IS Chartered Accountant Journal

FEBRUARY 2021

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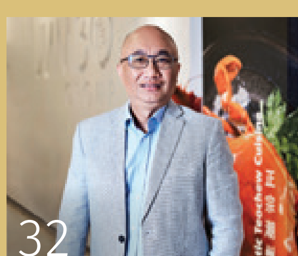
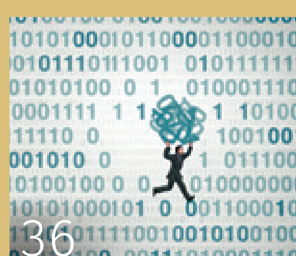
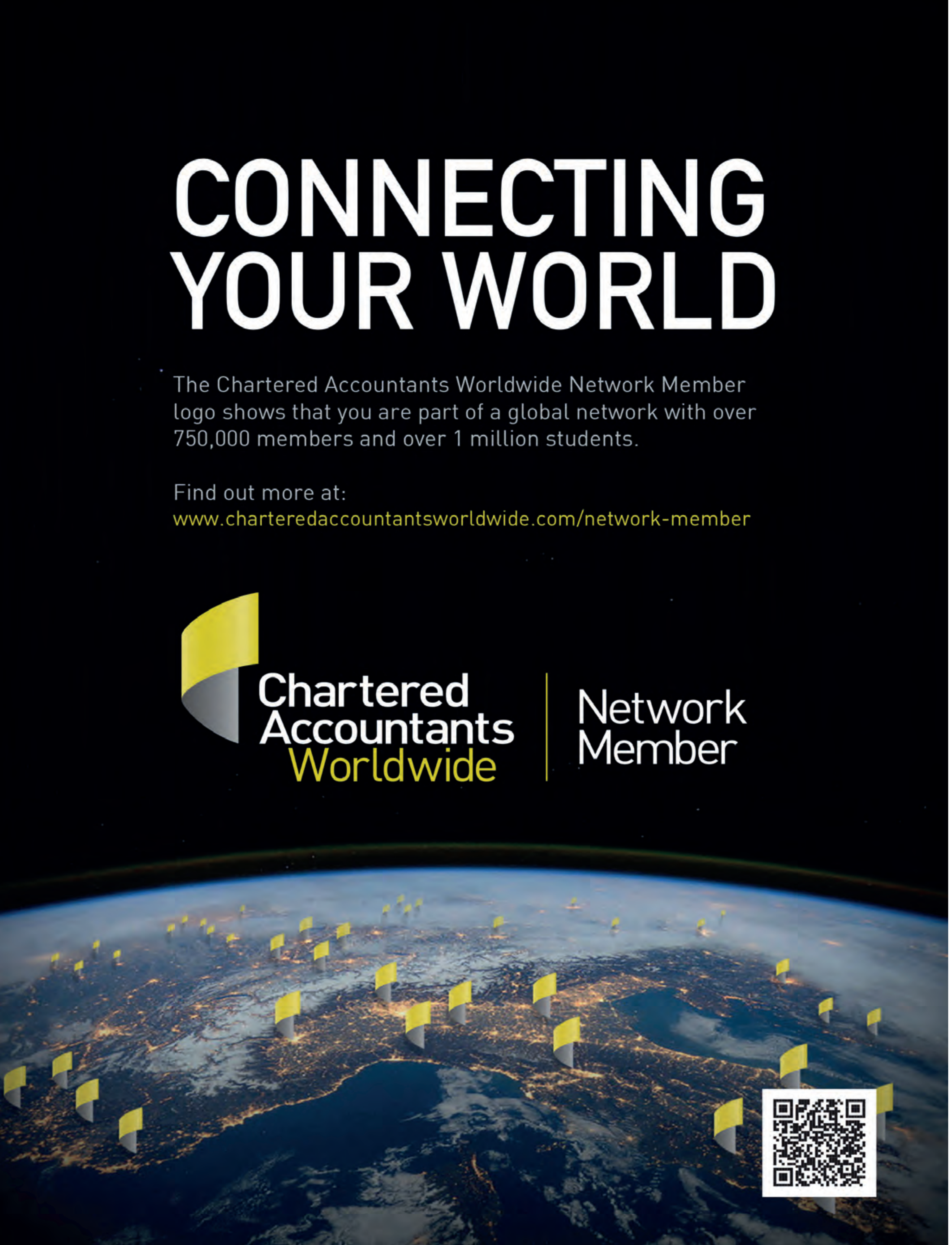




ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS



Dear members,

I HOPE YOU ENJOYED SOME QUALITY TIME WITH YOUR LOVED ONES DURING THE LUNAR NEW YEAR PERIOD. With the safe management measures in place, get-togethers – from outings with family and friends to celebrations and even continuing professional education (CPE) courses and events – are a little different from what we are used to. I am glad that our members have taken it in their stride as they continue to upgrade and upskill themselves through ISCA's online CPE courses and other learning programmes. Having the right skills and knowledge enables them to stand out at the workplace, and ensures that their contributions are valued.

Increasingly, accountancy professionals are expected to step up and work with the management on organisational strategies. Especially in times of crisis such as Covid-19, Finance is crucial in helping to optimise business operations. This appeal to step up also resonates on a macro level – across industry sectors, trade associations and chambers, and the wider community. It is a call for all workers to do their part so that Singapore can emerge stronger from the crisis.

"Emerging stronger together", which has become a refrain, was the theme of the Institute's Pre-Budget Roundtable 2021 which took place on January 14. A signature annual ISCA event that gathers the insights and views of business leaders from trade associations and chambers and accounting firms on how the Budget can be shaped to advance the nation's future, this year's Roundtable centred on how the Budget can address some of the more pertinent issues in light of the pandemic and current economic situation.

Although the Roundtable was held virtually for the first time, the two co-chairs – comprising Government Parliamentary Committee for Finance and Trade & Industry Chairman Liang Eng Hwa, and myself – and panellists were familiar with communicating via an online meeting platform, given Singapore's work-from-home requirements. I believe this rapid adoption of technology at the workplace is one of the positive outcomes of the crisis. Covid-19 has also accelerated the pace of innovation, pushed companies to scrutinise their business models, and compelled workers and businesses alike to become more adaptable and resilient. While there are signs that the economy is picking up, recovery is uneven across sectors and more can be done to help those that are struggling. Find out what are on the Roundtable panellists' wish list and their other proposals in the cover story, "ISCA Pre-Budget Roundtable 2021".

In many countries, digital life is fast becoming an integral part of everyday life, albeit at a varying pace. An extensive survey conducted across age groups in eight countries reveals the vast potential in the countries that are looking to improve their digital life. From digital infrastructure to consumer development, information security and policy coordination, governments and organisations can step up and do more to enrich digital life in the region. The article, "Emerging Digital Life In South And Southeast Asia", has the details.

An ISCA member who is well-versed in stepping up and making a difference is Tay Peng Huat, who is featured in this month's Member Profile column. By his own admission, Peng Huat, Jumbo Group's Chief Financial Officer, had to step up his game significantly when he moved from an audit firm to a commercial entity. In each company that he was at, he faced the challenges head-on, worked with the management and his colleagues, and achieved the KPIs. Now, with Covid-19 posing a new set of hurdles for the food and beverage sector, and with Jumbo Seafood in expansionist mode, it looks like Peng Huat will once again have to pool together all the resources in order to accomplish his organisational goals.

The Institute is committed to helping our members so that as a profession, we are ready for the post-Covid-19 world. To this end, ISCA's $100 CPE voucher is aimed at supporting members' learning needs in this difficult economic climate, and I encourage members to utilise it before its year-end expiry.

Let's all do our own part so that together, we can emerge stronger.

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

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Singapore Companies Optimistic About Economic Improvement

DESPITE THE SETBACKS IN 2020, many businesses in Singapore are optimistic that the economy will improve in 2021, according to the findings of Singapore Business Foundation's National Business Survey 2020/2021.

Two in three businesses (69%) are confident of sustaining their business over the next 12 months and overall, about one-third of companies (31%) expect the business and economic climate to improve over the same period, which is significantly higher than the 8% in last year's survey. An almost equal proportion (32%) expect the business climate to worsen (compared to last year's 49%).

Survey highlights

63% of businesses reported being negatively impacted by the Covid-19 pandemic, with an average decline in revenue of 31%. Despite the challenges faced in an uncertain economic climate, 69% of companies were confident in sustaining their business over the next 12 months.

31% expect the business and economic climate to improve in the next 12 months, a significant improvement from the 8% in last year's survey.

The impact and sentiments about recovery were uneven across industries, with the Construction & Civil Engineering; Retail, Real Estate, Hotels, Restaurants & Accommodations; and Manufacturing sectors being more negatively impacted.

84% of businesses reported having accelerated their digital transformation due to the pandemic, by an average of two years. About 39% of companies reported having increased their IT budgets, by an average of 29%.

Staff training and upskilling, technology adoption, regional expansion, and targeted government support are some key factors that can help Singapore businesses to stay resilient and emerge stronger.

PHOTO SHUTTERSTOCK

Across sectors, there are opportunities for businesses to regain their confidence, reinforce resilience and strengthen recovery from the pandemic. However, with the recovery uncertain and uneven, there remain challenges businesses have to overcome in order to thrive in 2021 and beyond. The top four challenges are demand uncertainty due to Covid-19 (59%), manpower costs (52%), travel restrictions due to Covid-19 (44%), and business competition (41%). Demand uncertainty and travel restrictions are new among the top challenges, while manpower costs and business competition were the top challenges in last year's survey.

In the latest survey, close to 63% of businesses, including large companies and small and medium-sized enterprises, reported that they have been negatively impacted by the pandemic, with an average decline in revenue of 31%.

Overseas business expansion was also hindered by the pandemic, with 47% of businesses reporting contractions in their overseas business activities. Only 27% are likely to expand overseas in the next 12 months while 50% say it would take at least one to two years for their overseas business to resume normal operations. About 25% of the businesses negatively impacted by Covid-19 expect their business to fully recover within the next six to 12 months, and about 70% expect full business recovery to occur only in 2022 or beyond.

The pace of transformation plays an important role in the ability of businesses to overcome the crisis. While 72% of businesses with a high level of transformation are confident of sustaining their business over the next 12 months, 41% of those with low levels of transformation are not.

The survey, conducted in October and November 2020 and involving 1,075 companies, covered a wide range of topics including the impact of Covid-19 on businesses, sentiments regarding economic recovery, priorities and challenges for companies, government Budget and support, digitalisation and transformation, and internationalisation.

Corporate Boards: Critical Starting Points For Implementing Stakeholder Capitalism

COVID-19 HAS LED TO GLOBAL AND SYSTEMIC ECONOMIC, SOCIAL AND ENVIRONMENTAL DISRUPTION, and an increasing number of companies are recognising the need for pragmatic approaches to implement the principles of stakeholder capitalism.

A new white paper, "The Future of the Corporation: Moving from Balance Sheet to Value Sheet", provides analysis about the important role boardrooms and corporate governance can play in addressing the environmental, social and governance (ESG) challenges that companies face. Focusing on practical tools for corporate leaders, the white paper, produced in collaboration with Baker McKenzie, provides a set of actions and stakeholder governance considerations boardrooms can take to reshape their company's purpose and practices. This includes leadership-level actions, such as aligning company purpose and incentives with transparent goals and KPIs, increasing board diversity and adopting the common stakeholder capitalism metrics to measure and manage global risks and opportunities related to business, society and the planet.

"Business leaders are increasingly implementing business models that create value based on stakeholder needs," says Klaus Schwab, Founder and Executive Chairman, World Economic Forum (WEF). "While there's increasing momentum towards stakeholder capitalism, many businesses are also looking for practical solutions to help them fully understand and address the concerns of all their stakeholders. The Forum is committed to providing measurement and governance tools that will help these leaders succeed, thereby advancing stakeholder capitalism globally."

Effectively aligning a company's practices with its purpose is another key role boardrooms must play when integrating stakeholder interests into their business models. Setting clear metrics for management, which align with company purpose, is an important step for boards.

Ørsted, a company which successfully transformed its business from fossil fuels to renewable energy, is a clear example of how effective governance is critical to company-wide transformation. For instance, in its transition to being a sustainable business, Ørsted made it a board-level priority to ensure its transformation was transparent, the journey was measured with concrete metrics, and it was communicated to all relevant stakeholders.

"The pandemic, climate and inequality challenges of the last year were and continue to be unprecedented. Against this backdrop, how can companies drive long-term value creation and sustainable growth? A good stakeholder governance framework will help companies mitigate risk, build resilience and enjoy sustainable value creation and long-term success. At the heart of good stakeholder governance is clearly understanding who key stakeholders are, engaging with them and bringing their voice into decision making," says Beatriz Araujo, Head of Corporate Governance, Baker McKenzie. "There is no one-size-fits-all approach. Each company must embark on its own stakeholder governance journey, and we have suggested some of the steps companies should consider taking on such a journey," she adds.

PHOTO SHUTTERSTOCK

Quick facts

- Covid-19 has put renewed pressure on and increased scrutiny towards companies to ensure they are considering the needs of all stakeholders.
- While there is continued momentum to support the principles of stakeholder capitalism, many companies face practical issues to including non-financial considerations in their business models and practices.
- A new study from the World Economic Forum highlights practical tools boardrooms can use to implement stakeholder capitalism, such as having a clear purpose, adopting common ESG metrics and enhancing board diversity.

> "While there's increasing momentum towards stakeholder capitalism, many businesses are also looking for practical solutions to help them fully understand and address the concerns of all their stakeholders."
>
> **KLAUS SCHWAB**, Founder and Executive Chairman, World Economic Forum

> "A good stakeholder governance framework will help companies mitigate risk, build resilience and enjoy sustainable value creation and long-term success. At the heart of good stakeholder governance is clearly understanding who key stakeholders are, engaging with them and bringing their voice into decision making."
>
> **BEATRIZ ARAUJO**, Head of Corporate Governance, Baker McKenzie

Key areas of leadership focus

The white paper provides a stakeholder governance framework centred around four key areas of leadership focus. They are:

(1) *Purpose*
Purpose is returning centrestage as an enabler for long-term sustainable value creation for corporate success. Boards should ensure their companies have a clear and well understood purpose, informed by their key stakeholders' expectations, and regularly use this purpose as a guide in their strategic decision making.

(2) *Strategy*
Corporate leaders should ensure their company's strategy is robust and designed to deliver the company's purpose. This strategy needs to be flexible to take into account changing stakeholder considerations. Periodic ESG risk and opportunity assessments are a tool that leaders can use to ensure they are pursuing an appropriate strategy in light of changing externalities and stakeholder feedback.

(3) *Culture/Values*
A company's culture and values are important in ensuring decisions and daily business practices appropriately reflect their stated purpose.

(4) *Governance*
Effective governance, which regularly addresses stakeholder input, is critical for running a sustainable, resilient business. Board composition, diversity and inclusion are important factors in ensuring boardrooms are equipped with the skills needed to adequately understand and consider the needs of their stakeholders.

Along with input from the Forum's Community of Chairpersons, the white paper is based on interviews with senior leaders at bp, the Cambridge University Institute for Sustainability Leadership, Fidelity International and Ørsted.

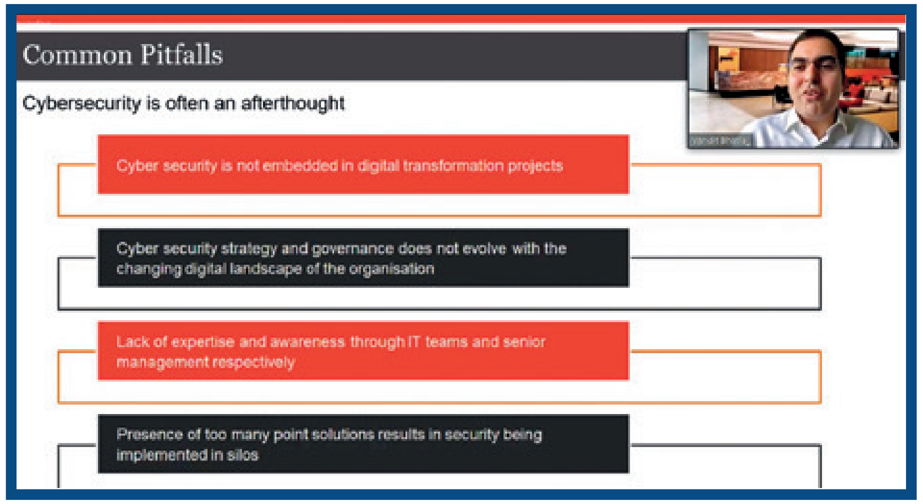
isca breakfast talk

Managing Risks In A Digital World

2020 HAS BEEN A SIGNIFICANT YEAR where businesses were pushed to rapidly transform.

In the ISCA Breakfast Talk on 9 December 2020, Vandit Bhatia, a Senior Manager with PwC Singapore specialising in digital trust, spoke about how a digital-first strategy is key to pivoting back to a steady growth path and securing the future of businesses in the new world.

On an individual level, employees transformed the way they worked. And at an organisational level, businesses had to be ready to embrace change and unlock new opportunities to improve customer experience, the way their employees interacted with business systems, and transform business models – in some cases, even permanently.



Mr Bhatia also shared insights from PwC's newly-launched "Digital Trust Insights Survey 2021: Singapore Findings", which showed that due to Covid-19, 84% of the surveyed organisations in Singapore had to rapidly deploy, secure and modernise their remote working capabilities.

One of the biggest impacts of such accelerated digitalisation was the potential surge in digital attacks and cyber threats. Remote work set-ups, accomplished hastily to enable business continuity, have brought increased exposure to threats. Mr Bhatia pointed out some of the challenges that businesses are facing during this period of digital transformation:

- *Governance:* Ensuring effective cyber security governance;
- *Data protection:* Protecting sensitive information;
- *Capacity management:* Managing the increased demand for critical security services with new technology;
- *Detective and preventive controls:* Ensuring effective monitoring, detection and protection controls;
- *Business continuity and incident management:* Uplifting incident management, crisis response and business continuity management capabilities;
- *Culture and awareness:* Enhancing end-user's awareness and organisational culture;
- *Third-party risks:* Ensuring security safeguards when sharing data with third parties or relying on them for business-critical operations;
- *Regulatory compliance:* Managing the evolving regulations.

With a continued increase in organisations' digital footprint, business leaders must identify the associated risks, threats and vulnerabilities, and plan to mitigate them early in any digital transformation project.

Useful next steps

What should organisations do against a heightened risk outlook? Mr Bhatia shared four key considerations for organisations:

(1) *Create a robust risk mitigation programme*
In today's digital environment, one can never predict when a cyber attack might take place. It is important to have a robust ongoing risk mitigation programme which is updated on a regular basis. Businesses should leverage threat intelligence to understand the changing risk landscape, identify emerging threats and undertake tabletop exercises to stay prepared with an incident response plan.

(2) *Embed cybersecurity in the overall business strategy*
Cybersecurity strategy and business strategy must be aligned from day one of the transformation journey. Cybersecurity and privacy personnel should be engaged early, and CISOs (chief information security officers) should also be involved in non-cyber projects, collaborating with risk, business, legal and tech leaders to protect and defend the organisation.

(3) *Quantify cyber risk and craft an investment strategy*
An effective cybersecurity investment strategy is always forward thinking. An indepth understanding of the organisation's primary cyber risks will guide investment and innovation decisions. Businesses should ensure that the investment is aligned with securing the business of the future and the digitalisation objectives, rather than focus spending on enhancing areas or infrastructure that might potentially become outdated or even automated in the future.

(4) *Future-proof the workforce*
Businesses should conduct an organisational risk assessment to identify and address talent and skills gaps. Organisations need a digital workforce consisting of well-rounded, aware individuals who can bring together people skills, business strategy, technology acumen and an awareness of risk implications in a digital world.

isca career pathways talk

Navigating Your Career In The Midst Of A Crisis

A The panel featured (from left) Wang Guangzhao, Finance Business Partner, Unilever (moderator); Yu Sze Min, Audit Partner, Grant Thornton Singapore; Alex Phua, Group CFO, Zouk Group; Sam Wong, Managing Partner, ASEAN Markets, Ernst & Young, and Jessly Chew, Manager, Finance & Accounting, Michael Page International

IN A YEAR WHERE BUSINESSES AND FINANCE FUNCTIONS ARE ADJUSTING TO THE NEW NORMAL, how can chartered accountants continue to stay relevant and add value to their organisations?

ISCA's Young Professionals Advisory Committee (YPAC) addressed this, and many other burning questions, during Season 3 of our highly anticipated Career Pathways Talk. Taking place on 26 November 2020, four esteemed panellists – Jessly Chew, Manager, Finance & Accounting, Michael Page International; Alex Phua, Group CFO, Zouk Group; Sam Wong, Managing Partner, ASEAN Markets, Ernst & Young, and Yu Sze Min, Audit Partner, Grant Thornton Singapore – shared their views on how accountants have adapted during this pandemic and the changes they foresee at work going forward. The session was hosted by Ang Zan Yu, Founder, TalentKraft, and moderated by Wang Guangzhao, Finance Business Partner, Unilever – both YPAC members. After an inspiring opening by YPAC Chairperson Belinda Teo, Assurance Senior Manager, Ernst & Young LLP, the panellists dove into the hot topics of the day, taking questions virtually from the over-250 participants who joined via Zoom.

A YPAC members including YPAC Chairperson Belinda Teo (in pink skirt); ISCA Industry Support team and panellists (holding tokens of appreciation; from left) Sam Wong, Alex Phua, Yu Sze Min, and Jessly Chew

Mental health and connectedness

During the circuit-breaker period, many people had to change their lifestyles to adapt to the changes. This included longer working hours, more virtual meetings and fewer personal connections. In addition to the changes at work, parents also had to cope with having the children at home for longer hours. For example, they had to manage the children's education when home-based learning kicked in, as well as their indoor activities when outings were not an option.

When asked by the participants on how and what accountants could do to manage the unprecedented situation, the panellists had the following advice:

(1) Recognise and acknowledge the various stresses we face;
(2) Connect with others to share and express our issues so that we have a support network to confide in and seek advice from, and
(3) Schedule time for exercise, spend time outdoors, and take more frequent breaks to help us improve our overall well-being.

Accountants as problem solvers

The panellists shared on accountants' strong value-add in driving the numbers behind business strategies. For example, mapping the impact of business plans into a full cash flow can help businesses ensure that there are sufficient financial resources to finance the business plans. Similarly, the development of the full profit and loss statements can help to balance risk-reward ratios when executing business plans.

Ms Chew presented useful advice on how accountants could meet the expectations of their employers or even impress interviewers during virtual interviews. The advice included how hiring managers are increasing their benchmark on how accountants can add value to businesses by going beyond the normal routine work stated in their job description. Apart from having strong financial reporting knowledge, accountants who connect with the operations team and understand problems on the ground would stand out, as they would be better placed to refine business strategy and drive business performance.

Mr Phua agreed, and added that the accounting function is always evolving, not just in terms of the Financial Reporting Standards but also through the introduction of new technologies and the digitisation of accounting functions. He believes Finance Directors and CFOs will be among the biggest users and enablers of technology. Their roles have evolved from managing the accounts and preparing financial reports to being business leaders. They are also expected to use technology and data analytics to connect the dots across different functions and make informed business decisions.

A Panellists interacting with participants via Zoom

Accelerated adoption of digital technology

With the rise of Covid-19 and more people working from home, both Mr Wong and Ms Yu pointed out that more companies are accelerating their adoption of enterprise software to stay favourable in the market. As such, knowledge of digital skill sets and speed of successful digital implementation are key factors to thrive in this economy. Examples include robotic process automation projects, reporting visualisation tools such as Tableau, Qlik and PowerBI, as well as blockchain systems. These aid data visualisation and analysis across supply chains for effective decision making, and are valuable skills for accountants to remain relevant.

Conclusion

Crisis may disrupt our lives, but it may also bring new opportunities if one can innovate and shine through the norms. To differentiate ourselves, accountants need to take care of their mental well-being and also the well-being of their organisations. We need to be problem solvers and stay ahead of the curve by learning and adopting new digital skills. With this knowledge, we can be better prepared to be relevant in the post-Covid world.

If you are keen to join us for our next instalment of the ISCA Career Pathways Talk series, do register your interest with us at ypac@isca.org.sg. Also follow us on our ISCA YPAC Instagram account (@isca_ypac) to receive first-hand updates on the latest YPAC happenings.

This article was contributed by YPAC members Terence Cheng, Wang Guangzhao, Katherine Ang, Teo Eng Siong and Ang Zan Yu.

MARK YOUR CALENDAR

23 FEB

Unleash the Potential of Creative Thinking (Live Webinar)

Tough problems-solving requires the ability to define the true problem, analyse the possible causes, create options, select the most feasible option and then implement it. A systematic approach will give you the techniques to resolve the problem in a creative way.

This workshop should help to enhance skills to find sustainable solutions and learn new ways to approach problem solving to reach win-win decisions.

26 FEB

Withholding Tax - Fundamentals that Accountants Need to Know! (Live Webinar)

Withholding tax is an area, which tends to be overlooked by many companies. The responsibility of withholding tax deduction and accountability lies with the Singapore companies that are making the payments to non-residents.

Hence, this course aims to provide participants with the knowledge of the types of payments that are subject to withholding tax, the administrative procedures that need to be complied with.

10 MAR

ISCA Breakfast Talk – Case Studies on Cybersecurity: The Human Factor (Live Webinar)

With more processes and companies embarking on their digitalisation journeys, risk management strategies and polices that focus on cybersecurity must evolve In tandem.

Join us in this talk as our speakers examine two case studies of lapses in cybersecurity. They will share how these lapses were detected, the damages suffered, what the responses were and how the relevant organisations recovered from these setbacks.

24 FEB

Applying Impairment Models under Volatile Environment (Live Webinar)

This seminar evaluates the principles of various impairment models contained in FRSs and to provide practical guidance to accountants and auditors on the process of assessing conditions of impairment, as well as the principles of recognition and measurement of the amount of impairment losses in each of the impairment models.

04 & 05 MAR

Robotic Process Automation (RPA) for Auditors

This course aims to equip participants with the skills to easily create useful RPA scripts to automate the audit, accounting, tax and corporate secretarial processes, without any coding or programming knowledge.

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BY PERRINE OH

ISCA PRE-BUDGET ROUNDTABLE 2021

Emerging Stronger Together

THE ISCA PRE-BUDGET ROUNDTABLE 2021 took place virtually for the first time on January 14. Organised annually to gather the views and insights of business leaders from trade associations and chambers (TACs) and accounting firms on how the Singapore Budget can be shaped to advance the nation's future, the Roundtable continues to be one of ISCA's signature events for the 12th year running. Against the backdrop of Covid-19, the Roundtable, themed "Emerging Stronger Together", took on added significance as a platform to gather feedback on pertinent topics impacting businesses today, and how Budget 2021 can be formulated to address some of these issues.

"Following the sharp Gross Domestic Product (GDP) contraction in 2020, major advanced and developing economies are expected to recover and see a rebound in their GDP from last year's low base," highlighted Liang Eng Hwa, Chairman, Government Parliamentary Committee for Finance and Trade & Industry, who co-chaired the Roundtable.

PHOTO GETTY IMAGES

As the global economy is being reshaped, "there will also be greater need for resilience at all levels – individuals, companies and countries," said Mr Liang. "This would increase immediate overall costs, but could also create opportunities for Singapore as supply chains are being reconfigured to improve resilience against external shocks. This demand for resilience will also be extended to the workforce as businesses seek to diversify their source of labour and look to alternative solutions."

Co-chairing the Roundtable, Kon Yin Tong, President of ISCA, noted that "while many initiatives have been rolled out by the government during this period of crisis to help businesses and workers, questions remain if more help is needed. As a case in point, the overall payment performance of Singapore firms hit an all-time low last year. The construction, manufacturing, retail, services and wholesale trade sectors all witnessed an increase in slow payments year on year".

Mr Kon urged the panellists to contribute their views on the pressing issues which businesses face and how the government can encourage the business community to power ahead on transformation to emerge stronger post-Covid-19.

OVERALL BUSINESS SENTIMENTS AND OUTLOOK

Overall, the business sentiment on the ground for 2021 was cautiously optimistic. The panellists shared that while 2021 cannot be worse than 2020, there were still uncertainties such as the deployment and effectiveness of Covid-19 vaccinations not just locally but also globally, and the continuing worsening situation of the pandemic in other parts of the world. In terms of overall business outlook in 2021, there were mixed sentiments as the growth across different industries were perceived to be uneven.

With the above in mind, the panellists discussed various topics such as how government schemes/grants could be enhanced, ways for businesses to accelerate transformation and innovation, seize overseas business opportunities, and deepen workers' capabilities, and tax measures to help businesses.

ISCA PRE-BUDGET ROUNDTABLE 2021 PANELLISTS

(Co-Chair)
LIANG ENG HWA
Chairman
Government Parliamentary Committee
(Finance and Trade & Industry)

(Co-Chair)
KON YIN TONG
President
Institute of Singapore
Chartered Accountants

AJAY KUMAR SANGANERIA
Head of Tax
KPMG Advisory LLP

ANG YUIT
Vice President
(Strategies, Development & Digitalisation)
Association of Small & Medium Enterprises

CHIA NGIANG HONG
President
Real Estate Developers' Association of Singapore

DOUGLAS FOO
President
Singapore Manufacturing Federation

LAM KONG HONG
Executive Director
Singapore Contractors Association Ltd

LAM YI YOUNG
Chief Executive Officer
Singapore Business Federation

SELENA LING
Head
(Treasury Research & Strategy)
OCBC Bank

LOW HWEE CHUA
Regional Managing Partner
(SEA Tax and Legal)
Deloitte & Touche LLP

PROF SUM YEE LOONG
Board Member
Singapore Chartered Tax Professionals

ROSE TONG
Executive Director
Singapore Retailers Association

MICHAEL YAP
Executive Committee Member
SGTech

FEEDBACK ON GOVERNMENT SCHEMES/GRANTS

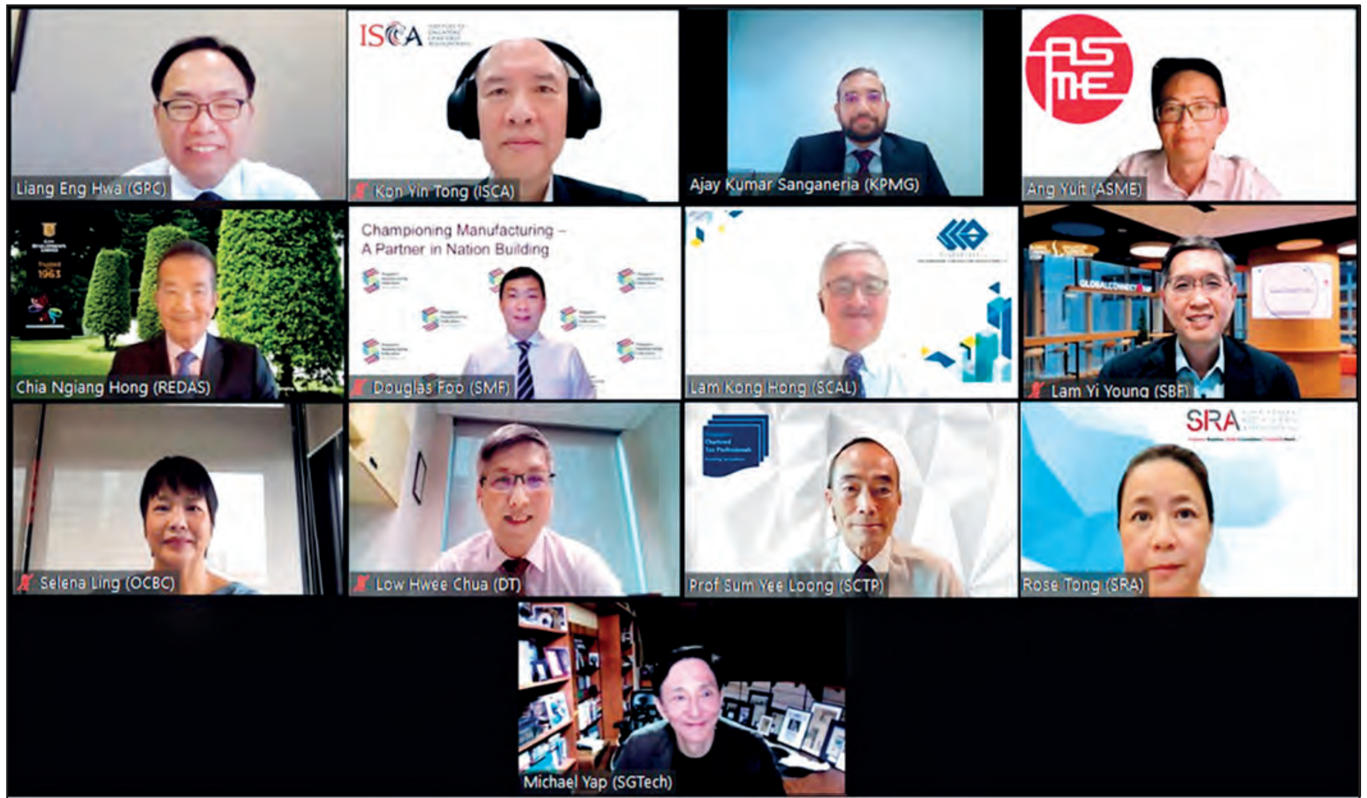
Achieving the desired outcome

On government grants, one panellist shared that the rental relief measures were meant to help businesses cushion the impact of the Covid-19 pandemic, but it took a long time for the reliefs to reach small and medium-sized enterprises (SMEs). Anecdotally, many SMEs were only receiving rental rebates around mid-January 2021, when the rebates were supposed to have been given last year. This was likely due to the perceived imbalanced relationship between the tenants and landlords, whereby the latter tends to have more bargaining power. However, as cashflow is critical for businesses in the current economic situation, such delays in cascading the rental reliefs to the eventual beneficiaries, especially the SMEs, can impact their chances of survival. This is particularly so for businesses in industries that are more adversely impacted by the pandemic and the resulting economic situation.

Enhance alignment of grants with business needs

There was also feedback that government grants should be enhanced to align with business needs. One panellist highlighted the Productivity Solutions Grant (PSG) and its funding structure as an example of how grants may not have been fully aligned with business needs. PSG funds the implementation cost and first-year subscription of pre-approved digital solutions. Concerned with the possibility of not being able to obtain further grants in the future and to maximise the grant amount from PSG, some vendors front-load the full cost of projects and recommend digital solutions to their clients which are in excess of their actual business needs. As a result, these clients end up procuring excessive digital solutions and incurring unnecessary additional costs. Not only does this distort the purchase decisions of businesses, it is also a waste of taxpayers' monies which go into funding the grants.

In addition, some businesses also end up incurring significant costs through having to justify the efficacy/utilisation of the grants. For more effective grants disbursement and better alignment with business needs, there was a suggestion to break down the funding into smaller components. In this way, the grant application process may possibly be simpler and the related audit process/requirements can also be less stringent. This would make it easier for businesses to tap on the grant.



ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS
ISCA Virtual Pre-Budget Roundtable 2021
14 January 2021

ACCELERATING TRANSFORMATION AND INNOVATION

Review of Industry Transformation Maps

To accelerate Singapore's transformation into an innovation-led economy, the Industry Transformation Maps (ITMs) play an integral role. The ITMs aim to provide a roadmap to drive industry transformation and consist of a growth competitiveness plan, supported by four pillars: productivity, jobs and skills, innovation, and trade and internationalisation. As they were rolled out a few years ago and also in light of the changing business environment, especially with the impact of the Covid-19 pandemic, some panellists have called for a review of the ITMs.

Render resources to TACs to help their industries and members

TACs are vital links between the government and business communities, and they can play an important role in driving transformation and innovation efforts. Some panellists highlighted that although there is currently some support given to TACs, more can be done to channel the government's funding to TACs to help their industries and members.

From an efficiency standpoint, it may be better for the government to work through/with TACs which have more experience in dealing with the many diverse members in their industries. As an example, one TAC pointed out that it has a Telegram group which started only in August 2020, but has since attracted more than 600 subscribers within a few months. The purpose of the Telegram group was to help to point the local manufacturing community to the relevant government schemes or provide more clarity on the schemes. It was recognised that some resource-lean TACs would be challenged to do so, as significant resources would be required for such member-support initiatives. Hence, more financial resources should be provided to TACs to enable them to support and handhold their members, particularly during these challenging times.

Enhance resources for businesses' transformation journey

There was also an issue raised that businesses could be overwhelmed by the myriad of technologies and related information in the market. Hence, SMEs will need to be provided with more support, particularly in the two pillars of people and processes in digitalisation. To encourage

WHAT PANELLISTS SAID...

FEEDBACK ON GOVERNMENT SCHEMES/GRANTS

ANG YUIT "The enhanced Productivity Solutions Grant, which offers funding for up to three laptops, could be tweaked such that businesses could easily apply and tap on the grant for one laptop instead, with few or no audit requirements. The audit requirements for the grant and the funding quantum can be raised accordingly if more laptops are required to be funded."

MICHAEL YAP "The Jobs Support Scheme has indeed kept more workers employed. However, the funding could also end up supporting inefficient businesses which may not survive the effects of the pandemic eventually."

ROSE TONG "Government grant is never the only way to support industries and businesses. What businesses need is not more of these initiatives and mechanisms for them to be gaming to apply for, as this might cause some to lose sight of the end business goals, because of the criteria set up by the agencies which might not dovetail to retailers actual needs, but feel obligated to 'realign or divert' in order to get the grant support. This could, artificially stifle authentic grass root robust growth."

ACCELERATING TRANSFORMATION AND INNOVATION

SELENA LING "The Financial Sector Technology and Innovation 2.0 introduced several enhancements to support innovation in the financial sector. The Artificial Intelligence and Data Analytics Grant was helpful in accelerating the adoption of technology in financial institutions. However, the funding is only for proven solutions. Other grants also require the development of groundbreaking or cutting-edge technology solutions, before they can qualify for the funding. Perhaps the relevant government agencies can consider lowering the requirements for these other grants or providing enhanced tax deductions in adoption of more commonly used financial solutions."

SEIZING OVERSEAS BUSINESS OPPORTUNITIES

AJAY KUMAR SANGANERIA "Companies must adapt their existing 'one-size-fits-all' supply chains to deliver value which meets the different needs of different customers. The implementation of micro-supply chains will allow businesses to achieve this, and satisfy the increasing demands for variety, customisation and speed to market, at a reasonable cost."

LAM YI YOUNG "Trade associations and chambers, like the Singapore Business Federation, can help bring Singapore businesses together to work with one another in their internationalisation efforts. By coming together, businesses will have a wider and more comprehensive range of products/services to offer overseas customers. This will make Singapore businesses more attractive and help them capture mindshare overseas. The government can also play a part in helping businesses, particularly SMEs, build up track records by being a 'reference customer'."

CHIA NGIANG HONG "Against the backdrop of climate change and to build on Singapore's reputation as a green city, the government could consider working with the private sector to export our expertise overseas in the field of green technology, green finance, etc."

DEEPENING WORKERS' CAPABILITIES

DOUGLAS FOO "The SkillsFuture Enterprise Credit (SFEC) enables eligible employers to receive a one-off $10,000 credit to cover up to 90% of out-of-pocket expenses on qualifying costs for supportable initiatives, over and above the support levels of existing schemes. While the general feedback was that SFEC is good, given the impact of Covid-19, the government could consider allocating the amount of funding to each company to correlate with the number of employees that each company has. This would allow larger SMEs to send more workers to upskill and reskill, which helps to contribute to the overall enhancement of the nation's manpower capability building."

LAM KONG HONG "The construction sector faces a greater challenge in attracting locals due to the preconceived mindset that construction work is dirty, dangerous and demanding. This is despite the industry having rapidly transformed to adopt new construction methods, which today sees a higher demand for professionals. We need to do more to change the perception among locals that the construction industry is one that is progressive, productive and professional."

TAX MEASURES TO HELP BUSINESSES

LOW HWEE CHUA "The government can consider bringing back some of the tax measures in the Productivity and Innovation Credit scheme (which expired in 2018) to give employers more incentive to train workers during this period. An enhanced tax deduction for training expenses, for example, 200%, and capped at a certain amount, can help incentivise employers to invest more to upskill their employees."

PROF SUM YEE LOONG "As it is likely that many businesses would incur losses in 2020/2021, the government can consider implementing a cash conversion scheme, whereby businesses can choose to convert their losses into cash, to help with their cashflow. For businesses to make a considered choice, the conversion rate may be set at 12.5% to 14% (which is slightly lower than the prevailing corporate tax rate of 17%)."

digital transformation, one panellist suggested that there should be a separate digital transformation team. This dedicated team, which is not bogged down by the current day-to-day work, should understand the current business processes, match them with appropriate technological solutions, prepare the business cases for their adoption and assist business in the necessary change management. This team can come from within the businesses, through the TACs or via an extended workforce who are engaged externally for their digital skills and expertise. More financial and manpower support, for example, to fund the hiring of such digital transformation teams, could be given to businesses to enable them to deploy dedicated resources in their digitalisation efforts.

SEIZING OVERSEAS BUSINESS OPPORTUNITIES

Greater support for technology-driven micro-supply chain

Increasingly, changing customer demands for variety, customisation and speed are posing huge challenges to the traditional "one-size-fits-all" supply chain model. The Covid-19 pandemic has further brought to light the importance of having a robust and resilient supply chain as well as the need for micro-supply chains that allow for customisation by customer/market. To remain competitive, businesses must change their existing supply chains to deliver greater value to meet the differing needs of their different customer segments. In this regard, the government could provide grant/funding for technology-driven micro-supply chains, to support businesses in their transformation journey. Micro-supply chains are agile, decentralised and independent "mini operating models" with flexible supplier contracts. They manufacture, assemble and store goods close to the point of purchase by customers. The implementation of micro-supply chains, when complemented with the usage of technology (for example, Internet of Things, artificial intelligence, etc), will allow businesses to run multiple standard work processes in parallel and reduce the costs of complexity typically associated with multiple variations of products.

Group Singapore's overseas businesses together to enhance attractiveness

Furthermore, some panellists felt that businesses should capitalise on Asia's growth and tap on opportunities arising from the Regional Comprehensive Economic Partnership. To that end, they suggested that the TACs can help to bring Singapore businesses together in their internationalisation efforts. By leveraging the strengths of one another, this can possibly create a greater synergistic impact, as compared to venturing overseas individually.

Another suggestion, in line with the concept of "hunt in packs", is to have Temasek-linked-companies (TLCs) incorporate key performance indicators related to TLCs helping to bring SMEs overseas. For example, TLCs can be assigned a target number of SMEs which they must help to bring overseas.

DEEPENING WORKERS' CAPABILITIES

More resources needed to enhance workers' capabilities

The SGUnited Jobs initiative was lauded by the panellists as being useful. However, some panellists highlighted that the pressing issue now is that while a lot of businesses are trying to go digital, there is insufficient manpower with the necessary skill sets to support such digitalisation projects.

Against the backdrop of digital transformation, it was observed that the existing workforce is not capable of handling this change. Unless the job is redesigned or the existing workforce is reskilled, there could be job mismatch. On top of this, there was feedback that the grant application process for job redesign was not transparent. When some SMEs had their applications rejected, they were not informed of the reasons for the rejection. Further, it was a laborious and bureaucratic process to obtain support from government agencies to reskill an existing worker as opposed to hiring a mid-career individual. There was concern that as a result of such delays brought about by the onerous process, the existing staff could unwittingly have to be let go.

Address skills gap in local workforce

In addition, it was recognised that there is a skills gap in the local workforce in deep tech areas such as artificial intelligence and the Internet of Things that foreign talents can help fill. To plug this gap, there was a suggestion that foreign talents could be hired in a calibrated manner, taking into consideration current manpower laws and regulations relating to the hiring of foreigners. Such foreign talents could also train the local workforce in digital skills. The transfer of skills from foreign talents to the local workforce may be effected by way of formal training, on-the-job training and mentorship programmes, etc.

TAX MEASURES TO HELP BUSINESSES

Improve cashflows of businesses

To help businesses with their cashflows, it was announced in Budget 2020 that the Loss Carry-back Relief will be enhanced for Year of Assessment 2020. While this enhancement has been helpful, it was suggested that the cap of $100,000 could be increased to a higher amount such as $500,000, to render more financial help to businesses as the economy remains uncertain. This will also enable more businesses to benefit from the higher cap.

Incentivise research and development

There was also a suggestion to allow loss-making businesses to claim refundable research and development (R&D) credits (that is, cash payout of R&D tax incentive in lieu of enhanced tax deduction). This would be more useful than a higher tax deduction, which is only useful for businesses which are making profits.

CONCLUSION

Overall, the panellists concurred that Budget 2021 should focus on positioning Singapore to emerge stronger from the Covid-19 pandemic. It is more crucial than ever for Singapore to accelerate its innovation and digital transformation efforts, as well as its industry transformation plans. ISCA

Perrine Oh is Senior Manager, Insights & Publications, Institute of Singapore Chartered Accountants.

BY DELOITTE CHINA AND DELOITTE SOUTHEAST ASIA

EMERGING DIGITAL LIFE IN SOUTH AND SOUTHEAST ASIA

Huge Potential Waiting To Be Unleashed

DELOITTE, IN PARTNERSHIP WITH THE INCLUSION FINTECH CONFERENCE, has published the first-ever South and Southeast Asia digital life index in a report titled, "The Next Wave: Emerging Digital Life in South and Southeast Asia". This report was launched at the inaugural INCLUSION Fintech Conference in September 2020 to foster a global dialogue on building a more inclusive, green and sustainable world through digital technology.

Through an extensive survey conducted across age groups in eight countries in South and Southeast Asia, specifically Singapore, Malaysia, Thailand, Indonesia, the Philippines, India, Bangladesh and Pakistan, the report shows that consumers aged between 21 and 40 years are the leading force enabling the rapid adoption of a digital life in the region in the post-Covid-19 world, with 78% of those surveyed in the age group indicating they have increased their use of digital services.

Overall, with the exception of Singapore, countries in the two regions (South and Southeast Asia) feature underdeveloped financial systems and an insufficient supply of traditional financial services which, together with their huge gaps in urban-rural Internet development, create a large space for digital payment to thrive.

According to Taylor Lam, Technology, Media & Telecommunications Industry Leader at Deloitte China, "young and vibrant economies in South and Southeast Asia are rapidly becoming the next wave of future leaders in digital economy. The combination of a relatively large, young, unbanked and underbanked population, high mobile penetration and supportive local governments has helped the region leapfrog in its digital infrastructure and innovations, which has accelerated the adoption of digital payment and the expansion of daily digital life scenarios in the region".

"Through our research, we have seen great potential for these digital economies to continue maturing and become more inclusive, more convenient and secure, and more sustainable, which will benefit their recovery from the impact of the Covid-19 pandemic," says Mr Lam. This article discusses the key insights from the report.

PHOTO SHUTTERSTOCK

(1) THE RISE OF DIGITAL LIFE

Maturing mobile digital ecosystems in China, Japan and South Korea have set the backdrop for manufacturers of mobile phones and mobile applications to look to emerging markets, with Southeast Asia and parts of South Asia becoming one of the most eye-catching regions. In fact, as emerging regions, South and Southeast Asia are expected to become the engine that drives global digital life into a new era.

There are four reasons behind the rise of South and Southeast Asia's digital consumption:

(a) Collectively, South and Southeast Asia's population is large in size and young in age. Many have no bank accounts or insufficient access to banking services, and this has propelled the growth of digital payment in the two regions; their young population became "digital natives", and are boosting digital life and consumption through demographic dividends.

(b) The high penetration of smartphones and extensive use of mobile applications have become the core of local digital life.

(c) The penetration of smartphones has advanced the use of mobile applications, for example, social media, live webcasts, mobile phone games, e-commerce and digital payment, with users more inclined to use mobile e-commerce than their peers in developed economies.

(d) Most countries in the two regions saw the importance of the digital economy early on and have introduced policies that support its development and facilitate the construction and promotion of digital infrastructure.

The potential of digital payment

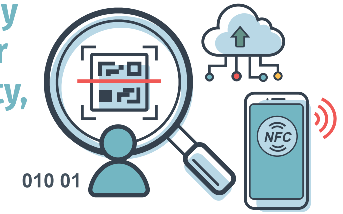
Digital payment has boundless potential. In just two years from 2017 to 2019, global users of electronic wallets skyrocketed from 500 million to 2.1 billion, with developing countries accounting for the lion's share of the increase, and China and India having a combined 70% of all users. In 2019, digital payment developed at an unprecedented speed. Mobile currency was initially a product for a small number of specific markets. It has now become a global phenomenon and shown surprising growth in emerging markets, benefiting an extensive group of users.

quick facts

2017 to 2019: 500 million to 2.1 billion of global users of electronic wallets

PHOTO SHUTTERSTOCK

South and Southeast Asia will see rapid developments in digital life. However, there are still several areas that can be improved, especially digital infrastructure, consumer development, information security, and policy coordination.



China, Japan and South Korea hold a safe lead in terms of the quantity and scale of digital payment use. In China, the proportion of digital payment is as high as 86% and its popularity is about three times the average global level. Because of their large population bases, India and Indonesia have reached the second echelon in digital payment volume.

However, across other countries in South and Southeast Asia, this trend is still at an initial stage and there is much room to grow.

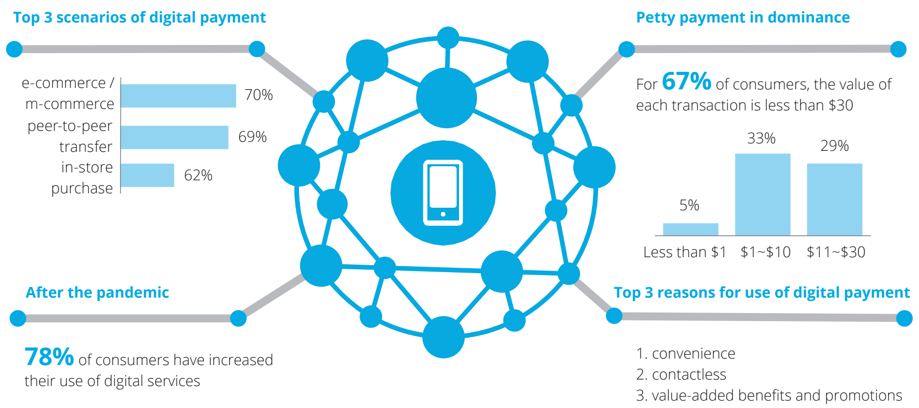
Overall, with the exception of Singapore, countries in the two regions feature underdeveloped financial systems and an insufficient supply of traditional financial services which, together with their huge gaps in urban-rural Internet development, create a large space for digital payment to thrive. In a very positive development, several national governments have launched basic digital hardware projects to accommodate 4G and 5G networks, creating broad prospects for the financial technology sector in South and Southeast Asia, which set the stage for increases in digital payment volume. These government actions further highlight the fact that numerous needs have not been met yet. When these needs are met, the massive potential of both regions' digital finance will be unleashed.

Digital payment has also become the new conduit for flow and value. With the sharp rise in Internet and smartphone popularity, maturing digital payment operability, lower transaction costs and greater convenience, digital payment transactions accounted for a large portion of fund flows for the first time in 2019, and the flow of new funds into digital payment is inexorable. For customers, this marks a shift from traditional cash payment to digital payment. For the digital payment sector, the constant entrance of more digital products into the hands of low-income users makes it vital to ensure these are user-centric, relevant and able to meet real needs.

In addition, the Covid-19 pandemic has accelerated the adoption of "zero contact" digital payment as it allows the avoidance of contact with currency to ensure safety and hygiene. Since the Covid-19 outbreak, about 78% of the research participants indicated that they have experienced some increases in the usage of digital services, in which 41% indicated a surge.

Continuous innovations have been made in "zero contact" payment platforms to provide more services during the epidemic, including wage payment, donations and entertainment.

Figure 1 Portrait of digital payment in South and Southeast Asia



Source: Deloitte Research

(2) DIGITAL LIFE CONSUMER PORTRAITS

It was found through the survey that young adults aged 21 to 40 lead the richest digital lives in terms of the variety of digital life use scenarios. Digital payment, as a key enabler, is enhancing digital life for consumers, resulting in fundamental shifts in social interactions, financial services, digital entertainment, daily life services and shopping habits (Figure 1).

The top three most common daily life scenarios where consumers choose to use digital payment are e-commerce/m-commerce (70%), peer-to-peer transfer (69%) and in-store purchase (62%). The majority of digital payment transactions are small in value – 67% of research participants indicated that the average value per transaction is lower than US$30 per person. This indicates that digital payment has penetrated consumers' daily lives and has become the mainstream to meet their everyday needs.

The top three reasons why consumers opt to use an e-wallet are convenience (77%), its contactless nature (69%) and the value-added benefits and promotions they can enjoy (9%).

Looking at mobile apps, the top most popular areas where digital payment is applied are:

- Entertainment: this includes social media (79%) and music/video streaming (50%);
- E-commerce (74%): convenience, product variety and low price are the top three reasons for consumers to choose to shop online;
- Daily life services (59%): ride-hailing, news and books, and workplace collaboration are the top three most often used apps in this category;
- Financial services (45%): mobile banking and digital payment are the most used apps.

Figure 2 Four main digital payment scenarios in South and Southeast Asia

Source: Deloitte Research

In addition, compared with mature models of digital payment in other countries, South and Southeast Asian countries demonstrate the following characteristics:

- There is a continued preference for cash for reasons such as consumer habits; also, digital payment in many of these countries rely more on the e-wallet model, which enables a ready exchange for cash.
- These countries need to rely on offline channels, such as convenience store networks, to connect consumers due to wide gaps in the availability of traditional finance and weak binding relationships among digital payment, bank cards and bank accounts.
- Differences in per capita income result in variations of smartphone penetration; the various modes of digital payment adopted by countries range from PIN codes and QR codes to biometrics.

(3) UNIQUE DIGITAL LIFE IN SOUTH AND SOUTHEAST ASIA

The regional Digital Life Index is developed based on the research and on a series of parameters including mobile phone penetration, mobile Internet speed, digital payment maturity, online shopping maturity, digital security, social media activity and policy support.

Singapore and Malaysia have become digital life "leaders". Judging from various indicators, they are leading participants in the digital economy, driven by strong government support, broad public participation and good infrastructure.

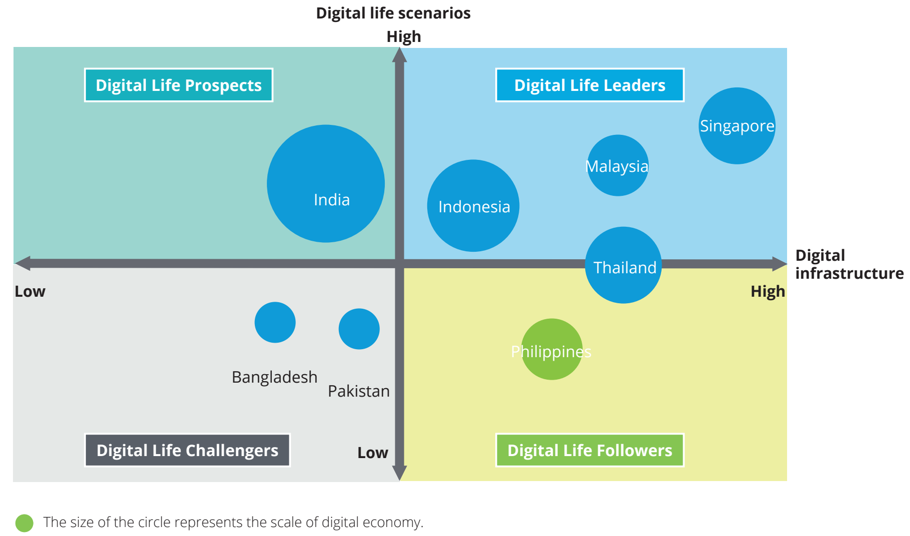
There is a group of "following" countries that are poised to catch up. Thailand is a good example. Its per capita income is relatively high, which leads to high smartphone penetration. It therefore has excellent social media activity, maturity of online shopping and digital payment indicators. In the Philippines, the penetration rate of mobile phones needs to be improved, but it has strong advantages in digital money transfer, e-sports live broadcasts and other segments.

Although digital applications are not as rich as in the leading countries, the digital economies in the follower countries are on the verge of expansion. With good digital foundations and effective policy promotion, they can rapidly catch up with the leading countries.

In South Asia, India has outstanding achievements in some indicators, especially network security. However, because of a wide income gap, it still faces challenges such as slow Internet speed and a preference for cash payment.

Bangladesh and Pakistan have the farthest to catch up. Due to slower social and economic development, their digital infrastructure and mobile phone penetration rates are some way behind those of other countries. However, this does not mean they are digital life "deserts". On the contrary, some of the digital services rooted in their national conditions have become vigorous sources of economic development. As their digital infrastructure improves, and amid the influence of China and other leading countries in the digital economy, these "challenger" countries will become a new and huge potential market for the digital economy in Southeast and South Asia.

Figure 3 Digital life leaders in South and Southeast Asia



Digital infrastructure: mobile Internet speed, mobile phone penetration, government policies
Digital life scenarios: social media, e-commerce activities, digital payment

Source: Surfshark, Google & TEMASEK, GSMA, Statista, Globalweb Index, Deloitte Research

(4) UNLEASHING THE POTENTIAL OF DIGITAL LIFE

There is no doubt South and Southeast Asia will see rapid developments in digital life. However, there are still several areas that can be improved, especially digital infrastructure, consumer development, information security, and policy coordination.

Governments can play a strong role in promoting digital life by setting up a uniform standard for identification and electronic payment, determining and supervising a uniform payment standard, and using policy tools to drive the popularisation of digital payment. Looking to the future, the governments of many countries will construct basic payment platforms and facilities; third-party platforms will continuously innovate their technologies and services and comprehensively promote digital payment models in multiple online and offline scenarios, and digital payment in these countries will advance quickly towards more widespread, faster and more secure use.

And, as the digital infrastructures in South and Southeast Asia improve, the richness of digital life will be unprecedented and contribute to the economies and potential of countries in both regions. ISCA

This article was contributed by Deloitte China and Deloitte Southeast Asia. For queries regarding the research methodology, please contact Roger Chung at rochung@deloitte.com.cn or Shuting Guo at shguo@deloitte.com.cn. For queries regarding the contents of the report, please contact Gary Wu at gawu@deloitte.com.cn, Taylor Lam at talam@deloitte.com.cn or Lisa Zhou at liyzhou@deloitte.com.cn.

PHOTO GETTY IMAGES

BY HO YEW KEE, YEAP LAY HUAY AND CHU MUI KIM

AUDIT COMMITTEE LANDSCAPE IN SINGAPORE (PART 1)

Steady Progression Towards Best Practices

AGENCY THEORY POSITS THE IMPORTANT ROLE OF THE BOARD OF DIRECTORS ASSIGNED BY THE SHAREHOLDERS TO OVERSEE THE MANAGEMENT. Specifically, the audit committee (AC) is a sub-committee established by the board to ensure the integrity of the financial reports, review the internal controls and risk management, appoint and set external auditors' fee and oversee the internal audit function (Singapore Code of Corporate Governance (2018) or CG Code 2018). Given its pivotal role in the governance of companies, the AC has been a topic of great research interest around the world.

The 2020 study on "The Profile of Audit Committees of Listed Companies in Singapore" is the fourth study of ACs of listed companies in Singapore. The Accounting and Corporate Regulatory Authority (ACRA), the Institute of Singapore Chartered Accountants (ISCA), Singapore Exchange Regulation (SGXRegCo) and Singapore Institute of Directors (SID) have commissioned the Singapore Institute of Technology (SIT) to conduct this study. The first three studies were conducted in 2009, 2011 and 2015, with ISCA being the key initiator of the study series. These studies provide a baseline benchmark to calibrate the progress of ACs of listed companies in Singapore inter-temporally.

This is a two-part article. Part 1 will focus on the key findings based on our review of the data collected from the 2019 annual reports of 650 Singapore-listed companies which were available. A total of 2,129 AC seats with 467 unique individuals as Chairmen and 1,213 unique individuals as members were examined in this Study.

In addition, the Study includes an online survey of AC Chairmen and members, augmented by focus group discussions and one-to-one interviews of selected AC members. The findings from the survey, interviews and group discussions will be presented in Part 2.

In this article, we highlight the pertinent trends among the ACs in Singapore.

Empirical evidence has shown that AC financial expertise is associated with better financial reporting quality or lower earnings management, constraining tax aggression, better corporate disclosures and timely financial reporting.

DECREASING TREND OF "BUSY" DIRECTORS

Empirical research has shown mixed results of the impacts of AC multiple directorships on AC effectiveness. On the one hand, it has been argued that a director is "busy" because she is highly sought after for her expertise and reputation, and would exercise self-discipline to protect her reputation. On the other hand, "busy" directors are not able to devote as much attention to their roles as AC members because of their commitments in other boards. They may often find themselves facing time constraints to fulfil their responsibilities especially when earnings reporting are bunched together. Hence, multiple AC directorships is generally viewed as having a negative effect on AC effectiveness.

Table 1 Distribution of the number of chairmanship and membership of ACs held by individuals

Chairmanship of AC	2020 Study	2015 Study	2011 Study
1	355 (76.0%)	345 (71.6%)	323 (70.2%)
2	69 (14.8%)	74 (15.4%)	72 (15.7%)
3	24 (5.1%)	40 (8.3%)	27 (5.9%)
4 and above	19 (4.0%)	23 (4.7%)	38 (8.2%)
TOTAL	**467 (100%)**	**482 (100%)**	**460 (100%)**

Members of AC	2020 Study	2015 Study	2011 Study
1	1,016 (83.9%)	1,047 (82.9%)	1,026 (81.6%)
2	141 (11.4%)	140 (11.1%)	153 (12.2%)
3	44 (3.7%)	48 (3.8%)	43 (3.4%)
4	12 (1.0%)	28 (2.2%)	36 (2.8%)
TOTAL	**1,213 (100%)**	**1,263 (100%)**	**1,258 (100%)**

Table 1 shows that a significant majority of the individuals held only one chairmanship position (76.0%) or sat on one AC (83.9%). The number of individuals with multiple chairmanship or membership in AC has been declining systematically over time. This is a positive development as it is consistent with the pervasive view that "busy" directors may be detrimental to AC effectiveness.

PROGRESS IN GENDER DIVERSITY

Studies have shown that given the innate qualities of women, they may be more risk adverse and conservative, which may influence the quality of financial reporting. As female directors are participative, they may bring about different perspectives which can lead to better quality decisions, improved compliance with related party disclosures and companies being less tax aggressive.

Figure 1 shows the percentage of the chairmanship and membership of AC who are female. The finding suggests a systematic, albeit a very slow, increase in the percentage of females in both chairmanship and membership of ACs. Since the 2009 Study, we have consistently documented an increasing trend in the participation of female AC members from 4.8% in 2009 to 11.1% in 2020.

Despite the increase, it will take another five years just to reach 14%, given the current growth trend. This Study suggests that greater efforts may be needed to encourage the participation of female directors as AC Chairmen or members.

Figure 1 Percentage of AC memberships who are female

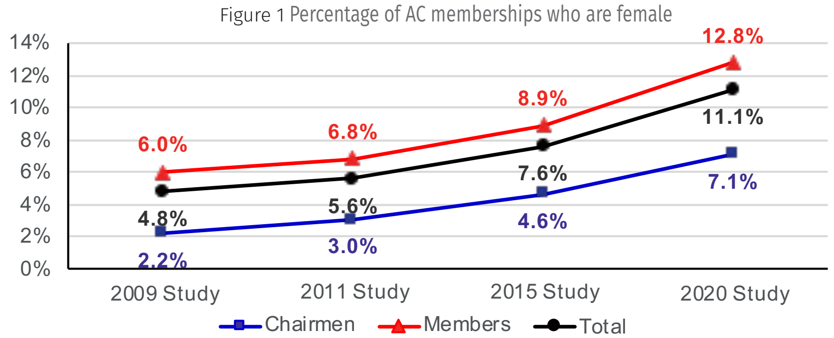
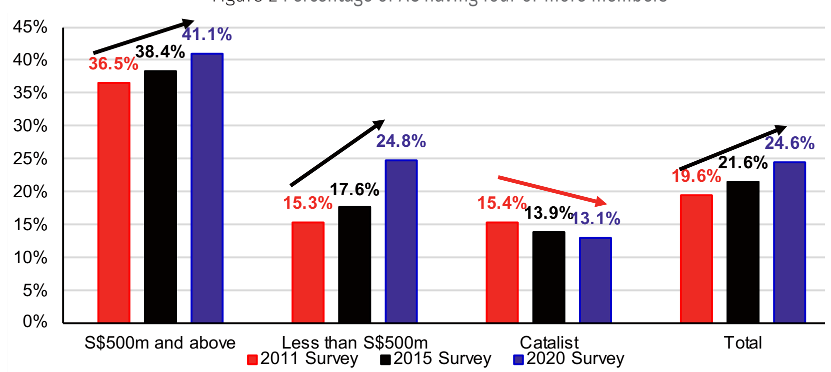


Figure 2 Percentage of AC having four or more members



INCREASING SIZE OF AC (EXCEPT CATALIST COMPANIES)

A bigger AC enables the sharing of more director experiences and expertise. Studies have found that a larger AC has a negative effect on earnings management, is better at monitoring fraudulent financial reporting resulting in more disclosures and higher audit quality, and is less tax aggressive.

The Companies Act (Chapter 50) and CG Code 2018 require ACs to have a minimum size of three members. The Companies Act further stipulates that if the number of members falls below three, the board has up to three months to appoint new members so as to make up the minimum number of three members. Figure 2 shows an increasing trend in the size of ACs with four or more members over the years, except for Catalist companies.

This may reflect the complexities and enlarged scope of work of ACs today.

IMPROVING COMPOSITION OF AC

For an AC to fulfil its monitoring role and protect shareholders' interests, it needs to be independent from the management. The key belief is that AC independence is generally associated with higher audited financial reporting quality.

The Companies Act (Chapter 50) requires that the majority of the AC members shall not be executive directors of the company or any related corporation or are deemed to be related. Further, CG Code 2018 requires an AC to consist of all non-executive directors, with the majority of them (including Chairman) being independent. Therefore, compliance with the guidelines of CG Code 2018 will also result in the compliance with the Companies Act but not necessarily the reverse.

Table 2 Panel A shows that 99.8% of the Chairmen of ACs are independent directors. From Table 2 Panel B, 98.2% of the members of AC are either independent or non-executive directors. Overall, there is a strong element of independence in the ACs as 98.7% of the Chairmen and members of AC are either independent or non-executive directors (Table 2 Panel C). This has remained relatively stable since 2011 (98.4% in 2015; 97.2% in 2011).

However, Table 2 Panel C shows that there are 24 executive directors in the ACs despite the CG Code 2018 recommendation for all AC members to be non-executive. The number of alternate directors has increased to two in 2020 from one in 2015 but it is a significant decrease from 20 in 2011.

... multiple AC directorships is generally viewed as having a negative effect on AC effectiveness.

Table 2 Types of directors in the ACs

Panel A: Chairmen of All Companies	2020 Study	2015 Study	2011 Study
Independent Director	642 (99.8%)	706 (99.2%)	718 (99.3%)
Non-Executive Director	1 (0.2%)	6 (0.8%)	1 (0.1%)
Executive Director	0 (0.0%)	0 (0.0%)	3 (0.4%)
Alternate Director	0 (0.0%)	0 (0.0%)	1 (0.1%)
Others (no information)	0 (0.0%)	0 (0.0%)	0 (0.0%)
TOTAL	**643 (100%)**	**712 (100%)**	**723 (100%)**

Panel B: Members for All Companies	2020 Study	2015 Study	2011 Study
Independent Director	1,256 (84.5%)	1,302 (81.4%)	1,281(78.6%)
Non-Executive Director	204 (13.7%)	259 (16.2%)	285 (17.5%)
Executive Director	24 (1.6%)	38 (2.4%)	41 (2.5%)
Alternate Director	2 (0.1%)	1 (0.1%)	19 (1.2%)
Others (no information)	0 (0.0%)	0 (0.0%)	4 (0.2%)
TOTAL	**1,486 (100%)**	**1,600 (100%)**	**1,630 (100%)**

Panel C: Total for All Companies	2020 Study	2015 Study	2011 Study
Independent Director	1,898 (89.1%)	2,008 (86.9%)	1,999 (85.0%)
Non-Executive Director	205 (9.6%)	265 (11.5%)	286 (12.2%)
Executive Director	24 (1.1%)	38 (1.6%)	44 (1.9%)
Alternate Director	2 (0.1%)	1 (0.0%)	20 (0.8%)
Others (no information)	0 (0.0%)	0 (0.0%)	4 (0.2%)
TOTAL	**2,129 (100%)**	**2,312 (100%)**	**2,353 (100%)**

ACCOUNTING/AUDITING EXPERTISE

Research has largely shown that AC financial expertise enhances ACs' effectiveness in discharging their role to oversee the financial reporting and audit processes. Empirical evidence has shown that AC financial expertise is associated with better financial reporting quality or lower earnings management, constraining tax aggression, better corporate disclosures and timely financial reporting.

The CG Code 2018 recommends that ACs should have at least two members who have recent and relevant accounting/auditing experiences. The Singapore regulations, however, do not define what "recent and relevant accounting or related financial management expertise or experience" is. This Study proxies recent and relevant accounting/auditing experiences by examining the full-time working experiences, formal academic training and professional membership of AC members (Table 3).

As can be seen in Table 3, 64.4% of the sample complied with this best practice. However, 29.8% of the sample has only one financially trained AC member while 38 companies did not provide sufficient information to classify their AC members as financially trained. It is important for companies to convey to the investing public that their AC members have accounting and auditing training in order to provide the confidence to the market that it has an effective AC.

Table 3 Summary statistics of AC members who are financially trained

No. of Financially-Trained Members in AC	2020 Study			
	≥S$500m	<S$500m	Catalist	Total
	Number of Companies			
0	11 (7.8%)	17 (5.6%)	10 (4.9%)	38 (5.8%)
1	39 (27.7%)	96 (31.7%)	59 (28.6%)	194 (29.8%)
2 or more	91 (64.5%)	190 (62.7%)	137 (66.5%)	418 (64.4%)
TOTAL	**141 (100%)**	**303 (100%)**	**206 (100%)**	**650 (100%)**

No. of Financially-Trained Members in AC	2015 Study			
	≥S$500m	<S$500m	Catalist	Total
	Number of Companies			
0	4 (2.4%)	18 (4.4%)	8 (5.6%)	30 (4.2%)
1	43 (26.2%)	128 (31.3%)	31 (21.5%)	202 (28.2%)
2 or more	117 (71.4%)	263 (64.3%)	105 (72.9%)	485 (67.6%)
TOTAL	**164 (100%)**	**409 (100%)**	**144 (100%)**	**717 (100%)**

No. of Financially-Trained Members in AC	2011 Study			
	≥S$500m	<S$500m	Catalist	Total
	Number of Companies			
0	15 (10.1%)	55 (12.1%)	14 (11.4%)	84 (11.6%)
1	53 (35.8%)	217 (47.9%)	49 (39.8%)	319 (44.1%)
2 or more	80 (54.1%)	181 (40.0%)	60 (48.8%)	321 (44.3%)
TOTAL	**148 (100%)**	**453 (100%)**	**123 (100%)**	**724 (100%)**

LONG TENURE OF AC MEMBERS (NINE-YEAR RULE)

Studies have shown that AC members with long tenures may become so comfortable with the management that they are less scrutinising and may accept management's judgement and decisions more readily. Research argues that long-tenured board members are more closely affiliated/aligned with management and therefore have a greater tendency to approve decisions and judgement of management. Hence, a term limit for board membership as a governance mechanism is proposed. However, there are contrary studies which find that earnings management and tax aggressiveness are less likely in the presence of AC members with longer tenures.

Table 4 Number of years AC members have been with the companies

	2020 Study			2015 Study		
	Chairmen	Members	Total	Chairmen	Members	Total
Less than or equal to One year	11 (1.7%)	45 (3.0%)	56 (2.6%)	132 (18.5%)	358 (22.4%)	490 (21.2%)
More than One Year to Five Years	232 (36.1%)	600 (40.4%)	832 (39.1%)	207 (29.1%)	519 (32.4%)	726 (31.4%)
More than Five Years to 10 Years	186 (28.9%) 159 (24.7%)*	450 (30.3%) 386 (26.0%)*	636 (29.9%)	213 (29.9%)	409 (25.6%)	622 (26.9%)
Greater than 10 Years	212 (33.0%) 239 (37.2%)**	384 (25.8%) 448 (30.1%)**	596 (28.0%)	150 (21.1%)	281 (17.6%)	431 (18.6%)
Insufficient Information	2 (0.3%)	7 (0.5%)	9 (0.4%)	10 (1.4%)	33 (2.1%)	43 (1.9%)
TOTAL	**643 (100%)**	**1,486 (100%)**	**2,129 (100%)**	**712 (100%)**	**1,600 (100%)**	**2,312 (100%)**

*More than Five years to Nine years
**Greater than Nine years

Table 4 shows that 37.8% of the Chairmen of AC (47.6% in 2015) and 43.4% of the members of the AC (54.8% in 2015) had been with the company for five years or less. It would seem to suggest that most Chairmen and members of AC had been with the companies for some years, and the turnover of Chairmen and members in 2020 had slowed significantly as compared to 2015.

A large percentage of Chairmen and members (33.0% and 25.8% respectively) have been with the company for 10 years or more. The new nine-year independent director rule would prima facie deem all these directors as non-independent. Companies will then have to explain why they are still considered independent and should continue to serve in the ACs. With the two-tier voting system for long-tenured board members coming into effect on 1 January 2022, directors who have served more than nine years would be subjected to a two-tier vote. Companies must take action to renew the board or subject the AC members to a two-tier vote by 31 December 2021.

The finding suggests a systematic, albeit a very slow, increase in the percentage of females in both chairmanship and membership of ACs.

CONCLUSION

Based on our longitudinal comparison of AC development in Singapore, we observe a progression in the attributes of the ACs arising from the adoption of best practices. There is no systematic pattern of non-compliance with the legislation or best practices. Any deviations, such as having fewer than three members in the AC or having executive directors in the AC, were confined to a small number of companies. This suggests that listed companies do take the regulations and best practices seriously even though these requirements have been increasing over time. The findings suggest that there is a decreasing trend of "busy" directors, and companies should also continue to press on with gender diversity, monitor the size of AC and ensure the continuing independence of the AC directors. There is, however, a need to further deepen accounting/auditing expertise in ACs, and companies with long-serving directors should start preparing for the implementation of the nine-year independent director rule. ISCA

Look out for Part 2 of this article, which will focus on the findings from the survey, interviews and group discussions of AC Chairmen and AC members.

Prof Ho Yew Kee is Associate Provost, Singapore Institute of Technology (SIT); Yeap Lay Huay and Chu Mui Kim are both Senior Lecturers, SIT.

BEYOND THE KPIs OF SUCCESS

It should come as no surprise that Tay Peng Huat, Chief Financial Officer (CFO) of the Jumbo Group – perhaps best known for its Jumbo Seafood restaurants – is a big believer in the joys of bonding over a meal. But it is not the elaborate food presentations nor fancy sauces that he relishes – although he does appreciate them from a culinary perspective – rather, it is the personal touch of a face-to-face encounter that he enjoys. After all, this is the man who usually spends hours "walking the ground", interacting with people from various departments even though he holds the top finance job in many of the companies he has worked at. Even today, it is not uncommon to see the 58-year-old engaging in earnest conversation with his rank-and-file colleagues from the non-finance teams.

Tay Peng Huat, FCA (Singapore), Chief Financial Officer, Jumbo Group

Mr Tay, who comes across as cheery and down-to-earth, admits that his was a path less travelled. To begin with, he found himself studying accountancy "by default". "It was really a process of elimination," he recalls. "I wanted a professional career, and accountancy was what was open to me." In 1988, armed with a Bachelor of Accountancy from National University of Singapore, he embarked on his career as an auditor at Ernst & Young, where he stayed for close to eight years. During this time, he became aware of the many paths available to someone with an accountancy background. In 1996, he crossed over to the commercial sector and has never looked back.

Mr Tay considers himself "lucky" to have had one of the partners at Ernst & Young as his mentor. The experience helped to shape his subsequent thinking and approach. When he became CFO and was in a position to mentor others, he applied some of the lessons learnt, combining them with his own inimitable style, and reaped the desired rewards. "It gladdens me to see that my former teammates have found good positions and leadership roles in other firms," he says.

While he is amenable to sharing the recipe for his professional accomplishments, he is now more sanguine about moving beyond the "KPIs of success", as he succinctly puts it. "I'm older and wiser now, plus, I started a family late. So for me, it is very important to set aside as much time as I can to be with my wife and children. If I'm away too much, I think I will regret not being there (more often) for them." His actions align with his words. Mr Tay gave up golf – a sport he enjoys – to dedicate more attention to his young son and daughter. While he acknowledges that achieving an optimal work-life balance is important, it would not have been possible earlier in his career, when he was pulling in long hours and establishing himself professionally.

OVERCOMING CHALLENGES

How did he make the leap from auditor to CFO of Electronics Resources Ltd, which is today part of IT behemoth Ingram Micro? Mr Tay was actually on the team that helped Electronics Resources go public in Singapore, and this was how he got his start with the firm. For certain, it was not all plain sailing. "I thought I knew everything about the company but once I joined, I realised that I only knew about 5%!" he recounts, with a self-deprecating chuckle.

One of the challenges he had to overcome was making the transition from an audit firm to a commercial entity. In his experience, the biggest difference lies in communications. "In an audit firm, you deal mostly with graduates in a professional field. There is a common framework to communicate with each other. When you move to a commercial firm, you tend to deal with people from a range of different backgrounds. The education and life experiences of your colleagues will vary widely. You will need different approaches to communicate with different people. In some cases, you will also have decision-makers who are family members of the business owners, whom you will need to communicate closely with. This is especially true if you are the CFO," he explains. This was also the start of Mr Tay's journey to understanding that the finance function is not limited to just

> "**When you move to a commercial firm, you tend to deal with people from a range of different backgrounds.** The education and life experiences of your colleagues will vary widely. You will need different approaches to communicate with different people."

bookkeeping. However, as challenging as all that might be – especially in terms of implementing digital transformation in the famously conservative food and beverage (F&B) industry in Singapore – it pales in comparison with the ongoing disruption caused by Covid-19.

"The Covid-19 situation has been tough for everyone," Mr Tay observes. "After Chinese New Year last year, we found ourselves struggling with all the new regulations – and there were new ones every week. Almost the entire F&B industry was adversely affected." But adversity sometimes brings forth opportunities. For the Jumbo Group, the circuit-breaker period saw the planning for its virtual brand called Hack It, which offers "seafood in a pack" that customers could enjoy in the comfort of their homes. The roll-out of this virtual brand has proven so popular that it will likely be integrated into its normal business activities. Industry-wide, there has also been other positive developments including digital menus, online ordering and cashless payments. "The crisis has accelerated these changes, which may not have been adopted for years otherwise, especially in our trade."

The entire F&B sector was in dire straits during the circuit-breaker period, and many businesses have bowed out. The group's signature brand, Jumbo Seafood, was also in a particularly difficult position. "A huge part of the revenue was wiped out and, given that tourists make up a full third of the customer base, it will take some time to have the revenue back to pre-Covid-19 levels. We have to work on new revenue streams." Catering to small groups of diners, who have to be seated a distance away, has also been tough on the bottom line. The Jumbo Group had to temporarily suspend business at a few of its outlets. "Government support helped but we still had to manage our own finances. The finance function plays an essential role here, particularly with figuring out what measures the company should take to better preserve the company's cash reserves." Cutting expenses is only one perspective. As Jumbo Seafood is in expansion mode, finance has a bigger role to play, highlights the CFO.

CAREER HIGHLIGHTS

1988 to 1996
Audit Manager, Ernst & Young

1996 to 2000
Chief Financial Officer, Electronics Resources Ltd

2000 to 2001
Chief Financial Officer, Ezyhealth.com

2002 to 2013
Chief Financial Officer, Beyonics Technology

2014 to Present
Chief Financial Officer, Jumbo Group

> **"... I'm not one who only looks at fair valuations. I try to understand the decisions of the company that lie behind the financials. This habit has followed me into the commercial world, where I am much more operational. Understanding the concerns of the other departments enables me to help them do a better job."**

EXPANSIONIST DRIVE

Jumbo Seafood has been in the press recently, with news about a second franchised restaurant in Fuzhou, China, the acquisition of Kok Kee Wanton Noodle in Singapore for S$2.1 million and a joint venture with a master licence to operate new outlets under the locally popular Lau Lim Teochew fishball and minced meat noodle brand. "I started eating at Kok Kee in the 1990s and I never thought I would be part of its acquisition team!" enthuses Mr Tay. He hopes that there will be more such developments for Jumbo Seafood in the near future as it provides yet another opportunity for the finance function to contribute to the overall well-being of the company.

As Mr Tay clarifies, for the finance function, the expansion of the business is more than just about risk, compliance and accounts. Asserting the belief that the days of accountancy and finance professionals being confined solely to bookkeeping are numbered – a view he has held since his time at Ernst & Young – he explains, "As an auditor, you try to analyse historical figures; that is the job. But I'm not one who looks only at fair valuations. I try to understand the decisions of the company that lie behind the financials. This habit has followed me into the commercial world, where I am much more operational. Understanding the concerns of the other departments enables me to help them do a better job."

Mr Tay maintains that accountancy and finance professionals in commercial firms have to stay on top of their game because they are the internal subject-matter experts. In addition to expertise, integrity is crucial. He holds strongly to the conviction that as a chartered accountant, "you must not be afraid to speak up when you find that things are not right, even when you have to confront senior management; people will value you for that". As more accountants step up to the plate, the accountancy profession is now respected more than ever, compared to when he first started work more than 30 years ago. In his opinion, the national accountancy body ISCA – with its strong focus and directed strategies – deserves much of the credit for the improved state of affairs, and for helping accountancy and finance professionals keep abreast of changing standards, and business and industry trends.

Of course, the effort put in by the individual is also important. After all, a dish requires not only the right ingredients, in the correct quantities and proportions, it needs the unparalleled skills of the chef to transform it into an exquisite culinary indulgence. ISCA

BY RUSLAN MOMOT

KEEPING OUR DATA SAFE

Measures To Preserve Consumer Privacy

EVERY TIME WE TAKE AN UBER RIDE, we actually want the platform to know our geographical location to match us to the closest driver. Indeed, we consumers benefit from such abundance of data being in the hands of companies. With these data, companies personalise their products and services to fit our preferences and needs.

At the same time, such ubiquitous availability of data increasingly presents risks. A notorious example of a consulting firm, Cambridge Analytica, exploiting the Facebook data of 50 million Americans to sway the 2016 United States (US) Presidential elections provides a cautionary tale. This is an extreme example, but similar (just on a smaller scale) data leakage and misuse incidents occur on a daily basis. What measures can governments and regulators take to prevent such incidents? How should companies and digital businesses, for whom a large part of their business models are our data, change their practices and policies so that our data are safe?

We find that, in general, when companies choose data policies in their self interest, more data are collected than what would be optimal for consumers. Our findings indicate that the claims of industry leaders that companies collect the exact amount (or even less data than) their consumers wish, are not necessarily true. Our work thus highlights the need for regulation of such markets.

In the US, the key data regulator is the Federal Trade Commission (FTC). After the Cambridge Analytica scandal erupted, the FTC fined Facebook US$5 billion. Not surprisingly, the FTC cannot ask companies not to collect data at all. In the end, these data are at the core of the companies' business model and asking not to collect these data is akin to asking companies to commit business suicide.

Thus, the FTC's major efforts right now, in terms of regulating these kinds of markets, are essentially directed at asking companies to enforce their data protection policies and at ensuring that at least a minimal data protection level is delivered. We show in our research that this is simply not enough.

Irrespective of the data protection levels you're implementing, data will always be such a business asset so companies will still be collecting more data than their customers wish. So more creative methods are needed to minimise the risks from data collection.

Recent research in computer science shows that adversaries can actually reconstruct sensitive individual-level information by observing companies' decisions, for example, personalised prices or assortments.

TWO SOLUTIONS TO REDUCE DATA COLLECTION: TAXES AND FINES

In our work, we propose two key types of instruments for discouraging companies from collecting more data than is strictly necessary. One is a tax proportional to the amount of data that a company collects. The more data a company collects about its customers, the higher the financial costs of these data to the company.

Another type of instrument is the liability fine. Whenever a company agrees to pay a certain amount of money to the regulator after a data breach, this amount of money should be proportional to the damage to consumers from the data breach. In the case of Cambridge Analytica, the breach was massive, so the company should have to pay a substantial fine.

Both these instruments can help in restoring efficiency in these kinds of markets and help a regulator like the US FTC to push companies to collect only the exact amount of data that customers are willing to share.

A THIRD WAY TO REDUCE THE HARM: RETHINKING REVENUE MANAGEMENT

Recent years have seen an emergence of data-driven revenue management. Companies increasingly harness our personal data in order to sell to us products and services at the right time and at the right price. Insurance companies offer personalised quotes based on intimate details of our lives including our medical histories. The financial industry designs personalised loans which fit our spending patterns. Facebook and Google decide how to build our newsfeeds. Amazon chooses a bespoke assortment of products to offer to each customer based on their past purchases.

HEC Paris Assistant Professor of Information Systems and Operations Management Ruslan Momot explains how his recent research, in collaboration with co-authors from the US, United Kingdom and Canada, sheds light on digital privacy.

PHOTO SHUTTERSTOCK

WHY IS CURRENT REGULATION INEFFICIENT?

In order to answer this question, we study interaction among three parties who are concerned with our data – us (the consumer), the company we are interacting with (for example, Facebook and advertisers using its services), and malicious third parties who may be other businesses (for example, ill-intent advertisers or companies similar to Cambridge Analytica) or even governments. Our research question is: How does a company's data policy (essentially, a company's decisions of how much data to collect and how to protect data) influence the interaction among these three parties?

What is common to all these seemingly different companies is the way in which they decide which price to set or which assortment to show each individual customer. The key ingredient is customers' data – companies engaged in personalised revenue management apply sophisticated machine-learning techniques and algorithms on the historical data of their previous customers in order to build models of human behaviour. These models are then used to offer new clients personalised products and services, such as an insurance quote, tailored prices of airline tickets or targeted advertisements when browsing the web. In essence, the company can come up with the best possible price (or assortment, for example) for the new customer because he or she will resemble previous customers with similar characteristics.

With this kind of decision-making framework usually used in the data-driven revenue management applications, which heavily relies on the (potentially sensitive) historical data, there are pressing privacy risks.

For instance, a hacker might simply steal historical data from the company's database. But a hacker doesn't even necessarily have to hack into the database! Recent research in computer science shows that adversaries can actually reconstruct sensitive individual-level information by observing companies' decisions, for example, personalised prices or assortments.

In our work, we design new "privacy-preserving" algorithms to be used by companies engaged in data-driven decision making. These algorithms are aimed at helping such companies to limit harm imposed on their customers due to data leakage or misuse, while still allowing profit. Unfortunately, data cannot be made 100% safe and we thus can only attempt to reduce harm as much as possible.

DIFFERENTIAL PRIVACY: A KEY TO PRIVACY-PRESERVING REVENUE MANAGEMENT

One possible way to design privacy-preserving algorithms for the companies engaged in data-driven revenue management is to impose an additional constraint on the companies' decision-making framework. In particular, we can require that the decisions of the company (that is, an insurance quote or an assortment of products) should not be too dependent on (or too informative of) the data of any particular customer from a historical dataset that the company used to derive this decision. An adversary, thus, should not be able to backtrace the company's decisions and infer sensitive information of the customers in the historical dataset. Formally, such requirement corresponds to designing "differentially private" revenue management algorithms. Differential privacy is a concept developed in computer science literature. It has become an established de facto privacy standard in the industry used by companies such as Apple, Microsoft and Google as well as public agencies such as the US Census Bureau.

We find that one can design privacy-preserving (or differentially private) algorithms for revenue management (that is, for personalised pricing or assortment optimisation) through the addition of carefully adjusted "noise" to companies' decisions or to the sensitive data that a company uses. "Noise" is essentially any meaningless data which is akin to a flip of a coin. Assume for instance, an insurance company which designs a quote for a particular customer. This company can first calculate the true-optimal price (for instance, the price that would maximise company's revenue from this particular customer), then flip a coin and add $1 if getting heads and subtract $1 if getting tails. Clearly, by adding such "noise" to the original true-optimal price, the company makes the carefully designed price "less optimal", which potentially reduces profits. However, adversaries will have less information (or less inference power) to deduct anything meaningful about sensitive information regarding the company's customers.

In our study, we show that the company does not have to add a lot of noise to provide sufficiently strong consumer privacy guarantees. In fact, the more historical data the company has, the cheaper such privacy preservation is and, fortunately for the company, in some cases, privacy can be achieved almost for free. ISCA

We find that one can design privacy-preserving (or differentially private) algorithms for revenue management (that is, for personalised pricing or assortment optimisation) through the addition of carefully adjusted "noise" to companies' decisions or to the sensitive data that a company uses.

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PHOTO SHUTTERSTOCK

BY LORI WIDMER

ENTERPRISE RISK MANAGEMENT

Initiate The Conversation Today

IN TIMES OF GREAT UPHEAVAL FOR INDUSTRIES OR FINANCIAL MARKETS, organisations often turn to the formal discipline of enterprise risk management (ERM). After the 9/11 terrorist attacks and the 2008 financial crisis, for example, ERM gained traction as many organisations realised the significant drawbacks of a traditional siloed risk management approach. But widespread ERM adoption remains stalled, and it is not for lack of awareness of risk's increasing complexity. According to the 2019 "State of Risk Oversight" report from North Carolina State University's Poole College of Management, 59% of business executives believe the volume and complexity of risks are increasing extensively over time. The report also found that 68% of organisations have recently experienced an operational surprise due to a risk they did not adequately anticipate.

While companies are aware that risk is an enterprise threat, many are not adopting an enterprise-wide approach to managing it. Indeed, just 31% of those surveyed said they have a complete ERM process in place, and a mere 23% described their risk management as "mature" or "robust."

The issue may be how organisations perceive the discipline of risk management. The report found that fewer than 20% of executives think that their risk management processes provide important strategic advantage. Just 26% said that their board substantively and formally reviewed top risk exposures when discussing the organisation's strategic plans.

This perception has had a negative impact on many organisations. According to the "Global Board Risk Survey" EY released in April 2020, just 21% of board members believed their organisation was "very prepared" to respond to an adverse risk event like the Covid-19 pandemic.

Now, as the pandemic continues to cause prolonged disruption in nearly every industry, risk management is under the microscope, and success has never been more critical. Organisations may finally be ready for widespread ERM implementation.

A good ERM process can help the organisation and its board identify opportunities and the accompanying risks, allowing them to change strategies as the market shifts and evolves.

59% **of business executives believe volume and complexity of risks are increasing extensively over time**

31% **of respondents say they have a complete ERM process in place**

23% **of respondents reveal they have a "mature" or "robust" risk management process**

STUMBLING BLOCKS

The problem with many ERM implementation efforts is that organisations do not understand how to create an ERM strategy, and make it more complicated than necessary. "People have made it too bureaucratic and process-oriented," said Carol Williams, ERM specialist and owner of Strategic Decision Solutions. "They have not really looked at how ERM practices can simply be concepts of mindset and approaches to how people conduct business today."

Too often, companies create layers of committees and procedures that they then have to wade through to make a decision. "By the time you get through all those steps, it has been days, weeks or months," she said. "And by that point, the time to make the decision is long passed."

Coupled with stories of how other companies have been unsuccessful at deploying ERM, this approach lends the impression that ERM is expensive, complex and ineffective. For every five stories of ERM success, Williams said it takes just one story of failure for companies to back away from implementation.

At the outset of the pandemic, as a significant number of workers around the world went home to work, many companies abandoned ERM initiatives. They were simply more focused on trying to stay in business, said Dolores Atallo, managing director and North American leader of enterprise risk management for Protiviti. When they were still trying to gain their footing, implementing anything new just seemed like a step too far. It was difficult to overcome communication hurdles and get people together to develop an effective ERM framework. But now that many organisations have become more comfortable working and communicating remotely, she believes this is an ideal time to develop and adopt an ERM programme.

It is also the right time for the board to become involved in formal risk discussions, according to Barton Edgerton, associate director of governance analytics for the National Association of Corporate Directors. However, the way risk is communicated presents a common roadblock. Risk professionals will often attempt to convey the entirety of the company's risks to the board, making it "challenging for a director to understand which are the most important risks, and where the board can most effectively support management's discussion about the risks," he said.

Risk professionals should think beyond just reporting their activities to the board and focus instead on helping the board and management partner with them for the good of the business. "A lot of people focus on how we are going to communicate what we do in ERM to the executive leadership and to the board," Williams said. "But it is not necessarily about making presentations, it's about the business."

PHOTO SHUTTERSTOCK

Too often, companies create layers of committees and procedures that they then have to wade through to make a decision. "By the time you get through all those steps, it has been days, weeks or months... And by that point, the time to make the decision is long passed."

THE CASE FOR ERM

A good ERM process can help the organisation and its board identify opportunities and the accompanying risks, allowing them to change strategies as the market shifts and evolves. "It's an opportunity to stand on higher ground and look across the organisation," Atallo said.

Thanks to a 2016 mandate requiring certain agencies to adopt ERM, parts of the federal government have been able to take advantage of the flexibility ERM can bring to organisations. "Every federal agency that is a part of a CFO Act organisation builds an ERM programme, implements it, and creates a risk profile," said Cynthia Vitters, managing director for Deloitte's government and public services practice. That has allowed government agencies "to leverage existing infrastructure and build on it to help solve some of the Covid-19 problems, or have a seat at the table," she said. During the pandemic, these agencies were able to quickly reassess their risk scoring and re-evaluate mitigation strategies.

A successful ERM programme can do the same for companies by helping them understand their most important risks in any given situation. This can aid with scenario-planning and tabletop exercises as well as planning for the future, particularly as the impact of Covid-19 continues to evolve. "Scenario-planning plus a framework can equal some sense of ability to project or think about what could be next so that you can be prepared for it," Atallo said. "These are all ways to help you plan and execute and provide the services or products that your company provides, with more of a sense of understanding and controlling the moving parts."

ADOPTING AN ERM MINDSET

Effective ERM adoption requires C-suite support to set the tone of the organisation's approach, and now is a good time to broach the subject of ERM implementation with stakeholders. "There is not a day that goes by where you don't hear the word 'risk' and need to consider how things are being managed and how much appetite you have for risk," Vitters said.

Ask the right questions:

"Did we think about these threats?"

"Were we prepared?"

"Did we incorporate scenario-planning and tabletops to assess the risk?"

People are also starting to ask the right questions, such as, "Did we think about these threats?", "Were we prepared?", and "Did we incorporate scenario-planning and tabletops to assess the risk?" Risk management is now a vital part of many business conversations. "We've been preaching all of these things for years," she said. "Now people understand why they should have done them because it is impacting their lives in a million different ways."

Organisations are now approaching ERM with the right mindset, which Williams believes is how a good ERM process should work. "You challenge assumptions, you ask questions, and you provide the tools to be able to ask the right questions," she said. "It could be that you have your answer by the end of that conversation – it doesn't need to be this drawn-out process."

Companies can get to that point in the ERM process by giving people the authority to challenge assumptions and ask questions while focusing on the organisation's objectives. "It's not just about the minute risks that exist but about what the organisation is here to do," Williams said.

That focused risk conversation can bring about more effective mitigation. Working across the organisation, risk managers can identify the risks that will have the largest financial or consequential impact. This context can help risk professionals get things done and allow others in the organisation to more clearly see the progress that is made, Atallo said.

Implementing ERM now allows companies to address current issues as well as those that are likely to continue or worsen going forward. "What you need to do is put some pegs in the four corners of your problem and say, 'We want to get to the end of the year and we want to achieve these things, so what are the things that are going to get in our way?'" Atallo said.

As long as risk professionals can channel this focus towards a conversation about risk, Williams believes the goal of ERM will be fulfilled. That may take a change in how the risk manager approaches the risk discussion. "You act as an advisor," she said. "You are a sounding board. If someone wants to bounce an idea off of you, it is not about documenting and doing a full-blown risk assessment; have a conversation. You should act as a consultant that just happens to work for the company."

The fact that organisations are once again having serious conversations about ERM is a sign of progress. Smart organisations will take advantage of the urgent focus on managing risk to improve all processes, Vitters said. "The time is now because of the renewed interest and the renewed chorus of people just thinking more about risk on a daily basis." ISCA

> **"What you need to do is put some pegs in the four corners of your problem and say,** 'We want to get to the end of the year and we want to achieve these things, so what are the things that are going to get in our way?'"

Lori Widmer is a freelance writer and editor who specialises in risk management and insurance. This article was published on 2 November 2020. Reprinted with permission from *Risk Management Magazine*. Copyright 2020 Risk and Insurance Management Society, Inc. All rights reserved.

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TECHNICAL HIGHLIGHTS

ETHICS

GLOBAL ETHICS BOARD RELEASES REPORT ON ACCOMPLISHMENTS 2016–2020

The report includes an update of IESBA's current projects and initiatives, and highlights the IESBA's extensive efforts in promoting awareness, adoption, and implementation of the IESBA Code.

For more information, please visit https://www.ethicsboard.org/news-events/2020-12/global-ethics-board-releases-report-accomplishments-2016-2020

SUSTAINABILITY REPORTING

ISCA COMMENTS ON IFRS FOUNDATION'S CONSULTATION PAPER ON SUSTAINABILITY REPORTING

ISCA supports the IFRS Foundation's proposal to create a Sustainability Standards Board (SSB), to become a standard-setter working with existing initiatives and building upon their work to improve the consistency and comparability in sustainability reporting. The IFRS Foundation is well placed to develop a set of globally adopted sustainability reporting standards and catalyse universal adoption of these standards. We provided inputs on some considerations which are critical towards meeting SSB's objectives. We also recommended for SSB to go beyond climate-related disclosures and to address ESG considerations.

For more information, please visit https://isca.org.sg/media/2825328/isca-comment-letter-for-iasbs-cp-on-sustainability-reporting.pdf

FINANCIAL REPORTING

ISCA ISSUES FRB 8 "COVID-19 GOVERNMENT RELIEF MEASURES: ACCOUNTING FOR FOREIGN WORKER LEVY WAIVER & REBATE"

As part of the Solidarity Budget announced on 6 April 2020, the Singapore government provided business employers who hire foreign workers on work permits and S Passes with Foreign Worker Levy (FWL) waiver and FWL rebate to ease the labour costs of such firms during the circuit-breaker period. The FWL waiver and FWL rebate were extended and enhanced in subsequent Budgets and announced via MOM press releases.

FRB 8 was issued on 24 December 2020 to provide accounting guidance and key considerations on how to account for the FWL waiver and FWL rebate granted. Illustrative examples have been included in FRB 8 to aid in the understanding of the accounting principles being applied.

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

ISCA COMMENTS ON IASB'S DP ON BUSINESS COMBINATIONS – DISCLOSURES, GOODWILL AND IMPAIRMENT

We generally agree with the Board's proposals. However, our key concern is that the current impairment model is inadequate as it neither resolves the "shielding effect" nor capture the consumption of acquired goodwill over time. We urge the Board to consider revisiting the current impairment model for goodwill.

For more information, please visit https://isca.org.sg/docs/default-source/fr-eds-and-comment-letters/isca-comment-letter-for-iasb's-dp-on-business-combinations---disclosures-goodwill-and-impairment.pdf?sfvrsn=10750725_2

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ACRA ISSUES FINANCIAL REPORTING PRACTICE GUIDANCE NO. 2 OF 2020

ACRA has issued Financial Reporting Practice Guidance No. 2 of 2020 – Areas of Review Focus for FY2020 Financial Statements, under ACRA's Financial Reporting Surveillance Programme, to guide directors in the review of the upcoming FY2020 financial statements.

For more information, please visit https://www.acra.gov.sg/news-events/news-details/id/590

ASC ISSUES AMENDMENTS TO VARIOUS STANDARDS ON THE EXTENSION OF THE TEMPORARY EXEMPTION FROM APPLYING SFRS(I) 9 AND FRS 109

The ASC has issued Amendments to SFRS(I) 17 and Amendments to FRS 117, together with Amendments to SFRS(I) 4: Extension of the Temporary Exemption from Applying SFRS(I) 9, and Amendments to FRS 104: Extension of the Temporary Exemption from Applying FRS 109. The Amendments defer the initial application of SFRS(I) 17 and FRS 117, as well as SFRS(I) 9 and FRS 109 for eligible entities, to annual reporting periods beginning on or after 1 January 2023.

For more information, please visit https://www.asc.gov.sg/current-news

ASC ISSUES AMENDMENTS TO VARIOUS SFRS(I)S AND FRSS ON INTEREST RATE BENCHMARK REFORM – PHASE 2

The ASC has issued Amendments to SFRS(I) 9, SFRS(I) 1-39, SFRS(I) 7, SFRS(I) 4 and SFRS(I) 16: Interest Rate Benchmark Reform – Phase 2, and Amendments to FRS 109, FRS 39, FRS 107, FRS 104 and FRS 116: Interest Rate Benchmark Reform – Phase 2, effective for annual reporting periods beginning on or after 1 January 2021.

For more information, please visit https://www.asc.gov.sg/current-news

DECEMBER 2020 IASB UPDATE AVAILABLE AND WORK PLAN UPDATED

This Update highlights IASB's discussions on topics such as Second Comprehensive Review of the *IFRS for SMEs* Standard, Disclosure Initiatives, Post-implementation Review of IFRS 9 *Classification and Measurement*, Financial Instruments with Characteristics of Equity, and Pensions Benefits that Vary with Asset Returns. The IASB work plan has also been updated.

For more information, please visit https://www.ifrs.org/news-and-events/2020/12/december-2020-iasb-update-available-and-work-plan-updated/

IASB ISSUES IFRS TAXONOMY UPDATE FOR INTEREST RATE BENCHMARK REFORM – PHASE 2

This Update includes IFRS Taxonomy elements which reflect the new disclosure requirements introduced by Interest Rate Benchmark Reform – Phase 2, which amended IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued by IASB in August 2020.

For more information, please visit https://www.ifrs.org/news-and-events/2020/12/iasb-issues-ifrs-taxonomy-update-for-interest-rate-benchmark-reform-phase-2/

IASB REVIEWS PACKAGE OF IFRS STANDARDS FOR GROUP ACCOUNTING

IASB has published a Request for Information (RFI) as part of the Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12. The objective is to seek feedback on matters to help assess the effects of the Standards' requirements on users of financial standards, preparers and auditors.

For more information, please visit https://www.ifrs.org/news-and-events/2020/12/iasb-reviews-package-of-ifrs-standards-for-group-accounting/

IASB PROPOSES AMENDMENT TO IFRS 16 *LEASES* TO IMPROVE ACCOUNTING FOR SALE AND LEASEBACK TRANSACTIONS

The proposed amendment would improve the sale and leaseback requirements already in IFRS 16, by providing greater clarity for the company selling and leasing back an asset both at the date of transaction and subsequently. The amendment would help ensure that the Standard is applied consistently to such transactions; it would not change the accounting for leases other than those arising in a sale and leaseback transaction.

For more information, please visit https://www.ifrs.org/news-and-events/2020/11/iasb-proposes-amendment-to-leases-standard-to-improve-accounting-for-sale-and-leaseback-transactions/

BY FELIX WONG AND ANGELINA TAN

MISSING TRADER FRAUD IN SINGAPORE

Updates To The GST Tax Act To Deter MTF

MISSING TRADER FRAUD (MTF) has cost the European Union around EUR 60 billion annually[1], while more than 300 GST-registered businesses in Singapore have been suspected of being involved in MTF totalling S$450 million in tax as at 2019[2]. What is MTF? It is a form of fraud on the tax authorities in countries that have value-added tax systems and causes loss of public revenue.

To safeguard public funds and investigate tax offences, Parliament has recently passed amendments to the Goods and Services Tax (GST) Act to counteract MTF in Singapore.

GST SYSTEM AND MISSING TRADER FRAUD

In Singapore, a GST-registered supplier is required to charge and collect GST on its supplies of goods and services to the buyer. The GST collected (known as output tax) must then be paid to IRAS. As GST is to be borne only by the final consumer, the GST-registered supplier can make a claim for the GST paid to its own suppliers (known as input tax) and set off such input tax against its output tax payment to IRAS. The difference between input tax and output tax is the net GST payable to IRAS (or the net GST refundable by IRAS).

MTF arrangements seek to exploit the inherent design of the GST regime, where GST-registered suppliers are required to collect the GST paid by the buyer on behalf of the tax authorities.

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 the other parties in the supply chain continue to make input tax claims on purchases they had made, resulting in a loss of revenue to the State. Alternatively, the missing trader may also obtain from the tax authorities an input tax credit claim on purported supplies which it never received before absconding.

Syndicates often interpose additional businesses (including unsuspecting legitimate businesses) along the supply chain to make it more difficult for the tax authorities to detect the MTF arrangements. Increasingly sophisticated variants of MTF arrangements are also being employed by syndicates to defraud the tax authorities, such as carousel fraud and contra-trading fraud.

IMPACT OF MTF ON SUPPLIERS

Persons directly involved in MTF may be prosecuted under the GST Act. However, in practice, it is often difficult for the tax authorities to prosecute such persons as they would have long absconded by the time the fraud is discovered. As a result, the parties that are typically implicated when an MTF arrangement is discovered are the other suppliers along the supply chain. While these suppliers may be innocent and may not have been involved in the MTF, they would generally be subject to detailed audit and may have their input tax claims withheld and/or denied by IRAS (on the basis that the purported business of trading in the goods were not genuine business transactions).

Liu Hern Kuan, Head of Tax, Tan Peng Chin LLC, shed light on the amendments to the GST Act to counter MTF, and the reasonable steps that businesses should take to protect against MTF

"Before the recent amendment to the GST Act, the central issue was whether IRAS could deny input tax credit of innocent traders in a supply chain that has

> Following the amendments to the GST Act, a taxpayer's input tax claim hinges on whether it knew or "should have known" that the supply made to it was part of an arrangement to cause loss of public revenue.

[1] Ministry of Finance. "Second Reading Speech by Lawrence Wong, Second Minister for Finance and Minister for Education, on Goods and Services Tax (Amendment) Bill 2020". 3 Nov 2020.

[2] Tang See Kit. "More power for taxman to seize goods for investigations among changes to GST Act". 3 Nov 2020. Channel NewsAsia.

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been tainted by MTF, given that there was no provision in the GST Act that expressly disallow input tax claims for such scenarios," shared Liu Hern Kuan, Head of Tax, Tan Peng Chin LLC, at a webinar organised by the Singapore Chartered Tax Professionals. "There would no longer be any doubt after the amendment takes effect on 1 January 2021 – a taxpayer's input tax claims will be denied in cases where it knew or "should have known" that the supply made to it was part of an arrangement to cause loss of public revenue."

AMENDMENTS TO THE GST ACT

Knew or "should have known"

Following the amendments to the GST Act, a taxpayer's input tax claim hinges on whether it knew or "should have known" that the supply made to it was part of an arrangement to cause loss of public revenue. It is noted that this measure is similar to the approach taken in the United Kingdom and the European Union.

To decide whether the taxpayer "should have known", the first question is whether the circumstances of the supply are such that there was a reasonable risk of the supply being part of an MTF arrangement. If the answer is yes, the taxpayer must be able to show that it has taken reasonable steps to determine if the supply made to it was part of the fraudulent arrangement, and has come to a reasonable conclusion that the supply was not part of such a fraudulent arrangement. These are very much questions of fact based on the background circumstances.

Denial of input tax claims and surcharge

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, the taxpayer would be taken to "should have known" that the arrangement was fraudulent. Accordingly, the taxpayer's input tax claim may be denied. In addition, the Comptroller of GST may also impose a surcharge of 10% on the amount of input tax claimed.

Burden of proof

In his Second Reading Speech on Goods and Services Tax (Amendment) Bill 2020, Lawrence Wong, Second Minister for Finance and Minister for Education, indicated that the burden of proving that the taxpayer knew or "should have known" of a fraudulent arrangement lies with the Comptroller, with the standard of proof being the balance of probabilities.

However, it is noted that if the taxpayer disagrees with the Comptroller's decision, it will have to appeal to the GST Board of Review, where the burden of proof lies with the taxpayer.

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> 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, the taxpayer would be taken to "should have known" that the arrangement was fraudulent. Accordingly, the taxpayer's input tax claim may be denied.

GST Act: Amendments

Knew or "should have known"

Denial of input tax claims and surcharge

Burden of proof

REASONABLE STEPS TO PROTECT AGAINST MTF

In view of the amendments to the GST Act, businesses must ensure that they are not in any way connected to an MTF arrangement. Generally, businesses should be wary of deals that seem too good to be true (such as unsolicited approaches from organisations offering an easy profit for no apparent risk), or high-value deals offered by newly established or unknown suppliers.

Some reasonable steps that businesses could take to avoid being involved in a fraudulent arrangement include:

(1) Ensuring the legitimacy of the customers and suppliers by checking their identification, background, and experience in the business (for example, verifying GST registration with IRAS, getting credit and background checks from independent third parties, making a personal visit to the supplier's or customer's premises, and obtaining signed third-party trade references);
(2) Examining payment arrangements and avoiding arrangements that have higher risks of being linked to money-laundering activities (such as cash-only transactions and where payment deposited is immediately transferred out or withdrawn);
(3) Understanding the market (such as whether the volume and value of goods transacted are unusual for that specific industry);
(4) Verifying the goods and ensuring commercial viability of the transaction (for example, knowing the brand, manufacturer, country of origin, condition of goods and assessing if the volume and value of goods traded are reasonable).

Importantly, businesses should undertake due diligence before entering into a business transaction. It is now mandated that businesses keep records of the reasonable steps undertaken to determine if a supply to him was part of an MTF arrangement.

There is no doubt that the new requirements on MTF would increase the compliance burden on businesses. The million-dollar question is how much due diligence is enough to protect oneself against MTF, without antagonising suppliers and customers and losing business opportunities. While there is no one-size-fits-all answer as it depends on each organisation's resources and risk profile, taxpayers could take heart from Minister Wong's response to Members of Parliament that the Comptroller will take into account all the facts and circumstances of each case, including the firm's status (as an SME), "where relevant in considering what is reasonable". ISCA

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

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BY ANDREW LEO

FRS 116 *LEASES*

Contracting Considerations For Intermediate Lessor

THE IMPACT OF FINANCIAL REPORTING STANDARD (FRS) 116 *LEASES* on balance sheets and income statements is a well expounded topic since the publication of the standard in 2016. The requirement to recognise right-of-use asset and lease liability increases both assets and liabilities and a previously uniform rental expense now takes the form of fixed depreciation and declining interest expense over time. The topic that has been given less attention in discussions on the new standard is the practical aspects of how to account for sub-leases in light of the new standard.

In a situation where Company A signs a head lease agreement with a lessor and sub-leases part of the same asset to Company B, the company is both a lessee in relation to the lessor and an intermediate lessor in relation to Company B. According to paragraph B58 of the Application Guidance of FRS 116, the intermediate lessor shall account for the sub-lease as an operating lease if the head lease is a short-term lease and the company has elected not to apply the default requirements of the standard. Otherwise, the intermediate lessor applies lessor accounting for finance leases.

In lessor accounting for finance leases, Company A derecognises the part of the asset that is sub-leased from its right-of-use asset and recognises an investment in sub-lease on its balance sheet. The investment in sub-lease earns interest income in the same way lease liabilities incur interest expense and it is reduced by receipts of sub-lease rental income over the term of the sub-lease. The investment in sub-lease is subject to the impairment requirements of FRS 109 *Financial Instruments.*

For economic reasons, it is common for related companies in a group to arrange its lease for office space such that the parent company owns the head lease and then sub-leases parts of the leased office space to various subsidiaries. This article highlights contracting considerations between related companies when accounting for sub-leases by the intermediate lessors.

> Companies may instead choose to use licence agreements instead of lease agreements in intra-group dealings. A licence agreement is essentially permission granted by one company to make use of an asset without the legal rights and obligations of a lessee in a standard lease contract.

INTRA-GROUP ARRANGEMENTS

For the purpose of preparing group consolidated financial statements, it is necessary to eliminate intra-group lease arrangements, including the reversal of the investment in sub-lease in the parent and the right-of-use assets and lease liabilities in the subsidiaries as well as their associated income statement effects.

In such circumstances, the group may examine if it is worthwhile to simplify the accounting in its subsidiaries and group consolidation by excluding the sub-lease arrangements from the scope of FRS 116. If both rental income earned by the parent and rental expense incurred by the subsidiaries could simply be recorded in the general ledger accounts assigned for intra-group leases on a straight-line basis, they can naturally eliminate each other.

It is clear that FRS 116 Application Guidance paragraph B58 does not provide the grounds for companies to do this if the head lease is a long-term lease, as most rental contracts for office space are. Companies may instead choose to use licence agreements instead of lease agreements in intra-group dealings. A licence agreement is essentially permission granted by one company to make use of an asset without the legal rights and obligations of a lessee in a standard lease contract. There are case laws that support the distinction between licence agreements and lease agreements.[1]

In the United Kingdom case law of *Street v Mountford* [1985], Roger Street provided Wendy Mountford with the right to occupy two rooms at St Clements Gardens, Boscombe, for a weekly "licence fee" of £37. The licence agreement can be terminated on 14 days' notice. The Rent Act 1977 at the time, which required rents to be fair and contracts to have more than 14 days' notice, applied only to lease agreements, not licences. Mrs Mountford's argument was that the agreement was a lease. In the leading judgement given by Lord Templeman, it was held that the factor that differentiates a lease from a licence was an "intention demonstrated by the agreement to grant exclusive possession for a term at a rent". Although the agreement was drafted in the form of a licence, the House of Lords held that it was in fact a lease as Mrs Mountford had enjoyed "exclusive possession" of the premises. The form of the agreement was set aside as "the consequences in law of the agreement, once concluded, can only be determined by consideration of the effect of the agreement".

Crucially, it should be clear in the licence agreement that the head lease owner retains the substantive right to substitute the allocated office space with a similar space in another part of the building throughout the period of use when it deems that it is economically beneficial to do so. As the head lease owner is in effective control of how the entire floor space is used, the lessee would not have any "exclusive possession" of the property. Consequently, according to paragraph B14 of the FRS 116 Application Guidance, the arrangement would not constitute a lease to be accounted for under FRS 116. The author personally knows of two entities, one in the United Kingdom and one in Singapore, that have accounted for intra-group lease arrangements in this manner with the concurrence of the auditors.

It should be mentioned that in drafting contracts, it is important that clauses reflect the spirit and intent of the agreement between the contracting parties. Companies should consider commercial substance and not just the form which provides the most convenient accounting treatment. In most intra-group dealings, there is a certain degree of flexibility in resource allocation that is not commonly found in dealings with independent parties. Companies should take advantage of this to simplify their accounting.

In most intra-group dealings, there is a certain degree of flexibility in resource allocation that is not commonly found in dealings with independent parties. Companies should take advantage of this to simplify their accounting.

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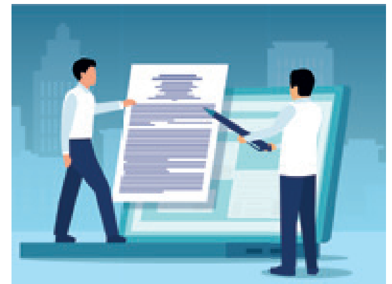
Figure 1 Head lease liabilities (assume 5.25% incremental borrowing cost)

Month	Rent	Present Value of Rent	Provision for Reinstatement (Beginning)	Interest Expense	Provision for Reinstatement (End)	Lease Liability (Beginning)	Interest Expense	Payments	Lease Liability (End)
1			4,503	20	4,522	16,827	74	-	16,900
2			4,522	20	4,542	16,900	74	-	16,974
3			4,542	20	4,562	16,974	74	-	17,048
4			4,562	20	4,582	17,048	75	-	17,123
5			4,582	20	4,602	17,123	75	-	17,198
6			4,602	20	4,622	17,198	75	-	17,273
7	1,000	970	4,622	20	4,642	17,273	76	- 1,000	16,349
8	1,000	966	4,642	20	4,663	16,349	72	- 1,000	15,420
9	1,000	961	4,663	20	4,683	15,420	67	- 1,000	14,488
10	1,000	957	4,683	20	4,704	14,488	63	- 1,000	13,551
11	1,000	953	4,704	21	4,724	13,551	59	- 1,000	12,610
12	1,000	949	4,724	21	4,745	12,610	55	- 1,000	11,666
13	1,000	945	4,745	21	4,766	11,666	51	- 1,000	10,717
14	1,000	941	4,766	21	4,786	10,717	47	- 1,000	9,764
15	1,000	937	4,786	21	4,807	9,764	43	- 1,000	8,806
16	1,000	933	4,807	21	4,828	8,806	39	- 1,000	7,845
17	1,000	928	4,828	21	4,850	7,845	34	- 1,000	6,879
18	1,000	924	4,850	21	4,871	6,879	30	- 1,000	5,909
19	1,000	920	4,871	21	4,892	5,909	26	- 1,000	4,935
20	1,000	916	4,892	21	4,913	4,935	22	- 1,000	3,957
21	1,000	912	4,913	21	4,935	3,957	17	- 1,000	2,974
22	1,000	908	4,935	22	4,957	2,974	13	- 1,000	1,987
23	1,000	904	4,957	22	4,978	1,987	9	- 1,000	996
24	1,000	901	4,978	22	5,000	996	4	- 1,000	- 0
	18,000	**16,827**		**497**			**1,173**		



ACCOUNTING FOR REINSTATEMENT COST

Another common feature of lease agreements is a provision for reinstatement cost. In accordance with FRS 37 *Provisions, Contingent Liabilities and Contingent Assets*, companies should discount the contractual reinstatement cost to present value and recognise it as a liability on the balance sheet.[2] Interest expense is incurred and the liability increases over the course of the lease period. FRS 116 requires that reinstatement cost be accounted for as part of right-of-use assets and depreciated accordingly.

Consider an example where Company A leases an office space for $24,000 over two years, paying $1,000 per month (Figure 1). There is an estimated reinstatement cost of $5,000 at the end of two years. Company A immediately sub-leases half of the office space to Company B. Assume a discount rate of 5.25%. The provision for reinstatement cost by Company A would be $4,503 and Company B's share would be half of that. In sub-lease arrangements, it would be prudent to have a clause that requires the sub-lessee (that is, Company B in our example) to bear its share of the reinstatement cost stipulated in the head lease. Company B's share of the reinstatement cost would consequently be derecognised from Company A's right-of-use asset and recognised as a part of investment in sub-lease.

In negotiating the sub-lease contract, Company A could either bill Company B for the reinstatement cost when incurred at the end of the contract, that is, sublease at a monthly payment of $500 with a $2,500 payment at the end of 24 months, or increase the monthly rental payments to $599 to cover for the eventual reinstatement cost.

[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

Figure 2 Applying FRS 116 (Option A): Charge reinstatement cost at the end of the lease

Month	Right-of-Use Asset (Beginning)	Depreciation	Right-of-Use Asset (End)	Investment in Sub-Lease (Beginning)	Interest Income	Receipts	Investment in Sub-Lease (End)	Net P&L
1	10,665	444	10,220	10,665	47	- 370	10,341	491
2	10,220	444	9,776	10,341	45	- 370	10,016	493
3	9,776	444	9,332	10,016	44	- 370	9,690	495
4	9,332	444	8,887	9,690	42	- 370	9,363	497
5	8,887	444	8,443	9,363	41	- 370	9,033	498
6	8,443	444	7,998	9,033	40	- 370	8,703	500
7	7,998	444	7,554	8,703	38	- 370	8,371	502
8	7,554	444	7,110	8,371	37	- 370	8,038	500
9	7,110	444	6,665	8,038	35	- 370	7,703	497
10	6,665	444	6,221	7,703	34	- 370	7,366	495
11	6,221	444	5,777	7,366	32	- 370	7,028	492
12	5,777	444	5,332	7,028	31	- 370	6,689	489
13	5,332	444	4,888	6,689	29	- 370	6,348	487
14	4,888	444	4,444	6,348	28	- 370	6,006	484
15	4,444	444	3,999	6,006	26	- 370	5,662	482
16	3,999	444	3,555	5,662	25	- 370	5,317	479
17	3,555	444	3,111	5,317	23	- 370	4,970	477
18	3,111	444	2,666	4,970	22	- 370	4,622	474
19	2,666	444	2,222	4,622	20	- 370	4,272	471
20	2,222	444	1,777	4,272	19	- 370	3,921	469
21	1,777	444	1,333	3,921	17	- 370	3,568	466
22	1,333	444	889	3,568	16	- 370	3,213	463
23	889	444	444	3,213	14	- 370	2,857	461
24	444	444	0	2,857	13	- 2,870	- 0	458
		10,665			**716**	**- 11,381**		**11,619**

Figure 2 Applying FRS 116 (Option B): Charge reinstatement cost over course of lease

Month	Right-of-Use Asset (Beginning)	Depreciation	Right-of-Use Asset (End)	Investment in Sub-Lease (Beginning)	Interest Income	Receipts	Investment in Sub-Lease (End)	Net P&L
1	10,665	444	10,220	10,665	47	- 469	10,242	491
2	10,220	444	9,776	10,242	45	- 469	9,818	493
3	9,776	444	9,332	9,818	43	- 469	9,392	496
4	9,332	444	8,887	9,392	41	- 469	8,964	498
5	8,887	444	8,443	8,964	39	- 469	8,534	500
6	8,443	444	7,998	8,534	37	- 469	8,102	502
7	7,998	444	7,554	8,102	35	- 469	7,669	505
8	7,554	444	7,110	7,669	34	- 469	7,233	503
9	7,110	444	6,665	7,233	32	- 469	6,796	501
10	6,665	444	6,221	6,796	30	- 469	6,356	499
11	6,221	444	5,777	6,356	28	- 469	5,915	496
12	5,777	444	5,332	5,915	26	- 469	5,472	494
13	5,332	444	4,888	5,472	24	- 469	5,027	492
14	4,888	444	4,444	5,027	22	- 469	4,580	490
15	4,444	444	3,999	4,580	20	- 469	4,131	488
16	3,999	444	3,555	4,131	18	- 469	3,680	486
17	3,555	444	3,111	3,680	16	- 469	3,227	484
18	3,111	444	2,666	3,227	14	- 469	2,772	482
19	2,666	444	2,222	2,772	12	- 469	2,315	479
20	2,222	444	1,777	2,315	10	- 469	1,856	477
21	1,777	444	1,333	1,856	8	- 469	1,395	475
22	1,333	444	889	1,395	6	- 469	932	473
23	889	444	444	932	4	- 469	467	471
24	444	444	0	467	2	- 469	0	468
		10,665			**593**	**- 11,258**		**11,742**

Applying lessor accounting for finance leases per FRS 116 to the sub-lease (Figure 2), both approaches yield approximately the same results over the period of lease. The difference is caused solely by the time value of money.

Another issue to consider is, as discussed in the previous section, if the sub-lease is accounted for as an intra-group licence contract outside of FRS 116 instead. Then, Company A should be cautioned to avoid a potential mismatch of expense and income if Company A fails to recognise Company B's share of the reinstatement cost as income over the course of the licence period. The entire amount of estimated reinstatement cost (including Company B's share) is accounted for in right-of-use asset and depreciated over time in Company A's books. If Company B's share of reinstatement cost is recognised as income only at the end of the contract, Company A's monthly net expense would be much higher as it would not have the income to match against the higher depreciation over the course of the lease/licence and a huge income at the end of the lease/licence.

Company A needs to ensure that the contract is drafted such that recognising income and asset from Company B's share of reinstatement cost through the passage of time is consistent with application of the recognition criteria according to the Conceptual Framework for Financial Reporting, such that matching of expense and income can be achieved. It should be noted that the matching of expense with income is not an explicit objective of the Framework.[3] Alternatively, Company A could mark up the monthly sub-lease fees to cover the estimated reinstatement cost over the course of sub-lease, with a provision for true up at the end of the contract.

CONCLUSION

From the above examples, it is clear that companies should consider the accounting treatment of its lease arrangements when they are drafting the terms of the contracts and not leave it as an afterthought. The efforts made in advance can secure a better outcome in the longer term of the lease agreement. ISCA

[3] Conceptual Framework for Financial Reporting (effective 1 Jan 2020), para 5.5

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