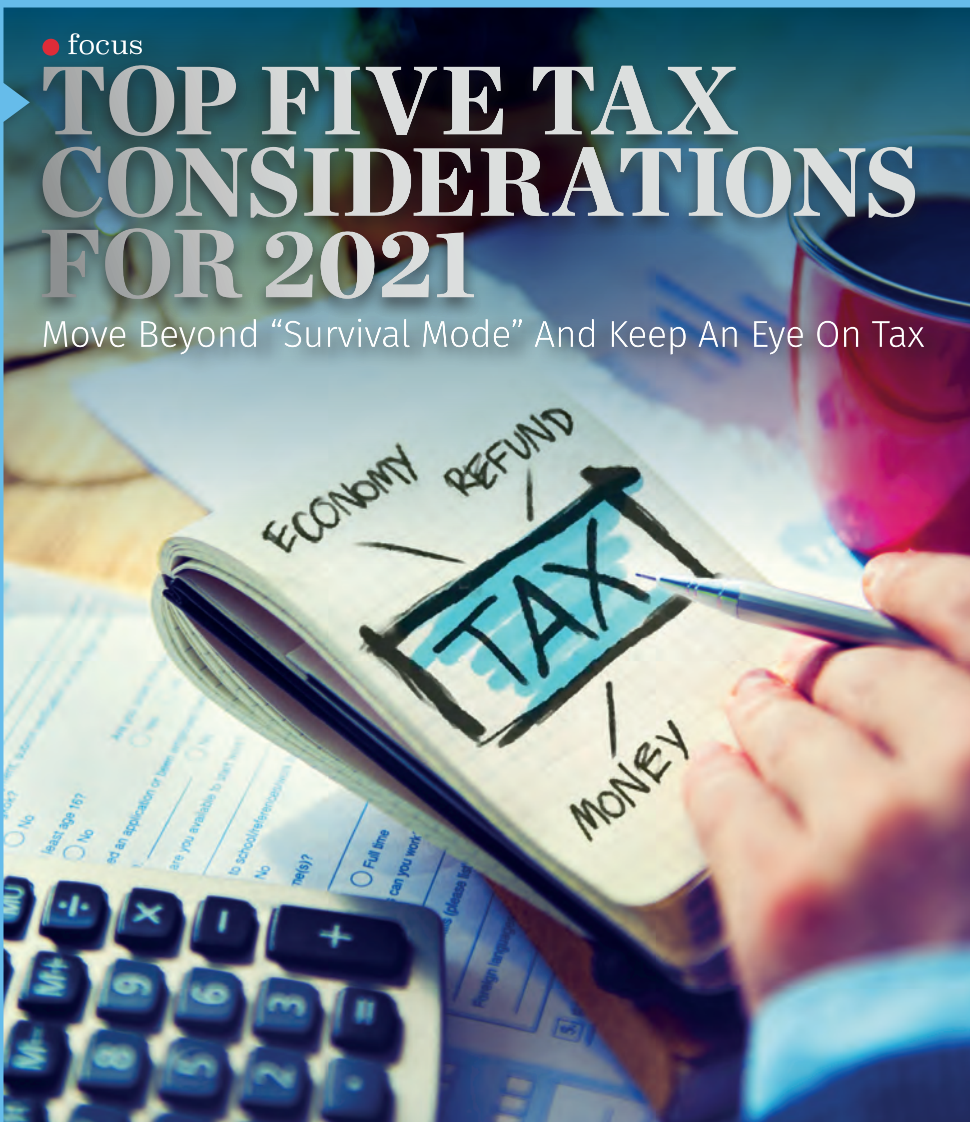
focus

TOP FIVE TAX CONSIDERATIONS FOR 2021

Move Beyond "Survival Mode" And Keep An Eye On Tax



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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Dear members,

IN BUSINESS, it is common for companies to have business continuity procedures and crisis management plans to prepare for the unexpected. However, Covid-19 and its far-reaching consequences surpassed many companies' contingency expectations and preparations, catching them by surprise. More than one year on, much of the furore surrounding the early days of the outbreak has receded into the background. As vaccination gets underway worldwide, economies are now striving towards normalcy.

Against this backdrop, it is opportune to remind businesses that even as they are attempting to recover from the effects of the pandemic, they should also be paying close attention to another important aspect of business – tax. Erroneous tax treatments can result in significant financial penalties, something all businesses can do without, especially in this difficult business environment. The cover story, "Top Five Tax Considerations In 2021", lays out the considerations and clarifications to help members navigate the potentially hazardous tax complexities, so that they can perform their roles professionally and draw the appropriate conclusions for their companies.

Keeping members updated on what's happening in business and finance is what the Institute does on a regular basis, to support our members in their professional endeavours. To this end, the hallmark ISCA Budget Update Seminar – the first event in the Institute's flagship Singapore Accountancy and Audit Convention series – took place on March 18. Similar to last year, the event, which was conducted as a virtual live webinar, attracted huge interest, with 857 participants joining us online that day. The topics ranged from the tax implications of Budget 2021 to the economic outlook for Singapore in light of the evolving external and internal circumstances, and provided participants with valuable insights. The recurrent theme for the panel session was transformation for growth, with digitalisation and its increased acceptance strongly featured. Read the article for the key highlights and perspectives of the esteemed presenters and panellists. Or, if you prefer to be closer to the action, you can enrol for the recorded webinar by scanning the QR code in the article.

In the last 12 months or so, work-from-home (WFH) arrangements have become commonplace, so much so that the majority of employees in Singapore, when surveyed, expressed the desire to continue the WFH practice or have more flexible work arrangements. While working from home offers efficiencies, it has its drawbacks too. A firm believer in the importance of being physically present is Kwek You-Cheer, who appears in the Member Profile column this month. As someone who has spent much of his career overseas, he thinks that online platforms are not ideal for developing a deeper understanding of the cultural sensitivities that may be needed to serve certain markets. Even among cross-border colleagues, he advocates empathy when communicating remotely; he knows from experience that sometimes, there are challenges in the work environment that are beyond their control. There is much to be gained from an overseas experience and You-Cheer, who is Chief Financial Officer, Asia Pacific, Data Center Group, Lenovo, and now based in Singapore, tells us more in "Reaping Global Gains". Find out why he considers his overseas foray to be a defining moment of his professional life, and what advice he has for accountants who are exploring overseas opportunities.

Before I end this message, here's a reminder that the ISCA Annual General Meeting (AGM) will be held on Saturday, April 24, at 11am. Registration is open till April 19, and I encourage you to sign up for it. As it is a remote AGM, you can log in to the proceedings from wherever you are. It's seamless and convenient, and I hope to see many of you online at the meeting.

Considerations And Conclusions; Let Professionalism Take The Lead

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WINNER / GRAND AWARD, APEX 2020

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Singapore Companies Press On With Transformation During Pandemic

PHOTO SHUTTERSTOCK

DESPITE THE COVID-19 PANDEMIC, 15,300 enterprises pressed on with projects to raise productivity, enhance innovation and pursue internationalisation in a challenging 2020, with support from Enterprise Singapore (ESG). These enterprises are largely from the professional services; retail, wholesale trade, manufacturing and food services sectors. Their efforts are expected to catalyse $18.4 billion in value-add and 22,200 PMET jobs for the Singapore economy in the next few years. ESG also ramped up its support to help enterprises access financing and accelerate digitalisation as means to sustain their businesses, amid the pandemic.

Upgrading, innovation, internationalisation

Some 14,800 enterprises embarked on productivity improvements and capability upgrading projects last year – a 78% increase over 2019. These projects were aligned to the transformation strategies articulated in the various Industry Transformation Maps, covering capabilities such as automation, process and workflow redesign, digitalisation, and branding and marketing.

quick facts

Supporting enterprises in their transformation and growth efforts

15,300 enterprises
+54% vs 2019

S$18.4 billion committed to value-add
+6% vs 2019

22,200 projected skilled jobs
+2% vs 2019

Internationalisation

1,600 enterprises

Top markets:

Accelerating digitalisation and supporting business continuity

23,500 enterprises tapped on Covid-19-related solutions and projects

Six hundred enterprises undertook innovation projects, which was comparable to 2019. These projects, which involved developing new products and solutions to capture Covid-induced opportunities or to build up their innovation capabilities, would enhance their longer-term competitiveness.

Internationalisation activities slowed due to global travel restrictions. Nonetheless, 1,600 enterprises (38% lower than in 2019) continued to pursue internationalisation in different forms, reflecting their sustained interest and agility to adapt and capture overseas opportunities. China and Southeast Asia remained the top markets of interest.

In addition to working with enterprises on business transformation, ESG worked with partners to help more enterprises get access to financing as well as pivot to digital modes of working and conducting business amid the pandemic. In total, $18 billion worth of loans were approved for 21,000 enterprises. ESG assisted 23,500 enterprises to upgrade, digitalise and achieve business continuity, with the majority tapping on six Covid-related digital tools and solutions that were newly introduced under the Productivity Solutions Grant.

Industry-level support

At the industry level, trade associations and chambers (TACs) and SME Centres also stepped up as important touchpoints that helped enterprises navigate the Covid-19 challenges. SME Centres assisted 32,000 enterprises through business advisory services and capability development efforts. TACs maintained daily contact with their industries throughout 2020 to provide updates on the Covid-19 situation and support measures available. Many launched new initiatives to support their members. These included Singapore Business Federation (SBF), Institute of Singapore Chartered Accountants, Singapore Furniture Industries Council and SGTech, which set up funds with the support of the SG Together Enhancing Enterprise Resilience (STEER) programme to help businesses tide over the challenges, and push on with transformation efforts. SBF also launched GlobalConnect@SBF to provide dedicated market access support for all businesses, assisting about 4,500 enterprises last year.

Majority Of Companies Not Prepared For A Major Health Crisis

quick facts

A changing risk landscape

- 82% of organisations did not consider pandemics or other major health crises as a top 10 risk
- 14% expect the impact of Covid-19 on their business to extend beyond two years

Organisations' pandemic response

- 31% of respondents did not have a pandemic plan in place
- 20% were still in "react and respond" phase
- 7% described themselves as thriving as a result of the pandemic

Organisational resilience

- Only one in three organisations believed their existing ERM programme was sufficient to cope with the impact of the pandemic
- 79% said they would be more dependent on risk management to reduce volatility of performance in the future
- 65% said they will be looking at new risk financing and/or coverage solutions

IN A GLOBAL SURVEY CONDUCTED BY AON PLC, 82% of respondents said that prior to Covid-19, a pandemic or other major health crisis was not a top 10 risk on their organisation's risk register. Enterprise risk management (ERM) strategies and management teams were therefore unable to rapidly respond to the threat of the pandemic and, when it hit, their risk infrastructure struggled to cope with the initial response. An earlier Aon survey in 2019 revealed that pandemic risk was ranked 60 out of 69 identified risks.

The latest survey, titled "Reprioritising Risk and Resilience for a Post-Covid-19 Future", shows that it is imperative for businesses to reprioritise risk, and innovate and explore new risk management strategies.

In terms of preparedness, by region, Asia Pacific (APAC) organisations fared the best, with 52% of respondents saying they had a pandemic plan in place prior to Covid-19. This was followed by North America (31%), and lower than 30% in both Europe, the Middle East and Africa and Latin America. Organisations in APAC were supported by state-run track-and-trace technology and had built more robust pandemic programmes in response to similar threats already faced, such as SARS and the swine flu. The survey found that across all industries and regions, protecting people and assets was a top priority.

Fluctuating pandemic infection rates within the regions were influencing which stage businesses found themselves in ("react and respond," "recovery" and "reshape"). For example, North America had the highest proportion of organisations in the "recovery" phase (59%), while APAC organisations reported they were in the "reshape" phase in higher numbers than the benchmark (36% of APAC organisations compared with 29% overall), likely because of their past experiences. Despite these differences, one core theme emerged – more than half of the companies reported that they expect Covid-19 to continue to impact their businesses a year from now, while 14% expect the impact to extend beyond two years.

The global report highlighted that a critical part of reacting and responding to crisis, and building a successful ERM strategy, will be in ensuring that the workforce is able to adapt, communicate and collaborate when a crisis strikes. The increased dependency that organisations have placed on digital platforms is making them potentially vulnerable to adverse cyber events, information loss and reputational impacts on a new scale, and will require a refresh of cyber and risk management strategy.

The report suggests that moving forward, risk and business leaders must broaden their perspective in evaluating major shocks and not just anticipated losses. Navigating new forms of volatility, building a resilient workforce and rethinking access to capital will all play a role in an organisation's ability to navigate future events. Equally, a more cohesive and integrated approach will be necessary to recover not only from the pandemic but from future shocks. Eighty per cent of global survey respondents reported that the pandemic had taught them to take an enterprise-wide approach to incident management, with collaborations across functional units including risk, HR, IT and finance.

PHOTOS SHUTTERSTOCK

Five Essential Attributes Of Resilient Organisations

THE YEAR 2020 MAY BE OVER BUT THE IMPACT OF COVID-19 CONTINUES TO REVERBERATE AROUND THE WORLD. According to a global survey by Aon plc (see facing page), many businesses were not prepared for a major health crisis. While organisations scramble to get back to business as usual, it is also clear that building greater resilience must be a priority.

Organisations that plan and invest in anticipation of disruptions are better positioned to respond, recover and thrive, according to the 2021 Deloitte Global Resilience Report. The report, which examines the views of 2,260 C-suite executives (CXOs) in 21 countries, explores how organisations coped with the tumultuous events of 2020, and identifies the traits that characterise a resilient organisation. The five essential attributes are as follows:

(1) *Prepared*

Successful CXOs plan for all outcomes, both short and long term. More than 85% of survey respondents whose organisations successfully balanced addressing short- and long-term priorities felt they had pivoted very effectively to adapt to the events of 2020; fewer than half of organisations without that balance felt the same.

(2) *Adaptable*

Leaders recognise the importance of having versatile employees, especially after a year like 2020. To this end, flexibility/adaptability was, by far, the workforce trait CXOs said was most critical to their organisations' futures. Nearly three out of four respondents from organisations that had implemented actions to make their workforce more adaptable – such as by training or reskilling workers, implementing worker redeployment programmes, or offering flexible working options – said their organisations are doing a good job at cultivating resilient cultures, compared to just about half of organisations that did not have such programmes in place.

(3) *Collaborative*

CXOs indicated the importance of collaboration within their organisations, noting that it enhanced decision making, mitigated risk, and led to more innovation. Two-thirds of respondents who said their companies removed silos in their organisations before the pandemic reported managing the events of 2020 better than their peers. Technology was a critical enabler of collaboration throughout the pandemic. Just 22% of surveyed CXOs said their organisations had the technologies needed to facilitate remote working before the pandemic. Forty-two percent developed and adopted these technologies out of necessity during the year.

(4) *Trustworthy*

CXOs understand the challenge of building trust with key stakeholders, yet many did not feel they had lived up to the task. More than a third of respondents were not confident their organisations had maintained trust between leaders and employees. In the context of the pandemic, physical, emotional, and digital trust were particularly important. Organisations that prioritised the physical safety of their employees and customers, mental health and morale of their employees, and security of their data weathered 2020 better than those who did not.

(5) *Responsible*

Most CXOs acknowledge that the business world has a responsibility beyond the bottom line. Eighty-seven percent of CXOs who said they have done very well at balancing all of their stakeholders' needs felt that their organisations could quickly adapt and pivot in response to disruptive events. That is nearly 50 percentage points more than the proportion of CXOs who said the same at organisations that have not done well at balancing their stakeholders' needs.

isca breakfast talk

Finance Disrupted: Industry Preparedness Index And Looking Ahead

AFTER A YEAR OF DISRUPTION resulting from an unprecedented global pandemic, what lies ahead for the finance industry?

On February 17, Lee Thong Tan, CFO Practice Lead for Asia at Workday, shared with over 300 accountancy professionals, the key insights from Workday's latest research study titled "Finance Disrupted: Industry Preparedness Index". He outlined some of the enablers and obstacles that finance professionals will face in the coming year, as well as what the future of finance will look like.

The study revealed that more than half (53%) of companies across Asia Pacific are still unprepared to manage significant business disruptions, with the majority (59%) taking at least four days or more to respond.

As companies continue towards a path of recovery, technology will become a key enabler for progress across various units. However, technological investment alone is insufficient for meaningful transformation. Rather, finance professionals must look beyond any one system and adopt an open-minded, collaborative approach towards working with others within their organisations, according to Mr Tan. Supported by new technologies and in tandem with their peers within the business, finance professionals will then be best positioned to unlock real value for their companies.

Mr Tan also shared his vision for the future of finance, which will be defined by:

- *Frictionless finance:* Improving efficiency by eradicating manual processes;
- *Decision-ready organisation:* Establishing finance as a strategic function that empowers the business with data-driven decisions;
- *Always-agile attitude:* Finance professionals need to respond to change rapidly and adapt to uncertain circumstances on the fly;
- *Continuous planning:* Being agile with the ability to make data-driven decisions to respond to ever-changing market conditions.

ISCA Breakfast Talk - Finance Disrupted: Industry Preparedness Index And Looking Ahead (Live Webinar)
17 February 2021

Other key insights from the study include:

- Industries equipped with more comprehensive financial planning and operation systems will be more prepared to deal with significant business disruption;
- Over half of respondents said that greater adoption of new technologies helped their company better manage the impact of Covid-19;
- While many were open to the adoption of new technologies, the majority (59%) believe their companies were still behind their competitors. Challenges to further uptake include concerns over the speed of implementation (44%), difficulty in sourcing appropriate solutions (42%), and high costs (38%).

Finance professionals can expect the modern financial system of the future to encompass all core financial tools under one system, from accounting and budgeting to business analytics and forecasting. These future-proof cloud systems will utilise intelligent automation, augmented insights and continuous innovation to help the finance function become more efficient and effective.

Mr Tan concluded that for the new age of finance, finance professionals must transform themselves from being just traditional stewards of their companies, tasked with reporting numbers, to becoming forward-thinking, strategic business partners who can add valuable insights and guidance to their respective organisations.

MARK YOUR CALENDAR

19 APR

Business Presentations – Getting Your Message Absorbed and Your Audience Engaged

Today's professional accountants have vast knowledge, innovative talent, and lucrative potential. But if they can't communicate their data and innovations effectively, those assets may be lost.

This course will not only provide the necessary tools, but also practical sessions, where every participant will get to present, with feedback from both the instructor and other attendees.

20 APR

Design Thinking Experience for Accountants

Learn how to use Design Thinking tools to identify stakeholders, use the inquiry approach to learn more about customers and to propose solutions that are aligned with the needs of customers.

21 APR

Accounting differences between FRS and US GAAP (Live Webinar)

This programme aims to illustrate the impact of the different accounting rules on the financial statements of the companies. Additionally, it provides an inside on the current roadmap of IFRS in the US (acceptance by SEC) and will highlight the latest exposure drafts and joint projects of the IASB and FASB.

22 APR

GST: Managing Your Compliance Risks Throughout the GST Journey

This programme provides useful pointers with case studies to enhance the competencies of both businesses and tax professionals in performing the respective roles in the areas of technical applications as well as compliance review.

23 APR

NEW!

RegTech, SupTech and its Impact on the Legacy Systems of Accounting and Regulatory Reporting (Live Webinar)

This course covers an overview of the RegTech, SupTech and its impact on the legacy systems of Accounting and regulatory reporting.

27 APR

NEW!

Fighting Fraud Today

The fraud risk landscape has evolved, and there is a need to harness specialized technology to adapt to the new normal and combat the new forms of fraud that has emerged. In this course, we will share insights and equip attendees with the benefits of using technology to detect fraud.

In collaboration with KPMG

05 MAY

ISCA Breakfast Talk - Facilitating Asia Economies' Shift to a More Sustainable Future with Green Financing (Live Webinar)

The practice of integrating environmental, social and governance (ESG) considerations into financing decisions is termed "Green Financing". Singapore is now Asean's largest green finance market. By continuing to develop green finance solutions and build a pipeline of talent with knowledge and capabilities in sustainable finance, Singapore will be able to emerge more resilient in its economic recovery.

In this session, Mr Lawrence Wu, President & Executive Director, Sunseap Group will be sharing some of Sunseap Group's efforts in driving green financing to support Singapore and the region's transition to a more sustainable future, as well as how accounting and finance trained professionals can play a role.

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

BY FELIX WONG AND ANGELINA TAN

TOP FIVE TAX CONSIDERATIONS IN 2021

Move Beyond "Survival Mode" And Keep An Eye On Tax

A YEAR MARKED BY THE COVID-19 PANDEMIC, 2020 HAS UPENDED THE WORLD IN COUNTLESS WAYS. As economies worldwide gradually recover, businesses must also move beyond "survival mode" and reassess an important area which they may have neglected during the 2020 frenzy – tax.

As businesses progress into 2021, here are five key areas in tax to keep an eye on:

(1) GET TAX TREATMENT RIGHT FOR COVID-19-RELATED ITEMS

Covid-19-related payouts

To help cushion the impact of Covid-19 on businesses and individuals, a series of Covid-19-related payouts have been introduced by the government. As different tax treatment may apply to different payouts, it is important for businesses and individuals to be cognisant of the correct tax treatment for their income tax filings.

In general, payouts that are provided to defray operating costs of a business are revenue in nature and taxable. For example, payouts under the Wage Credit Scheme, which provide support to wage increases for Singaporean workers, and payouts under the Jobs Growth Incentive, which provide wage support to eligible employers with new local hires between a specified timeframe, are both taxable.

What's taxable? What's not taxable?

On the other hand, payouts that are provided to support individuals through the exceptional circumstances arising from the Covid-19 pandemic, such as the Covid-19 Support Grant and the Temporary Relief Fund payout, are generally not taxable. Payouts that are intended to help employers retain their local employees by easing cashflow and mitigate the financial impact of Covid-19 containment measures, such as payouts under the Jobs Support Scheme and the Covid-19 Stay-Home Notice (SHN) scheme, are also not taxable.

Purchase of work-related equipment to facilitate work-from-home (WFH) arrangements

As working-from-home remains the default mode of working in Singapore, employers are required to provide the facilities necessary and direct employees to work from home as far as practicable.

To facilitate remote working, some companies have instructed their employees to purchase work-related equipment (for example, chairs, printers and monitors) which are essential to the employees performing their duties at home, and thereafter, the companies will reimburse them for the purchases. Such reimbursements are not taxable in the hands of the employees. From the companies' perspective, the reimbursements would constitute business expenditure. These business expenditures are capital in nature and the company may claim capital allowances on the work-related equipment.

Are work-related equipment placed at home taxable?

If the employee retains the equipment when it has ceased to be used for work purposes or upon the cessation of employment, he will be taxed if the equipment has a residual market value at that point in time and he is not required to pay an amount equivalent to such value. The residual market value of the equipment may be determined by the employer using any reasonable method.

Working remotely from Singapore due to Covid-19

A Singapore Citizen or Singapore Permanent Resident who is exercising overseas employment, but is now working remotely from Singapore for his overseas employment due to Covid-19, will continue to be treated as not exercising an employment in Singapore for the period from the date of his return to the date of his departure from Singapore in 2020, or up to 30 June 2021, whichever is earlier, provided certain conditions are met.

Likewise, non-resident foreigners exercising overseas employment who are on short-term business assignment in Singapore, but are unable to leave Singapore due to travel restrictions caused by Covid-19, will be treated as not exercising an employment in Singapore for the period of his extended stay in 2020.

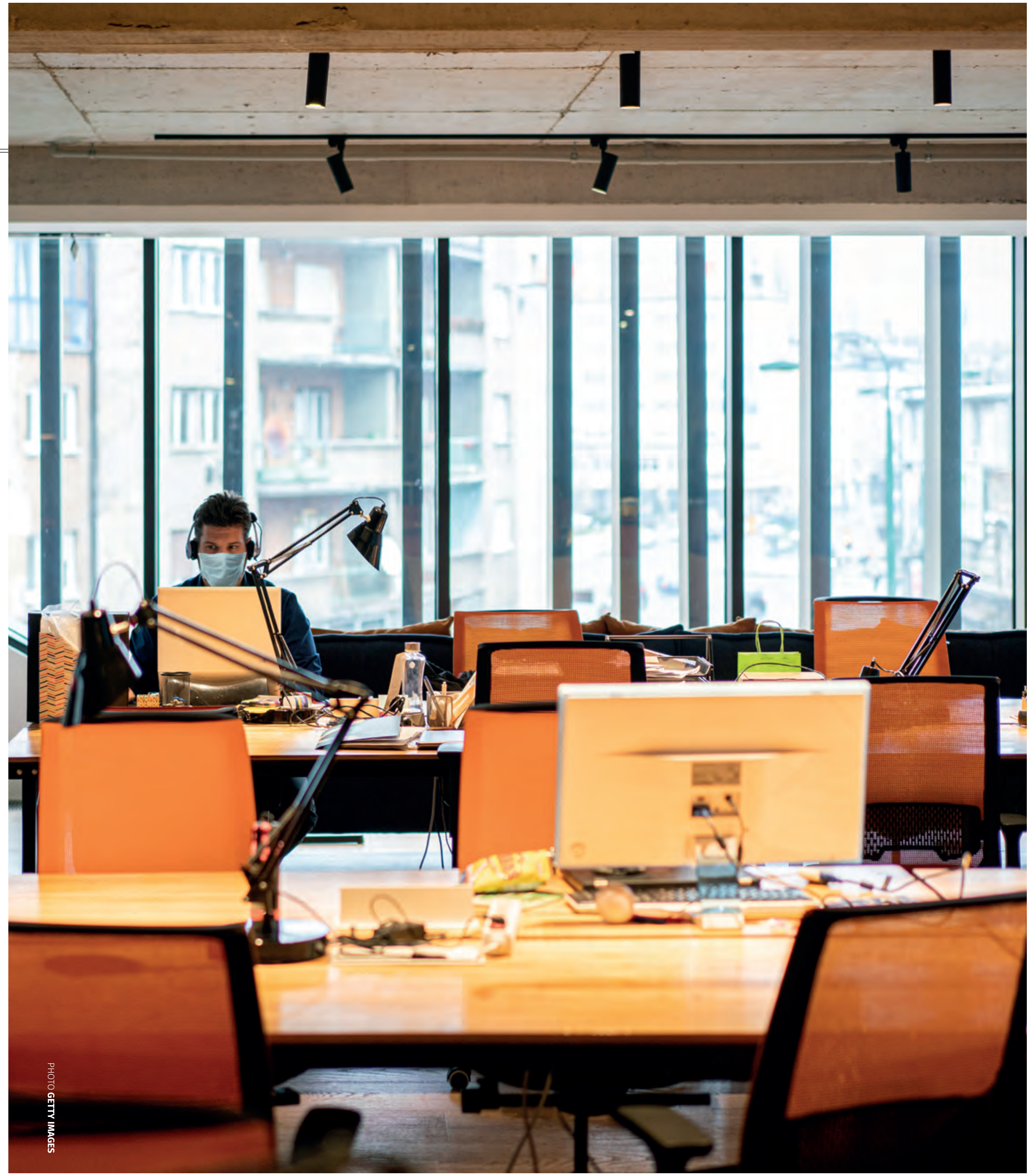


PHOTO GETTY IMAGES

This is provided that the period of his extended stay is for a period of not more than 60 days and the work done is not connected to his business assignment in Singapore (and would have been performed overseas if not for Covid-19). If these conditions are not met, normal tax rules will apply to determine the taxability of the non-resident foreigner's employment income for the period of extended stay in Singapore.

(2) KEEP UP WITH THE CHANGING TRANSFER PRICING (TP) LANDSCAPE IN SINGAPORE

Communicating exceptional TP positions

Many companies have been negatively impacted by Covid-19. To substantiate the arm's-length nature of their TP outcome arising from this exceptional economic situation, companies should provide an analysis to outline the specific impact that Covid-19 has had on their businesses, including reasons and supporting evidence to justify how their profitability has been negatively impacted by Covid-19. Such information would help Inland Revenue Authority of Singapore (IRAS) better understand the broader facts and circumstances affecting the companies' businesses when reviewing their unusual TP positions.

In Singapore, companies are allowed to apply term testing (that is, the testing of related party transactions over a multiple-year period) without prior consultation with IRAS for the Years of Assessments (YAs) 2021 and 2022, if they are of the view that annual testing may result in volatile results due to the Covid-19 situation. However, not all jurisdictions allow term testing and as such, companies should carefully consider the potential impact of adopting term testing on their related parties in other jurisdictions. Failure to do so may result in potential TP disputes.

In Singapore, companies are allowed to apply term test without prior consultation with IRAS for YAs 2021 and 2022

PHOTO SHUTTERSTOCK

As appropriate comparable data are not likely to be available when the TP documentation is prepared, companies should, to the extent possible, show that the commercial and financial relationships they entered into are broadly consistent with the arm's-length standard through a qualitative analysis.

Waiver of condition for "qualifying past TP documentation"

To ease compliance burden, companies are allowed to use the TP documentation they have prepared previously ("past TP documentation") to support the transfer price in the basis period concerned if that past TP documentation is a "qualifying past TP documentation". One of the conditions to be "qualifying past TP documentation" is that the transaction for which the past TP documentation was prepared and the transaction in the basis period concerned are undertaken with the same related parties.

Due to supply chain disruptions during the Covid-19 pandemic, companies may have to transact with different related parties and the above condition may not be satisfied. IRAS has since clarified through its regular dialogue with the Singapore Chartered Tax Professionals that it is prepared to consider waiving the "same related parties" condition if the basis of transacting with the new related party is the same as the related parties stated in the past TP documentation, and that the change in related party is expected to be temporary and non-recurrent. Companies may write in to seek IRAS' agreement on a case-by-case basis.

IRAS is prepared to consider waiving the "same related parties" requirement, subject to conditions

(3) UNDERSTAND SINGAPORE'S NEW GENERAL ANTI-AVOIDANCE REGIME

The recent amendments to Singapore's general anti-avoidance provisions have reaffirmed Singapore's strong stance against tax avoidance. Specifically, a new Section 33A has been introduced to impose a surcharge for tax avoidance arrangements. The surcharge would apply to adjustments made to tax assessments from YA 2023, and would amount to 50% of the income tax or additional income tax to be imposed by the Comptroller of Income Tax as a result of the adjustments made to counteract the advantage obtained or obtainable from the arrangement.

As different tax treatment may apply to different payouts, it is important for businesses and individuals to be cognisant of the correct tax treatment for their income tax filings.

A new Section 33A has been introduced to impose a surcharge for tax avoidance

Once the Comptroller asserts tax avoidance, the taxpayer would have to demonstrate otherwise in appealing the assessment. This process could have a significant financial impact on the taxpayer as it would have to first settle the tax assessments (including the new surcharge) in full, regardless of any objection or appeal lodged against IRAS' assertions.

While the surcharge would take effect only from YA 2023, it would be timely for businesses to start reviewing existing arrangements, address any risks identified at the outset, and take steps to protect their tax positions taken. With the stakes raised and given that the line between legitimate tax planning and tax avoidance is not always clear in practice, businesses must re-evaluate whether the tax positions that they have taken are within their risk appetite. Contemporaneous documentation (such as board resolutions) must be maintained to provide the necessary evidence to corroborate that an arrangement was carried out for *bona fide* commercial reasons and not as one of its main purposes the avoidance or reduction of tax.

(4) AVOID GETTING CAUGHT UP IN MISSING TRADER FRAUD (MTF)

In a typical MTF arrangement, a person (the "missing trader") would collect output tax from its customers and abscond without handing over such tax to the tax authorities, while other businesses along the supply chain continue to make input tax claims on their purchases, resulting in a loss of revenue to the State. Alternatively, the missing trader may obtain from the tax authorities an input tax credit claim on purported supplies which it never received before absconding.

With the recent amendments to the Singapore Goods and Services Tax (GST) Act to counter MTF, a taxpayer is now required to show that it has taken reasonable steps to ascertain whether a

CASE STUDY

Missing trader fraud

William is the owner of Company W, a trading company. John, an acquaintance of William's from a recent online tradeshow, approached him with an attractive business opportunity with practically no commercial risks. John claimed that he was sharing this business opportunity as his company (Company J) did not have the resources to manage the huge volume of transactions.

In the proposed business arrangement, Company W's role was to receive and fulfil the orders for the goods from a list of pre-arranged overseas customers. Company W would purchase the goods from Company J and on-sell the same to the overseas customers at an agreed profit margin. Company W would claim the input tax incurred on its purchases from Company J, and export the goods zero-rated to the overseas customers.

William was assured that the deals would take place quickly, with sales turnaround of three days from the receipt of goods delivered by Company J to the export of goods by Company W to the overseas customers. To further sweeten the deal, John said that Company W would not need to pay for the goods purchased from Company J until after Company W received payment from the overseas customers. Given the extremely attractive and risk-free arrangement, William decided to proceed with the deal without performing further due diligence checks or enquiries.

During IRAS' review of the refunds, the transactions were found to be part of an MTF arrangement. From the risk indicators presented (for example, the lack of commerciality of the business arrangement and the payment arrangement), IRAS found that the circumstances connected with the supplies should have led a reasonable person to assess that the deals were too good to be true and that there was reasonable risk that the supplies were part of an MTF arrangement.

As Company W did not perform the necessary due diligence checks and enquiries to establish the legitimacy of the transactions and reasonably conclude that the supplies were not part of an MTF arrangement, its input tax claims would be denied by IRAS. Company W would also be liable to pay a surcharge of 10% of the amount of input tax denied; if the amount of input tax denied is $100,000, a surcharge of $10,000 will be payable (on top of the additional tax assessed).

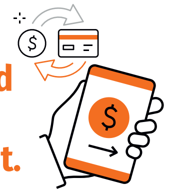
supply made to it was part of a fraudulent arrangement, and has come to a reasonable conclusion that the supply was not part of such an arrangement.

Where there is an MTF arrangement, if the taxpayer fails to take reasonable steps to assess the arrangement, or (even after taking reasonable steps) did not arrive at any reasonable conclusion, it would be taken to "should have known" that the arrangement was fraudulent. Accordingly, the taxpayer may be denied its input tax claims and subject to a surcharge of 10% of the amount of input tax claim. The ensuing financial exposure could be sizeable. (See case study.)

Importantly, businesses should undertake due diligence before entering into a business transaction, and keep records of the steps taken to determine if a supply to him was part of an MTF arrangement.

To provide guidance on how businesses may recognise and respond to the risk indicators for an MTF arrangement and what may amount to "reasonable steps" in relation to due diligence checks, IRAS has published an e-Tax Guide on "Due Diligence Checks to Avoid Being Involved in MTF" in February 2021. While the examples of due diligence checks and risk indicators in the guide are not exhaustive, they are useful in helping businesses better understand what is generally required to protect themselves from getting implicated in an MTF arrangement.

Businesses should undertake due diligence before entering into a business transaction, and keep records of the steps taken to determine if a supply to him was part of an MTF arrangement.

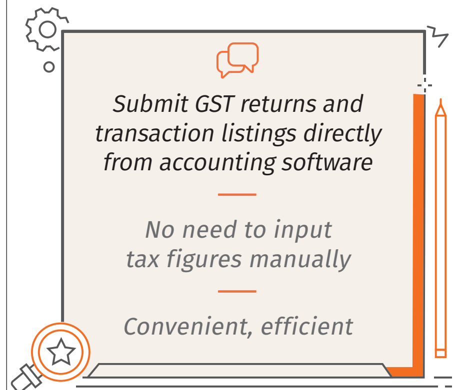


At the end of the day, businesses must ensure that they are not in any way connected to an MTF arrangement, and be alert to transactions and arrangements that deviate from normal commercial practices and expectations within their industry. As the saying goes, "If it sounds too good to be true, it probably is."

(5) HARNESS TECHNOLOGY AND DIGITALISATION

New technology and digitalisation of tax collection are transforming the tax industry. From automating tax-filing processes to harnessing digital tools and gaining insights into businesses' financial and tax positions, tax authorities across the globe are investing heavily in technology to improve their efficiency and capability. As tax authorities transform, companies and tax advisors must also enhance their tax functions by leveraging tax technology, or risk being left behind.

In Singapore, IRAS has been active in adopting new technologies in its engagement with taxpayers. For example, IRAS and Accounting and Corporate Regulatory Authority (ACRA) have partnered accounting software providers to co-create a new digital solution that allows small and medium-sized enterprises to automate the preparation and filing of statutory returns with IRAS and ACRA seamlessly. Separately, taxpayers can now submit their GST returns and transaction listings directly from their accounting software to IRAS via Application Programming Interface (API) instead of inputting their tax figures manually. Taxpayers who have not considered any of these new tax digitalisation initiatives may want to evaluate if the initiatives are suitable for them.



On the international front, the growing demand for tax transparency and increased disclosure requirements (such as the Country-by-Country Reporting requirements) would likely necessitate a critical rethink by companies with international footprints on whether their existing tax systems and processes would continue to meet their tax obligations in each country and serve the tax function of the future. As tax compliance is moving towards real time in some countries, businesses operating in these countries will have to join the tax digital revolution, sooner rather than later, in investing in tax technology to manage their compliance needs.

CONCLUSION

These are the five key areas of tax to look out for in 2021. If you have been neglecting tax to focus on your business during the pandemic, it is high time to reassess your tax positions before the taxman comes knocking. ISCA

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

PHOTO GETTY IMAGES

ISCA BUDGET UPDATE SEMINAR

In It To Ace It

FOR THE SECOND TIME, THE ANNUAL ISCA BUDGET UPDATE SEMINAR WAS CONDUCTED IN A LIVE WEBINAR FORMAT, due to the Covid-19 safe management measures. The first event in the Institute's signature Singapore Accountancy and Audit Convention (SAAC) series, the Seminar, themed "In It To Ace It", took place on March 18. ISCA President Kon Yin Tong kicked off the morning event with his opening address.

ISCA President Kon Yin Tong outlined the event proceedings

2021 BUDGET UPDATE AND ITS TAX IMPLICATIONS

Professor Sum Yee Loong, Professor of Accounting (Practice), SMU

Professor Sum Yee Loong, Professor of Accounting (Practice), Singapore Management University (SMU), presented the salient features of the Budget Statement delivered by Deputy Prime Minister and Finance Minister Heng Swee Keat on February 16. They included corporate tax, goods and services tax (GST), and personal tax. Here is a summary.

Corporate Tax

While the corporate tax rate remains unchanged at 17% for Year of Assessment (YA) 2021, there will be no tax rebate, which companies have been enjoying for the past few years. This means that companies will generally pay higher taxes for the same amount of taxable income compared to previous years. Nonetheless, Prof Sum noted Singapore's corporate tax rate remains low when compared to other countries and jurisdictions.

Double Tax Deduction for Internationalisation Scheme

Under this scheme, businesses are allowed a tax deduction of 200% on qualifying market expansion and investment development expenses. This scheme is now enhanced to cover more expenses, such as expenses incurred to participate in approved virtual trade fairs. The list of qualifying expenses for overseas investment study trips will be expanded, while the scope of qualifying activities which does not require prior approval from Enterprise Singapore (ESG) or Singapore Tourism Board will also be enhanced.

This benefits event organisers and exhibitors who bring customers and suppliers together via a virtual platform. Expenses relating to the design and production of digital collaterals and the redesign of product packaging are now covered under this scheme.

Loss Carry-Back Relief Scheme

The Loss-Carry Back Relief scheme that was enhanced in YA 2020 is now extended to apply to qualifying deductions for YA 2021. Current year unabsorbed capital allowances and trade losses (collectively referred to as "qualifying deductions") for YA 2021 may be carried back up to three immediate preceding YAs, capped at $100,000 of qualifying deductions, subject to conditions. Prof Sum suggested participants evaluate the different scenarios to utilise the scheme, if applicable, as taxpayers are to make an election before the filing of their actual income tax returns.

Acceleration of Capital Allowances Claim for Plant and Machinery

Currently, taxpayers who incurred capital expenditure on the acquisition of plant and machinery in the basis period for YA 2021 (that is, FY 2020) are given an irrevocable option to accelerate the write-off of the cost over two years, as follows:

- 75% of the cost incurred to be written off in the first year (YA 2021), and
- 25% of the cost incurred to be written off in the second year (YA 2022).

This option to accelerate the write-off of the cost of acquiring plant and machinery will be extended to capital expenditure in the basis period for YA 2022 (FY 2021).

Acceleration of Renovation and Refurbishment Expense Claim

Currently, taxpayers who incurred qualifying expenditure on renovation and refurbishment ("R&R") during the basis period for YA 2021 (FY 2020) for the purposes of their trade, profession or business are given an irrevocable option to claim R&R deduction in one YA (that is, accelerated R&R deduction). This is subject to a cap of $300,000 for every relevant period of three consecutive YAs.

The option for accelerated R&R deduction will be extended to qualifying expenditure incurred on R&R in the basis period for YA 2022 (FY 2021).

Business and IPC Partnership Scheme

Currently, a qualifying person can, subject to conditions, enjoy a total of 250% tax deduction on qualifying expenditure such as wages incurred by the person from 1 July 2016 to 31 December 2021 in respect of:

- The provision of services by the person's qualifying employee to an IPC during that period, or
- The secondment of the person's qualifying employee to an IPC during that period.

This Scheme will be extended till 31 December 2023.

Not-for-Profit Organisation Tax Incentive

The Not-for-Profit ("NPO") tax incentive provides tax exemption on the income derived by an approved NPO, subject to conditions.

The NPO tax incentive will be extended till 31 December 2027.

Tax Deduction for Qualifying Donations

The 250% tax deduction will be extended to qualifying donations made to Institutions of a Public Character ("IPCs") and other qualifying recipients until 31 December 2023.

ISCA members are encouraged to take advantage of this incentive and donate generously to ISCA Care Fund.

Switching to Cleaner-Energy Vehicles

To encourage the switch to cleaner-energy vehicles, an enhancement was made to the Electric Vehicle Early Adoption Incentive ("EVEAI") where the Additional Registration Fees (ARF) floor will be reduced to $0. With this enhancement, owners of mass-market EVs registered during the relevant period could potentially enjoy lower (or even nil) ARF.

At the same time, the petrol duty rates were raised with effect from 16 February 2021. Transitional measures were introduced to ease the impact on vehicles using petrol, particularly for those who rely on their vehicles for their livelihood.

GST Rate
There will be no increase in GST for 2021. The proposed 2% increase will take place between 2022 and 2025.

GST – Imported Low-Value Goods
While GST remains at 7% with no specific indication of when it will be increased to the proposed 9%, there was certainty that GST would be extended to low-value goods from 1 January 2023. GST will be imposed on low-value goods that are imported via air or post through the Overseas Vendor Registration and reverse charge regimes.

Currently, low-value goods which are imported via air or post that are valued up to and including the current GST import relief threshold of $400 ("low-value goods") are not subject to GST.

GST – Business-to-Consumer Imported Non-Digital Services
Currently, GST covers business-to-consumer ("B2C") imported digital services and B2B imported services (both digital and non-digital).

From 1 January 2023, GST will be extended to B2C imported non-digital services. This will be implemented via the Overseas Vendor Registration regime.

Online Advertising
Currently, the basis for determining whether zero-rating applies to a supply of media sales is based on the place of circulation of the advertisement:

- If the advertisement is intended to be substantially circulated outside Singapore, the media sales is zero-rated;
- If the advertisement is intended to be substantially circulated in Singapore, the media sales is standard-rated.

The basis for determining whether zero-rating applies to a supply of media sales will be updated, to be based on the place where the customer and direct beneficiary of the service belong.

If the customer of the service belongs outside Singapore and the direct beneficiary either belongs outside Singapore or is GST-registered in Singapore, the media sales will be zero-rated; if the customer belongs in Singapore, the media sales will be standard-rated.

ECONOMIC OUTLOOK AND ANALYSIS OF 2021 BUDGET

Irvin Seah, Executive Director, Group Research, DBS Bank

Irvin Seah, Executive Director, Group Research, DBS Bank, shared on the economic outlook. He gave an overview of the impact of Covid-19, how it resulted in a negative impact for hard-hit sectors like aviation and disrupted the global supply chains.

A 5.5% growth rate for the Singapore economy for 2021 was forecasted. However, it was anticipated that the growth will be uneven, with a spike in growth in the first half before a "normalisation" in the second half.

He further added that while the manufacturing and construction sectors would experience growth, there was an anticipated downside risk due to a supply-chain bottleneck.

Inflation was expected to be benign and hover around 0.9%. The Singapore dollar will remain stable with a slight upward trend, in the range of $1.31 to $1.35. For the first half of 2021, Mr Seah believed interest rate will remain stable but warned of a bubble risk in the second half of the year. However, he did not think the interest rate hike will start before 2023.

In terms of Budget 2021, it was observed that there was a shift from last year's broad-based focus on saving jobs to targeted help for specific industries and companies, such as those worst hit in the aviation, tourism and hotel sectors. There was also a shift to creating new jobs instead of last year's focus on job retention. Thus, Budget 2021 was largely considered a transformational budget. He added that the planned GST rate increase was important to maintain fiscal sustainability, and speculated that the GST rate increase would likely to be announced in Budget 2022, for implementation in the second half of 2022 or first half of 2023.

Beyond the Covid-19 storm, Mr Seah deliberated on several factors that might significantly influence global economic recovery. One is the equitable distribution of Covid-19 vaccines globally as "no one is safe until everyone is safe". How the US and China relationship will develop under the Biden administration will also have a significant impact on recovery.

ASEAN remains a key region to keep an eye on as 31% of global trade flows through Asia; there has been more foreign direct investment (FDI) into ASEAN than into China since 2017. There is optimism, albeit a cautious one, that ASEAN's growth will bode well for Singapore as a regional hub for finance, air and sea transport.

PANEL DISCUSSION/Q&A

(From left) Moderator Chris Woo, SCTP Board member and Head of Tax, PwC Singapore; Irvin Seah, DBS Bank; Prof Sum Yee Loong, SMU; Kurt Wee, President, ASME; Ted Tan, Deputy CEO, ESG

Rounding off the half-day session was a panel discussion featuring Prof Sum; Mr Seah; Kurt Wee, President, Association of Small & Medium Enterprises (ASME), and Ted Tan, Deputy Chief Executive Officer, ESG. It was moderated by Singapore Chartered Tax Professionals (SCTP) Board member Chris Woo, PwC Singapore's Head of Tax.

A recurrent theme throughout the engaging discussion was that of transformation for growth. Mr Wee observed that digitalisation and its acceptance have been accelerated by the pandemic, and the momentum should be carried forward even into post-pandemic recovery. Mr Tan highlighted several programmes available to help startups and small and medium-sized enterprises (SMEs) in their digitalisation and growth journeys, such as:

- Global Innovation Alliance (GIA), which is a network of Singapore and overseas partners in major innovation hubs and key demand markets, with a focus on technology and innovation;
- Market Readiness Assistance (MRA) Grant, which provides eligible SMEs support of up to 70% of costs in overseas market promotion, business development and market set-up.

Budget 2021 has provided a myriad of assistance and incentives for businesses and individuals to transform to grow regionally and internationally, and emerge stronger from the Covid-19 pandemic. With growth, government tax revenue will increase. Tax rates remain competitive. With that, the seminar ended on a positive note and a sense of growing optimism among the participants. ISCA

For those who have missed out on the ISCA Budget Update Seminar 2021, please scan the QR code to enrol for the recorded webinar.

REAPING GLOBAL GAINS

Kwek You-Cheer, CA (Singapore), Chief Financial Officer, Asia Pacific, Data Center Group, Lenovo

Practical considerations forced Kwek You-Cheer to give up an opportunity to study in London, but it turned out to be a blessing in disguise. "I had earned a place at the London School of Economics and Political Science to study economics – one of my favourite subjects in junior college. I spent the two-and-a-half years in National Service trying to save the £100,000 (around $230,000 at the time) needed to support my overseas studies," recalls Mr Kwek, now Chief Financial Officer (CFO) for Asia Pacific at Lenovo's Data Center Group. "To do that, I closely monitored my own finances in the hope of achieving my goal. While I eventually realised that it would not be possible to save the amount I needed, the sense of satisfaction I got out of doing my own personal accounting inspired me to apply for and study accountancy in Nanyang Technological University. To be precise and to track things have now become part of my DNA, and those early days of overcoming my own financial challenges and achieving financial independence have shaped me in terms of how I approach financial management today."

Mr Kwek joined Arthur Anderson & Co. as a tax and legal services consultant upon graduation. He then moved to Monetary Authority of Singapore, and had worked there for less than a year when he saw an advertisement on an international financial controller vacancy in Paris. "It was just an advertisement I chanced upon while reading *The Straits Times*, and I thought I fit the criteria." The boy who came from a humble family background had never set foot on European soil at that point, but he applied for the position anyway. "You don't know what you don't know! I just wanted to seize the opportunity to do something different, and took the plunge". It proved to be the decision that shaped his career.

NEW FRONTIERS

Getting hired by Schneider Electric for the role would prove to be the easy part. Bigger challenges awaited him. "The first six months were very tough. I spoke little French, let alone business French. Yet a colleague, who remains a close friend today, decided to throw a curveball at me and asked me to take the minutes for one of the first business meetings I attended. The meeting was conducted in French. Needless to say, almost two decades later, I have not produced the minutes!" he says with a laugh.

He reflects on the lessons he learned during that time. "The events might seem funny now but they were truly stressful at that time. You have to just bite the bullet and tackle the challenges with calmness and resilience, and be determined to succeed. Once you get past the critical first six months, things will become much easier." With that, Mr Kwek now takes the time to coach and mentor younger colleagues who are interested in gaining overseas work experience.

Apart from overcoming the language hurdles, one needs to embrace whole new ways of living. "Pushing myself to live like a local has been my way of adapting whenever I move to a new place. A typical habit of anyone who relocates overseas is to convert the prices of everything into the currency of his/her home country. You would then end up complaining about why you are paying S$20 for a meal! This is just an example of how our old ways can stifle us and prevent us from assimilating into our new environment, regardless of where we are," shares Mr Kwek, who has also lived and worked in Hong Kong and Beijing. "Leverage your experiences, but don't be shackled by them. This applies to everything, from day-to-day living to how you work. Instead of going to a new place with preconceived notions of how things should be done, keep an open mind and allow yourself to learn new and different ways."

With the right attitude, learning opportunities are always present, no matter where you are on the corporate ladder. He cites an example from when he had assumed the role of CFO at

"... business is all about people, and the online platforms offer only a limited exposure to interact and deal with people from different parts of the world. Being physically present in a place gives one a deeper understanding of the cultural sensitivities and the kind of people skills that are needed to support or serve a specific market."

Schneider Electric Hong Kong in 2015, overseeing the business units in Hong Kong and Macau. "In my first week in Hong Kong, I had to meet a business partner with whom the company had a very sensitive and complex relationship. My Cantonese was non-existent at that point, and I didn't have a translator with me. The best I could do was to be humble and acknowledge my limitation in not speaking the vernacular," he recounts. "When you are humble and allow yourself to learn, the people around you will be more accommodating and supportive of your learning journey."

WALKING IN OTHER PEOPLE'S SHOES

Apart from having a growth mindset, Mr Kwek also places an emphasis on empathy. "The challenges we face are always about people, and empathy is the critical cog in the wheel that allows everybody to work together smoothly. While we might be interacting with one another as working professionals, each of us is also a sibling, a spouse, a parent, a child... each with unique personal challenges. Only with empathy can we come together to do good and better things," insists the father of two teenagers.

The experience of working abroad has helped him develop a stronger sense of empathy for those he works with as well. "Imagine having an HQ meeting with your regional colleagues at 9am local time. You, in Singapore, might be all ready to dive straight into the agenda right off the bat, but your colleague in India might be stuck in traffic. Your team in Beijing, meanwhile, might be exhausted from commuting to work in harsh weather. Having lived in these places, I gained insights into their day-to-day lives, and this allows me to be more understanding," shares Mr Kwek, who recounts days in Beijing, when he had to spend 90 minutes travelling to the office while enduring the bitter winter cold. So, while the new work order brought about by the global Covid-19 pandemic might be making it the norm for people to connect with a global network of collaborators online, Mr Kwek still sees value in gaining an overseas working experience.

"With the world being so much more connected now, you can perform local, regional or global work all from your home. Yet, business is all about people, and the online platforms offer only a limited exposure to interact and deal with people from different parts of the world. Being physically present in a place gives one a deeper understanding of the cultural sensitivities and the kind of people skills that are needed to support or serve a specific market," observes Mr Kwek. He also feels that Singaporeans have an advantage over their peers from other countries in winning themselves a placement in overseas postings. "Singapore has the cultural legacy of leading with integrity. ISCA, as a home for professional accountants, has a similarly clear identity, and membership gives our chartered accountants not just a badge of honour, but also a competitive edge," he affirms.

> "Do I leave a place better than I have found it, be it in a professional or personal capacity? Have I helped to make changes and improved lives? Have I put my stamp of contribution on it? That, to me, defines success."

THE HUMAN CONNECTION

However, speaking from experience, Mr Kwek recommends careful consideration before jumping onto the overseas bandwagon. "Back in 2003, going abroad was not on my mind at all, though I don't regret my decision in the least bit. In fact, I think it was a defining moment of my career," he says. "Yet, with the benefit of hindsight, I would advise one to think through the opportunity so that when you finally take that plunge, both you and the people around you know that you did not do this on a whim!"

He advises those seeking overseas opportunities to first think about their personal commitments. "We have to match our career stages with our life stages. For example, a person in his/her 40s might have a young family or aged parents to look after, as compared to a fresh graduate whose commitments and constraints are probably much lesser and definitely different." That said, Mr Kwek is of the opinion that everybody should take the opportunity to work overseas if they can, regardless of age. "I feel that if you are able to make things work for the family, be it your sibling, partner, parents or children, then go for it. And this has to be an ongoing conversation done not just over months, but over years – about family care, education, support, values, what you hope to achieve or gain out of the posting, etc. With such conversations made over time, you will have the clarity to make the right decision when the opportunity arises."

LEAVING A LEGACY

While many consider personal commitments to be in direct conflict with career growth, Mr Kwek's family is his North Star, and leaving behind a positive legacy for his children is what drives him. "My children are my purpose in life, and they push me to be a better role model. While role modelling is very intangible, and my children might have gripes about the amount of time I spend working, I believe that by being committed to bringing betterment to the people that I work with, and the company that I work for, it will one day translate into values that are relatable to them."

Success to Mr Kwek is thus not about accolades nor titles. "Do I leave a place better than I have found it, be it in a professional or personal capacity? Have I helped to make changes and improved lives? Have I put my stamp of contribution on it? That, to me, defines success," he asserts. "This is why I am open to mentorships, both within my work organisation and also at educational institutions. The younger accountants face even fiercer competition for talent globally, and they will have to constantly evolve and learn new skills, whether they are computer languages or new platforms. We can help them be better by sharing our experiences and showing them the opportunities out there."

Ultimately, he believes in the importance of nurturing relationships. "If I have helped those around me grow, then it would have been a successful journey or time spent in a place. After all, it is all about the people." ISCA

CAREER HIGHLIGHTS

2000 to 2002
Consultant, Tax and Legal Services, Arthur Andersen & Co.

2002 to 2003
Associate, Monetary Authority of Singapore

2003 to 2005
International Financial Controller, Schneider Electric

2005 to 2006
Regional Tax and Finance Manager, South East Asia, Schneider Electric

2007 to 2011
Head of Compliance, Mergers & Acquisitions, Schneider Electric

2010 to 2012
Director, Internal Controls & Compliance, Asia Pacific, Schneider Electric

2012 to 2015
Chief Financial Officer, Hong Kong/Macau, Schneider Electric

2015 to 2016
Director, Finance & Control Asia Pacific Solutions Execution Center, Schneider Electric

2016 to 2018
Chief Financial Officer, Microsoft Hong Kong

2018 to Present
Chief Financial Officer, Asia Pacific, Data Center Group, Lenovo

BY MICHELLE KOH

EMPLOYMENT OUTLOOK FOR ACCOUNTANCY AND FINANCE

Hiring Practices And Employment Opportunities During And Post-Pandemic

ACCOUNTANCY AND FINANCE WILL CONTINUE TO BE AN IMPORTANT AND CRITICAL SECTOR IN SINGAPORE, and has been identified by MySkillsFuture as an area of growth and expansion during the economic recovery post-Covid-19. The employment outlook for this sector for the next two to three years will most likely face a steady uptrend, as businesses not only stabilise but capitalise on a global market recovery to return to expansion with a vengeance.

In Singapore, during the circuit-breaker period in early 2020, we experienced a dip of almost 30% in open hiring requisitions. Hiring was either placed on hold, postponed to a later part of the year or pushed into 2021; in some cases, the roles were scrapped completely.

However, post-circuit breaker, things have gradually picked up. We are seeing an increase in the number of interviews and new roles coming into the market, and the overall sentiment from clients – even in heavily impacted sectors – is positive. Employment outlook is expected to rally with the introduction of the vaccine, particularly as the Covid-19 situation improves globally. We believe much of the growth will focus on finance transformation and technology adoption, financial data analysis, and businesses partnering effectively with stakeholders in corporate, commercial and supply chains.

Post-circuit breaker period:

- Increase in number of interviews
- More new roles coming into the market
- Positive overall sentiment of employers and jobseekers

STAYING RELEVANT: WHAT TO DO TO SHINE

Singapore is home to the largest number of headquarter jobs from global Fortune 500 companies compared with other key Asia hubs, according to separate 2018 studies by AON and KPMG. The information, highlighted on the website of Singapore's Economic Development Board, also indicated that the country has one of the largest concentrations of brand marketers in Asia Pacific, with firms like MasterCard, P&G, Intel, Philips and Unilever developing digital expertise and growing regional brands from Singapore. As a dominant regional hub for many multinational corporations (MNCs), the bulk of the regional business partnering, financial planning & analysis (FP&A) and analytics-focused roles will remain here. Most firms have moved their shared services functions to lower-cost locations in the region and we also expect that within reporting and controllership functions, there is likely to be further consolidation through offshoring and robotics. Accountants need to continually assess and develop their skill sets to ensure that they do not fall into the "offshorable" category which would place their careers at risk.

With MNCs moving parts of their global functions to Singapore, the ability to deal on an international platform is considered an extremely crucial attribute for aspiring CFOs. At the executive-hiring level, the competition is global – if local candidates want the top jobs, they will have to compete for them. But, given that Singapore has been a safe harbour and home for well-qualified accounting and finance professionals, some local candidates whom we spoke to do not see the need to relocate in order to move up the career ladder. However, having the track record of being internationally mobile and succeeding in overseas secondments and appointments are critical in getting ahead, and we hope more Singaporeans can start embracing that. Many firms have matrixed reporting lines, complex structures and stakeholders based globally and often, Singaporean finance professionals who have worked overseas, particularly in corporate head offices, will have a distinct advantage over those who have not. Showcasing the ability to effectively work with multi-level stakeholders and lead regional/global teams – with people from different cultures (and time zones) – will positively differentiate your profile from another.

Competitive advantages:

- Being internationally mobile
- Have completed successful overseas secondments and appointments
- Able to work effectively with multi-level stakeholders
- Capable of leading regional/global teams
- Well versed in emerging technologies

PHOTO SHUTTERSTOCK

PHOTO SHUTTERSTOCK

We have also noticed a divergence of skill sets with some of the candidates from the Big Four firms who entered the industry in the last five years or so. They tend to be better versed in some of the emerging technologies such as data/data visualisation and analytics, and financial modelling, as compared to the more experienced professionals in the Big Four firms. These skills are highly valued in some of the growing industries that have emerged in Singapore in the tech/fintech and startup spaces.

While holding relevant qualifications such as CA, CPA, ACCA, CIMA and MBA has and will continue to remain desirable, Singapore is a comparatively expensive place to maintain a highly skilled finance team, so businesses are increasingly looking for more value from finance, be it through deeper financial analysis, transformations or risk management.

Anecdotal evidence suggests that increasingly, human resources professionals are using personality tests and pre-employment testing to vet candidates in the hiring process. DiSC, Harrison Assessment, Cubiks, and SHL are some examples of the psychometric tests used to suss out personality traits and soft skills to predict success in the role opening, in addition to what they are seeing on paper (resumes) and in the flesh (face-to-face interviews). From a headhunter's point of view, we are glad to see this hiring process mature and develop as it means that the hiring process is becoming more holistic, and companies are starting to place emphasis on other key success factors beyond grades, qualifications and technical skills.

FROM FRESH GRADUATES TO MID-CAREER PROFESSIONALS, DOES THE JOB SEARCH PROCESS GET EASIER?

Job searching can be a daunting task, regardless of whether you are a fresh graduate or a mid-career professional. However, there are steps that can be taken to widen your employment opportunities.

For fresh or recent graduates, while our firm does not specialise in this area, we know from speaking to our networks in the Big Four and mid-tier accountancy firms that they will continue to hire new graduates. There are internship programmes available with reputable corporates too. Be visible and open to industries or paths for now. While there was a short-term impact on employment opportunities due to the pandemic in 2020, there was still a strong continuation of graduate-level hiring. With sufficient government support and incentives for companies to hire graduates, we expect this trend to continue into 2021.

For finance professionals in their mid-careers or in between jobs, be open to reskilling and/or be adaptable to changing business needs and circumstances. Taking on contract roles may also offer opportunities to expand one's knowledge and appreciation of different industries and different finance functions, while also keeping close to the job market and recruiters for suitable permanent roles. There are a number of government-related initiatives to help PMETs reskill and re-enter the job market. Surprisingly, however, the take-up rate for these courses – many of which relate to cross-training in the technology data fields – has been relatively low, with some candidates concerned about their ability to reskill mid-career. Also, given the government incentives for companies to hire unemployed Singaporeans, 2021 should represent a great opportunity for PMETs to reskill and re-enter the job market.

ON A JOB SEARCH?

Recent graduates:

- Be visible
- Be open to industries
- Check out different paths like internships

Mature candidates:

- Upskill, reskill, expand your knowledge
- Consider contract roles
- Keep close to the job market and recruiters

NAILING THAT VIRTUAL INTERVIEW: DOS AND DON'TS

Another seemingly daunting task are job interviews. Because of the pandemic, most companies are using e-interviews or video interviews. The Edge Partnership has recently issued a refreshed set of tips targeted at scoring e-interviews to supplement the one we have for traditional face-to-face interviews (feel free to email us for a copy).

(1) *Research the company*
The first step in preparing for any interview is to research the company. Ideally, you would have done this before applying for the job. Set aside time to review the company's website to learn more about its products/services, values and culture before the call. News articles, corporate social media accounts and YouTube videos on the company and its wider industry can provide further context and conversation topics.

(2) *Prepare your environment*
For the interview, choose a spot where you can control the surroundings. If possible, take the video interview in your home, but anywhere quiet with a good Internet connection is a viable option. Make sure lighting is good and try to dress like you would for a face-to-face interview.

(3) *Test your technology*
There's nothing worse than having technical difficulties during an important call, so get that tested and sorted out before the session. And remember, while talking, look into the camera lens and not the screen.

(4) *Speak clearly and slowly*
Speak clearly and slowly so that you can effectively communicate all your great accomplishments to your interviewer.

(5) *Nail your listening skills*
Although you may have an idea of what questions to expect, listen carefully to what is being asked. Also, don't be afraid to ask for clarifications or for them to repeat themselves.

(6) *In short*
With virtual interviews becoming more of the norm, it is important to know exactly what to do to prepare. Once you've landed the job, don't forget to check up on career resources to help you maximise your career.

EVOLUTION OF HIRING PRACTICES: THE NEW NORM

Although 2020 is thankfully behind us, it has certainly left a mark on hiring practices. Post-pandemic, we foresee the following trends.

As highlighted earlier, we were heavily reliant on video interviews during the circuit-breaker period. Video interviews were used to bridge the gap between an initial paper resume to the in-person interview. However, this new wave of interviewing should be seen as an enhancement of the screening process rather than a replacement of the traditional interview. For mid-level roles, companies may be prepared to make a job offer after a series of video interviews but for critical roles and C-level roles, most still hope to meet, shake each other's hands (sanitise thereafter!) before deciding on the hire.

Beyond the format of hiring practices, Singapore's Ministry of Manpower (MOM) has been emphasising fair employment practices by implementing more stringent policies around firms maintaining and growing a Singaporean core. Thankfully, we are seeing the clients we are working with responding very positively to this message. Beyond following the guidance from MOM, it is also the right thing to do in a workforce such as Singapore's, with its diverse ethnic, religious, age and gender makeup. Having fair employment practices would also provide more stability particularly for PMETs and those looking to cross-train for new roles.

Women and minorities in leadership will also continue to be an important theme when corporates are hiring. With the pandemic highlighting a wave of women dropping out of the workforce to support their families during lockdown, we expect further corporate and national initiatives to drive the conscious hiring of women at all levels including extending support for them, underlined by a deeper appreciation of the obligations they have in juggling work and home.

In a LinkedIn Poll conducted by The Edge Partnership in July 2020, of the 237 respondents, a good 62% shared the hope that the future workplace can adopt a hybrid arrangement, where the option to work from home at times can be the norm. Many roles in finance can be performed remotely these days. Companies will need to change their mindsets, and embrace and adopt refreshed practices if they want to attract and retain talents. ISCA

... having the track record of being internationally mobile and succeeding in overseas secondments and appointments are critical in getting ourselves ahead, and we hope more Singaporeans can start embracing that.

Michelle Koh is Director (Commerce), The Edge Partnership.

BY STÉPHANE J. G. GIROD AND MARTIN KRÁLIK

BUSINESSES CAN AND SHOULD BE AGILE

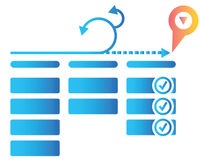
But It's Not Always Necessary To "Do" Agile

IN THEIR LATEST WORKING PAPER, INSEAD Professors Yves Doz and Maria Guadalupe[1] examine whether "agile"[2] can help companies grow by jumping to the next S-curve. They also look at the boundary conditions for using agile methods.

They provide us with four of these conditions: agile can only deliver benefits if: (1) internal processes can be made independent from each other to minimise the frequent interdependence issues that often creep in with agile (modularity condition); (2) the need for innovation is continuous, not occasional; (3) companies can find the right balance between talented staff and opportunities to innovate. If these conditions cannot be made, (4) one can still benefit from agile by proxy, that is, by using suppliers who have adopted it.

Although these conditions completely resonate with our own findings, their conclusion that not everyone can be agile may leave executives puzzled and asking, "How do we become more adaptive and respond to our highly uncertain, fast-changing business environment then?" Also, it may inadvertently mislead executives to believe that if agile is not appropriate to their context, then they can forget about agility altogether.

In a survey conducted in spring 2020, we found that 36% of 550 executives from large companies across industries thought agility was an unclear concept, even a buzzword. This is dangerous if it becomes an excuse to entrench the status quo.



36% of respondents from large organisations do not have a clear concept of agility

Here, we explain why and how every business can and should be agile but does not necessarily have to "do" agile.

WHY AGILITY AS ADAPTABILITY BECOMES CRUCIAL

Business executives have always had to deal with some forms of turbulence and disruption. Covid-19, (de)globalisation, the digital revolution and climate change are today's face of fast change and uncertainty.

What is new in many industries though, is that it's less and less possible to be totally risk-averse and fixated on the status quo. Established companies tend to fall behind quicker than in the past either because of their inner rigidities or because they do not play to win, or both. For instance, researchers have shown that the "topple rate" at which big companies lose their leadership positions has more than doubled between 1965 and 2012. The average lifespan of public companies in the US has decreased from around 55 years in 1965 to 32 years in 2015, and there is currently a one in three chance that a public company will perish within a five-year period.

In our forthcoming book, *Resetting Management*, we explain that going forward, across sectors, boards will increasingly reward executives for their ability to grow their business despite the high levels of uncertainty and fast change surrounding them. This is where agility comes in – as a capability for unleashing inner entrepreneurship and adapting more flexibly to uncertainty.

... calibrate the balance between stable versus nimble, and complex versus simple, in ways that suit your business circumstances. Also, it is to recognise that competitive advantage comes as much from your strategies as from how you execute them.

Agility as a competitive strength:

Boards will increasingly reward executives for their ability to grow their business amid high levels of uncertainty and rapid change

[1] Yves Doz is INSEAD Emeritus Professor of Strategic Management, and Maria Guadalupe is INSEAD Professor of Economics.

[2] The "agile" school of thought holds that reorganising business activities around cross-functional, self-management team, each with a clear purpose and focused on specific customer needs, leads to improved performance outcomes and customer-centric innovation. From Y. Doz and M. Guadalupe. "Not Everyone Can Be Agile", *INSEAD Knowledge*, 16 Feb 2021.

UNDERSTANDING ORGANISATIONAL AGILITY

In our research, we discovered that agility at the organisational level is about managing two types of competing demands. The first one is about being innovative at speed, what we call being nimble. Yet, because continuous innovation can result in chaos, which is not a great state for established companies with existing shareholders and businesses, it needs to be balanced with a certain level of stability that provides the framework in which nimbleness can take place.

Managing competing demands:

Nimble vs stable

Simple vs complex

The second type of competing demands has to do with the need for simplifying bureaucracy, hierarchy and ways of working without oversimplifying. Indeed, established companies that operate in multiple markets and business lines can rarely take a one-size-fits-all approach. A degree of inner complexity is therefore healthy. Thus, the second tension occurs between simple and complex.

What this tells us is that if agility was only about doing things faster, it would be easy to achieve. The fact that it is about resolving inner tensions between competing objectives makes it that much harder to develop.

PHOTO SHUTTERSTOCK

YOU CAN STRENGTHEN ORGANISATIONAL AGILITY WITHOUT APPLYING AGILE METHODS

Out of the 10 companies we studied, we found three that were striving to reconcile these competing demands without using or trying to scale agile methods or structures such as squads and tribes. Each designed their organisation and ways of working to suit their circumstances, competitive conditions, prior performance, and management ambition.

For Clarins, a global leader in the cosmetics industry, agility transformation was about making the traditional hierarchy simpler and nimbler by bypassing country fiefdoms and creating three types of small, empowered cross-functional teams that focused on the "what now", "what if", and "what next" during the Covid-19 lockdown. Working with the support of the mainstream organisation to gain scale and speed, the teams were present in every country but shared knowledge across countries and with the top management team. This way of organisation was about hastening certain decisions in view of saving cash, protecting employees and customers worldwide, and preparing the post-lockdown retail and supply operating models while uncertainty was at a maximum. This design was also growth-oriented as the teams were studying emerging opportunities for Clarins' next strategic moves.

For Luxury SA, a leading global luxury brand, pre-Covid-19, the shift to agility consisted of decentralising power to its China division to deal more effectively with the transient and unpredictable buying propensities of China's globetrotting travellers. It did so by linking international operations much more strongly with one another and standardising processes and IT systems to serve those consumers better. As a result, Luxury SA established itself among the top three of the most preferred luxury brands in China.

Whereas in both companies, the traditional hierarchy was still highly recognisable, China's appliance maker Haier presented a radically new type of organisational design where hierarchy and bureaucracy had almost disappeared. With its network of thousands of microenterprises (small teams, wholly empowered but within the boundaries of their product category and within a stable, clearly communicated and KPI-ed strategy), Haier was even more entrepreneurial and flexible than Luxury SA and Clarins. It had to be, if it wanted to accommodate the hypercompetitive conditions of the Chinese market, thinner margins, and a much higher level of digital disruption.

We see a growing trend in organising IT whereby business managers act as product owners who set the digital transformation KPIs while IT experts are grouped into chapters and work in cross-functional teams. Along this path to better digital execution, a reduced but highly strategic central IT will secure the choice of strategic partners, fix the direction (stability) and establish common standards, for instance, as regards data security (simplicity).

THE POWER OF ORGANISATIONAL DESIGN FOR AGILITY

There are three lessons for decision-makers:

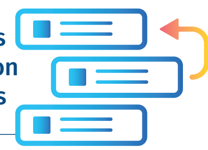
(1) *Your starting point should be to understand the principles of organisational agility that guide organisational design choices*

What our case studies reveal is that whether companies use agile or not, every shift towards greater organisational agility entails a large role for small, cross-functional teams, empowered to innovate around the customer, and with full transparency (nimble). They do this in the framework of a well-communicated strategic direction and with clear accountability and performance measures that provide alignment and appropriate resource allocation (stable). These businesses also cut down hierarchical layers and bureaucratic processes (simple) where they are sensible to do; different countries or business divisions might require different approaches to building greater flexibility (complex). Meanwhile, organisation-wide learning by extensive documentation of what has been done and learned, combined with sound processes that support the intensive scanning of external shifts, makes the organisation more sophisticated in dealing with uncertainty.

Better able to deal with uncertainty:

Documented organisation-wide learning

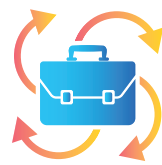
Sound processes that pay attention to external shifts



(2) *Being agile is not (always) about doing agile*

Once this is clear, executives can then design an organisation that breathes life into these principles. Defaulting to agile is far from a must. In fact, the 10 companies we studied make widely different design choices, yet they follow the same agility principles.

What matters here is to calibrate the balance between stable versus nimble, and complex versus simple, in ways that suit your business circumstances. Also, it is to recognise that competitive advantage comes as much from your strategies as from how you execute them. Even without "doing" agile, Haier has achieved levels of entrepreneurship and adaptability that have forced its competitors to play catch-up.



Competitive advantage comes as much from sound strategies as from how they are executed.

(3) *Getting agile right will secure better digital execution*

Doz and Guadalupe are right to remind us of the boundary conditions of agile *when* it is needed. In the seven companies that were deploying agile methods and scaling agile squads and tribes, we found another boundary condition: businesses need to pay attention to how they structure the deployment of these methods since this will impact their outcome.

Boundary conditions or not, there is a space where agile is likely to assert itself, outside the context of large-scale organisational agility – that space has been staked out by digital transformation and creating more impact with IT in your business.

Most digital transformations fail because companies approach them in silos, thus keeping IT far too removed from the businesses. We see a growing trend in organising IT whereby business managers act as product owners who set the digital transformation KPIs while IT experts are grouped into chapters and work in cross-functional teams. Along this path to better digital execution, a reduced but highly strategic central IT will secure the choice of strategic partners, fix the direction (stability) and establish common standards, for instance, as regards data security (simplicity).

With or without agile, organisational agility is bound to become an essential quality in many industries. ISCA

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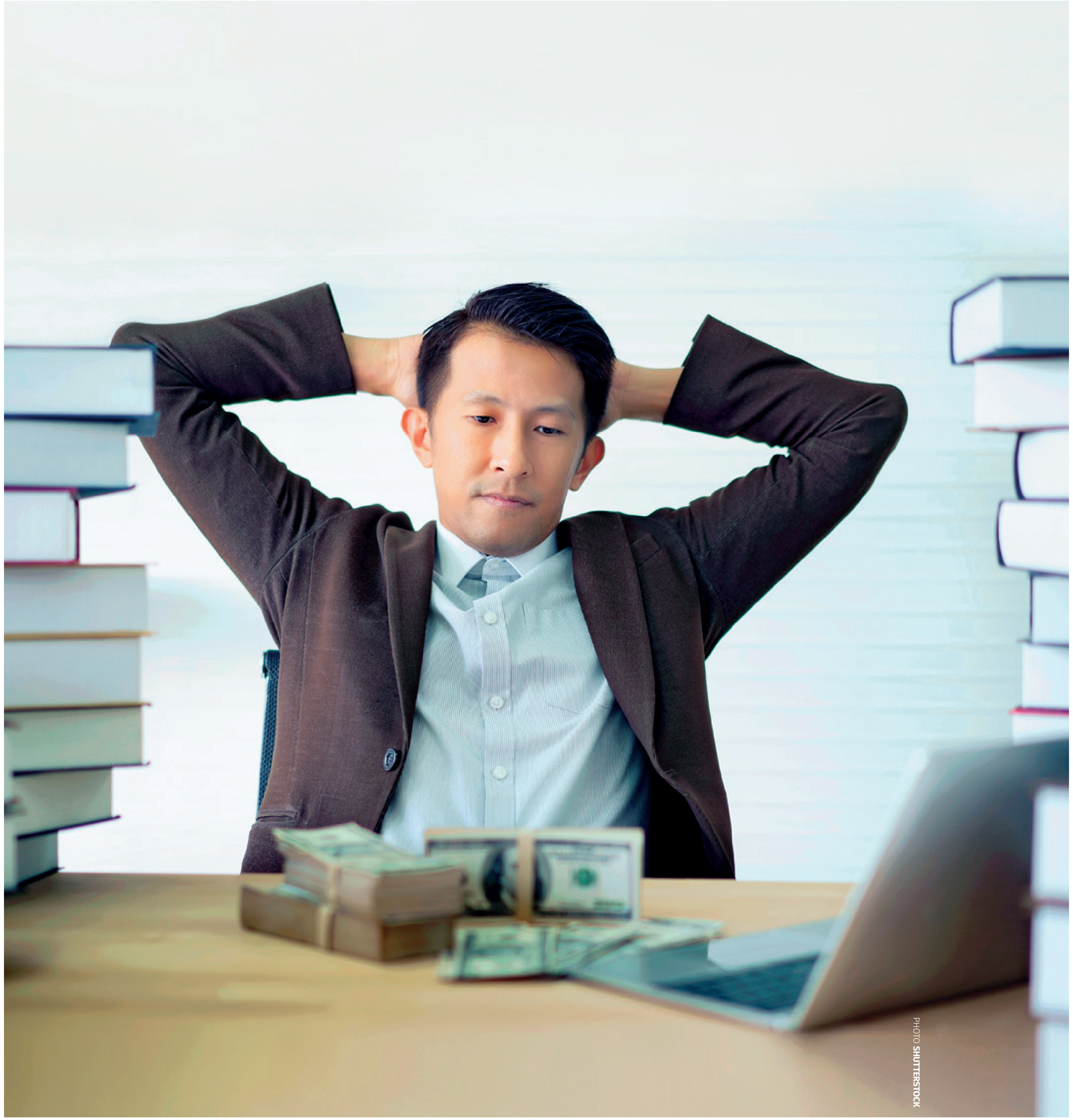


PHOTO **SHUTTERSTOCK**


BY KELVIN LAW AND RONY LIM

DON'S COLUMN

DO PERSONAL TRAITS PREDICT MISCONDUCT?

Implications On The Hiring Of Accountants And Auditors

IN 1993, FELIX SATER, a former advisor to former President Donald Trump, was convicted of first-degree assault. He broke a margarita glass and used it to stab another broker, who later received about 110 stitches on the face. In 1998, Mr Sater pleaded guilty to running a pump-and-dump fraudulent scheme to bilk about US$40,000,000 from various investors.[1] This anecdotal evidence raises an interesting question: Can personal behaviours predict professional conduct?

PERSONAL TRAITS AND MISCONDUCT

While classic economic theories tend to rule out this possibility, several recent research studies say "yes" to this question. A recent study, for example, shows that Chief Executive Officers (CEOs) and Chief Financial Officers (CFOs) in the US who are users of Ashley Madison – an infidelity website marketed to married people – are twice as likely to engage in corporate misconduct.[2] Similarly, another study finds that the firms of corporate executives who were accused of personal indiscretion (for example, allegations of dishonesty, substance abuse, sexual misadventure, or violence) have worse financial performance. These firms also have a higher probability of unrelated shareholder-initiated lawsuits.[3] A more recent study finds that financial advisors who had charged or convicted criminal records before becoming financial advisors are more likely to receive future complaints, and these complaints are more likely to end up in large settlements above US$100,000.[4]

Why would conduct in the personal domain be related to conduct in the professional domain? A potential psychological explanation lies in behavioural consistency. Human beings tend to exhibit consistent behaviours across different domains. Hence, a person's personal ethics and integrity are likely to be more or less the same with the same person's ethics and integrity in the professional arena.

Human beings tend to exhibit consistent behaviours across different domains. Hence, a person's personal ethics and integrity are likely to be more or less the same with the same person's ethics and integrity in the professional arena.

ETHICS AND INTEGRITY

The research studies above indicate that personal infractions provide valuable but often overlooked information about financial professionals' ethics and integrity. Researchers are still learning more and more every day about what other personal traits matter in predicting misconduct and fraud, and in other various grey areas in financial reporting.

Personal infractions provide valuable but often overlooked information about financial professionals' ethics and integrity

[1] Helderman, R. S. and Hamburger, T. "Former mafia-linked figure describes association with Trump", 17 May 2016. *The Washington Post*.

[2] Griffin, J. M., Kruger, S., and Maturana, G. 2019. "Personal Infidelity and Professional Conduct in 4 Settings." *Proceedings of the National Academy of Sciences*. USA. 116 (33): 16268–16273.

[3] Cline, B. N., Walkling, R. A., and Yore, A. S. 2018. "The Consequences of Managerial Indiscretions: Sex, Lies, and Firm Value." *Journal of Financial Economics* 127: 389–415.

[4] Law, K. K. F. and Mills, L. F. 2019. "Financial Gatekeepers and Investor Protection: Evidence from Criminal Background Checks." *Journal of Accounting Research* 57: 491–543.

Take options backdating as an example. Options backdating is a practice in which corporate executives selectively grant options to themselves on the dates when their firms' stock prices are at a low point. Such a practice would increase the take-home payout to the corporate executives. While options backdating is not necessarily illegal *per se*, prior research shows that firms with top executives who backdate their options are more likely to commit financial fraud to overstate earnings.[5]

Another example is the ownership of luxury goods or extravagant lifestyles. Similar to options backdating, owning luxury goods or living a lavish personal lifestyle is one's business and not illegal in any way. However, researchers show that executives who own expensive cars, boats or houses are more likely to have a loose control environment in their firms, which subsequently brews a higher probability of insiders perpetrating fraud and unintentional material reporting errors.[6]

WHY SHOULD ISCA MEMBERS CARE ABOUT THESE FINDINGS?

ISCA members are required to adhere to Ethics Pronouncement (EP) 100 *Code of Professional Conduct and Ethics* issued by ISCA. These principles establish the standard of behaviour expected of a professional accountant. Two of the most fundamental principles in governing professional conduct and ethics are *integrity* and *professional behaviour*. *Integrity* is "to be straightforward and honest in all professional and business relationships" while *professional behaviour* requires ISCA members not only to comply with relevant laws and regulations but also to avoid any conduct that the professional accountant knows or should know might discredit the profession. To a certain extent, the findings in the academic literature discussed earlier justify the rationale behind these principles: an accountant's personal ethics and integrity are likely to remain more or less the same whether in or out of the workplace.

PHOTO SHUTTERSTOCK

IMPLICATIONS FOR STAKEHOLDERS

These academic findings can be useful to capital providers such as investors, lenders, banks and financial institutions. To assess firm risk, capital providers could conduct a background check on the Board of Directors and senior management of publicly listed companies in Singapore. A good calibration of firm risk exposure could start with a simple Google search on the board members and top executives. Suppose capital providers discover that the top executives are consistently linked to personal misconduct (for example, driving under the influence, sexual harassment, etc), that should be a clear red flag for developing any business relations. Firms that have top executives with personal misdemeanours are likely to foster a different kind of corporate culture than firms without such executives.

These findings are beneficial to less sophisticated retail investors. Retail investors are sometimes the underdog in front of financial service providers (for example, investment advisors or brokerage firms). Retail investors do not and cannot always keep track of the actions of financial services providers. Also, the risk management and control of financial services providers do not always align with the best interests of investors. The information asymmetry between financial services providers and retail investors can at times be enormous and retail investors could be lured into buying complex financial products because they do not have sufficient knowledge of the products' underlying risk structure. The asymmetry is significantly amplified when Covid-19 caused an unprecedented impact on the global financial markets. While investor education and awareness programmes are great, investors need to assess financial services providers' personal traits when investing in new financial products or even when adopting new financial technology (for example, buying cryptocurrencies from a new startup).

Why should accountants or auditors care about these academic findings? Singapore Standard on Auditing 250 (Revised) *Consideration of Laws and Regulations in an Audit of Financial Statements* states that for the purpose of this standard, non-compliance does not include personal misconduct unrelated to the business activities of the entity. The academic findings, however, suggest that personal traits are correlated with financial reporting risk and audit risk. The proper vetting of top executives would help add valuable information and lower potential risk exposure to accountants and auditors. If the top executives of a firm have one of the red flags discussed earlier, the firm's audit risk or internal control risk is likely to be higher than other firms without such top executives.

These academic findings could also be helpful to regulators. A study finds that clients with misconduct records are more likely to select auditors with a similar profile.[7] Firms with financial misconduct are more likely to shop around for a better audit opinion. A study based on European data also documents similar findings.[8] In that research study, the clients of audit partners with criminal convictions in Sweden proved to have more financial reporting and governance incidents than the clients of other audit partners.

Based on the research findings, the identity of a new auditor could better predict a firm's future financial conduct than the identity of an outgoing auditor. Regulators might want to focus on certain personal transgressions because the correlation between the personal wrongdoings and corporate fraud is high.

... accountants and auditors who join the finance sector during the pandemic are more likely to carry the imprint of their initial "recession" experience into the future – and these accountants and auditors are less likely to be risk seeking in their professional decisions in the long run.

Overall, while corporate laws separate corporates and managers into different entities, the findings suggest that executives are likely to carry the same style into their new firms. In other words, if executives habitually "manage" their earnings in the former firms, they are more likely to do the same in their new firms. These academic studies suggest stakeholders should lift the corporate veil and take a good look at the people behind the veil.

As top executives tend to move around, a real-time archival system that consolidates all the background characteristics of top executives could strengthen the protection of stakeholders in the long run. Because top executives are more likely than not to bring their personal traits to their new firms, knowing their background would also help regulators identify potential red flags and even predict fraud hot spots to minimise investor harm.

IMPLICATIONS FOR TALENT RETENTION

The broad implications for talent selection and retention are as follows. If certain personal traits are consistently associated with certain sets of professional conduct, employers with specific preferences can consider hiring employees with specific personal traits. Moreover, if boards have a fear of financial misconduct among existing employees, then the board should hire top executives with or without certain personal traits.

For example, a recent study examines whether economic conditions have a long-term impact on the composition of available financial professionals in the finance industry. It finds that financial professionals who start their careers in recessions are less likely to commit professional misconduct throughout their career. The evidence shows that recessions imprint financial professionals by exposing them to different firm cultures and local norms at the start of their careers, and the effects persist despite subsequent environmental changes. The findings of that study have recently become relevant again because of the Covid-19.

There are two takeaways from the body of research linking personal traits and professional misconduct. First, conservative and talented accountants and auditors will more likely be selected into the financial industry during Covid-19. Second, accountants and auditors who join the finance sector during the pandemic are more likely to carry the imprint of their initial "recession" experience into the future – and these accountants and auditors are less likely to be risk seeking in their professional decisions in the long run. For employee selection, risk-averse employers whose outputs are difficult to contract *ex-ante* or measure *ex-post* should adopt countercyclical hiring, that is, to consider hiring more "recession" cohorts as a potential control mechanism.

CONCLUSION

Academic research suggests a clear link between personal traits and the likelihood of financial misconduct and fraud. As financial misconduct and fraud are costly to organisations, auditors, investors and other stakeholders, they should carefully consider top executives' personal traits before engaging and investing in companies. Auditors who are concerned about their audit risk exposure should also consider their existing and potential clients' personal traits because certain traits are linked to increased risk exposure. ISCA

Kelvin Law is Assistant Professor and Rony Lim is Lecturer, Accounting, Nanyang Business School, Nanyang Technological University.

[5] Biggerstaff, L., Cicero, D. C., and Puckett, A. 2015. "Suspect CEOs, Unethical Culture, and Corporate Misbehavior." *Journal of Financial Economics* 117: 98-121.

[6] Davidson, R., Dey, A., and Smith, A. 2015. "Executives' 'Off-The-Job' Behavior, Corporate Culture, and Financial Reporting Risk." *Journal of Financial Economics* 117: 5–28.

[7] Cook, J. A., Johnstone, K. M., Kowaleski, Z. T., Minnis, M., and Sutherland, A. 2020. "Auditors are Known by the Companies They Keep." *Journal of Accounting and Economics* 70: 1-25.

[8] Amir, E., Kallunki, J. P., and Nilsson, H. 2014. "The Association Between Individual Audit Partners' Risk Preferences and the Composition of their Client Portfolios." *Review of Accounting Studies* 19: 103–133.

[9] Law, K. K. F. and Zuo, L. 2020. "How Does the Economy Shape the Financial Advisory Profession?" *Management Science*.

PHOTO SHUTTERSTOCK

BY DR SOFYA ISAAKYAN

EMPLOYEE VOICE

An Important Dynamic In Changing Times

IN THESE TIMES OF CRISIS, effective leadership has become especially critical and central to ensuring organisational strength. Now, more than ever, organisational leaders need to take concrete actions as they focus on three main areas.

First, they need to manage themselves. They need to accept that they cannot control everything, that they may not have all the information available, and that some answers may come slowly. Being resilient is key – the best managers in times of crisis can handle stress and are able to adapt quickly to changing situations. They constantly need to assess the situation, act, pause, and then re-assess the result of their actions on the situation to identify what has gone well and what needs to be changed.

Resilience in times of crisis:

- Handle stress
- Adapt to changing circumstances
- Manage external and internal stakeholders

Second, they need to manage external stakeholders such as suppliers, banks, other clients, and so on. They need to reach out proactively, sharing their ideas and concerns and hearing the other side. This is an opportunity to both help and ask for help, addressing challenges through a collaborative approach.

Finally, and probably most importantly, they need to manage their internal stakeholders: employees. They need to communicate to their employees what they know and what they don't know. But two-way communication is equally critical. They must provide employees with opportunities to openly express their ideas, suggestions, and concerns. This article focuses on this often-neglected phenomenon of how employee voice behaviour can help managers succeed.

Most organisations should encourage employees to engage in "voice" – speaking up with constructive ideas, suggestions, or concerns with intent to bring positive changes. This is beneficial to organisations – it helps identify emerging issues and problems, it improves decision-making processes, and it fosters innovation. However, the Covid-19 pandemic has sent organisations spinning – forcing them to make hard decisions quickly in a complex atmosphere of ambiguity. Now, more than ever, employees are in danger of losing their "voice".

Most organisations should encourage employees to engage in "voice" – speaking up with constructive ideas, suggestions, or concerns with intent to bring positive changes. This is beneficial to organisations – it helps identify emerging issues and problems, it improves decision-making processes, and it fosters innovation.

WHEN MANAGERS DON'T LISTEN

The expression of work ideas can spur useful discussions, action planning, and problem solving. To work, however, these ideas must be heard, addressed, and implemented. But in many organisations, managers often react negatively to their employees' input, ignoring the ideas they hear and carrying on with "business as usual". They might reject ideas not for their inherent value but because they feel threatened. Employees who challenge the status quo can be interpreted as voicing personal criticism. As a result, managers might perceive this voice as a challenge to their authority, credibility, and competence.

Encourage employees to speak up:

- Spur useful discussions
- Elicit ideas to solve problems
- Help in action planning

This happens every day across countless organisations. And it is unfortunate, because it leads to situations in which great ideas are buried, and in which employees who do not feel heard become demotivated and unwilling to speak up in the future.

Employees can choose to voice their ideas publicly, during a larger meeting with others present. Indeed, most organisational literature emphasises the importance of

... we found that two different mechanisms motivate voice and silence... This means that organisations need to develop two systems: one that focuses on increasing voice and another that focuses on decreasing silence.

discussing ideas in groups of people with different perspectives. This allows employees to challenge each other, come up with a variety of suggestions and develop the best possible solutions. Employees can also choose to voice their ideas privately, talking to their manager one-on-one. However, this eliminates the advantage of collective thinking, and can be fundamentally inefficient. Clearly, it is important that employees speak up in public. But the question is: how do managers react to this type of voice?

Until recently, researchers have looked at the public versus private voice dynamic from two different perspectives: accountability and image management. The accountability perspective suggests that managers are more likely to feel a sense of accountability when employees speak up in public, endorsing and acting on an idea because others have heard it too. The image management perspective, on the other hand, suggests that managers are more likely to feel that their competence is being questioned when employees speak up in public. As a result, they can react defensively and shut down the public voice. A series of studies we are currently conducting provides support for the image management perspective, and suggests that managers are indeed less likely to endorse public voice due to enhanced image concerns in public settings.

RELATIONSHIP QUALITY

The idea of employee voice doesn't occur in a vacuum. The relationship between employees and their managers can have a major influence on how managers react to voice. If the employee and the manager have a "distant" relationship, the manager will usually be less likely to endorse an idea, especially if it is expressed in public. If the manager has a close, trusting relationship with the employee, he/she will give the employee the benefit of the doubt and see the public voice as a benevolent attempt to bring positive changes. As a result, the manager will be more likely to endorse it.

But here's the rub: employees who are more distant are more likely to have non-overlapping and unique perspectives vis-à-vis managers, but will also have fewer opportunities for private interactions with them. If managers are averse to public channels – often the only channel available for these relationally distant employees – they will miss out on important divergent opinions. Although this allows them to save face, these managers ultimately bring about dysfunctional organisational behaviour.

VOICE AND SILENCE

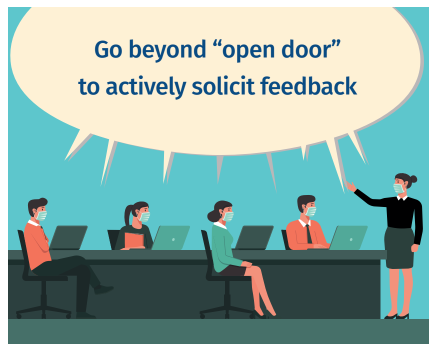
When talking about voice, we should also address the phenomenon of silence. Until recently, organisational scholars have treated voice and silence as opposites: low voice must equal high silence, and vice versa. In fact, our latest research project[1] shows that this is not true. The extent to which people speak up is independent from the extent to which people intentionally withhold ideas. In other words, an employee might frequently speak up with some ideas (high voice), while also withholding a lot of other ideas (high silence). At the other end of the scale, an employee might speak up infrequently (low voice) and at the same time not withhold any input (low silence), but only because they simply agree with the status quo.

PHOTO SHUTTERSTOCK

Importantly, we found that two different mechanisms motivate voice and silence. The extent to which employees voice their ideas or concerns is primarily motivated by their level of perceived impact (that is, a sense that their voice can bring positive changes). At the same time, the extent to which employees withhold their ideas or concerns is primarily motivated by their perceived level of psychological safety (that is, a sense that their voice won't lead to personal harm or negative repercussions). This means that organisations need to develop two systems: one that focuses on increasing voice and another that focuses on decreasing silence.

BEYOND AN OPEN-DOOR POLICY

To encourage voice, organisations should move beyond an "open-door" policy to an approach in which they actively increase employees' sense of perceived impact. Managers should solicit employee input, and show them that they will act on this input if possible. Of course, the organisation doesn't need to implement every idea. But employees must feel that their ideas will be taken seriously. To further instil a sense of impact, managers can highlight past employee ideas that have been addressed and implemented.



Managers should also actively increase a sense of psychological safety to reduce silence. This means creating an atmosphere in which nobody shouts down another employee or laughs at his/her ideas. Informal meetings work best here, where employees feel comfortable sharing their input and people are not afraid to make mistakes.

Organisations should also communicate the benefits of public voice to managers and explain to them that it is often productive for people to challenge each other publicly. This might encourage managers to endorse public voice without being overly concerned about how this might impact their image. Managers also need to be aware that their reactions to voice can be coloured by the quality of their relationships with employees and that they might miss out on important divergent perspectives by neglecting public voice from those outside their circle of confidants. Finally, employees should be aware that, when they do not share a close, trusting relationship with their manager, they might be more successful in gaining managerial endorsement by expressing their opinions or concerns in private rather than in public settings.

LEADERSHIP DEVELOPMENT

Speaking up can also have add-on organisational benefits down the line in terms of employee leadership development. Most organisations usually put employees through formal leadership development programmes. But leadership development can also occur during on-the-job experiences. Building on the idea that acting like a leader can make you feel more like a leader, we have found that the more employees speak up, the more they view themselves as effective leaders. And given that individuals with higher levels of leader identity are more likely to actively seek out opportunities to lead and advance their leadership skills, voice behaviour turns out to be a great trigger for leadership development. ISCA

[1] Sherf, E. N., Parke, M. R. and Isaakyan S. "Distinguishing voice and silence at work: Unique relationships with perceived impact, psychological safety, and burnout". 18 Feb 2021. *Academy of Management Journal*. Vol. 64 No. 1.

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BY KELLOGG INSIGHT

OVERCOME INTERNAL HURDLES TO INNOVATION

Five Workable Ways For Established Companies

RAPID INNOVATION CAN BE TOUGHER TO ACHIEVE AT ESTABLISHED COMPANIES THAN AT STARTUPS. After all, when the drive to iterate, fail, and keep honing new products and services has to coexist with long-standing operations, there is bound to be some friction. But intrapreneur teams are critical to keeping up with the ever-increasing pace of disruption, particularly in an environment made even more unstable by the global pandemic. "In the past, if you got the lead and you controlled the market, you could do so for a long time. Now, we're seeing that disruption cycle shorten," says Jeffrey Eschbach, an Adjunct Professor of Innovation and Entrepreneurship at Kellogg.

So in an effort to ride that trend and continue innovating, established companies are often tempted to think and act just like startups. But, according to Eschbach, this strategy can lead to unexpected issues in the corporate environment. In order to get the most out of their innovation efforts, they will need to adapt their approach. Eschbach, a seasoned intrapreneur and entrepreneur, outlines five ways that intrapreneurs can overcome some of the most common internal hurdles – and take advantage of unique opportunities too.

Action steps towards innovation:

- Respect existing customer relationships
- Include other stakeholders
- Tap on available resources
- Have parameters to guide discussion
- Find a champion in senior leadership

Before your customers mistakenly assume that the cool storyboards and prototypes they discussed with the innovation team will soon materialise, it is critical that communication between teams, and with external stakeholders, is frequent and clear.

1) RESPECT EXISTING CUSTOMER RELATIONSHIPS

Customer research is essential to product development. This means innovation teams need to be able to work closely with customers to gather feedback throughout the design process. However, there are a number of internal stakeholders who need to be considered too. In an established company, customer contact is typically the role of the sales team, and they often have existing customer relationships that must be respected. When drawing customers into the research process then, there's a risk of stepping on the sales team's toes.

"You as an innovation team could send the wrong message to customers," Eschbach says. "For example, I've seen teams solicit feedback on a prototype and leave customers thinking that their suggestions are what the company plans to do, rather than that they were just collecting data."

Before your customers mistakenly assume that the cool storyboards and prototypes they discussed with the innovation team will soon materialise, it is critical that communication between teams, and with external stakeholders, is frequent and clear. Without this clarity, sales and account-management teams may be put in the awkward position of having to walk back promises to customers.

Eschbach recommends that companies establish a clear communication system that integrates the sales team into the customer-research process. This can be as simple as alerting the account manager before engaging a particular client or asking him/her for a "friendly" contact who's willing to share feedback without building up unrealistic expectations. If a sales team is especially cautious about the appearance of overselling the company, the innovation team can even work with agreed-upon consultants to approach clients and ask questions.

This integration will lead to fewer mix-ups, which may make sales teams more willing to collaborate with their innovation colleagues in the future. Putting sales managers into conversations with customers as part of the research process also increases their investment.

2) DON'T FIGHT OTHER STAKEHOLDERS, INCLUDE THEM

Other internal teams, including engineers

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> **"Find a senior leader who's willing to say, 'I need this in my road map, or I need this in my product line.'** You want to get people on board with a high-level mandate to innovate. They'll give you a little bit of cover."

and designers, provide opportunities to unlock new improvements. These groups are often left out of customer-research efforts, or are only brought into the process after problems emerge. Including them from the start can avoid later disconnects and motivate the teams.

"Innovation teams and product managers may come back from meeting with a client and say, 'Hey engineers, trust me, we've got to do this with the prototype.' And the engineers think, 'Did the client really say that? I don't quite think that's really true'," says Eschbach. Including tech teams in customer-facing conversations, or scheduling joint field trips to observe how customers use products and prototypes in the wild, can be eye-opening for everyone. "After seeing the problem first-hand, their ability to create something on target, along with their motivation, increases tremendously. They think, 'Yeah, we're actually solving a real problem. This isn't just one laundry-list item that the product managers are coming up with. The customer really is telling us that this is a pain point.'"

Getting a glimpse of the end users' environment and hearing what they actually want to accomplish helps engineering teams gain a much sharper focus on what to design. Team members who join field research often go from doubters to advocates within their own teams, helping to get buy-in on initiatives from their colleagues.

3) USE THE RESOURCES AT YOUR DISPOSAL

Yes, established companies may face more friction, but they also start the innovation process with some distinct advantages. After all, over time, they have amassed product lines, internal platforms, data sets, and a customer base. Eschbach recommends that innovation teams put these hard-earned resources to use in the innovation process.

"You're still bringing all the same methodologies, all the same techniques for gathering information, but you have stuff the startups don't have," says Eschbach. "If you have a great, responsive customer base, go talk to them – with, of course, the blessing of your sales team."

One example comes from the airline industry, where an innovation team was tasked with researching whether customers would pay for extra leg room. The team identified the check-in kiosk as a resource where customers provide information on their buying preferences. Adding a screen that inquired about their willingness to upgrade to a roomier seat saved the money of refitting jetliners for a perk customers may be willing to do without or may not be willing to pay for.

"By doing this very simple, lightweight test, they obtained feedback from the exact point where customers would be making the purchase," Eschbach says. "A normal startup would not be able to test something like that because they wouldn't have the kiosks."

4) DON'T BE TEMPTED BY BLUE-SKY THINKING

Intrapreneurs often kick off ideation phases with brainstorming sessions where "anything goes" and there are "no wrong answers". Such sessions hold strong appeal. What better way to welcome input and gain buy-in across various departments? But open-ended brainstorming sessions tend to create little of value, Eschbach says. Rather than spurring actionable ideas, discussions tend to range from off-the-mark to obscure, leaving participants frustrated. "You've got to have the guardrails in place which actually open things up in a productive way," Eschbach advises. The solution, he says, is to focus conversations on specific areas where customers have concerns. "You might ask the team to aggregate what's really going wrong and hurting customers in the field," Eschbach says. "Then you ask them to narrow down on how to help with that issue. It might sound counterintuitive, but the narrower the pain point, the easier it is to expound, talk about, and explore it."

Eschbach has participated in a wide range of brainstorming sessions in his career but one session during his time at Motorola stands out for being particularly effective. His innovation team was looking for ways to design communication tools for firefighters when they are on the scene of incidents.

Before the brainstorm started, the team interviewed firefighters to get a better understanding of the conditions they encounter when battling a blaze: they are under stress, they are often wearing gloves, their vision may be impaired by smoke, and they may not know the location of their colleagues. Then, rather than starting from scratch with an "anything goes" discussion, the innovation team built their brainstorm around those parameters.

"We came up with solutions on the tech side to help them be more context aware," he says. "We realised we could use temperature sensors to identify which firefighters are nearest the danger, and then prioritise their audio and video feeds back to the commander."

Having guardrails in place prevented the team from wasting too much time on ideas that would have been unworkable. "We initially thought we could roll out a text option for them, but in a fire scene with smoke, what they really need is speech automation so that they can hear what's going on instead of trying to read while they're fighting a fire," Eschbach says. "So many innovations emerged because we restricted the scope, not because we left it wide open."

5) FIND A CHAMPION IN SENIOR LEADERSHIP

With complex, established organisations facing so many competing priorities, having a senior leader who can provide vision and champion intrapreneurship endeavours will be crucial to sustaining their impact.

"Find a senior leader who's willing to say, 'I need this in my road map, or I need this in my product line'," Eschbach says. "You want to get people on board with a high-level mandate to innovate. They'll give you a little bit of cover."

A C-suite champion can help intrapreneurs clear the lane if sales people resist having innovation members speak with customers. They can also help clarify the importance of company-wide engagement in innovation efforts.

"Engagement is the real win," Eschbach says. "Getting it depends on having the right person who is really committed to it. It's not just about making sure a particular project gets support but making sure that you as an innovation team are. When the folks above you get what you're doing and why, that can go a long way."

Innovation teams may need to be, well, innovative about finding their C-suite champions. One idea Eschbach recommends is building "pitch days" into regular quarterly meetings. These events help normalise intrapreneurship activity and get high-level buy-in on projects.

"You can now bring the directors, the VPs, and others who may have budget authority into a space to hear the different pitches. When they latch onto one, now you've got your cover. You've got your champion who says, 'I saw 20 pitches. I love that one; let's go and make it happen.'"

"By formalising this process, when the inevitable internal red tape and naysayers emerge, you'll have a visible mandate to point to. And if push comes to shove, there's now someone in your corner with the motivation and authority to help keep your efforts moving forward." **ISCA**

This article was previously published in *Kellogg Insight*. Reprinted with permission of the Kellogg School of Management, Northwestern University.

TECHNICAL HIGHLIGHTS

ETHICS

IFAC AND ICAEW RELEASE FIFTH INSTALMENT OF SIX-PART ANTI-MONEY LAUNDERING EDUCATIONAL SERIES

This publication examines tax advice and the multiple ways in which tax services may be vulnerable to money laundering.

For more information, please visit https://www.ifac.org/news-events/2021-02/ifac-and-icaew-release-fifth-installment-six-part-anti-money-laundering-educational-series

FINANCIAL REPORTING

ISCA COMMENTS ON IASB ED ON COVID-19-RELATED RENT CONCESSIONS BEYOND 2021

ISCA agrees with the Board's proposals to extend the availability of the practical expedient by one year. However, we are concerned that significant costs and effort may be incurred by lessees to undo the lease modification accounting applied for rent concessions which were not eligible for the original practical expedient. In view of this, we urge the Board to re-evaluate the requirement for retrospective application of the proposed amendments.

For more information, please visit https://isca.org.sg/docs/default-source/fr-eds-and-comment-letters/isca-comment-letter-on-iasb's-ed-on-rent-concessions-beyond-30-june-2021.pdf?sfvrsn=32de8b9f_2

IASB AMENDS IFRS STANDARDS TO IMPROVE ACCOUNTING POLICY DISCLOSURES AND CLARIFY DISTINCTION BETWEEN ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The amendments to (i) IAS 1 require entities to disclose material (instead of significant) accounting policies; (ii) IFRS Practice Statement 2 provide guidance on how to apply the concept of materiality to accounting policy disclosures, and (iii) IAS 8 clarify how entities should distinguish changes in accounting policies from changes in accounting estimates. The amendments to IAS 1 and IAS 8 are effective for annual periods beginning on or after 1 January 2023.

For more information, please visit https://www.ifrs.org/news-and-events/2021/02/iasb-amends-ifrs-standards-accounting-policy-disclosures-accounting-policies-accounting-estimates/

IASB PROPOSES NEW IFRS STANDARD ON RATE-REGULATED ACTIVITIES

The proposed Standard would require companies subject to rate regulation to give investors better information about their financial performance. The proposed Standard would replace IFRS 14 *Regulatory Deferral Accounts*.

For more information, please visit https://www.ifrs.org/news-and-events/2021/01/iasb-proposes-new-ifrs-standard-to-give-investors-picture-of-rate-regulated-companies/

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WEBINAR: EXPLAINING THE EXPOSURE DRAFT REGULATORY ASSETS AND REGULATORY LIABILITIES – RECORDING AVAILABLE

On 24 February 2021, IFRS Foundation held a live webinar on IASB's Exposure Draft *Regulatory Assets and Regulatory Liabilities*. The recording of the webinar can be found on both the IASB website and IASB YouTube Channel.

For more information, please visit https://www.ifrs.org/news-and-events/2021/03/webinar-recording-ed-regulatory-assets-and-regulatory-liabilities/

WEBINAR: DP BUSINESS COMBINATIONS UNDER COMMON CONTROL – RECORDING AVAILABLE

IASB hosted a live webinar on its Discussion Paper (DP) *Business Combinations under Common Control*. The recording can be found on the IASB website and IASB YouTube Channel.

For more information, please visit https://www.ifrs.org/news-and-events/2021/02/webinar-on-discussion-paper-business-combinations-under-common-control/

WEBINAR: REQUEST FOR INFORMATION POST-IMPLEMENTATION REVIEW OF IFRSS 10, 11 AND 12 – RECORDING AVAILABLE

This webinar provided an introduction for national standard-setters to the Request for Information Post-Implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. The recording can be found on the IASB website and IASB YouTube Channel.

For more information, please visit https://www.ifrs.org/news-and-events/2021/02/webinar-for-nss-on-the-rfi-pir-of-ifrs-10-ifrs-11-and-ifrs-12/



BY PEARL TAN, LIM CHU YEONG AND TRACEY ZHANG

DON'S COLUMN

BUSINESS COMBINATIONS UNDER COMMON CONTROL (PART 2)

A Contextual Approach

IN A BUSINESS COMBINATION UNDER COMMON CONTROL (BCUCC), the same party (or parties) ultimately controls the combining entities both before and after the business combination and this control is not transitory. BCUCC is not governed by any International Financial Reporting Standard (IFRS) issued by the International Accounting Standards Board (IASB). The IASB released a Discussion Paper in November 2020 to deal with an urgent need to resolve the divergent accounting practices. Two main methods are the acquisition method which has a fair value focus, and the predecessor method which has a historical cost focus (refer to Part 1 of our article).

In Part 1 of the article, published in the March issue of this ***IS Chartered Accountant Journal***, we explained the conditions for a BCUCC and the two methods of accounting for BCUCC. We also explained how accounting standards need to address the gap in accounting for the BCUCC from the receiving entity's perspective.

In this Part 2 of the article, we propose a contextual approach in determining the accounting method on BCUCC for the receiving entity (that is, the entity which receives control of the transferred entity from another group entity). We propose that a BCUCC that has commercial substance and which results in a change in the timing, amount and variability of cashflows of the receiving entity and its subsidiaries should be accounted as an acquisition under IFRS 3. The acquisition method better serves the information needs of the non-controlling interests and external stakeholders of the receiving entity when there is a real economic change of the receiving entity and its sub-group. We illustrate this point in the case study below. The lack of arm's-length pricing does not pose insurmountable measurement issues and should not be the basis for the accounting choice.

Although the principles in IAS 8 *Accounting Policies, Changes in Accounting Estimates, and Errors* and the Conceptual Framework require the reporting entity to apply the approach that most faithfully represents the BCUCC transaction and which provides relevant information to users, most entities are likely to choose the predecessor method for the more favourable reporting effects. Hence, the spirit of IAS 8 may be compromised when there are strong incentives to select one policy over another. We need to question if users are being provided with relevant information about the

> The predecessor method ignores the perspective of the reporting entity who obtains control of another entity. By reporting a minimal-change or no-change scenario, the predecessor method emphasises the information needs of the stakeholders of the ultimate parent over the information needs of the receiving entity's stakeholders.

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BCUCC. Our concern lies particularly with the non-controlling interests and other external stakeholders of the receiving entity. The predecessor method ignores the perspective of the reporting entity who obtains control of another entity. By reporting a minimal-change or no-change scenario, the predecessor method emphasises the information needs of the stakeholders of the ultimate parent over the information needs of the receiving entity's stakeholders.

In this article, we propose that a contextual approach is necessary to determine the appropriate accounting method. It is unlikely that a "one size fits all"[1] accounting treatment is the optimal solution for conveying information on the economic substance of a BCUCC to external stakeholders. However, typically, the predecessor method will not report the information that best reflects the impact of the BCUCC on the receiving entity. We explain the different motivations and strategic considerations for initiating BCUCC, how the motivation and strategy convey information on the question of transitory control by the ultimate parent, the commercial substance of a BCUCC and likelihood of change in the timing, amount and variability of cashflows of the receiving entity and the acquired entity or entities. We then propose the type of accounting for each strategy based on the fundamental principle of whether control exists and whether an acquirer can be identified.

ECONOMICS OF BCUCC

What is the economic rationale of a BCUCC? In neoclassical economics, firms exist because they can allocate resources more efficiently than markets.[2] In the same manner, internal markets exist within a group of firms which may allocate resources more efficiently than external markets. The BCUCC is potentially a strategic means of capitalising on the efficiency of internal markets. If, indeed, there is a real change in cashflows brought about by the BCUCC, it would be inappropriate to account for the BCUCC for the receiving entity using a no-change or minimal-change scenario assumed by the predecessor method.

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Understanding the motivations for a BCUCC is therefore necessary in determining the commercial substance of the arrangement. The motivations for a BCUCC provide us with inferences on:

- whether control is transitory from the perspective of the ultimate controlling party (or parties), and
- the impact on the amount, timing and uncertainty of cashflows of the receiving entity and the subsidiaries.

We discuss common examples of the motivation for BCUCC. In each scenario, we analyse if there is a change in the amount, timing and cashflows of the receiving entity and the information that should be reported for the benefit of the receiving entity's stakeholders. In reality, the motivational reasons for a BCUCC are not mutually exclusive and more than one reason may apply to a BCUCC. If multiple motivations exist, the primary motivation should be identified to provide clarity on the accounting treatment.

(1) Enhancing synergies and efficiency

To enhance value creation, a group may engage in restructuring activities to improve internal synergies and efficiencies. For example, sub-groups may be formed within a large conglomerate to enable greater focus on core competencies and enhancement of economies of scale and scope. In this scenario, it is not uncommon for entities to be transferred within a sub-group for value enhancement. Typically, these arrangements are not transitory and are probably long term, and the receiving entities would actively manage the acquired entities. The commercial substance of the arrangement results in changes in cashflows of the receiving entity. Showing a no-change or minimal-change scenario for the receiving entity under the predecessor method would deprive stakeholders of vital information of the acquisition and thus, the acquisition method would be more appropriate.

(2) Tax reasons

Tax reasons explain many restructuring activities within a group. For example, a loss-making unit may be injected into a profitable business to minimise tax. As with efficiency reasons, BCUCC arrangements motivated for tax purposes are typically long term and would meet the "not transitory" criterion. However, the commercial substance of the arrangement should be evaluated. For example, companies may be put together purely for tax purposes without any real operational interdependencies. Further evaluation is required to assess if the acquisition benefits the receiving entity or the ultimate parent. Is the receiving entity an active investor or simply a passive investment vehicle? If the commercial substance of the BCUCC is such that the arrangement has minimal or no impact on the amount, timing and uncertainty of cashflows of the receiving entity, the predecessor method is more appropriately applied.

(3) Listing or divestment plans

Securitising a sub-group (for example, "spinning off" or "hiving" a sub-group often occurs in a public listing) is a strong motivation for a BCUCC arrangement. Many groups or conglomerates apply this strategy to unlock the value within the group and to realise internally generated goodwill from their component units. Divestment plans are often the result of a long-term strategic process of developing core businesses within a group. The concept of duration of control is critical in determining the accounting treatment in a BCUCC formed for this purpose. If control by the ultimate parent either before or after the business combination is transitory, it will not be a BCUCC. If it is not a BCUCC, the receiving entity would have to account for the transaction as an acquisition under IFRS 3. If control by the ultimate parent before and after the business combination is not transitory, the transaction qualifies as a BCUCC.

All things being equal, we assume that a BCUCC formed for this reason would result in changes in the timing, amount and variability of cashflows for the receiving entity and its subsidiaries. Information about the consequences of this business combination is best conveyed using the acquisition method.

However, in a securitisation plan, the ultimate parent would often set up a new parent and transfer the investments of the entities in the divested group to the new parent. The new parent is a shell company at incorporation. Such a transaction would not be deemed as a BCUCC. Besides failing the duration test for a BCUCC, the acquired entities are merely moved from the ultimate parent to the new parent. As the new parent is set up by the ultimate parent, the arrangement is a transaction under common control rather than a business combination under common control. If the transfer was made to an existing receiving entity (and not a new shell company), acquisition accounting would best present the information on the timing, amount and variability of cashflows for the receiving entity.

> If, indeed, there is a real change in cashflows brought about by the BCUCC, it would be inappropriate to account for the BCUCC for the receiving entity using a no-change or minimal-change scenario assumed by the predecessor method.

[1] This is also the view expressed by IASB. June 2020. "In Brief: Combinations of businesses under common control – one size does not fit all". Project update by Gary Kabureck.

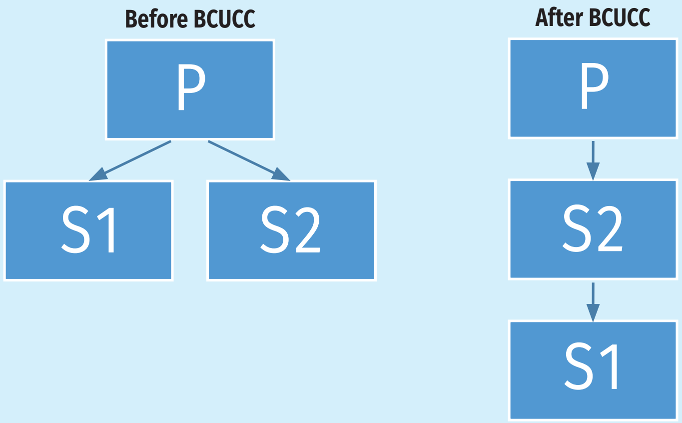
[2] This theory is attributed to Nobel Laureate Ronald Coase in his paper, "The Nature of the Firm". *Economica* 4(16) 386-405, 1937.

[3] Refer to examples in the Staff Paper, Agenda Paper 23 (October 2017). IASB.

CASE STUDY

We explain the impact of the predecessor method and the acquisition method on the consolidated financial statements of the *receiving entity* and the ultimate parent. In the illustration below, P, the ultimate parent, sells its incorporated subsidiary S1 to S2, another subsidiary. For this illustration, we assume that S2 is partly owned by P and there are non-controlling interests of S2 for whom consolidated financial statements of S2 are prepared (Figure 1).

Figure 1 Relationship among the entities



Before BCUCC

On incorporating S1, P records investment of $10 million in its separate financial statements. S1 records share capital of $10 million.

After BCUCC

S2 acquired S1 by paying the purchase price of $20 million to P. S1's financial information at acquisition by S2 is as follows:

	$'million
Share capital	10
Retained earnings	2
Fair value of unrecognised intangible assets	1
Deferred tax liability arising from unrecognised intangible assets	0.2[4]

Effects on separate financial statements:

	$'million
S2	Investment in S1: 20
P	Derecognised investment in S1 (original cost): 10 Cash received: 20 Gain on sale: 10

Under the predecessor method

In consolidating S1, S2 eliminates its investment of $20 million against S1's share capital of $10 million and retained earnings of $2 million. The difference of $8 million is written off against the consolidated reserves of S2.

From the perspective of P as the ultimate parent of the group, there is no change in control. In consolidating the sub-group of S2, P will reverse the $8 million written off to S2's reserves and the gain on sale of $10 million in P's separate financial statements.

From the perspective of S2 as the receiving entity, there is a net decrease of reserves of $8 million in the sub-group's consolidated financial statements. Goodwill and the intangible assets are not recognised. The implicit assumption is that the acquisition of S1 by S2 does not create economic value for the receiving entity. This assumption may not be valid if the restructuring process creates synergies between S1 and S2. Non-controlling interests in S2 would not be able to assess the impact of the acquisition of S1 under the predecessor method.

Under the acquisition method of IFRS 3

In consolidating S1, S2 would eliminate the investment of $20 million against S1's share capital of $10 million and retained earnings of $2 million. The fair value of intangible assets of $1 million and deferred tax liability of $0.2 million are also recognised by S2 as the acquirer. The remaining difference of $7.2 million is recognised as goodwill.

From the perspective of P as the ultimate parent, the consolidated financial statements should not be changed as there is no loss of control. P eliminates the gain of sale of $10 million and the fair value of intangible asset of $1 million, the deferred tax liability of $0.2 million and goodwill of $7.2 million. The retained earnings of $2 million of S1 are also reinstated.

From the perspective of S2 as the receiving entity, the sub-consolidation should recognise the profits of S1 only from acquisition date. Non-controlling interests of S2 would be able to assess the impact of S1 on the financial performance of S2. When the restructuring event impacts the synergies between S1 and S2, the acquisition method reflects the economics of the transaction on the consolidated financial statements of the receiving entity.

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MEASUREMENT ISSUES IN BCUCC ACCOUNTING

In practice, the predecessor method is often justified on the basis of a lack of arm's-length pricing in a BCUCC transaction. Nonetheless, existing accounting requirements on the acquisition of control without transfer of consideration provide an analogy where there is no arm's-length pricing. In a business combination achieved without the transfer of consideration, the IASB requires the acquirer to substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of consideration transferred to measure goodwill or a gain on a bargain purchase.[5]

In substance, transferring consideration at non-arm's-length pricing presents the same measurement concerns as acquiring control without transfer of consideration. If the acquirer's interest in the acquisition-date fair value of its interest in the acquiree can be substituted for the acquisition-date fair value of consideration transferred to measure goodwill in IFRS 3, this principle can be applied to a BCUCC transaction in which the consideration transferred is not reflective of arm's-length pricing.

[4] IAS 12 *Income Taxes*, paragraph 19.

[5] IASB. January 2008. IFRS 3 *Business Combinations* paragraph B46.

Understanding the fact pattern and the economic rationale in a BCUCC is an essential prerequisite to determining the accounting treatment that would best provide the information that meets the needs of external stakeholders.

However, this is understandably a complex area and requires careful consideration in the practical implementation in future standards. The use of the predecessor method to deal with the measurement issues is a convenient but not appropriate way to resolve the issue.

CONCLUSIONS

It is only after understanding the economics of the arrangement that we can establish if and whether there is a real change in the cashflows of the receiving entity and its subsidiaries before and after the business combination. We propose that a BCUCC that contains commercial substance and which results in a change in the timing, amount and variability of cashflows to the receiving entity and its subsidiaries should be accounted for under acquisition accounting. The absence of arm's-length pricing complicates the measurement process but should not be the primary basis to determine the method of accounting. Understanding the fact pattern and the economic rationale in a BCUCC is an essential prerequisite to determining the accounting treatment that would best provide the information that meets the needs of external stakeholders. ISCA

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BY ALICE TAN AND NG SHI ZHEN

ISCA ADOPTS IESBA'S RESTRUCTURED CODE AND INDUCEMENTS PROVISIONS

Revised EP 100 Effective 1 March 2021

EP 100 *CODE OF PROFESSIONAL CONDUCT AND ETHICS* (EP 100 or the Code) establishes ethical requirements for professional accountants who are ISCA members and is modelled after the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA).

ISCA has issued EP 100 (revised on 14 August 2020) to adopt IESBA's Final Pronouncements relating to the Restructured Code and Revisions to the Code Pertaining to the Offering and Accepting of Inducements [EP 100 (revised on 14 August 2020) or the Revised Code] with an effective date of 1 March 2021. Early adoption is permitted.

Professional accountants are required to comply with the fundamental principles of the Revised Code, be independent when performing audit, review and other assurance engagements, and apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles and to independence.

The Revised Code emphasises compliance with the abovementioned overarching requirements and is rewritten to improve the clarity and usability of the Code. Requirements in the Revised Code are now designated with the letter "R" to impose obligations and distinguished from application material (designated with the letter "A") which provides guidance.

> Professional accountants are required to comply with the fundamental principles of the Revised Code, be independent when performing audit, review and other assurance engagements, and apply the conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles and to independence.

Table 1 Structure of EP 100 (revised on 14 August 2020)

EP 100 (revised on 14 August 2020)	Extant Code
Part 1 – Complying with The Code, Fundamental Principles and Conceptual Framework	Part A: General Application of The Code
Part 2 – Professional Accountants in Business	Part C: Professional Accountants in Business
Part 3 – Professional Accountants in Public Practice	Part B: Professional Accountants in Public Practice
Independence Standards (Parts 4A and 4B) Part 4A – Independence for Audit and Review Engagements Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements	
Glossary, Including Lists of Abbreviations	Definitions

Table 1 presents the structure of the Revised Code in comparison with the extant Code. Parts 4A and 4B of the Revised Code enhance the prominence of "Independence Standards" which contain independence provisions relating to audit, review and other assurance engagements that were previously subsumed under Part B of the extant Code.

In this article, we will highlight key additions to the Code including an enhanced conceptual framework, changes relating to preparing and presenting information and pressure to breach the fundamental principles, and strengthened inducements provisions.

ENHANCED CONCEPTUAL FRAMEWORK

A professional accountant is required to comply with five fundamental principles of ethics: integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The enhanced conceptual framework is a systematic, three-step approach for an accountant to identify, evaluate and address threats to compliance with each of these fundamental principles.

A professional accountant shall exercise professional judgement when applying the enhanced conceptual framework. New application material provides the relevant considerations for accountants in exercising professional judgement[1] to make informed decisions and emphasises the importance of understanding facts and circumstances in doing so.

- *Step 1: Identify threats to compliance with the fundamental principles*

A professional accountant identifies threats to compliance with the fundamental principles in Step 1 of the enhanced conceptual framework. The five fundamental principles and categories of threats to compliance with the fundamental principles remain unchanged. These categories of threats include self-interest threat, self-review threat, advocacy threat, familiarity threat and intimidation threat.

- *Step 2: Evaluate the identified threats*

In Step 2, the professional accountant evaluates whether threats identified in Step 1 are at an "acceptable level". The Revised Code clarifies that an "acceptable level"[2] is a level at which a professional accountant, using the reasonable and informed third party test, would likely conclude that the accountant complies with the fundamental principles.

While the Revised Code retains the concept of a "reasonable and informed third

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party" (RITP), it provides that the RITP need not be an accountant and introduces the RITP test[3]. The RITP test involves consideration by the accountant about whether the same conclusions would likely be reached by another party, that is, an RITP, who weighs all relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time that the conclusions are made.

- *Step 3: Address the threats by eliminating or reducing them to an acceptable level*

If the professional accountant determines that identified threats are not at an acceptable level in Step 2, the accountant shall address the threats by:

- Eliminating the circumstances that are creating the threats;
- Applying *safeguards* to reduce the threats to an acceptable level, or
- Declining or ending the specific professional activity.

The Revised Code explains that "safeguards"[4] are actions, individually or in combination, that the professional accountant takes that *effectively* reduce threats to compliance with the fundamental principles to an acceptable level. In other words, not every threat can be addressed by a safeguard and "applying safeguards" is only one of three ways to address threats in Step 3.

When applying the enhanced conceptual framework, the accountant is required to form an overall conclusion about whether threats have been addressed. If threats cannot be eliminated and actions taken cannot reduce the threats to an acceptable level, then the accountant must decline or end the specific professional activity. The accountant is further reminded to remain alert for new information and to changes in facts and circumstances as these might result in the identification of new threats or necessitate a re-evaluation of previously identified threats.

In summary, the key changes under the enhanced conceptual framework are as follows:

- Clarified key concepts of an "acceptable level", the RITP test and safeguards;
- Three ways to address threats that are not at an acceptable level (see Step 3);
- Emphasised that if threats cannot be addressed, then the accountant must decline or end the specific professional activity, and
- New requirement for the accountant to "step back" and form an overall conclusion.

[1] *Street v Mountford* [1985], UK; *Burton v London & Quardrant Housing Trust* [1999], UK

[2] FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, para 45

CHANGES ADDRESSING PREPARATION AND PRESENTATION OF INFORMATION AND PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Changes addressing preparation and presentation of information and pressure to breach the fundamental principles are contained in Part 2, for professional accountants in business (PAIBs).

PAIBs are required to exercise professional judgement when preparing and presenting information, especially when performing professional activities that do not require compliance with a relevant reporting framework and when relying on the work of others. PAIBs might exercise discretion when making professional judgements. PAIBs are explicitly prohibited from exercising discretion with the intention of misleading others or influencing contractual or regulatory outcomes inappropriately.

Part 2 contains a new section to assist PAIBs to identify and respond to pressures that could result in a breach of compliance with the fundamental principles. PAIBs shall not allow pressure from others or place pressure on others that would result in a breach of the fundamental principles.

The Revised Code clarifies that Part 2 is also applicable[5] to professional accountants in public practice (PAPPs) when they perform professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner. For example, provisions in Part 2 apply to PAPPs when preparing or presenting financial information for client or firm.

REVISIONS PERTAINING TO THE OFFERING AND ACCEPTING OF INDUCEMENTS

Revisions to Sections 250 and 340 of the Code clarifies appropriate boundaries for PAIBs and PAPPs respectively, for the offering and accepting of inducements, including gifts and hospitality, and guide their behaviour and actions in situations involving inducements. Under the Revised Code, an inducement[6] is defined as an object, situation, or action that is used as a means to influence another individual's behaviour, but not necessarily with the *intent* to improperly influence that individual's behaviour.

The professional accountant is first required to understand and comply with relevant laws and regulations and shall not offer or accept inducements which are prohibited by laws and regulations such as those related to bribery and corruption.

If offering or accepting of the inducement is not prohibited by laws and regulations, then the professional accountant considers whether the inducement was made, or which an RITP would be likely to conclude that the inducement was made, with actual or perceived *intent* to improperly influence behaviour of the recipient or another individual. If so, the accountant is prohibited from offering, accepting or encouraging others to offer or accept the inducement, even if such inducement is trivial and inconsequential.

However, if the professional accountant concludes that there is no intent to improperly influence behaviour, then the accountant shall apply the conceptual framework to identify, evaluate and address threats. In this case, any threats created will be at an acceptable level if such inducement is trivial and inconsequential.

Although the fundamental principles are unchanged, the Revised Code, which is effective 1 March 2021, is completely rewritten under a new structure to emphasise compliance with the fundamental principles, and the enhanced conceptual framework approach to identify, evaluate and address threats to such compliance.

CONCLUSION

Although the fundamental principles are unchanged, the Revised Code, which is effective 1 March 2021, is completely rewritten under a new structure to emphasise compliance with the fundamental principles, and the enhanced conceptual framework approach to identify, evaluate and address threats to such compliance.

The Accounting and Corporate Regulatory Authority (ACRA) has also issued changes to the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* (the ACRA Code) on 26 February 2021 to adopt IESBA's Final Pronouncements relating to the Restructured Code and Revisions to the Code Pertaining to the Offering and Accepting of Inducements. These changes mirror ISCA's EP 100 (Revised on 14 August 2020) and will similarly take effect from 1 March 2021. ISCA

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[5] Paragraphs R120.4, 200.4, R300.5 and 300.5 A1

[6] Paragraph 250.4 A1 and 340.4 A1

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