ISCharteredAccountant JOURNAL

JULY 2023

The Rise Of Generative AI

Excitement, Concerns, And The Need for Balance

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HUMAN EXPERTISE + ARTIFICIAL INTELLIGENCE = WINNING PARTNERSHIP

Choo Eng Beng
FCA (Singapore)
ISCA Council Member

Dear members,

CHATGPT'S RELEASE LAST NOVEMBER WAS MET WITH MUCH HYPE and great excitement but, what was more astonishing was the pace of its adoption; ChatGPT reached its first million users in only five days – a feat even in this age of rapid Internet adoption. Change is the only constant. For finance professionals, the message is clear: we must keep pace with technological changes or risk being left behind.

Broadly, generative AI content is the calibrated output drawn from the massive amounts of data used to train the algorithms. Although generative AI is still at a nascent stage, for the accountancy profession, the benefits are already apparent. In audit, for example, generative AI, with its ability to handle extensive data, can shift the goalposts from a "true and fair view" of financial statements to a more precise "true and correct view". This potential enhancement in accuracy could profoundly affect businesses, bolstering investor confidence in audited accounts and creating a stronger deterrent against fraud.

But do rest assured that generative AI will not replace humans. Although it can create new content that mimics creations of human intellect, accountants are still needed to verify the reports produced by AI, as well as exercise professional scepticism. Find out more about its implications on the accountancy profession in the cover story, "The Rise Of Generative AI", and the Member Profile column, which features an accountant-turned-AI engineer.

Simply put, human expertise and AI create a winning partnership which enables accountants to delve deeper, uncover crucial insights and offer timely, strategic solutions. And, for professionals and businesses alike, it is within this synergy of human intelligence and AI's data-driven capabilities that true transformative potential can be realised.

ABOUT CHOO ENG BENG

Mr Choo is currently a member of the Investment Committee. He was previously a member of the Membership Growth and Engagement Committee since his election to the Council in 2022 until April 2023.

Mr Choo has over 30 years of experience in public accounting. Prior to serving as the Head of Assurance in PwC, he was the Risk and Quality Leader and part of the leadership team. Mr Choo spent two years in London in PwC Global Accounting Consulting Services, which supports PwC Global on various matters concerning International Financial Reporting Standards, which include quality of application, training, marketing and communications with the International Accounting Standards Board.

He is also a director of Shared Services for Charities, director and Audit Committee member of St Luke's Elder Care, Vice Chairman of St Luke's Hospital, Audit Committee Chairman of the Church of Singapore, and Audit Committee member of the National Research Foundation.

Teo Ser Luck
FCA (Singapore)
ISCA President

THOUGHTS

Accountancy professionals play a crucial role in the global economy, ensuring financial transparency and facilitating business growth. Professional bodies, such as ISCA, ICAEW, ACCA, ICAI, CPA Australia, CA ANZ and others, which have a local presence in Singapore, have an important role to play in strengthening the professionalism and growth of the sector.

It is essential to establish an accountancy hub and ecosystem that encourages collaboration, joint promotion programmes, continuous education development and membership drives, to name a few. By working together, these organisations can enhance the professional development of accountants and foster a cohesive global accountancy community.

This accountancy hub can be a platform where accountants from all the institutes can come together, connect and engage in meaningful ways. By pooling our resources, expertise and networks, we can build an inclusive ecosystem that benefits the profession.

As you are aware, many accountants hold memberships in multiple professional organisations. The proposed accountancy hub could work towards providing a unified platform which can streamline – and simplify – the experience for such accountants. For example, by logging in to just one centralised dashboard, they can track their CPD progress across all their institutes, access resources and engage in collaborative discussions with members from different professional organisations.

ISCA would work on a project to build this accountancy hub, with a location to house every organisation and also to facilitate collaboration on many fronts. Realising this vision will lower the cost of operations and achieve substantial gains from economies of scale arising from the many areas of cooperation among the professional organisations.

Together, we can do so much for the profession and the sector.

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PUBLISHER
Institute of Singapore Chartered Accountants
60 Cecil Street, ISCA House, Singapore 049709

Tel: (65) 6749-8060 **Fax:** (65) 6749-8061
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Overall Progress In Sustainability Reporting But Critical Gaps Remain

AS INVESTORS AND STAKEHOLDERS INCREASINGLY COUPLE THE VALUE OF A BUSINESS WITH ITS ABILITY TO NAVIGATE CLIMATE RISK AND OPPORTUNITIES, companies across Asia Pacific are showing progress in their sustainability reporting around these areas. This is according to *Sustainability counts II: Sustainability reporting in Asia Pacific*[1], a study by PwC Singapore and Centre for Governance and Sustainability (CGS), National University of Singapore Business School.

Analysing the sustainability reports of the top 50 listed companies by market capitalisation across 14 Asia-Pacific jurisdictions[2], the study further reveals that critical reporting and disclosure gaps remain for businesses, to demonstrate that they have a viable and robust pathway to reach net zero by 2050, and highlights the evolving challenges facing businesses ahead.

"As expectations for ESG rise, companies must prioritise resolving these gaps and make the necessary resource commitments. They can then serve as exemplary enterprises on a successful green journey, embodying accountability and resilience," says Professor Lawrence Loh, Director, CGS.

Progress shown in climate-related risks and opportunities disclosure

The study indicates a rise in the disclosure of identified climate-related risks and/or opportunities in companies' sustainability reporting, from 77% in 2021 to 88% in 2022. This goes hand-in-hand with their disclosure of processes for managing these risks and/or opportunities, from 66% (2021) to 74% (2022), and how they integrated climate-related risks into their overall risk management, from 36% in 2021 to 58% in 2022, for the 13 jurisdictions with the exception of South Korea. The climb in the disclosure rate can be attributed to the increased adoption of the Task Force on Climate-related Financial Disclosures (TCFD) framework, where the disclosure of integrating climate-related risks into overall risk management is one of the reporting components. At the same time, the findings suggest that compared to a year ago, companies are increasingly readjusting their business strategies and models to mitigate current climate issues and evolving stakeholder as well as regulator expectations.

The state of sustainability reporting assurance

The study saw an increase in companies obtaining external assurance from an independent party for their ESG disclosures, up from 37% in 2021 to 49% in 2022. Considering that three-quarters of investors polled in a recent *Global Investor Survey*[3] by PwC indicated that their confidence in sustainability reporting would receive a bigger boost if it were assured at the same level as the company's financial statement, businesses would do well to build a higher degree of credibility around their sustainability reporting through obtaining external assurance.

"The challenges businesses face around the interoperability of key sustainability reporting standards, and across multiple jurisdictions, will require companies to develop a strategic roadmap and an operationalisation plan, while prioritising assurance in sustainability reporting to address rising expectations from investors and stakeholders," says Fang Eu-Lin, Sustainability and Climate Change Leader, PwC Singapore.

[1] The study was launched on June 7 at Ecosperity Week 2023 in Singapore; https://bizbeat.nus.edu.sg/wp-content/uploads/sites/58/2023/06/Sustainability-Counts-II-2023-final.pdf
[2] Australia, China (mainland), Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam
[3] https://www.pwc.com/gx/en/issues/esg/global-investor-survey-2022.html

PHOTO SHUTTERSTOCK

Flexible Work Arrangements: Happier Workers, Higher Productivity

GREATER WORKPLACE FLEXIBILITY, such as offering flexible work arrangements (FWAs), will cater to employees with various needs from different age groups, and ensure better job satisfaction, higher employee retention and a more engaged workforce. The effective implementation of FWAs can also be a strategic business tool that enables companies to soar to greater heights. These were the takeaways from the "Making FWAs Work For SMEs" dialogue session on June 19, organised by the Association of Small & Medium Enterprises (ASME), in partnership with the National Population and Talent Division under the Prime Minister's Office, Strategy Group, and Ministry of Manpower. The event was also in support of the Forward Singapore exercise and National Family Week.

Professionals from about 100 small and medium-sized enterprises (SMEs) discussed how FWAs can be implemented effectively and sustainably with a panel featuring, among others, Minister in the Prime Minister's Office and Second Minister for Finance & National Development Indranee Rajah, and Minister of State for Manpower and Education Gan Siow Huang.

Minister Indranee stressed that different generations have different priorities and approaches regarding work, and employers must understand the needs of each generation. For example, while baby boomers prefer "loyalty and stability", millennials prioritise "flexibility and freedom to balance work and life more effectively".

Families, too, are also facing more stressors including managing family and work commitments. For employers with leaner resources such as SMEs, FWAs can go some way to address the manpower challenges they may be facing. Minister Gan said that Singapore's Tripartite Guidelines For Flexible Work Arrangements will be released in 2024, and support from higher management is critical to the success of FWAs.

"As SMEs step into the post-COVID world, an emphasis on human capital has become more urgent for the growth and stability of SMEs," says ASME Vice-President Ang Yuit. "Employers who embrace FWAs can better attract and retain talent, including tapping on a larger pool of talent. Employees can enjoy better work-life harmony and mental well-being. Mutual trust and understanding are crucial so that all parties can reap the benefits of FWAs."

[1] https://www.tal.sg/tafep/employment-practices/work-life-harmony/fwas
[2] https://www.mom.gov.sg/

PHOTOS SHUTTERSTOCK

Majority Of Singapore Workers Rank Flexible Hours And Scheduling As Top Workplace Perks

A recent survey by Zoom reveals that most of the Singapore respondents prioritise flexible hours (65%) and location (60%), after competitive pay and benefits. The *Workplace Benefits Preferences Survey* assessed the top workplace preferences of 4,000 knowledge workers across five countries, namely, Australia, Germany, Singapore, United Kingdom and United States.

While there is no one-size-fits-all model for FWAs, employees across the geographies all agree on flexibility, and control over their own time. According to Zoom's Head of APAC Ricky Kapur, the future of work discussions "have since evolved beyond the 'what if' around flexible work, to the 'what next' as organisations navigate the shifting strategies for effective work collaboration in a hybrid environment".

The COVID-19 disruption has accelerated the importance of business transformation to "foster better collaboration among employees", and flexibility is no longer a good-to-have but a basic expectation, say 43% of respondents across the geographies except Singapore. In Singapore, flexibility is still considered a work perk, and flexible hours and location can be "dealbreakers in this new reality", says Mr Kapur.

Overall, the results confirm that flexible hours and schedules are of utmost importance when it comes to workplace benefits, outweighing other well-established perks like professional development opportunities and childcare resources. Some 87% of Singapore workers agree that flexible work, with options to work remotely or flex their schedules, leads to increased happiness as employees.

Respondents prefer flexible hours to any other workplace perk

- **Gen Z and younger millennials** (79%)
- **Millennials** (72%)
- **Gen X** (69%)
- **Baby boomers** (69%)

Source: Zoom/Morning Consult survey, 2023

In a scenario where Singapore workers had to choose between two jobs with the same compensation and benefits packages, flexible hours and location ranked on par (73%) with professional development opportunities.

Many respondents also think that remote work has significant advantages over working in-person across various aspects. Sixty-one percent (61%) appreciate the increased freedom that comes with remote work, which allows them to have more autonomy over their schedules. Another 57% value the opportunity to spend more quality time with their family, recognising the positive impact on work-life balance, with 56% saying they benefitted from more balanced childcare commitments, and 51% seeing improved work-life balance.

Types Of Flexible Work Arrangements

The Tripartite Alliance for Fair & Progressive Practices (TAFEP) website has a selection of FWAs (and guidance on their implementation), to meet the diverse needs of employers and employees.

→ **Compressed work schedule:** Employees work full-time hours but for fewer days in a normal work week.

→ **Creative scheduling:** Employers offer flexible work schedules to meet the needs of specific employee teams, such as a variety of shift patterns.

→ **Choice of days off:** Employees get to plan their own work schedule and days off. Balloting may be used to ensure that daily operations run smoothly and there is fair allocation of days off.

→ **Flexi hours:** Employees are contracted to work a certain number of hours over an accounting period, for example, 20 hours cumulatively, in a week.

→ **Flexi shift:** Employees specify the days or hours they can work, and are scheduled accordingly.

→ **Shift swapping:** Shift workers are allowed to trade shifts with each other when the need arises.

→ **Staggered time:** Employees can vary their daily start and end times to suit their work and personal commitments. Typically, there is a core time during which all employees must work, for example, from 10am to 4pm.

→ **Time bank:** Employer and employee agree on a fixed number of work hours to be completed over a specified time period. Any additional hours are accumulated in a "time bank" and may be taken as in-lieu time off. (Qualifying conditions apply.)

The first in-person Jeju Group AGM was held in May

Jeju Group Annual General Meeting

ISCA PRESIDENT TEO SER LUCK, CEO FANN KOR AND DIVISIONAL DIRECTOR SOH SUAT LAY were in South Korea from May 21 to 25 for the first in-person Annual General Meeting (AGM) of the Jeju Group. The Jeju Group was formed in 2020 and comprises ISCA, Japanese Institute of Certified Public Accountants (JICPA) and Korean Institute of Certified Public Accountants (KICPA).

During the AGM, the three Institutes had a fruitful discussion on the future strategies, current trends and focus areas of the accountancy profession and the Group. This included trending topics like sustainability, women leadership and the impact of artificial intelligence on the profession. All the Institutes also reaffirmed their commitment, as the Jeju Group, to advance the accountancy profession of developed economies in the Asia-Pacific region.

On the second day of the AGM, the Group organised a Sustainability Workshop, with support from the International Federation of Accountants (IFAC) and International Sustainability Standards Board (ISSB). David Madon, Director, Sustainability, Policy & Regulatory Affairs, IFAC, updated the Group on the sustainability landscape and state of play of standards including International Standard on Sustainability Assurance (ISSA) 5000. ISSB members Tae-Young Paik and Hiroshi Komori also shared the latest updates from ISSB. This was followed by presentations from each Institute on sustainability disclosure, assurance and capability-building efforts in their respective jurisdictions.

ISCA CEO Ms Kor gave an overview of Singapore's experience in championing sustainability reporting, including the challenges faced by businesses as well as ISCA's initiatives to support the accountancy community in terms of education, capability building and development of relevant programmes. She also shared Singapore's sustainability assurance landscape, highlighting ISCA's support for international standards development efforts by the International Auditing and Assurance Standards Board (IAASB) and International Ethics Standards Board for Accountants (IESBA), as well as ISCA's efforts in contributing to the development of the sustainability reporting ecosystem in Singapore through advocacy, education, research and the development of related guidances.

In addition, Ms Kor highlighted how the demand for sustainability reporting and assurance presents a golden opportunity for the accountancy profession to reinvent itself, giving it a renewed purpose and increasing the attractiveness of the profession. As such, she emphasised the urgent need for accountancy firms

The Sustainability Workshop provided updates on developments in the sustainability space

Strengthening ties over a golf game at Nine Bridges

to build capacity and capabilities so they can meet the anticipated demand for sustainability assurance.

Noting the diverse nature of sustainability as a topic, she pointed out the importance for accountancy firms and other service providers (that are non-accountants) to tap on each other's strengths, to collectively raise the bar in sustainability reporting and assurance. Ms Kor rounded off her presentation with suggestions on what the respective professional accountancy

Interacting with each other during lunch and a tour of Jeju

bodies, IFAC and Jeju Group can do to further boost the development of the accountancy profession in this area.

Apart from working hard, delegates from the three Institutes had the opportunity to bond over a round of golf at Nine Bridges, one of South Korea's most picturesque golf courses, as well as a quick tour around the beautiful island of Jeju.

While the ISCA team was in South Korea, they took the opportunity to meet up with the Institute's members. The Institute hosted a networking dinner in Seoul for ISCA members and business contacts based there, to exchange views and share experiences. It was also an opportune time for ISCA to update on its new initiatives and forge stronger friendships over an engaging evening of delectable food and drinks.

Stay tuned to our website (https://isca.org.sg/member-support/isca-overseas-chapters/korea-chapter) for updates of ISCA's upcoming internationalisation plans in South Korea.

Disciplinary Finding

UPON FINDING THAT MR HUANG WEIMING (JARRET), CA (SINGAPORE), had contravened Rule 64.1 read with Rule 65.2 of the Institute (Membership and Fees) Rules, in that he had been found guilty by the State Courts of the Republic of Singapore of two offences under Section 420 of the Penal Code (Chapter 224, 2008 Revised Edition) and one other offence under Section 420 read with Section 512(2) of the Penal Code (Chapter 224, 2008 Revised Edition) and sentenced to 19 weeks imprisonment on 12 October 2022, the Disciplinary Committee ordered:

That pursuant to 137.1.1 of the Institute (Membership and Fees) Rules, his name be removed from the register and that he shall cease to be a Member of the Institute with immediate effect.

Daryl Aw, Director of Skybots Pte Ltd, presented insights into how RPA and AI tools like ChatGPT can optimise the work processes for finance professionals, tax professionals and corporate secretarial professionals

isca breakfast talk

Transforming Business Operations And Job Roles: Practical Applications Of RPA And AI Using ChatGPT

RECENT TECHNOLOGICAL ADVANCEMENTS HAVE REVOLUTIONISED THE WAY PROFESSIONALS OPERATE, enhancing productivity and transforming job roles. At the ISCA Breakfast Talk session on May 17, Daryl Aw, Director of Skybots Pte Ltd, presented insights into integrating robotic process automation (RPA) and artificial intelligence tools like ChatGPT, showcasing their practical applications for auditors, finance professionals, tax professionals, and corporate secretarial professionals. Through 30 examples, these technologies were demonstrated to streamline tasks, thus freeing up the professionals' time for value-added activities.

RPA has emerged as a powerful tool for accountants as it can automate repetitive and time-consuming tasks, and lead to significant time and resource savings. One prominent use case is automating data entry into the accounting systems. By leveraging RPA, auditors can deploy robots to extract information from ACRA bizfiles, enter it into Customer Due Diligence (CDD) tools like Bix4x, and generate consolidated reports with a single click. This automation empowers auditors to focus on higher-value tasks, which boosts overall productivity.

ChatGPT, an AI-based chatbot, can be an invaluable tool for accountants. By integrating ChatGPT into platforms like Google Sheets, accountants can create templates that gather data and generate insights using predefined formulas and prompts. Mr Aw provided insights into optimising ChatGPT prompts to enhance accuracy and also shared tips on maintaining the confidentiality of chat-based information. Tan Sock Cheng, Senior HR Business Consultant from EON Consulting & Training, then shared on the importance of job redesign and how to implement proper job redesign.

To facilitate the adoption of these transformative technologies, companies can tap on grants such as Workforce Singapore (WSG)'s Support for Job Redesign under the Productivity Solutions Grant (PSG-JR), and participate in programmes that enhance job roles and support digital transformation initiatives. The Career Conversion Programme, supported by WSG, assists companies by supporting staff salaries during their digital transformation journey. Through such support, companies can potentially save up to $76,000 to kickstart their digital transformation.

The rise of technologies like RPA and ChatGPT presents exciting opportunities for accounting professionals to elevate their roles and optimise productivity. Embracing these advancements would enable professionals to confidently navigate a technology-driven world, ensuring their relevance and impact in the accounting field.

Learn more about ChatGPT through these courses:

- NEW DGT084: Practical Application of RPA and ChatGPT for Accounting and Finance Professionals (Classroom)
- DGT082: ChatGPT and Generative AI (Classroom)
- DGT083v: ChatGPT for Accounting and Finance Professionals (Live Webinar)

TEXT BY


Guo Binglian


Kew Hon Boon

The Rise Of Generative AI

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PHOTO SHUTTERSTOCK

TAKE AWAYS

- Artificial intelligence (AI), with its remarkable analytical capabilities, is able to detect trends and patterns that might elude the human eye, thus providing richer risk assessments and deeper insights.
- While AI frees up time spent on tedious tasks, the accountants' role remains pivotal – they are needed to verify AI-generated reports and exercise professional scepticism.
- With AI lifting the burden of repetitive tasks and other labour-intensive aspects of accounting work, accountants can ascend the value chain and transit to areas that require more strategic thinking and nuanced decision-making.

"CHATGPT IS YESTERDAY'S TOY." Attention-grabbing punchlines such as this rippled through LinkedIn feeds, masterfully crafted by digital wordsmiths to ignite a sense of urgency, and FOMO (fear of missing out) among readers who find themselves grappling with the rapid development of technology unfolding in front of them.

ChatGPT's launch in November 2022 was met with unparalleled hype. Consider this: Netflix took 3.5 years; Facebook, 10 months; Spotify, five months; and Instagram 1.5 months, to amass a million users. In contrast, ChatGPT accomplished the same feat within a week, with the user number soaring to hit 100 million in just two months.

Since then, generative artificial intelligence (AI)'s capabilities have become known to the general public. Now, it seems like every week, there is a new platform being unveiled. In the field of chatbots alone, OpenAI has released the more powerful GPT-4, while Google released Bard and Microsoft released Bing Chat. Text-to-image models like Dall-E 2, Stable Diffusion, and Midjourney, alongside text-to-video systems like Make-A-Video, are ushering in a new era of creative potential.

At its core, generative AI represents a subfield of AI that is capable of creating human-like content. This is possible because generative AI models learn patterns and styles from large human-generated data sets – be they text, images or sound files – and ultimately, are able to produce new content that is strikingly similar to the original sources. This is also how GPT-3.5, the large language model (LLM) that powers ChatGPT, can predict the next word in a text string and generate coherent text effortlessly.

As generative AI's impact ripples through Singapore's business landscape, subtly reshaping the accountancy sector and touching ISCA members in diverse ways, the experience can be exciting, yet daunting. Most crucially, it necessitates a delicate balance to effectively harness its potential without falling prey to its pitfalls.

LATEST DEVELOPMENTS AND TRENDS

Technology titans are well aware of the transformative potential of generative AI as they incorporate its capabilities into their productivity software. Microsoft has enhanced its productivity suite (Word, PowerPoint, and Excel), Outlook and Teams with machine intelligence. Alphabet, the parent company of Google, is doing the same with Google Docs, Sheets and Gmail. The competition for AI dominance is heating up, as these industry titans vie for supremacy.

In the eyes of many technologists, generative AI models represent the next platform shift akin to the advent of the Internet, cloud computing, and smartphones[1]. Failure to adapt to this transformative platform could render tech companies irrelevant.

So, how do these advancements reshape the business landscape? The *Stanford AI Index Report 2023*[2] highlights the most prevalent uses of AI by businesses in 2022, including optimising service operations (24%), developing new AI-based products (20%), customer segmentation (19%), customer service analytics (19%), and enhancing existing products with AI capabilities (19%).

In the world of accountancy, giants aren't sleeping either. They are embracing AI with billion-dollar bear hugs. PricewaterhouseCoopers is pumping a whopping US$1 billion[3] into an endeavour that could redefine its tax, audit and consulting cosmos. Meanwhile, EY is pouring the same amount[4] into an assurance technology platform to harness AI, trusted data fabric and disruptive technologies to power a new generation of data-driven assurance services.

Then there's Deloitte, which is birthing a whole new generative AI practice[5], eyeing to help clients supercharge areas such as fraud detection, supply chain optimisation, and smart factory applications with the power of generative AI and Foundation Models. KPMG is also all in on a flurry of generative AI investments and alliances[6] to empower its workforce and boost its client solutions.

Banks are not left behind in this high-stakes AI race. The finish line? – winning new clients, streamlining operations, unravelling complex risks, and reshaping how they interact with clients and staff alike. The *2023 Banking And Finance Outlook* by Jones Lang LaSalle[7] illuminates this trend with staggering clarity. By 2025, the world will have spent an additional US$31 billion on AI, with the banking and financial services industry leading this digital charge.

Take DBS Bank, for example. By integrating

[1] https://www.economist.com/business/2023/03/26/big-tech-and-the-pursuit-of-ai-dominance
[2] https://aiindex.stanford.edu/report/
[3] https://www.wsj.com/articles/pricewaterhousecoopers-to-pour-1-billion-into-generative-ai-cac2cedd
[4] https://www.ey.com/en_sg/news/2022/06/ey-announces-us-1b-investment-in-a-next-generation-technology-platform-to-facilitate-trust-transparency-and-transformation-through-assurance-services
[5] https://www2.deloitte.com/us/en/pages/about-deloitte/articles/press-releases/deloitte-unveils-suite-of-ai-service-offerings-built-on-nvidia-platforms.html
[6] https://info.kpmg.us/news-perspectives/technology-innovation/kpmg-advance-scale-generative-ai.html
[7] https://hosted-content.meltwater.com/files/sph/ST/20230612/The_Straits_Times_770005202306 1201010101022_M7AcrlgBkmSq7XqOycV6.pdf

> AI, in the realm of accountancy, isn't just about doing things faster or cheaper; it's also about doing them smarter.

PHOTO SHUTTERSTOCK

AI and machine learning into both their customer-facing businesses and their internal functions, like legal, compliance, and human resources, they are rewarded with S$150 million in additional revenue and a neat S$25 million from productivity gains in 2022 alone.

Looking ahead, the development of domain-specific LLMs holds great promise. Imagine finely tuned models trained in specific domains like finance, law, or accounting, delivering precise and quicker answers than flipping through pages, empowering users with remarkable resources at their fingertips. Companies like Bloomberg are already pursuing this path with BloombergGPT, tailored for financial information. Early versions of Quran GPT and Bible GPT are also emerging.

GENERATIVE AI: ASSISTANT OR REPLACEMENT?

Rapid progress in generative AI evokes both excitement and fear. Chief among the concerns is the spectre of job displacement, which is casting a shadow of uncertainty over the future of work. Recent forecasts by Goldman Sachs[8] suggest that the latest wave of AI, represented by platforms like ChatGPT, could potentially automate nearly 300 million full-time jobs worldwide, affecting approximately 18% of global work, with advanced economies bearing the brunt of the impact.

Amid these concerns, let's spotlight the accountancy profession. AI, in this sphere, serves as a magnifying glass and a compass, spotting risks in mountains of data and pointing auditors to areas needing deeper scrutiny, consequently raising audit quality. It streamlines tasks that were once laborious, such as data input, analysis, and reporting, enhancing productivity and reducing auditing costs.

Furthermore, AI, with its remarkable analytical capabilities, is able to detect trends and patterns that might elude human eyes, thus providing richer risk assessments and deeper insights. AI, in the realm of accountancy, isn't just about doing things faster or cheaper; it's also about doing them smarter.

While AI frees up time spent on tedious tasks, the accountants' role remains pivotal – they are needed to verify AI-generated reports and exercise professional scepticism. With AI lifting the burden of repetitive tasks and other labour-intensive aspects of accounting work, accountants can ascend the value chain and transit to areas that require more strategic thinking and nuanced decision-making.

This progression, coupled with the increased productivity brought about by AI, can potentially lead to shorter working hours, better salaries and more intellectually stimulating tasks for accountants. This will enhance accountancy's attractiveness as a career of choice, which will go a long way towards alleviating the manpower crunch currently faced by the profession.

> For accountancy, AI serves as a magnifying glass and a compass, spotting risks in massive datasets, and pointing auditors to areas needing deeper scrutiny

In a separate context, with AI's ability to handle extensive data, will it shift the audit goalpost from a "true and fair view" to a more precise "true and correct view" of financial statements? If this shift in paradigm really comes to fruition, it could profoundly affect businesses, significantly bolstering investor confidence in audited accounts and creating unprecedented deterrence against fraud.

History has often shown us that new technologies not only replace old jobs but create new ones. *The Economist*[9] has suggested that fears of an AI-induced jobs apocalypse might be premature. Importantly, the integration of generative AI won't occur overnight. Also, there are considerable concerns regarding the protection of confidential information, which has led to companies like JPMorgan Chase to ban the use of ChatGPT at work.

A more significant issue is reliability. While AI can generate remarkably coherent text, it occasionally "hallucinates", making authoritative yet false statements. Therefore, any AI-produced output would need to be rigorously verified by qualified professionals such as accountants, lawyers and journalists.

Ultimately, the fusion of human expertise and AI forms an extraordinary partnership, enabling us to delve deeper, uncover hidden insights, and unravel complex real-world problems. This synergy of human ingenuity and AI's data-driven capabilities is where the true transformative potential lies.

[8] https://www.gspublishing.com/content/research/en/reports/2023/03/27/d64e052b-0f6e-45d7-967b-d7be35fabd16.html

[9] https://www.economist.com/finance-and-economics/2023/05/07/your-job-is-probably-safe-from-artificial-intelligence

PHOTO SHUTTERSTOCK

CHARTING A COURSE FOR RESPONSIBLE ENGAGEMENT

The surge in generative AI applications ushers in a new age of potential benefits and ethical conundrums. The most conspicuous concern is AI's ability to fuel misinformation, as evident by notable incidents such as the deepfake video depicting Ukrainian President Volodymyr Zelenskyy surrendering, and fake photos of Pope Francis in a stylish, branded white puffer jacket.

Moreover, generative AI models, inherently influenced by their training data, can unwittingly carry forth the biases present in that data, thus perpetuating discriminatory practices, especially in areas like hiring and lending. An emblematic case in point is Amazon's AI recruitment tool, trained primarily on male-dominated resumes for a decade, consequently fostering an inherent bias against women. Simultaneously, the vast array of training data sources, encompassing social media feeds, Internet searches, and copyrighted materials, raises concerns about privacy and copyright infringement related to data scraping for generative AI.

Undoubtedly, ethical considerations stand front and centre in the discussion surrounding generative AI. While the necessity for AI regulation is widely acknowledged, strategies differ. *The Economist* classifies governments' approaches to AI regulation into three categories. On one end of the spectrum, Britain and America lean towards a "light-touch" approach, repurposing existing regulations to govern AI systems and focusing on leveraging AI's potential benefits. In contrast, the European Union proposes a risk classification system for AI uses, mandating rigorous monitoring and disclosure for high-risk uses, like self-driving cars, compared to low-risk uses, such as music recommendations. At the far end of the spectrum, countries like China regulate AI similarly to how medicines are controlled, necessitating product registration and pre-release security reviews.

Amid these differing approaches, Singapore adopts a pragmatic, learning-based approach, opting not to regulate AI yet but to learn from the industry's AI usage before defining regulatory measures. In alignment with this philosophy, Singapore launched the AI Verify Foundation[10] to promote responsible AI use, enhance AI testing capabilities, and conduct pilot projects with the private sector. These initiatives are designed to provide insights into compliance requirements, guiding future AI governance policies without immediate, stringent regulation.

As with the advent of previous groundbreaking technologies, we are confronted with a delicate balancing act, a careful navigation of the risks and opportunities that lie before us. It is imperative that we approach this newcomer on the block with measured caution, avoiding undue alarmism while purposefully steering towards responsible engagement.

Understanding this delicate act, ISCA has initiated the Artificial Intelligence for the Accountancy Industry (AI for AI) initiative[11]. By earmarking an initial investment of S$2 million, ISCA is preparing to harness the power of AI to empower the accountancy profession.

The initiative includes spearheading strategic research by tapping into ISCA's Research Network of universities and industry partners to better comprehend AI's role and anticipate its future impact on accountancy. It also aims to cultivate a vibrant startup ecosystem for developing AI solutions for the profession and accelerate AI integration into daily practices.

This forward-thinking approach acknowledges the growing influence of AI and aims to prepare the profession for its transformative impact. ISCA, by embracing prudence and proactiveness, seeks to leverage AI as an ally, addressing industry challenges, enhancing services, and paving the way for a future where AI and the profession thrive in harmony.

ISCA embraces prudence and proactiveness in seeking to leverage AI as an ally, paving the way for a future where AI and the profession thrive in harmony

[10] https://www.businesstimes.com.sg/startups-tech/startups/singapore-launches-foundation-promote-responsible-ai

[11] https://isca.org.sg/content-item?id=20f32c78-8b91-4257-b085-adf9cd3cc31c

FORGING AHEAD WITH A FORWARD-THINKING MINDSET

AI's potential is both disruptive and abundant as it promises to reshape the way we earn our livelihoods and structure our lives. But as we embrace this transformative technology, we must also strive to understand its inner workings, that is, the mechanisms that propel its power and the boundaries that confine it. Attending conferences, educating ourselves with industry publications, enrolling in online courses, and hands-on experimentation with generative AI tools are all avenues to equip ourselves with the skills and knowledge required to navigate the future adeptly.

In line with this, ISCA has since set up an AI for AI Telegram group chat to foster a vibrant community aimed at stimulating insightful discussions about AI and its impact on the accountancy industry. We warmly invite you to join the conversation at this link (https://t.me/+w0hi4btIXnBmZmU1) to raise questions, exchange ideas and share experiences with fellow forward-looking individuals.

As the saying reminds us, "AI will not replace you. A person using AI will." It falls upon us, professionals across industries, to equip ourselves with the knowledge and acumen necessary to navigate this uncharted terrain. ISCA

Guo Binglian is Research and Insights Manager, and Kew Hon Boon is Head of Strategic Planning and International Relations, ISCA.

TEXT BY

Fann Kor

Updates From The CEO

Sustainability Assurance: Accounting Firms and Other Service Providers – Complement, Not Compete

TAKE AWAYS

- Unlike the audit of financial statements, accounting firms will not be the only party vying for the sustainability assurance business.
- Accounting firms are in a strong position to expand into sustainability assurance.
- The demand for sustainability assurance services will be huge enough to accommodate both accounting firms and other service providers.
- It is crucial for members to deepen their knowledge of sustainability now.

IF YOU GOOGLE THE WORD "ASSURANCE", one of the first definitions to appear would likely be: "a positive declaration intended to give confidence; a promise".

In an era of information profusion, it is crucial to distinguish which information can be relied upon to make informed decisions. Information which has been assured, surely, has to be more reliable.

The last few years have seen an exponential rise in sustainability information being disclosed by companies globally and in Singapore. This is certainly encouraging as we seek to transition to a green economy. However, the journey has only just begun. With the wide-ranging effects that sustainability is increasingly bearing on our decisions from investments to consumption, it is fair to say that the next big call for action would be to make sustainability assurance a need rather than a want.

It is with this in mind that I was thrilled to have had the opportunity to share my views on this topic at the International Federation of Accountants (IFAC)'s Chief Executives Forum 2023. In April, ISCA also hosted the Singapore leg of the International Ethics Standards Board for Accountants (IESBA)'s Global Sustainability Roundtables; the roundtables were held to help IESBA shape the development of new ethics and independence standards for sustainability reporting and assurance.

Sustainability disclosure and reporting is already taking shape with the harmonisation of sustainability reporting standards and anticipated jurisdictional adoption of these standards. The next important milestone shall be to subject the reporting to high-quality, independent, external assurance.

But first, who should be the ones providing sustainability assurance? The accounting firms – and only the accounting firms?

THE STATE OF PLAY

Based on IFAC's *State of Play in Sustainability Assurance* benchmarking study[1], 57% of sustainability assurance in Singapore in 2021 was performed by accounting firms. In addition, 87% was performed using ISAE/SSAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Globally, there were similar observations – the same proportion of sustainability assurance was performed by accounting firms (57%) and 70% was performed using ISAE/SSAE 3000 (Revised).

Although these statistics reveal a preference for accounting firms to provide sustainability assurance, they also suggest that a significant role remains for service providers who are not accountants ("other service providers").

The likelihood that the sustainability assurance market will be shared by accounting firms and other service providers was considered in the recent plans of global standard-setters for the accountancy profession. Both the International Auditing and Assurance Standards Board (IAASB) and IESBA intend to develop profession-agnostic standards relating to sustainability assurance. These standards are expected to be delivered by the end of 2024.

PHOTO SHUTTERSTOCK

Accounting firms and other service providers need to play on each other's strengths to deliver quality sustainability assurance

COMPETE OR COMPLEMENT?

As it is, sustainability assurance is undertaken on a voluntary basis, and there is no prescribed type of assurance providers or assurance standards to be used. Should an accounting firm be engaged to conduct sustainability assurance, it is likely to apply ISAE/SSAE 3000 (Revised), which prescribes requirements for ethics and quality control or management. Other service providers might not be bound by the same constraints.

It would not be like-for-like comparison if sustainability assurance engagements were carried out with varying standards or, worse still, with no prerequisites for ethics, independence or quality control.

Despite the lack of a level playing field currently, we must accept that there is a role for other service providers in this space. Sustainability is a multidisciplinary field and it is unlikely for any individual to be an expert in the full breadth and depth of sustainability-related issues. Accounting firms and other service providers need to play on each other's strengths to deliver quality sustainability assurance.

Accounting firms are well placed to apply their strong institutional knowledge and business understanding obtained from financial statements audits to sustainability assurance engagements, for example, in the determination of materiality and evidence-gathering procedures required given the level of assurance provided. However, assistance might be needed to understand relevant scientific concepts or human rights issues, not to mention technical expertise or sector-specific knowledge such as climate modelling, supply chain traceability or human rights concerns.

[1] https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/state-play-sustainability-disclosure-assurance-2019-2021-trends-analysis

.... there needs to be a licensing and inspection process to qualify as sustainability assurance providers, such that all assurance providers are held to the same high standards, regardless of whether they belong to the accountancy profession or not.

ADVOCATE FOR LEVEL PLAYING FIELD

IAASB and IESBA probably have similar reasons for taking it upon themselves to develop standards relating to sustainability assurance that can also be applied by other service providers. These standards will provide an important baseline for quality management and ethical conduct for all assurance providers, as well as common principles for conducting a sustainability assurance engagement.

Currently, as sustainability assurance is not mandatory in Singapore, companies are free to determine the aspects of sustainability assurance to meet their own requirements, including the scope of assurance or the assurance provider. This leads to inconsistency in what sustainability assurance entails for different companies.

If we consider the case of the audit of financial statements, public accountants are licensed by the Accounting and Corporate Regulatory Authority (ACRA), and they express an opinion based on prescribed auditing standards (that is, Singapore Standards on Auditing). Such regulation contributes towards driving comparability and consistency.

Similarly, in the case of sustainability assurance, there needs to be a licensing and inspection process to qualify as sustainability assurance providers, such that all assurance providers are held to the same high standards, regardless of whether they belong to the accountancy profession or not. This is crucial in elevating the credibility of sustainability-related information as stakeholders increasingly rely on such information for decision making.

OPPORTUNITIES FOR ACCOUNTANCY PROFESSION IN SUSTAINABILITY

Considering the future trajectory for sustainability assurance, alarm bells may sound for some accounting firms as other service providers appear to be encroaching on the assurance space, which is traditionally seen as "their" domain. But if these accounting firms can look beyond the perceived threat to the huge opportunity ahead, they will realise there is a lot of work to be done, to get the practice ready to meet the growing demand.

In reality, accounting firms have an added advantage to play a vital role in sustainability assurance. The plans by IAASB and IESBA to develop profession-agnostic standards and developments in this space will give accounting firms a chance to advocate the strengths of the profession in corporate reporting. Given their familiarity with both financial reporting and auditing and assurance standards and processes, accounting firms are in a strong position to expand into sustainability assurance.

To accomplish this, accounting firms should first take stock of their core skills and expertise that give them a competitive edge in an evolving corporate reporting landscape. To name a few, these core skills include financial analytical skills, understanding of the business, business partnering skills to bring important stakeholders together, as well as the ability to carry out assurance engagements with the necessary degree of professional scepticism and professional judgement. These skills are transferrable to a sustainability assurance engagement and should be built upon.

For matters which might be less familiar, there is a need to acquire broad-based knowledge of relevant concepts and other skills that will allow the accounting firms to discharge their duties as sustainability assurance providers. These could include, but are not limited to, an understanding of elementary climate science, measurement and classification of greenhouse gas emissions and major reporting standards such as the IFRS Sustainability Disclosure Standards.

Beyond this, accounting firms can build on their established procedures to use the work of a management's expert or an auditor's expert. For example, in a financial statements audit, accounting firms know how to consider the work of a company's actuary as audit evidence for the valuation of defined benefit plans or use inhouse valuation specialists to assess the valuations of complex financial instruments. In the context of a sustainability assurance engagement, there would similarly be a need to tap on other experts.

The move into sustainability assurance does not just represent the potential to unlock additional value-adding services for clients, it also presents the profession with the opportunity to reinvent itself and give it a renewed purpose, thereby increasing its appeal. Employees increasingly support various environmental or social causes and are looking to find meaning in their jobs. By taking on a sustainability focus in our services, we help to make a positive impact on the disclosure of credible environmental or social information and become a more attractive employer as a result. This could go a long way towards alleviating some of the talent retention challenges that the profession is currently facing.

PHOTO SHUTTERSTOCK

Given their familiarity with both financial reporting and auditing and assurance standards and processes, accounting firms are in a strong position to expand into sustainability assurance

ISCA'S INITIATIVES TO SUPPORT THE PROFESSION

ISCA is committed to supporting our members in upskilling by creating programmes to scaffold members' learning.

At the moment, we have members who are at different stages of sustainability proficiencies, namely those who are more advanced and progressive; those who are slightly reactive and doing the bare minimum; and those who might not have started at all. As sustainability requires collective efforts, it is important to be inclusive and not leave any of these groups behind.

For example, we are developing our Sustainability Professional and Sustainability Assurance Professional Qualification programmes, with three levels of competencies in mind, comprising foundational, intermediate and advanced. Candidates can progress meaningfully based on their individual needs to deepen their knowledge of sustainability.

Also, to address the shortage of expertise to meet the anticipated demand for sustainability services and the lack of professional service firms which can provide holistic solutions, ISCA is partnering The Law Society to foster a community of firms to cross-learn and collaborate in this space. In this way, we aim to create a pool of competent professionals ready to tackle issues and provide advice to deliver value to businesses in sustainability reporting, assurance, and advisory.

CONCLUSION

I hope I have made the outlook for sustainability assurance less intimidating for some of our members. With the growing need for sustainability assurance, it is entirely conceivable that the demand for such services will be huge enough to accommodate both accounting firms and other service providers.

To capitalise on the opportunities when they come, it is imperative for accounting firms to build and acquire the relevant sustainability assurance capabilities now. As the national accountancy body, ISCA endeavours to support the accountancy profession and the business community in fostering a dynamic and credible sustainability reporting ecosystem. ISCA

Fann Kor, CA (Singapore), is Chief Executive Officer, ISCA.

"Data Is The New Oil In Today's Economy"

Andrew Lim, CA (Singapore), AI Engineer (Courseware), AI Singapore

TAKE AWAYS

- Artificial intelligence (AI) can perform simple algorithms in accounting work, which can enhance the productivity of accountancy professionals.
- As AI becomes more pervasive, accountants who know AI will have a competitive edge.
- Accountants already possess financial knowledge. With knowledge of AI, they can use AI tools to work out cost-benefit analysis, find ways to lower costs and increase revenue, thus helping their organisations to move ahead.

IT IS UNLIKELY THAT SINGAPOREANS CAN GET THROUGH A DAY WITHOUT HEARING THE TERM "AI". First conceived in the 1950s, it is based on the notion of machines that become able to perform tasks that previously required human intelligence. Since then, AI has been made famous – or infamous – by movies like *The Terminator* and *The Matrix* trilogy which foretell of a dystopian future where machines take over the world and enslave humans.

However, the truth is that AI is already a large part of our daily lives, driving many of the apps that we use in our devices, and making many of the conveniences of modern living, such as government e-services, banking and online shopping, possible. And, as Andrew Lim, AI Engineer (Courseware) with AI Singapore and an ISCA member says, "Every night, I engage with AI ... through Netflix!"

Mr Lim decided to study accountancy after completing National Service. "I realised I didn't know anything about numbers, which would put me at a disadvantage," he recalls. "As Warren Buffett put it, 'Accounting is the language of business'," and with that, he decided to pursue his professional accountancy degree with ACCA.

In a span of eight years, he progressed from an accountant to Finance Manager at Singapore CEFC Petrochemical & Energy Pte Ltd, before joining Sarment Group as Financial Controller, and becoming its Group Financial Controller in under two years. He moved on to JR Group Holdings Pte Ltd as Finance Manager, heading the group's financial matters, before joining De Majestic Vines Pte Ltd as its Regional Head of Finance.

A CONVERT TO THE CAUSE

Mr Lim first encountered AI at work in 2019, just before COVID-19 struck. "I was leading a project while heading the finance department of the company and I was quite impressed by how AI could actually improve the inventory management," he describes. "It could even provide quite a detailed forecast of what the sales revenue was going to be, based on analysis of the data." Seeing AI successfully used in a practical manner, Mr Lim's interest was piqued. He started learning about AI and trying to find ways to implement its use in finance. "I explored a few AI algorithms to help me work out some basic forecasts," he adds.

The combination of AI and accounting is not often talked about, but Mr Lim points out that it is not as complicated as one imagines. "It boils down to the understanding of data," he explains. "I have the domain knowledge of accounting, and AI is a tool I use to help me manage the data." He acknowledges that despite the fact that it is a trending topic, AI adoption is still at a nascent stage, and there is little true understanding of what it is and how it works.

Mr Lim's interest in AI grew to a point where he began doing his own research and studying the topic during the pandemic period, while continuing to work in finance. He applied for AI Singapore's AI Apprenticeship Programme (AIAP), got selected to take the technical test, passed the interview process and was offered a place. With that, he took a leap of faith and switched careers completely, joining AI Singapore in 2022 as an apprentice. Today, he is an AI engineer developing courseware for Learn AI. As a member of ISCA, Mr Lim also actively promotes AI education through and with the Institute, giving public talks at schools and organisations.

ACCOUNTING AND AI

Mr Lim credits his background in accounting and finance for his smooth transition into AI. "Those who are accountancy-trained tend to be meticulous when it comes to reading data," he notes, adding that his training in analysis helps in his current occupation, which is developing courses to help spread the knowledge of AI and to train local talent. In fact, his accounting experience makes him the go-to person among his colleagues, who ask for his advice on things like assurance matters.

"It's beneficial for accountants to know the basics of AI," says Mr Lim. "AI is so pervasive that sooner or later, they will encounter it in their work." He explains that AI can perform simple algorithms in accounting work. For example, regression is about predicting numerical values, while classification is predicting something binary in nature. Accountants are constantly looking at these to calculate the expected credit loss, and having AI handle these tasks would greatly enhance their productivity. "The finance department will be one of the first departments to face AI, and accountants who know AI will definitely have an edge over those who don't," he adds.

There remain some concerns about AI "taking over" jobs, but Mr Lim points out that AI is simply a tool. "Accounting is your domain knowledge and so is the business you are working for. If you set the objectives and use AI as a tool, you can generate insights and help increase productivity, freeing up time for strategic thinking."

Mr Lim lists areas in accounting where AI can come in useful: fraud detection, the likelihood of a loan defaulting, and creating summaries of merger and acquisition documents. "AI has this unsupervised learning algorithm called anomaly detection, which finds outliers within a data set. So, most of the data would have a pattern, but if you suddenly have outliers sticking out like a sore thumb, that would flag a potential fraud situation or just an unusual transaction," he elaborates.

The summarisation of documents, on the other hand, could be made easier with large language models like ChatGPT, which can be used for "documents that don't contain proprietary information". Or, "you could build your own language model within your organisation". To this end, Mr Lim developed an AI course called "Chat With Your Documents" that allows users, in particular accountants, to sift out information from existing documents. Another course he created is "Google Sheets With Machine Learning", which teaches students how to use Google Sheets to do machine learning, with no coding required.

WHAT THE FUTURE HOLDS

AI does have limitations and issues, Mr Lim accedes. "The most common form of AI that's out there today is generative AI. Its primary function is to generate or create something. As you have probably heard, ChatGPT tends to 'hallucinate'," he says, referring to non-existent creations by AI. "When I do public talks, I use my *durian char kway teow* example. ChatGPT can give me a very detailed description of it – from what it is to how it tastes – and where to find it!" Mr Lim also highlights a recent case of a lawyer in New York who was caught citing fake cases invented by ChatGPT when he used AI for research. "The limitation of AI is this: garbage in, garbage out," he smiles. "You'd better make sure that you have the right data feeding into the model. Always check the facts!"

But, as long as all the parameters are met, AI has the capability to be a huge asset to anyone who handles data, Mr Lim says. He foresees that in the future, accountancy professionals will play the role of what he calls "financial transformation officers". "It's possible this will happen in the future because finance is the heart of business," he explains. "If you know enough to utilise AI, you can help your organisation to move ahead. Because accountants have financial knowledge, they can see what available AI tools there are, to work out cost-benefit analysis, to work out ways to lower costs and increase revenue."

It is essential that individuals and companies adopt an agile mindset and familiarise themselves with AI, emphasises Mr Lim. "As Nvidia CEO Jensen Huang said in his speech at National Taiwan University recently, 'While some worry that AI may take their jobs, someone who's expert with AI will.'"

The future lies in the hands of those who understand how to sift the meaningful data from the chaff, and how to adopt AI to achieve the end goal they seek, whether it is solving a financial problem, selling more products, or even saving the environment. In short, Mr Lim says, "Data is the new oil in today's economy." ISCA

TEXT BY

Tan Chee Wee

Adopting InvoiceNow As Your Key Asset

Singapore's Nationwide E-invoicing Network

TAKE AWAYS

- The Infocomm Media Development Authority implemented the nationwide e-invoicing network, InvoiceNow, in 2019 to help companies reap the benefits of electronic invoicing.
- InvoiceNow offers a safe and secure mode for the direct transmission of invoices in a structured digital format across finance systems.
- Some 55,000 Singapore companies across industries and sectors have adopted InvoiceNow and improved efficiency, reduced costs, and achieved faster payment cycles.
- The government will implement InvoiceNow as the default e-invoice submission channel for all government vendors within the next few years.

ACCOUNTANCY PROFESSIONALS PLAY A PIVOTAL ROLE ACROSS MULTIPLE FUNCTIONS, such as reviewing financial statements, conducting routine audits, and providing risk analysis for companies. Oftentimes, timely delivery of such functions depends on the accuracy of invoices and payments, which are critical elements of accounting internal controls and audits.

Traditionally, invoices are manually created by companies and sent to their customers either via fax or postal mail, which may take days or even weeks. More recently, as companies and employees become more familiar with technology and software, invoices are sent to their recipients by email as PDFs. However, this is a single-sided operation that requires the recipients to re-enter the details of the invoice into their own accounting systems.

As invoicing methods continue to evolve from the paperless form, the Infocomm Media Development Authority (IMDA) implemented InvoiceNow in 2019 to help companies reap the benefits of electronic invoicing. Since then, InvoiceNow has come a long way as some 55,000 Singapore companies across industries and sectors have adopted this initiative.

INVOICENOW AS THE NATIONWIDE E-INVOICING NETWORK

InvoiceNow is the nationwide e-invoicing network that adopts the Peppol framework to facilitate the direct transmission of invoices in a structured digital format across finance systems. E-invoicing enables companies to automate accounts payable processes while simultaneously allowing customers to automate accounts receivable processes.

Through the Peppol framework, which is developed and maintained by the international non-profit association OpenPeppol, documents and data are securely exchanged using a common digital format which allows companies to choose the preferred accounting and enterprise resource planning (ERP) platforms that best suit their own requirements. This approach ensures that these companies can exchange invoices with their customers or counterparts who may not be using the same platforms through access points, which serve as gateways into the Peppol network.

While one may require some time to be fully acquainted with the functions and benefits of InvoiceNow, the process of connecting to the network is a breeze for many companies, with the availability of almost 230 Peppol-ready e-invoicing solution providers[1] and over 30 access point providers[2] in Singapore.

SAFE AND SECURE TRANSMISSION OF INVOICES

As more companies weigh the benefits of InvoiceNow prior to adoption, many would be primarily concerned about the security of the network as invoices may store sensitive and confidential information.

All data being transmitted via InvoiceNow goes through securely encrypted pipes

[1] https://www.imda.gov.sg/How-We-Can-Help/nationwide-e-invoicing-framework/Peppol-Ready-Accounting-ERP-Solution-Providers
[2] https://www.imda.gov.sg/How-We-Can-Help/nationwide-e-invoicing-framework/Access-Point-Providers

To maintain the security of the InvoiceNow network, only Peppol-certified access points are registered on the network and are authorised with a Public Key Infrastructure (PKI) certificate. All data being transmitted on the network is also protected with Transport Layer Security (TLS) such that it only goes through securely encrypted pipes.

The data being transmitted is further signed using the access point service provider's authorised PKI certificate to ensure that the data is genuine and non-repudiable, and any receiving access point will have to verify the signature of the sending access point service provider to ensure that it is the same as the authorised one registered on the network.

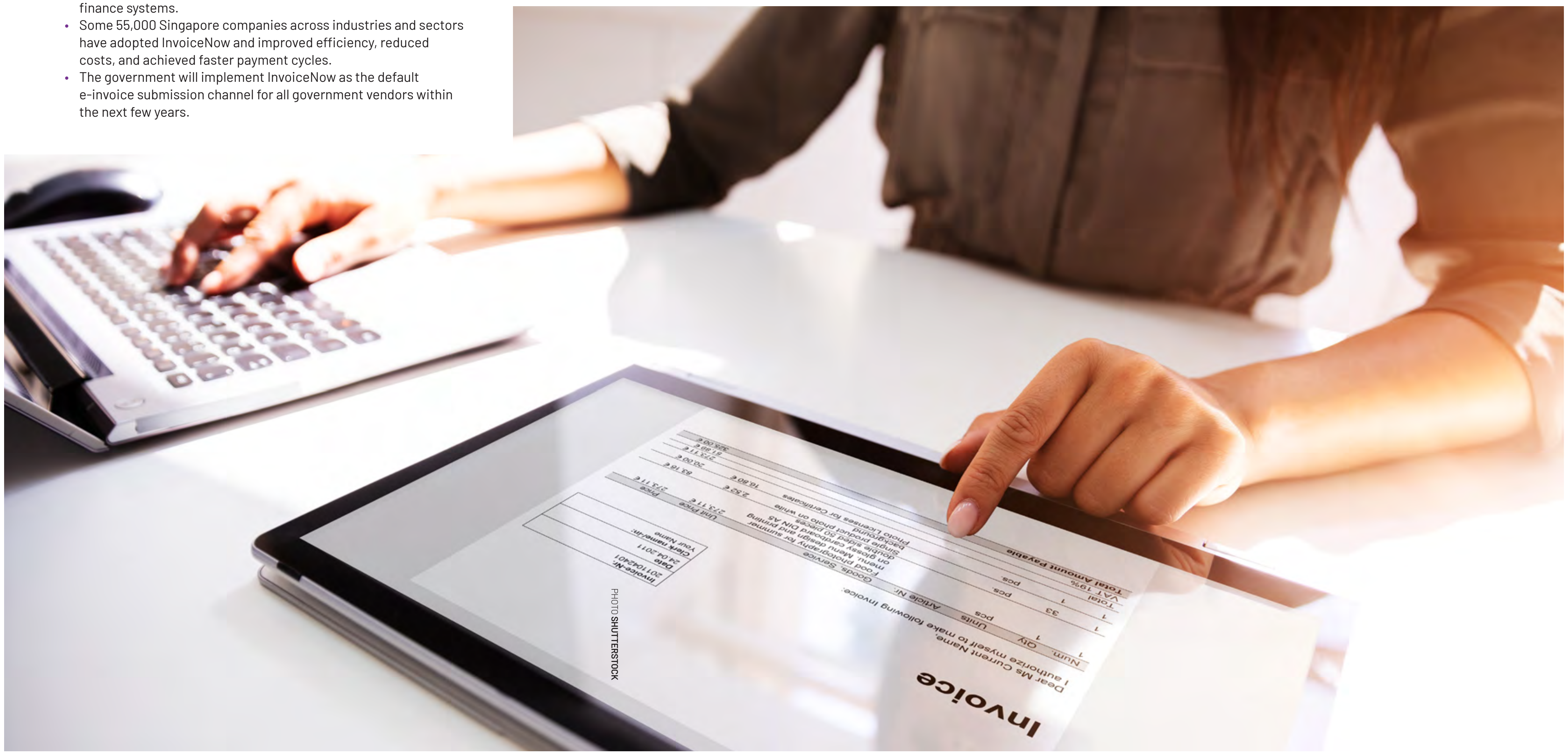


PHOTO SHUTTERSTOCK

FASTER PAYMENT CYCLES AND REDUCED COSTS

Beyond a safe and secure network, companies that adopt InvoiceNow can expect faster payment cycles as invoices are quickly sent out from the suppliers' systems and then received, captured, and processed swiftly at the buyers' systems. By processing invoices more efficiently and making timely payments, companies can also boost the confidence of and build trust with their trading partners. This would likely lead to better deals with more favourable terms in future transactions, and signal sound financial management of the company by avoiding interest charges from delayed payments.

The adoption of InvoiceNow can also reduce costs and human errors. Research has indicated that senders and recipients of e-invoices can save about 59% and 64% on costs, respectively, as compared to using paper-based processes, with contributing cost factors likely linked to the storage and retrieval of hardcopy invoices. Moreover, paper and PDF invoices require the manual input of data into electronic systems, and this process of data entry often leads to human errors, which in turn increases rectification costs.

Research shows that senders and recipients of e-invoices can realise significant cost savings

[3] https://www.imda.gov.sg/-/media/Imda/Files/Programme/Nationwide-E-Invoicing-Framework/IMDAInvoiceNow-FAQs-Final.pdf

REAPING BENEFITS OF INVOICENOW

Since the launch of InvoiceNow, many companies have benefitted from it and one such adopter is Fujifilm Business Innovation Singapore. The company was manually processing an average of 32,500 invoices each month, which made billing and tracking tedious and time-consuming. Through InvoiceNow, the company was able to achieve strategic invoicing goals such as cost reduction, increased invoice visibility, and improved cash flow management.

The InvoiceNow initiative has similarly benefitted Royal Pacific, a freight services company that offers an extensive range of professional logistics solutions. The company received over a thousand invoices each month and had to dedicate a significant portion of manpower to data entry, which inevitably led to higher manpower costs and lower productivity levels. By adopting InvoiceNow, the company was able to cut its invoice processing time by about 50%.

PHOTOS COURTESY OF IMDA

> InvoiceNow is the nationwide e-invoicing network that adopts the Peppol framework to facilitate the direct transmission of invoices in a structured digital format across finance systems.

With InvoiceNow becoming more pervasive, companies in the hospitality industry have also hopped aboard the bandwagon. Pan Pacific Hotels Group embraced InvoiceNow and gained stronger partnerships with their suppliers; it is now able to efficiently streamline its invoicing processes by making them smoother and quicker.

GOVERNMENT'S PUSH FOR WIDESPREAD ADOPTION

As the network continues to expand rapidly with more companies joining the fold, the government has introduced financial incentives to accelerate the adoption of InvoiceNow. These include the InvoiceNow Transaction Bonus where companies can receive S$200 when they send e-invoices to 10 different UENs within a 12-month period, as well as the LEAD Connect Grant and Transact Grant of up to S$70,000 in total for larger companies that connect their systems to and transact on InvoiceNow.

The government has also extended its support for InvoiceNow beyond financial incentives. On 24 February 2023, at the Ministry of Finance Committee of Supply Debate, Senior Minister of State Chee Hong Tat announced that "the government will implement InvoiceNow as the default e-invoice submission channel for all government vendors within the next few years", and InvoiceNow will eventually replace the Vendors@Gov portal for registered businesses. It is important to note that approximately 80% of government contracts are currently awarded to small and medium-sized enterprises annually, which helps these companies build solid track records and develop capabilities to tap new growth areas.

The government's push for digital financial transactions was further reinforced on 28 February 2023 in Parliament by the Ministry of Communications and Information. During the parliamentary session, Senior Minister of State Tan Kiat How emphasised that companies should not take a pause on digitalisation and that the government will provide support by putting in place an enabling digital ecosystem, including the scaling up of adoption of digital utilities like InvoiceNow, at the national level. ISCA

Tan Chee Wee is Executive Director, Advocacy and Policy Division, Singapore Business Federation.

SBF is the appointed Programme Manager by IMDA for InvoiceNow. To find out more about InvoiceNow and how this initiative can benefit your company, please contact SBF via email (AskADT@sbf.org.sg) or register your interest with SBF via the InvoiceNow survey (https://forms.office.com/r/fMH3QCRZ35). SBF can also connect you with solution and access point providers to help kickstart your company's InvoiceNow journey.

VIEWPOINT

TEXT BY

Ben Santoso

Ernest Tan

Digitalisation And Sustainability In Foodservice

Keeping In Tune With Customer Preferences

TAKE AWAYS

- Foodservice players need to navigate challenges in the near term, such as the higher costs of borrowing, labour and ingredients, as post-COVID-19 dining adjusts to new economic realities.
- They need to continue investing in multiple touchpoints to broaden their reach, and also invest in supply chain reliability, flexibility and diversification.
- Technology can help them extract and analyse real-time data, so that they are kept updated on changing consumer trends.

IN THE NEAR TERM, FOODSERVICE PLAYERS NEED TO NAVIGATE SUCH CHALLENGES AS higher costs of borrowing, labour and ingredients. As post-COVID-19 dining adjusts to new economic realities, foodservice players should keep abreast of changing consumer preferences. This may include easy cooking at home in lieu of out-of-home dining to save on costs. For others, food delivery has become more entrenched, even as safe management measures are no longer in place.

Demand for more convenience is structural, and so is the need for different price points. Packaged food and beverage (F&B) sales of easy preparation and wellness categories – which performed better than on-the-go categories during COVID-19 – continue to see growth despite the lifting of pandemic restrictions. Likewise, quick service restaurants (QSRs) have gained market share, while the foot traffic to foodservice outlets have lagged foot traffic to grocery stores. These changes require foodservice players to continue investing in multiple touchpoints to broaden their reach, and also invest in supply chain reliability, flexibility and diversification.

Over the long term, foodservice is expected to expand faster than food retail, underpinned by the demographic shift and urbanisation. This offers opportunities for foodservice companies to grow their footprint, and to provide value-added services. Whichever strategy they undertake, the momentum in digitalisation and sustainability is likely to continue.

CONSUMERS ARE ADAPTING TO HIGHER PRICES

While foodservice footfalls post-COVID-19 continue to recover since early 2022, their pace has varied across ASEAN-4, comprising Indonesia, Malaysia, Singapore and Thailand. Based on Google Mobility data between February 2020 and October 2022, restaurant footfalls in some countries (taken from visits to retail and recreation outlets as a proxy) have reverted to pre-pandemic levels. On the other hand, footfalls in food retail outlets (taken from visits to grocery stores and pharmacies as a proxy) by end-2022 have mostly exceeded pre-pandemic levels and outperformed those in retail and recreation.

[1] Category includes: reduced-sugar carbonates, flavoured yoghurt, instant noodles, RTE cereals, cheese, savoury snacks, frozen processed seafood, vitamins & derivatives, fresh coffee, plant-based milk (ex-soy)
[2] Category includes: concentrates, confectionery, RTD tea, juice, energy drinks, sports drinks

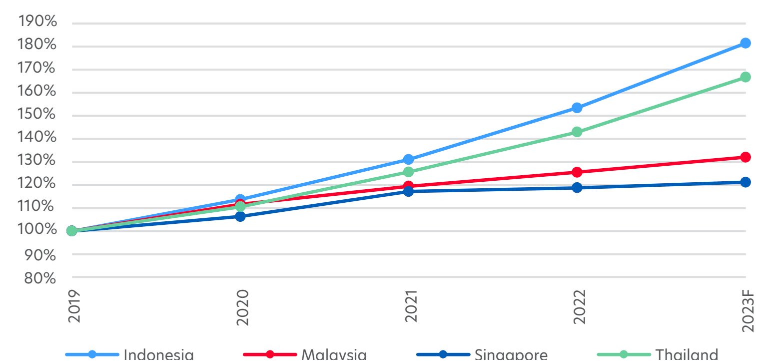
PHOTO SHUTTERSTOCK

This suggests that consumers may be spending more on groceries than out-of-home meals. The exception is Singapore, where footfalls in retail and recreation have overtaken those to grocery stores and pharmacies.

As higher input costs are passed on to consumers, consumption behaviour is adapting in different ways. In some segments, these adjustments may include fewer trips to foodservice outlets and/or a smaller ticket size per visit. In food retail, some demand may have shifted towards private labels, smaller packaging, and/or substitution of discretionary goods.

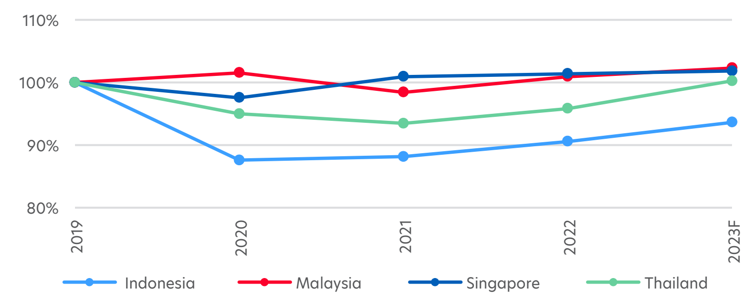
The packaged food retail data also suggests that certain categories, such as easy preparation meals and wellness, have gained ground. Compared to others, these categories have seen their volumes grow faster post-pandemic (Figure 1), and are expected to be maintained at a faster pace relative to other categories. This trend may not only be borne out of demand for more convenience due to return to work, but may also be partly due to ongoing demographic shifts, and as part of bringing the foodservice experience home to save on costs. On the other hand, on-the-go categories that had suffered during the pandemic have only gradually started to recover (Figure 2).

FIGURE 1 EASY PREPARATION AND WELLNESS CATEGORIES[1] SAW NEW GROWTH SINCE PANDEMIC (INDEXED)



Source: Euromonitor International

FIGURE 2 ON-THE-GO CATEGORIES[2] HAVE SEEN VOLUMES RECOVERING SINCE REOPENING (INDEXED)



Source: Euromonitor International

Today, the foodservice industry needs to keep abreast of the fast-changing consumer preferences through digitalisation.

DATA AS A VITAL DRIVER FOR GROWTH

Consumer spending on foodservice remains largely discretionary amid the intensely competitive environment. In most cases, the F&B industry (both food retail and foodservice) uses consumer insights to support its business goals. Today, the foodservice industry needs to keep abreast of the fast-changing consumer preferences through digitalisation. This involves increased adoption of food delivery – which has opened doors to real-time data – as well as various cloud-based management software and hardware. Data is also typically shared within a franchise, where franchisors provide trends with its franchisees and outlets across different regions for potential test cases.

Digitalisation enables the foodservice industry to gain insights into actual consumer preferences, and, historical trends can also be evaluated. It also enables automation, which is important to improve not just the customer experience, but also the operational efficiency between team members which, in turn, may minimise employee turnover. For this purpose, digital insights and data providers would be able to provide foodservice brands with specific trends, in addition to order flows from delivery aggregators.

FOOD DELIVERY REMAINS VITAL POST-COVID-19

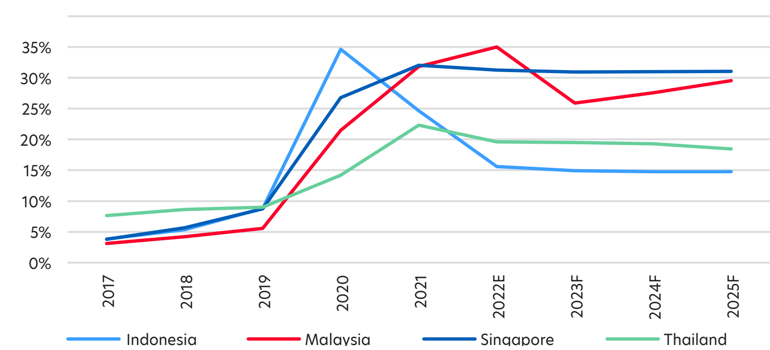
As consumers demand greater accessibility, a presence at various touchpoints is vital for packaged F&B brands as well as foodservice. The digital channel – through own and/or third-party platforms – can be accessed not only for food delivery but can also be used as a means for product launches, specific promotions or loyalty programmes to understand consumer trends relevant for product development and pricing points.

According to *e-Conomy SEA 2022* report by Google, Temasek and Bain & Company, the gross merchandise value (GMV) of food delivery in Southeast Asia (covering Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) was estimated to have grown from US$5 billion in 2019 to US$17 billion in 2022, representing 50% CAGR over the three-year period. By 2025, a slower expansion of 13% CAGR is expected, to US$24 billion. While less aggressive, Euromonitor International similarly estimates that food delivery GMV in ASEAN-4 would continue expanding 6% CAGR over the next three years, to reach US$18 billion by 2025F. This accounts for roughly 20% of overall foodservice value, although each country would have different penetration rates (Figure 3). Overall, food delivery share remains sizeable, given the inherent fragmentation in the industry.

THE CHAIN KIOSK MODEL REQUIRES CONTINUOUS INNOVATION

Another channel through which the foodservice industry has been able to grow rapidly is the chain kiosk model. The proliferation of this model reflects consumer demand for affordable and convenient offerings, and one that can be nimble, requiring low initial investment for each outlet or franchisee. Driven by a low-cost format, the chain kiosk can rapidly replicate a proven concept and is hence a volume-driven model (as opposed to royalty-focused or innovation-focused). For this reason, the payback period per outlet would typically be less than one year, which is much quicker than the average of three to five years for a global chain QSR outlet. Chain kiosk outlets were estimated to have expanded 2% to 19% CAGR between 2016 and 2019 in Indonesia, Malaysia and Thailand, according to Euromonitor International. However, between 2019 and 2021, growth had slowed to 17% in Malaysia and 1% in Thailand, and even shrunk by 3% in Indonesia due to COVID-19 mandated cuts in the operating hours and movement restrictions. While chain kiosk product offerings are limited, fierce competition still necessitates a refresh in outlet appearance every few years, as well as seasonal products outside of its core menu.

FIGURE 3 SHARE OF FOOD DELIVERY TO OVERALL FOODSERVICE VALUE



Source: Euromonitor International

THE GROWING AND CHALLENGING ECOSYSTEM OF CLOUD KITCHENS

Occupying a sizeable share in foodservice sales today, online food deliveries have supported an alternative model consisting of a kitchen without a restaurant front. Cloud kitchens cater solely for food delivery or collection (B2C), for which the order is received online (through own and/or third-party aggregator platforms). It is differentiated from central kitchens, which supply cooked/semi-cooked food for chain restaurant outlets (B2B). Cloud kitchens in ASEAN-4 receive orders from customers directly through delivery aggregator platforms or own ordering platforms. The drawback of being dependent on aggregators is that the platforms capture all the data and demand trends from a wider target audience that foodservice players can otherwise analyse to finetune their offerings. Hence, as a direct-to-consumer brand, having an own platform would help to enhance competitiveness in this data-driven economy.

Cloud kitchens can supply to virtual brands (brands that exist only on aggregator platforms) within a limited radius to ensure freshness and lower delivery cost. Yet, while cloud kitchens should remain relevant as a share of the industry to fill the demand for convenience, there are challenges, namely:

- Unrecognised brands would find it tougher to achieve economies of scale,
- Third-party aggregators/logistics would entail significant platform charges.

ENSURING RESILIENCE THROUGH DIVERSIFIED SUPPLIERS AND LOGISTICS PARTNERS

Post-COVID-19, the need for a resilient supply chain is a key focus area, and one which would involve diversification of qualified suppliers to minimise disruptions, such as those experienced during the pandemic. Yet, the onboarding process for branded QSRs typically requires extensive due diligence. Therefore, a simplified onboarding process would be necessary. As perishable food ingredients require appropriate storage and handling at the right temperatures, logistics is a segment which QSR brands need control over, to avoid a mix-up in deliveries, food safety issues, and/or supply disruptions. Investments, such as live tracking and a cloud-based ordering system, would thus need to be integrated, to ensure that flow and quality to each outlet are not compromised. These include IT solutions as well as order fulfilment, inventory and logistics.

A FRAMEWORK TO UPCYCLE FOODSERVICE WASTE

In ensuring foodservice brands address sustainable practices such as food waste and pollution, waste management is another increasingly important consideration. We believe collection and upcycling of used cooking oil (UCO) is a low-hanging fruit – given the monetary value of selling the used cooking oil – for foodservice players to enhance their sustainable practices. Between 2021 and 2026, we estimate UCO current collection volume in ASEAN-4 to collectively expand by 4% CAGR to 0.6 million MT. Today, only a fraction of the UCO potential volume is collected, given the several pain points for collectors, namely lack of scale, fragmentation and aggregation of logistics, particularly in rural areas, and low margin with intense working capital.

Given UCO's cash value, there is currently no shortage of UCO collectors in Southeast Asia. While some collectors may have exclusive contracts (that is, periodic fixed pricing) with foodservice establishments, most collectors work on a daily spot basis. For chain restaurants and independent outlets, there is typically no contract to centrally organise collection, so each outlet has its own arrangement. Likewise, outlets located in shopping malls would typically have centralised disposal and collection, although not all malls have strict enforcement.

For branded QSRs, while not covered under general franchise agreements, UCO recycling would be an opportunity to promote their sustainability agenda with end-to-end traceability to prevent mishandling, which could impact the QSR's brand image. ISCA

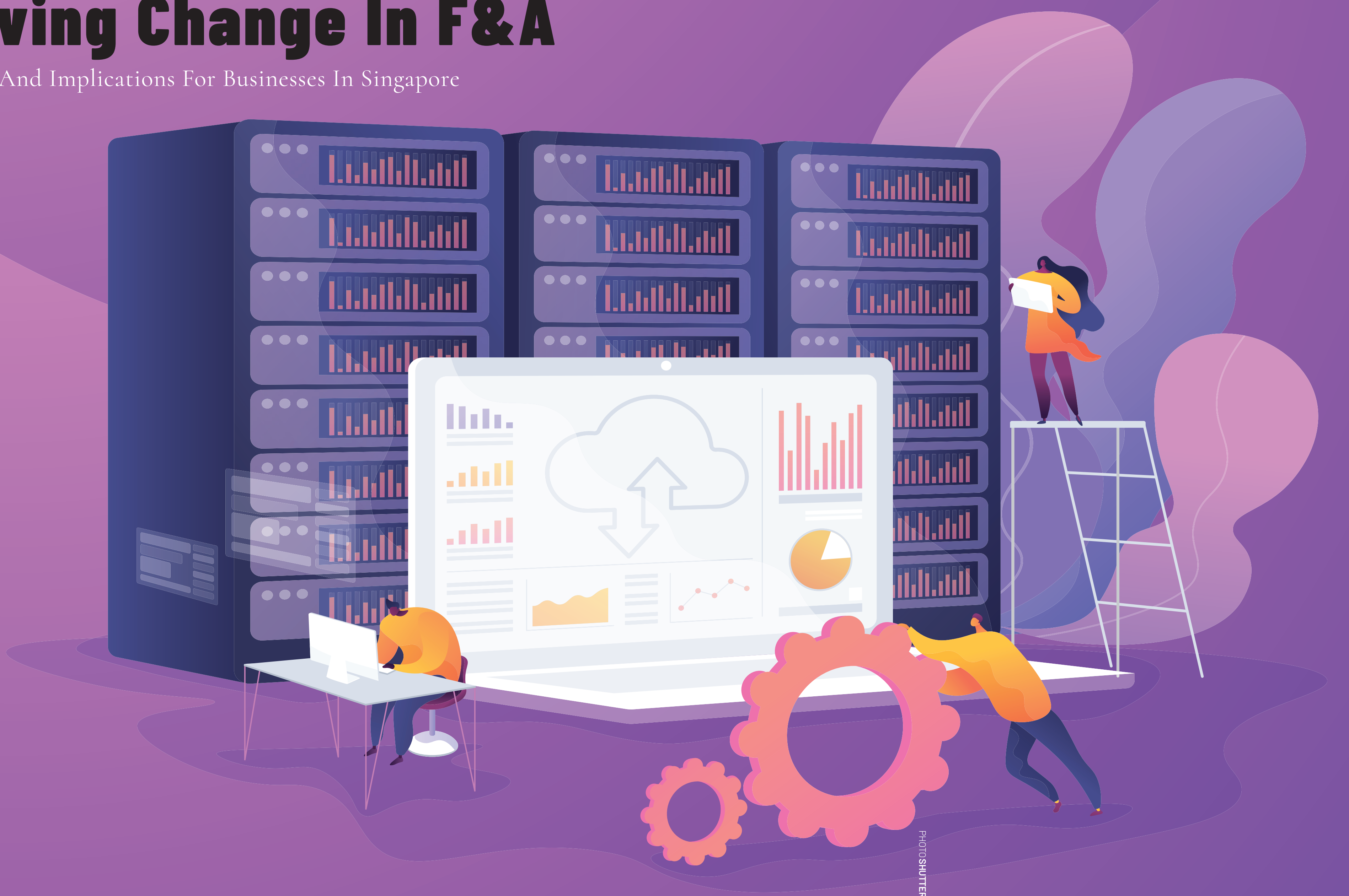
Ben Santoso is Business Insights and Analytics – Sector Solutions Group, and Ernest Tan is Head of Consumer Goods – Sector Solutions Group, United Overseas Bank Limited.

A full copy of this report is accessible at the UOB website (https://www.uob.com.sg/assets/web-resources/business/pdf/research/digitalisation-and-sustainability-in-foodservice.pdf).

VIEWPOINT

Top Three Trends Driving Change In F&A

Insights And Implications For Businesses In Singapore



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TEXT BY

Lee Thompson

TAKEAWAYS

- Organisations are turning to digital solutions to streamline financial operations and empower F&A teams to succeed, driving greater business success in turn.
- To elicit meaningful insights from data, data analytics capabilities will become increasingly essential.
- A more streamlined and informed F&A function improves business resilience and agility, and helps futureproof operations.
- Technology can help to harness the power of data, and informed and knowledgeable people are needed to turn the data into actionable insights for the organisation.

THE WEALTH OF DATA NOW AVAILABLE AT BUSINESS LEADERS' FINGERTIPS CONTINUES TO DRIVE DIGITAL TRANSFORMATION FOR ORGANISATIONS WORLDWIDE, INCLUDING IN SINGAPORE AND MORE WIDELY, ACROSS THE ASIA-PACIFIC (APAC) REGION. Increasingly, organisations are reaping the benefits of near-real-time data, using trends and deep data insights to uncover opportunities to significantly impact their operations, leading to improvements and increased productivity that positively impact the bottom line.

As part of this transformation, business leaders are investing in digital solutions that empower their organisations to keep pace with the competitive landscape. In particular, companies are taking the opportunity to integrate innovative technologies that harness the power of data to streamline and futureproof their businesses. One specific area of operations that has seen continued interest and transformation is the finance and accounting (F&A) function.

While F&A may once have been seen as a cost centre for businesses, over time, the broader organisational understanding has evolved to recognise that it is much more. In fact, F&A is the real driving force behind every business as key decisions are made based on financial data that can lead to business success. As the engine room for business operations, the role of F&A is growing to include more responsibilities, such as governance, risk, and compliance (GRC), headcount and internal controls, and environment and social initiatives, among others. However, complex F&A processes can create significant challenges for companies which do not have the right resources to implement or manage them.

> F&A is the real driving force behind every business as key decisions are made based on financial data that can lead to business success

> F&A is the real driving force behind every business: key decisions are made based on financial data that can lead to business success.

To better understand the changing business landscape and how digital transformation across F&A functions can transform organisations for the better, BlackLine commissioned data analyst firm Telsyte to survey 370 finance decision-makers across APAC, including 110 from Singapore, from organisations that had 200 or more employees. The respondents represented a variety of industries including services; production and distribution; education and training; construction; retail trade; healthcare and social assistance; hospitality, and government.

INFLUENTIAL TRENDS DRIVING CHANGE AND TECHNOLOGY ADOPTION ACROSS F&A

The research findings uncovered key insights into the modern F&A requirements driving digital transformation strategies across Singapore, as well as the focus areas for organisations looking to futureproof their F&A operations.

As the role of F&A continues to evolve, the ways in which F&A teams deliver value to their organisations is also changing. In particular, organisations are recognising that the inherent value of F&A teams comes from the activities they contribute to, which can influence the company's overall success. Additionally, there is increased focus on how more value can be derived from the F&A function by eliminating outdated manual processes and empowering F&A teams to contribute to more high-value tasks.

In light of this changing understanding of the F&A function, organisations are turning to digital solutions to streamline financial operations and empower F&A teams to succeed, driving greater business success in turn. The research from BlackLine and Telsyte uncovered three influential trends driving change across Singaporean businesses.

Trend 1: Enhancing data analytics capabilities

One of the biggest trends driving digital transformation and change across Singaporean businesses is the need to improve data analytics capabilities. For example, organisations across Singapore have reported that improving their financial data and reporting accuracy (42%) and gaining better data analytics capabilities to assist decision-making intelligence (41%) are among their top priorities for the next three years.

Business leaders recognise that data has value. However, without adequate processes and technologies in place to better understand the data in front of them, they are potentially missing opportunities to streamline their operations. And, as the F&A function continues to evolve, comprehensive data analytics capabilities will become increasingly essential to success. For 96% of businesses, the F&A function is essential to facilitate real-time visibility into the company's performance, so it's critical that finance teams have access to the latest data analytics tools to uncover key insights that help drive improved performance.

To gain deeper data insights, 15% of organisations are looking to unify their data and processes, combining them into a single source to help drive improvements across their operations. Achieving a single, centralised source of data helps eliminate information siloes. This empowers organisations to realise a more holistic view of their operations, which lets them see inconsistencies or areas of improvement that may have been more difficult to spot in the past.

Trend 2: Prioritising business resilience and agility

For many Singaporean businesses, one of the biggest benefits of a more streamlined and informed F&A function is its capability to improve business resilience and agility, which are essential to futureproofing operations. Improving business resilience is a key driver for 61% of organisations in Singapore, while 53% of them also report that improving business process and agility is critical.

One of the biggest needs for a more agile and resilient F&A function is the capacity for F&A team members to take on expanding roles and responsibilities. As the role of the F&A team grows, team members need more time to contribute to other activities, which can be difficult when their time is monopolised by time-consuming manual processes. By eliminating manual activities and leveraging automation and smart technologies to streamline F&A, businesses can free up their team members to contribute to more meaningful activities across the business.

Additionally, changes to the F&A function will create flow-on effects for the rest of the organisation, especially when it comes to improving business resilience and agility. If the F&A function can make business decisions quickly, more improvements can be realised across other departments. Every Singaporean business (100%) surveyed by BlackLine and Telsyte reported that there was a need to further optimise the F&A function across their operations, so it's clear that businesses in Singapore are prepared to make changes that will improve their operations now and into the future.

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Trend 3: The convergence of people and technology

The final trend across Singaporean businesses is the convergence of people and technology, which ultimately underpins the other key drivers identified by this research. Nearly half (44%) of organisations reported that their business does not have the talent, knowledge or tools needed to leverage F&A data insights to improve business operations. This means that, even though businesses want to improve their resilience and agility and uncover deeper data insights, they still face significant challenges in achieving this.

As a result, businesses need to find ways to combine people with technology to achieve success. Almost all businesses recognise they need to invest more in upgrading staff knowledge (95%) and talent pipeline management (94%) in tandem with software services and systems (94%).

Every organisation surveyed (100%) saw a role for software in helping their business retain talent, which would go a long way to eliminate the high costs associated with staff retention and acquisition, an issue for 39% of organisations. Additionally, 49% of businesses reported delays in processes, such as financial reporting and data analytics, which could be resolved through the use of software.

Organisations see a need for people to work alongside technology to achieve success, especially when it comes to the F&A function. Technology can help to harness the power of data; however, it's critical that informed and knowledgeable people are on hand to digest that data and turn it into actionable insights for organisations.

Where technology and people converge is the sweet spot for business success, especially when this can be further strengthened with the help of processes to help eliminate the potential for lost knowledge as F&A team members transition through the business to new roles.

THE FUTURE OF F&A IN SINGAPORE

Businesses across Singapore see a need for the F&A function to continue to evolve and are taking steps to address this with the support of continued digital transformation. For most businesses, this includes investing in technologies that help to harness the power of data, as well as technologies that leverage automation to help streamline processes and free up F&A talent to contribute to other meaningful activities across operations.

For more information about the current F&A trends influencing business operations in the Singapore region, download the full report (https://www.blackline.com/resources/whitepapers/future-proofing-finance-accounting-2023-landscape-singapore/).

Lee Thompson is Senior Vice President – Asia Pacific & Japan, BlackLine.

Technical Highlights

ETHICS

EP 200 (Revised On 1 June 2023) – Effective 1 July 2023

ISCA issued EP 200 (Revised on 1 June 2023) to adopt the anti-money laundering and countering the financing of terrorism (AML/CFT) requirements which are included in the Accountants (Prevention of Money Laundering and Financing of Terrorism) Rules 2023. These requirements are applicable to professional accountants in public practice and professional firms preparing for or carrying out transactions which are considered high risk. The AML/CFT requirements remain the same for (i) professional accountants in business, and (ii) professional accountants in public practice and professional firms preparing for or carrying out transactions other than those high-risk activities.

For more information, please visit:

- EP 200 (Revised on 1 June 2023) (https://isca.org.sg/content-item?id=c47176b2-aff2-42fa-811c-4800a94de2d7); and
- Accountants (Prevention of Money Laundering and Financing of Terrorism) Rules 2023 (https://www.acra.gov.sg/docs/default-source/default-document-library/legislation/legislation-under-acra-purview/accountants-prevention-of-money-laundering-and-financing-of-terrorism-rules-2023.pdf).

FINANCIAL REPORTING

IASB Amends Tax Accounting Requirements To Help Companies Respond To International Tax Reform

The IASB has issued amendments to IAS 12 *Income Taxes* to respond to stakeholders' concerns about the uncertainty over the accounting for deferred taxes arising from the implementation of the OECD Pillar Two model rules on the accounting for income taxes. The amendments give companies temporary relief from accounting for deferred taxes arising from the OECD international tax reform and are effective for annual reporting periods beginning on or after 1 January 2023.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/iasb-amends-tax-accounting-requirements/

IASB Moves Equity Method Project To Standard-Setting Work Plan

IASB has moved its Equity Method project from the research programme to the standard-setting work plan. The project's objective is to develop answers to remaining application questions on the equity method as set out in IAS 28 *Investments in Associates and Joint Ventures.*

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/iasb-moves-equity-method-project-to-standard-setting-work-plan/

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IFRS For SMEs Accounting Standard Educational Material: The Effects Of Climate-Related Matters On Financial Statements

IFRS issues educational material to illustrate how the *IFRS for SMEs* Accounting Standard requires companies to consider climate-related matters that have a material effect on the financial statements.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/ifrs-for-smes-accounting-standard-educational-material/

IFRS Foundation Issues Compilation Of Agenda Decisions – Volume 8

The IFRS Foundation has published Compilation of Agenda Decisions – Volume 8 which contains all the agenda decisions issued by the IFRS Interpretations Committee from November 2022 to April 2023.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/compilation-of-agenda-decisions-volume-8-published/

May 2023 IASB Update And Podcast Available

The topics discussed in this podcast include a summary of the IASB's supplementary meeting held on 3 May 2023 about proposed amendments to the *IFRS for SMEs* Accounting Standard relating to the international tax reform; and updates of various IASB projects including Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures project; Management Commentary project and Business Combinations – Disclosures, Goodwill and Impairment project.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/may-2023-iasb-update-and-podcast-available/

May 2023 Agenda And Meeting Papers Available

- Due Process Oversight Committee
  The meeting of the Due Process Oversight Committee held on 4 May 2023 discussed the proposal for a shortened comment period for an exposure draft of proposed narrow-scope amendments to the *IFRS for SMEs* Accounting Standard arising from OECD's Pillar Two model rules.
  For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/may/due-process-oversight-committee/
- Emerging Economies Group
  For this meeting held from 10 to 11 May 2023, the topics discussed include Climate-Related Risks in Financial Statements, Amendments to the Classification and Measurement of Financial Instruments and Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures.
  For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/may/emerging-economies-group/
- International Accounting Standards Board
  For the IASB meeting held from 22 to 24 May 2023, the topics discussed include Dynamic Risk Management, Financial Instruments with Characteristics of Equity, Post-Implementation Review of IFRS 15, and Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures.
  For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/may/international-accounting-standards-board/

IASB Supplementary Meeting On International Tax Reform And SME Accounting Standard

A supplementary meeting was held on 3 May 2023 to discuss a new project to help entities applying *IFRS for SMEs* Accounting Standard respond to new tax rules set by the OECD.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/04/iasb-supplementary-meeting-on-international-tax-reform-and-sme-accounting-standard/

SUSTAINABILITY & CLIMATE CHANGE

May 2023 ISSB Update And Podcast Available

In this podcast, ISSB Chair Emmanuel Faber and Vice-Chair Sue Lloyd share on topics discussed at the Board's May meeting, including ratification of consequential amendments to the SASB Standards, new consultations on the ISSB's agenda priorities and the international applicability of the SASB Standards.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/may-2023-issb-update-and-podcast-now-available/

don's column

MANDATORY CLIMATE REPORTING IN 2023

How Ready Is The Financial Sector?

TEXT BY

Koh Wei Chern

Patricia Tan Mui Siang

PHOTO GETTYIMAGES

TAKEAWAYS

- With effect from 1 January 2023, climate reporting consistent with the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations will shift to a mandatory basis for some industry-prioritised firms, namely those in the (i) financial industry; (ii) agriculture, food and forest products industry; and (iii) energy industry.
- Another key change is that the issuer's sustainability reporting process must be subject to internal review with effect from 1 January 2022. However, an independent external assurance is not mandatory.
- Most financial sector firms have not adopted the TCFD recommendations as a framework for reporting climate disclosures for financial years ending in 2021. But, given the high levels of alignment among the available standards and frameworks, the financial sector appears ready to do mandatory climate reporting based on the TCFD recommendations.

WITH EFFECT FROM 1 JANUARY 2022, climate reporting is mandatory on a "comply or explain" basis for all issuers listed on the Singapore Exchange (SGX). Specifically, the sustainability report should have climate-related disclosures consistent with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) as a primary component in its sustainability report[1]. The TCFD sets out recommendations to help firms disclose climate-related financial information that would be useful for investment decision making.

With effect from 1 January 2023, climate reporting consistent with the TCFD recommendations will shift to a mandatory basis for some industry-prioritised firms. In other words, these firms cannot comply on a "comply or explain" basis[2]. For financial years commencing 1 January 2023, mandatory climate reporting will apply to issuers in three industries, namely (i) financial industry; (ii) agriculture, food and forest products industry; and (iii) energy industry. For financial years commencing 1 January 2024, mandatory climate reporting will apply to issuers in two additional industries, namely (i) materials and buildings industry; and (ii) transportation industry[3].

The TCFD has 11 disclosure recommendations, based on the four pillars of (i) Governance; (ii) Strategy; (iii) Risk Management; and (iv) Metrics and Targets. Under the Governance pillar, there are two recommended disclosures, and for each of the other three pillars, three recommended disclosures. SGX Practice Note 7.6 paragraph 7.1 allows compliance with the TCFD recommendations to take place progressively. Practice Note 7.6 paragraph 7.2 illustrates a phased approach over three years, though for the industry-prioritised firms, they would have to do so over a shorter period of time.

Another key change is that the "issuer's sustainability reporting process must be subject to internal review" with effect from 1 January 2022[4]. However, an independent external assurance is not mandatory.

DISCLOSURE GUIDES

An Institute of Singapore Chartered Accountants (ISCA) *Climate Disclosure Guide*[5] ("ISCA Guide") released in April 2022 interviewed key sustainability executives from three listed companies which were forerunners in TCFD reporting, to hear their experiences on climate reporting based on the TCFD recommendations.

In addition, the ISCA Guide provided examples on TCFD reporting from various firms that were at different phases of the phased approach to complying with the TCFD recommendations. Of these firms, nine were listed on the SGX, eight were listed on foreign exchanges, and two were unlisted, namely PSA International Pte Ltd and Temasek Holdings (Private) Limited. For the nine listed on the SGX, three were from the materials and buildings industry; two from agriculture, food and forest products industry; one from energy; one from transportation, and two from others.

It was not surprising that there was no example of disclosures from the financial industry in the above guide. Instead, this was the focus of another guide, the *Financial Institutions Climate-related Disclosure Document*[6] issued by the Monetary Authority of Singapore (MAS) in May 2021. The guide provided examples taken from 40 financial institutions listed on different

[1] Singapore Exchange Mainboard Rule 711B (1)(aa) and Catalist Rule 711B (1)(aa); SGX Mainboard Rule Practice Note 7.6 paragraph 4.1(b) and also Catalist Rule Practice Note 7F paragraph 4.1(b); SGX Mainboard Rule Practice Note 7.6 paragraph 4.1(e) and also Catalist Rule Practice Note 7F paragraph 4.1(e)
[2] SGX Mainboard Rule 711B (2) and also Catalist Rule 711B (2)
[3] SGX Mainboard Rule Practice Note 7.6 paragraph 4.9 and also Catalist Rule Practice Note 7F paragraph 4.9
[4] SGX Mainboard 711B (3) also Catalist Rule 711B (3)
[5] https://www.isca.org.sg/standards-guidance/sustainability-and-climate-change/thought-leadership/isca-climate-disclosure-guide—-taking-first-steps-towards-climate-related-disclosures
[6] https://abs.org.sg/docs/library/financial-institutions-climate-related-disclosure-document.pdf

> For financial years commencing 1 January 2024, mandatory climate reporting will apply to issuers in two additional industries, namely materials and buildings industry; and transportation industry.

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exchanges that were at different phases of the phased approach to complying with the TCFD recommendations. The financial institutions are from the banking, asset management and insurance sectors. Given that climate reporting is mandatory for financial industry firms listed on the SGX with effect from 1 January 2023, this article examines the "readiness" of the financial firms listed on the SGX with respect to the recent SGX rule changes. We studied, specifically, (i) the manner of issuing their sustainability reports along with their annual reports; (ii) the adoption of the TCFD framework; and (iii) the extent of external assurance.

METHODOLOGY

We downloaded the list of issuers that are listed as Banking and Investment Services, Collective Investments, and Insurance sectors based on the Thomson Reuters Industry Sector Classification, that is available on the SGX website. This resulted in a list of 28 issuers. For completeness, we also included four issuers that are classified under the Financial Technology (Fintech) & Infrastructure industry classification code. We had a total of 32 issuers in our sample.

First, we studied how each of these issuer firms issued their sustainability reports. We downloaded the annual reports and sustainability reports for each of these issuer firms for their financial years ending in 2021. Sixteen (16) firms included their sustainability reports as part of their annual reports, one included its sustainability report as part of its annual report and also separately, and the remaining 15 firms issued their sustainability reports separately and made reference to the sustainability reports in their respective annual reports. Hence, it would appear that there was no specific preference in the financial sector in terms of issuing their sustainability report, either as a separate report from the annual report or including it as part of the annual report.

Next, we searched the sustainability reports for the sustainability framework/guideline used to guide their reporting and disclosure. In total, 31 out of 32 firms disclosed the sustainability framework/guideline used and, of these 31 firms, 11 used more than one reporting framework/guideline. The most common framework/guideline used was the Global Reporting Initiative (GRI), followed by TCFD and United Nation's Sustainable Development Goals (SDG) (see Table 1). Only nine firms (or only 28%) stated that they reported based on the TCFD recommendations.

TABLE 1 SUSTAINABILITY FRAMEWORK/GUIDELINE ADOPTED

GRI	28
TCFD	9
SDG	8
Sustainability Accounting Standards Board (SASB)	5
Carbon Disclosure Project (CDP)	1
International Integrated Reporting Framework (IIRF)	1
ISO Standards	1
PLANETech's Climate Challenge Map	1

Third, we checked the extent of assurance on sustainability reporting on these issuers. At this point, external assurance on sustainability reporting is not required but is encouraged by SGX in its listing rules and practice notes. For financial years ending in 2021, only three out of the 32 financial sector firms had limited external assurance performed on their sustainability reports. Four of the 32 firms explicitly stated their intention to seek external assurance on their sustainability reports in the future.

CONCLUSIONS

To be fully compliant with SGX rules, the financial sector firms listed on the SGX will need to do mandatory climate reporting based on the TCFD recommendations for financial years beginning on 1 January 2023. This article examines the current reporting behaviour of the financial sector prior to the effective date. It is noted that most financial sector firms have not adopted the TCFD recommendations as a framework for reporting climate disclosures for financial years ending in 2021. Nevertheless, the "Better Alignment Project" initiated by the Group of Five, that is, CDP, Climate Disclosure Standards Board, GRI, International Integrated Reporting Council and SASB, found high levels of alignment between the different standards and frameworks. Given that close to 90% of the financial firms listed on the SGX adopted the GRI as a framework in sustainability reporting, and given the high alignment among the standards, the financial sector may be more ready than it appears to be to do mandatory climate reporting based on the TCFD recommendations. The *Financial Institutions Climate-related Disclosure Document* is a useful resource to help these firms in their TCFD disclosure journey. It will be interesting to follow up and examine how these firms comply with climate reporting in 2022 on a "comply or explain" basis and on a mandatory basis in 2023, as well as examine the firms that eventually seek external assurance on their sustainability reporting. ISCA

Koh Wei Chern is Associate Professor, Accountancy Programme, School of Business, Singapore University of Social Science, and Patricia Tan Mui Siang is Associate Professor of Accounting, Nanyang Business School, Nanyang Technological University.

TEXT BY

Simon Poh

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don's column

Singapore's Stamp Duty Regime

Taking Stock Of Recent Changes

TAKE AWAYS

- From 15 February 2023, two new top marginal buyer's stamp duty rates were introduced for both residential and non-residential properties, targeting higher-end properties in excess of $1.5 million.
- As a temporary property cooling measure, additional buyer's stamp duty has been introduced for certain categories of buyers of residential properties since 11 December 2011 and has now been raised again from 27 April 2023. Seller's stamp duty has also been introduced for buyers of both residential and industrial properties who fit certain criteria.
- The recent changes also addressed areas for potential tax avoidance.

THE STAMP DUTY REGIME IN SINGAPORE HAS UNDERGONE SOME SIGNIFICANT CHANGES in the last couple of years. In addition to hikes in the stamp duty rates, recent amendments to the legislation and audits conducted by the tax authorities sought to close any potential loopholes that may have been exploited by taxpayers to avoid paying this high tax burden. This article takes stock of these changes.

A form of indirect tax, stamp duty imposes tax on documents relating to the transfer of immovable properties and shares. It is a tax burden ordinarily borne by the buyer and computed based on certain prescribed rates applied to the consideration or market value of the relevant asset, whichever is higher.

STAMP DUTY ON TRANSFER OF IMMOVABLE PROPERTIES

Buyer's stamp duty

There is buyer's stamp duty (BSD) levied on purchases of all properties, whether residential, industrial or commercial.

For a long time, BSD has been payable by the buyer on the purchase of all properties based on the following rates:

Purchase price or market value of all properties	Percentage
First $180,000	1%
Next $180,000	2%
Remaining amount in excess of $360,000	3%

With effect from 20 February 2018, the top marginal BSD rate was raised from 3% to 4%, but applied on the value of only residential properties in excess of $1 million as follows:

Purchase price or market value of residential properties	Percentage
First $180,000	1%
Next $180,000	2%
Next $640,000	3%
Remaining amount in excess of $1,000,000	4%

From 15 February 2023, two new top marginal BSD rates were introduced for both residential and non-residential properties (Tables 1 and 2, respectively), a move clearly targeting all the higher-end properties in excess of $1.5 million.

TABLE 1 BSD RATES FOR RESIDENTIAL PROPERTIES

Higher of purchase price or market value of the property	Residential properties	
	Existing marginal BSD rates (on or before 14 February 2023)	New marginal BSD rates (on or after 15 February 2023)
First $180,000	1%	1%
Next $180,000	2%	2%
Next $640,000	3%	3%
Amount exceeding $1 million up to $1.5 million		4%
Amount exceeding $1.5 million up to $3 million	4%	**5% (New)**
Amount exceeding $3 million		**6% (New)**

TABLE 2 BSD RATES FOR NON-RESIDENTIAL PROPERTIES

Higher of purchase price or market value of the property	Non-residential properties	
	Existing marginal BSD rates (on or before 14 February 2023)	New marginal BSD rates (on or after 15 February 2023)
First $180,000	1%	1%
Next $180,000	2%	2%
Next $640,000		3%
Amount exceeding $1 million up to $1.5 million	3%	**4% (New)**
Amount exceeding $1.5 million		**5% (New)**

> ... any attempts to save on paying the ABSD through contrived or artificial arrangements could potentially be regarded as tax avoidance arrangements by the tax authorities.

Temporary cooling measures

As a temporary property cooling measure, additional buyer's stamp duty (ABSD) has been introduced for certain categories of buyers of residential properties only. Seller's stamp duty (SSD) has also been introduced for buyers of both residential and industrial properties who buy their properties after certain prescribed dates and sell them within a short period of three years or less.

These temporary measures mainly aim to moderate the strong investment demand by both local and foreign buyers of residential properties. They also aim to ensure that residential properties remain affordable for Singaporeans and that the prices move in tandem with economic fundamentals.

TABLE 3

ABSD for purchases of residential properties on or after 27 April 2023	
Entities buying first and subsequent residential property	65%
Foreigners buying first and subsequent residential property	60%
Singapore permanent residents buying first residential property (unchanged)	5%
Singapore permanent residents buying second residential property	30%
Singapore permanent residents buying third and subsequent residential property	35%
Singapore citizens buying second residential property	20%
Singapore citizens buying third and subsequent residential property	30%

TABLE 4

SSD for residential properties bought from 20 February 2010	
Property disposed of within one year of purchase	12%
Property disposed of within more than one year and up to two years of purchase	8%
Property disposed of within more than two years and up to three years of purchase	4%
SSD for industrial properties bought from 12 January 2013	
Property disposed of within one year of purchase	15%
Property disposed of within more than one year and up to two years of purchase	10%
Property disposed of within more than two years and up to three years of purchase	5%

ABSD

In addition to BSD, buyers of residential properties have had to pay ABSD since 8 December 2011. The ABSD rates vary, depending on the profile of the buyer, and have been raised four times – on 12 January 2013, 6 July 2018, 16 December 2021 and, again, on 27 April 2023. For acquisitions made jointly by two or more parties of different profiles, the ABSD rate applicable will be based on the profile with the highest ABSD rate on the entire property value acquired. The latest applicable ABSD rates are summarised in Table 3

SSD

Sellers of properties do not normally have any stamp duty obligations. This is unless they sell residential or industrial properties acquired after certain dates and within a short holding period. The applicable SSD rates are summarised in Table 4.

STAMP DUTY ON TRANSFER OF SHARES IN PROPERTY-HOLDING ENTITIES – ADDITIONAL CONVEYANCE DUTIES

Comparing the stamp duty obligations for the buyer of all types of immovable properties with those for the buyer of shares in entities with substantial immovable properties, it is clear that the buyer will choose the latter option due to the substantially lower stamp duty burden of 0.2%, compared to the higher BSD rates and potentially ABSD and SSD as well. This significant rate differential loophole was closed when the government introduced additional conveyance duties (ACD) for both buyers and sellers of equity interests in property-holding entities (PHEs) that own primarily residential properties in Singapore with effect from 11 March 2017. This is over and above the normal 0.2% stamp duty applicable on the higher of the transaction value or the net asset value of the shares, which remains payable.

A PHE is an entity which has at least 50% of its total tangible assets comprising prescribed immovable properties (PIP) in Singapore. A PHE can be a Type 1 PHE, a Type 2 PHE or both.

PIP refers to any immovable property that is:

a) zoned or situated on land that is zoned "Residential", "Commercial and Residential", "Residential/Institution", "Residential with Commercial at 1st Storey", or "White";
b) permitted to be used by a written permission given under section 14(4) of the Planning Act (not being one that is given for a period of 10 years or less) or notification given under section 21(6) of the Planning Act for solely residential purposes or for mixed purposes one of which is residential; or
c) used for solely residential purposes or for mixed purposes one of which is residential, in a case where the property was so used on 1 February 1960 and has not been put to any other use since that date, and where such use is not the subject of a written permission or notification mentioned in paragraph (b).


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Type 1 PHE means the target entity has PIP of which the market value makes up at least 50% of the value of the entity's total tangible assets (TTA).

Type 2 PHE means the target entity:

- has 50% or more beneficial interest (directly or indirectly) in one or more entities each of which is a Type 1 PHE (henceforth referred to as "related entities"); and
- the sum of the market value of the PIP beneficially owned by the target entity directly and indirectly through its related entities is at least 50% of the TTA of the target entity and all the entities which the target entity has 50% or more beneficial interest (directly or indirectly) in.

Unlike stamp duty on shares which is levied on only the buyer and based on 0.2% of the higher of the transaction value or the net asset value of the shares, there are two forms of ACD:

- ACD applying to buyers for a qualifying acquisition (ACDB); and
- ACD applying to sellers for a qualifying disposal (ACDS);

ACDB

A qualifying acquisition happens when equity interest in a PHE (that is, the target entity) is acquired on or after 11 March 2017 and the buyer (with any associates):

- is already a significant owner of the PHE before the acquisition; or
- becomes a significant owner of the PHE after the acquisition.

A significant owner of a PHE refers to an individual or an entity who beneficially owns at least 50% equity interest or voting power in a residential PHE, either on its own or with its associates. In determining whether the 50% ownership threshold for significant ownership is met, the equity interest of the buyer's and seller's associates will be taken into account.

Where the buyer is an individual, his/her associates include:

- family members such as grandparent, parent, child, grandchild, sibling and spouse;
- partners in a partnership, limited partnership or limited liability partnership; or
- the entities which the buyer/seller beneficially owns 75% or more voting capital and more than 50% voting power in.

Where the buyer is an entity, its associates include:

- subsidiaries which it beneficially owns 75% or more voting capital and more than 50% voting power in it;
- individuals who or holding entities which beneficially own 75% or more voting capital and more than 50% voting power in it;
- other entities in the group that is an associated entity to a common holding entity or individual which meets the condition listed immediately above;
- partners in a partnership, limited partnership or limited liability partnership.

Associates also include parties with an agreement or arrangement (whether oral/written/expressed/implied) to act together to acquire, hold or dispose of equity interest in, or with respect to the exercise of their votes in relation to the target entity.

ACDB consists of two portions. The first portion is based on the normal BSD rates which are based on graduated tax rates of 1% to 6% (see Tables 1 and 2). The second portion is based on 65% of the entire value of the underlying property transferred if the acquisition occurs from 27 April 2023 onwards. In the event that less than 100% of the equity interest is acquired, the ACDB will be apportioned accordingly.

ACDS

A qualifying disposal happens when the seller (together with any associates) is a significant owner of the PHE and the equity interest of the PHE disposed of:

- was acquired on or after 11 March 2017; and
- disposed of within three years of acquisition (holding period) on a first-in-first-out basis.

The terms "PHE", "significant owner" and "associates" have the same meaning as those defined above for ACDB.

Unlike ACDB, ACDS has only one portion, and is computed based on 12% of the entire value of the underlying property disposed. This portion coincides with the highest tier of the SSD rates.

Similar to ACDB, in the event that less than 100% of the equity interest is disposed of, the ACDS will be apportioned accordingly.

With the implementation of ACDB and ACDS, it is clear that an indirect transaction involving a qualifying acquisition or disposal of PHEs, as opposed to a direct transfer, is no longer a more attractive option that will result in significant stamp duty savings. In fact, the reverse is true as there can be significantly higher stamp duty instead.

TAX PLANNING CONSIDERATIONS

The generally high stamp duty rates for all properties have led taxpayers to engage in arrangements that can help them to save on these taxes. However, utmost care must be exercised to defend against any attempts by the tax authorities to treat these as tax avoidance or worse still, tax evasion arrangements.

There is little scope in minimising the stamp duty on the BSD on the transfer of immovable properties, whether they are residential, industrial or commercial properties.

But buyers should be mindful of potential ABSD applicable to residential properties, depending on the profile of the buyer and the number of properties owned or co-owned by the buyer prior to the purchase of the current property. Sellers of both residential and industrial properties should be wary of potential SSD depending on the timing of the sale.

The following are some measures which can lower the stamp duty burden:

- The owner can sell the residential or industrial properties after holding for a longer period, for example, beyond three years, to either eliminate or at least reduce the impact of SSD;
- The potential buyer can upgrade his/her profile, for example, from foreigner to Singapore permanent resident or even Singapore citizen to qualify for lower ABSD rates;
- Avoiding joint ownership of properties in the case of married couples as each spouse is considered as having owned one property each, regardless of the partial ownership, thereby increasing the stamp duty exposure for subsequent properties purchased by any spouse;
- Applying for special stamp duty for certain special scenarios. For example, from 12 January 2013, a married individual with a spouse who is a Singapore citizen can apply for ABSD refund on their second property if they sell their first property within six months from the date of purchase of their second property;
- As a non-qualifying acquisition and a non-qualifying disposal will not trigger ACD, an indirect transfer of shares in a PHE that owns primarily residential properties in Singapore under such circumstances may still yield stamp duty savings compared to a direct transfer.

Any attempts to save on paying the ABSD through "contrived or artificial" arrangements could potentially be regarded as tax avoidance arrangements by the tax authorities

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On the other hand, any attempts to save on paying the ABSD through "contrived or artificial" arrangements could potentially be regarded as tax avoidance arrangements by the tax authorities. Under a revised penalty regime effective from 7 December 2020, in addition to recovering the stamp duty that was avoided, a 50% surcharge can be imposed on the additional duty payable. If the stamp duty and surcharge are not paid by the deadline, penalties of up to four times the outstanding amount may be further imposed.

One such potential tax avoidance arrangement involving stamp duty is a "99-to-1" property deal that has been the target of a recent investigation launched by the Inland Revenue Authority of Singapore (IRAS). If two parties, typically family members, had purchased a property by declaring at the outset that the ownership will be in the ratio of 99-to-1, ABSD will have been levied on the profile of the co-owner with the highest ABSD rate. This rate could have been based on the higher rate of 30% on the entire value of the property applicable to the parent, assuming he/she already owned two residential properties at the time of purchase of the current third property. Instead, the transaction may be concluded based on 100% ownership by the child which attracts no ABSD, assuming the child is a Singapore citizen who has yet to own any residential properties before this purchase. The child then transfers a 1% stake to the parent which attracts ABSD based on only 1% of the value of the property. By including the parent's name, the property then qualifies for a bank loan. Unless the joint buyers have a legitimate commercial justification as to why the purchase has to be structured through this two-step process, this transaction would have been a soft target for IRAS, to treat it as a sham to avoid paying a higher stamp duty.

High BSD rates, including high ABSD, SSD and ACD, are likely to continue to stay, and they are not about to come down any time soon. This is unless there is a major global recession that severely affects property prices in Singapore. While there are legitimate ways to save on stamp duty, buyers should be aware of the pitfalls of using arrangements to save on stamp duty, which will certainly be challenged by the tax authorities. If unsure, they should always consult a reliable and competent tax advisor. ISCA

Simon Poh is Associate Professor (Practice), Department of Accounting, National University of Singapore Business School.

TEXT BY


Felix Wong


Joseph Tan

Singapore Tax Cases 2022 Part 2

Key Tax Cases And Implications For Taxpayers

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TAKE AWAYS

- An asset cannot be classified as both "building" and "plant" in Singapore under the ITA, which differs from the statutory framework in the United Kingdom. Accordingly, whether an asset qualifies as "plant" for the purposes of a capital allowance claim will largely be guided by locally developed case law.
- For acts or documents to be a "sham", all the parties thereto must have a common intention that the acts or documents are not to create legal rights and obligations which they give the appearance of creating. As this involves an inquiry into the subjective intentions of the parties, the court may have regard to a wider category of evidence, such as the parties' subsequent conduct.

IN SINGAPORE TAX CASES 2022 (PART 1), published in the June issue of this journal, we covered two notable GST cases based on a webinar organised by the Singapore Chartered Tax Professionals and facilitated by Accredited Tax Advisor (Income Tax) & Accredited Tax Practitioner (GST) Allen Tan, Principal, and Jeremiah Soh, Local Principal, Baker & McKenzie. Wong & Leow; and Justin Tan, Senior Lecturer, Law Faculty, National University of Singapore.

(From left) Accredited Tax Advisor (Income Tax) & Accredited Tax Practitioner (GST) **Allen Tan**, Principal, and **Jeremiah Soh**, Local Principal, Baker & McKenzie.Wong & Leow; and **Justin Tan**, Senior Lecturer, Law Faculty, National University of Singapore shared insights on notable GST cases in 2022

In this article, we will discuss an Income Tax Board of Review (ITBR) case on whether a silo may be regarded as "plant", and a High Court case on whether a Deed of Trust is executed for the purpose of evading additional buyer's stamp duty (ABSD).

PLANT OR BUILDING FOR CAPITAL ALLOWANCE PURPOSES? – *GEY V COMPTROLLER OF INCOME TAX* [2022] SGITBR 1

GEY is in the business of providing bulk deliveries of cement via cement tankers. In 2011, GEY began to import a new type of cement and decided to construct a new silo (the "Silo") to facilitate the storage and distribution of the new type of cement.

The construction of the Silo began in financial year (FY) 2013 and was completed in FY 2015. GEY incurred construction costs, expenditure on mechanical and electrical equipment, and incidental professional fees.

In year of assessment (YA) 2016, GEY applied for an advance ruling to the Comptroller of Income Tax (the "Comptroller") to confirm whether the Silo would qualify as "plant" under Section 19A of the Singapore Income Tax Act (ITA) and accordingly be eligible for a capital allowance claim.

The ITBR highlighted that the Silo was constructed of permanent materials and that it comprised several built-in structures which serve as housing for specific equipment. These point to the Silo being a "building" rather than "plant".

[1] In *Singapore Cement Manufacturing Company (Private) Limited v Comptroller of Income Tax* [2023] SGHC 57, the General Division of the Singapore High Court affirmed the ITBR's decision that the Silo is a building and not a plant. The decision of the General Division of the Singapore High Court will not be the subject of discussion in this article.

The Comptroller ruled that the Silo did not qualify as "plant" for the purpose of a Section 19A claim under the ITA. Consequently, the capital allowance claims on the construction costs and incidental professional fees were disallowed, while the capital allowance claims on the mechanical and electrical equipment were allowed, subject to conditions.

Income Tax Board of Review's decision[1]

Whether a silo deployed in a Taxpayer's business constitutes "plant" for the purposes of claiming accelerated capital allowances under Section 19A of the ITA

The ITBR noted that the legal principles established by the Court of Appeal in *ZF v Comptroller of Income Tax* [2010] SGCA 48 ("*ZF*") for the ascertainment of whether an asset is "plant" or "building" is appropriate for determining the true nature of the Silo in the present case.

In *ZF*, the Court of Appeal observed that the ITA draws a clear distinction between "plant" and "building". Essentially, "plant" consists of apparatus that is utilised for carrying on the trade or business concerned, while "building" consists of a permanent structure or part of a permanent structure that houses the trade or business.

The ITBR highlighted that the Silo was constructed of permanent materials and that it comprised several built-in structures which serve as housing for specific equipment. These point to the Silo being a "building" rather than "plant". The ITBR also considered the following factors:

a. **The operational role of the asset in the taxpayer's business**
While GEY contended that the Silo provided some form of "preservatory" treatment for the cement, the ITBR found that the most important operational function of the Silo was that of storage and shelter for the cement and concluded that an asset which performs the role of storage and shelter is more likely to be a "building" than "plant".
b. **The physical nature and characteristics of the asset**
The Silo was a large concrete structure supported by pile foundations and constructed under approval by the Building and Construction Authority (BCA) for Additions and Alterations works to GEY's existing cement plant. These pointed to it being a "building" rather than "plant".
c. **Whether the asset concerned is intended only to be temporarily located**
The ITBR concluded that the Silo was not intended to be temporarily located as it was built alongside existing silos constructed in the 1990s and that the construction of the Silo required approval from the BCA.

On the facts of the case and submissions made, the ITBR concluded that the Silo should be characterised as a structure and not "plant" for the purposes of claiming accelerated capital allowances under Section 19A of the ITA.

Other notable observations

The ITBR highlighted that GEY had claimed industrial building allowances (IBAs) on the existing silos and continue to do so today. Given that an asset cannot be classified as both "plant" and "building" under the ITA, the ITBR took the view that the tax treatment of the existing silos (being "building" and not "plant") was correct. Notwithstanding GEY's submission that the tax treatment of the existing silos was irrelevant to the present appeal, the ITBR applied the same tax treatment to the Silo for the present case.

SHAM VS BONA FIDE TRUST – *SIRAJ ANSARI BIN MOHAMED SHARIFF V JULIANA BTE BAHADIN AND ANOTHER* [2022] SGHC 186

The plaintiff ("S") is the husband of the first defendant ("J") and the father of the second defendant ("M"). S and J executed a Deed of Trust (the "Trust Deed") in favour of M, as beneficiary, over a property (the "Trust Property"). S and J were appointed as trustees under the Trust Deed.

After J filed for divorce in 2020, S initiated legal proceedings to set aside the Trust Deed on various grounds. Inter alia, S argued that the Trust Property was never purchased for M and that the Trust Deed was executed to evade ABSD.

The central issue before the General Division of the High Court (the "High Court") was whether the Trust Deed is a bona fide instrument executed for the purpose of purchasing the Trust Property on trust for M, or a sham instrument executed for the purpose of evading ABSD.

The High Court's decision

Whether the Trust Deed is a bona fide instrument, or a sham instrument executed for the purpose of evading ABSD

In determining whether the Trust Deed is a sham, the High Court applied the legal principles as summarised in *Chng Bee Kheng and another (executrixes and trustees of the estate of Fock Poh Kuan, deceased) v Chng Eng Chye* [2013] 2 SLR 715 (citing *Snook v London and West Riding Investments Ltd* [1967] 2 QB 786 at 802): "… that for acts or documents to be a 'sham', with whatever legal consequences follow from this, all the parties thereto **must have a common intention that the acts or documents are not to create the legal rights and obligations which they give the appearance of creating.**"

As the inquiry is one into the subjective intentions of the parties, the court is not restricted to the usual rules governing interpretation of documents and may have regard to a wider category of evidence, such as the parties' subsequent conduct.

Having considered the evidence, the High Court found that the conduct of S and J and the contemporaneous evidence point to the Trust Deed being bona fide.

a. **S and J's execution of documents as trustees**
S and J executed the Option to Purchase, the Sale and Purchase Agreement, and several other tenancy agreements, as trustees for M. When viewed together, these documents showed a consistent pattern of behaviour by S and J that they understood that they were trustees of the Trust Property under the Trust Deed and acted as such in accordance with the terms.

b. **S and J's communication with third parties**
S and J informed their lawyer and their property agent of their intention to create a trust for M.
The High Court found the evidence provided by these third-party individuals to be consistent with the Trust Deed being a bona fide instrument and held that documentation and communication with them should rest S' assertion that J misrepresented to him.

c. **S' conduct prior to commencing the action**
The High Court found that S' conduct prior to the commencement of the action was generally consistent with the terms of the Trust Deed and the belief that the Trust Deed was a bona fide instrument. S only began to depart from his original position after the commencement of the divorce proceedings. Accordingly, the High Court found that S' new position was not an honest one and was nothing but an afterthought.

> As the inquiry is one into the subjective intentions of the parties, the court is not restricted to the usual rules governing interpretation of documents and may have regard to a wider category of evidence, such as the parties' subsequent conduct

On the facts of the case, the High Court concluded that the Trust Deed is a bona fide instrument executed for the purpose of purchasing the Trust Property on trust for M, and that S' allegation of illegality fails.

As new tax cases are argued in courts, a little more clarity may be gained through each new judgement. Be sure to keep up to date with the latest tax cases and stay in the know. ISCA

Felix Wong is Head of Tax, and Joseph Tan is Tax Manager, Singapore Chartered Tax Professionals.

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