ISCA Chartered Accountant JOURNAL

MAY 2023

The ISCA Stories

ISCA Annual General Meeting 2022/2023

ISCharteredAccountant JOURNAL
MAY 2023

STORIES THAT RESONATE, LESSONS THAT ENDURE

Koh Wee Kwang
FCA (Singapore)
ISCA Council Member

Dear members,

I WAS VERY GLAD TO HAVE MET MANY OF YOU, PHYSICALLY AND VIRTUALLY, AT THE ISCA AGM ON APRIL 29. While the AGM was held virtually out of necessity during the pandemic period, ISCA and our members have since embraced hybrid as well as fully remote activities as they offer ease of participation and flexibility of learning, as is the case for continuous professional development.

For members who could not attend the AGM, the cover story features the key highlights from the session. The annual report, themed "The ISCA Stories", elaborates on the Institute's many milestones and initiatives, each one carefully aligned with our strategic priorities. Much like the age-old stories with universal truths that continue to resonate with us, the Institute has established itself upon the bedrock of professionalism and ethics and, over the years, businesses and economies alike have been looking to accountants to do the right thing, and create value with their strategic input.

Sustainability and climate change is the story of our time and we are seeing an awakening of the public conscience. With the realisation that concrete and drastic action must be taken now to prevent dire consequences later, new roles are emerging, including that of Chief Financial and Sustainability Officer. Given our training, skill sets and experiences, accountants are well placed to assume this crucial role.

Accountants are in a position of privilege to craft the stories that have an enduring impact on the years to come. It is up to each and every one of us to do our part today. What stories do we want to write?

ABOUT KOH WEE KWANG

Mr Koh Wee Kwang is a member of the Sustainability and Climate Change Committee.

Mr Koh has more than 20 years of experience in assurance and non-assurance work. He was involved with the implementation of the Sarbanes-Oxley framework for American-related corporations during his three-year secondment in London with a Big Four accounting firm. Additionally, he has undertaken and led engagements in internal audit, enterprise risk management and sustainability reporting works for companies listed on the SGX and GEMS HKEx as well as charitable organisations. Mr Koh has also spoken on various platforms on the topic of sustainability and climate change.

Mr Koh was Treasurer of Yuhua Citizen's Consultative Committee from 2013 to 2019.

Teo Ser Luck
FCA (Singapore)
ISCA President

THOUGHTS

Found myself opening up the AI software tool as soon as I start my computer. From 0% usage in my daily work, it has crept up to 30%. With all the imagination of AI replacing humans, at least I am learning early to use it as a tool instead of *becoming* the tool. But who knows ...😅

Being a keen user of AI both in my daily work and my own businesses, the sense I have is that a well-developed AI software tool could certainly take over the jobs of knowledge workers in time to come. In fact, accountants were among the first professions identified to be affected, and it's not about simply automating a process but work which requires some learning and intelligence. This is what AI is about – learning and simulating human intelligence in machines. Here's the catch, it will keep improving over time in not just providing insights but predict more accurately!

We are used to automation replacing the routine work previously done by workers on their computers. But AI is possibly replacing experienced knowledge workers from junior to mid-level professionals. We need to learn how to co-exist with AI, using it as a tool as we learn to apply our knowledge strategically and make good judgement. It's like an expert giving us a second opinion and validating our understanding before we make a decision. Of course, it could also go beyond this.

AI is not simply another software and I see this potential as a good opportunity to elevate accountancy rather than replace it. And, the sooner we learn to adapt to the changing landscape, the better equipped we will be to work with AI and utilise it to our advantage.

There will probably be many things we need to change, with job scope and roles, education and professional training for accountants being examples. But first, we should seek to understand AI's potential and research more comprehensively how it could impact our profession. Only then can we really seek to attain a partnership between AI and accountants.

ISCA would certainly commit resources to work with the industry to set up a research project to assess AI's impact, suggest ways to adapt it and start the ball rolling on its inclusion in the profession.

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CEOs Gearing Up For A Recession

PHOTO SHUTTERSTOCK

THE VAST MAJORITY OF CEO RESPONDENTS (Singapore 100%, global 98%) are bracing for an economic downturn characterised by geopolitical tensions, supply chain disruption and ongoing COVID-19-related uncertainty, but appear split on its length, depth and severity. These are some of the findings of the "EY CEO Outlook Pulse – Q1 2023" survey[1] that underline the uncertainty that looks set to define the business environment in 2023.

The survey, which recorded the views of 1,200 CEOs across the globe, including 40 from Singapore, on their prospects, challenges and opportunities, found that CEOs (Singapore 63%, global 50%) are preparing for a severe economic downturn, with about half of them (Singapore 49%, global 55%) fearing a recession that will be worse than the global financial crisis of 2007–08 in terms of length and severity.

For the first time since the inaugural CEO Outlook survey in 2020, restrictive regulatory, trade and investment policies (Singapore and global 28%) have superseded COVID-19-related issues (Singapore 25%, global 19%) as the key reason for CEO respondents altering investment plans. As a result of these exacerbated geopolitical challenges, 75% of Singapore respondents (global 65%) are delaying a planned investment or stopping planned investments altogether.

Almost a third (Singapore 28%, global 32%) of respondents consider uncertainty around the direction of monetary policy and an increase in the cost of capital to be the greatest risks to future growth for their business. While concerns over COVID-19-related uncertainty have receded, 28% of Singapore respondents (global 32%) still cite this as a key risk to their business (down from 43% for both Singapore and global in October 2022).

"CEOs are aware that this recession will be different. A combination of interconnected risks – ranging from geopolitical tensions, supply chain disruption, talent shortages and ongoing pandemic-related uncertainty and policy responses – will need to be carefully considered as CEOs plan to systematically manage these risks through robust scenario planning and transformed governance structures and processes to assess the impact on strategy," says Mr Geophin George, EY Asean Transaction Diligence Leader.

CEOs eye deals as routes to growth

Despite the negative outlook, CEOs are on the lookout for opportunities to gain a competitive advantage. Deal making of one kind or another remains a priority for corporates over the next 12 months, with 100% of Singapore respondents (global 93%) looking to actively pursue deals; these include M&As, divestments, joint ventures or strategic alliances with third parties. Of them, 70% of Singapore respondents (global 67%) are targeting M&As or divestments.

To further shift the dial and emerge stronger and more competitive from the downturn, 25% of Singapore respondents (global 39%) are planning to increase investment in sustainability as a core aspect of their strategy and offering, including net zero and other environmental and societal priorities. In addition, a third (Singapore 33%, global 36%) plan to increase their investment in talent, including workforce well-being and skills development.

"In the near term, CEOs are focusing on cash management, cost optimisation and restructuring, which will not only protect against the downturn but also be a key enabler for continued investments in digital transformation and sustainability," says Mr Sriram Changali, EY-Parthenon Asean Value Creation Leader. "Portfolio transformation through deals continues to be high on the agenda among CEOs who are looking to transform their businesses and position for future growth. The focus for acquisitions in 2023 will be on innovation and R&D, including product and service innovation to enhance portfolios, among other focus areas such as accessing new talent or entering new markets that are economically and geopolitically aligned to their home market."

[1] ey.com/CEOOutlook

NO RECESSION FOR THE US?

BlackRock CEO Larry Fink, in an interview with CNBC, says that the US will not enter a big recession in 2023. This is due to the large amounts of stimulus funding from a slew of bills. The Infrastructure Bill, Chips and Science Act, and Inflation Reduction Act will collectively pump into the economy more than a trillion dollars of stimulus over the next few years. So, while some sectors of the economy are weakening, other sectors will get a boost.

Despite the Federal Reserve's monetary tightening campaign, Mr Fink says inflation will stay higher for longer because of geopolitical issues.

THREE WAYS TO PREPARE FOR A RECESSION

Forbes Councils member Mike Hardwick, President & CEO of Churchill Mortgage Corporation, in an article for Forbes[1], shares with businesses three ways they can prepare for a recession.

1) Operate with minimal debt
Avoid the negative cashflow cycle as cashflow problems can quickly spiral out of control without proper safeguards. Make a plan to get rid of debts. Use a percentage of the monthly profits to pay them off, from the smallest to the largest amounts.

2) Build up cash reserves
Having a healthy cash reserve is vital to a company's stability. Being liquid, cash can help ensure that the business is able to cover new or increased expenses that inevitably emerge in times of recession.

3) Know where you're going to cut, and do it swiftly
Be ready to right-size the business so that it can make profit efficiently and meet your updated objectives. Right-sizing should be part of the restructuring that is being done, to fulfil new business challenges and needs.

[1] https://www.forbes.com/sites/forbesfinancecouncil/2023/04/05/three-ways-businesses-can-prepare-for-a-recession/

ISCA Signs Tripartite MOU With ICAEW And CQICPA

ISCA SIGNED A TRIPARTITE MEMORANDUM OF UNDERSTANDING (MOU) with the Institute of Chartered Accountants in England and Wales (ICAEW) and Chongqing Institute of Certified Public Accountants (CQICPA) on March 20, to promote the accountancy and finance industries in Singapore, the UK and China. The MOU was signed by ISCA President Mr Teo Ser Luck, ICAEW Managing Director Mr Mark Billington, and CQICPA Secretary General Ms Qing Zhang.

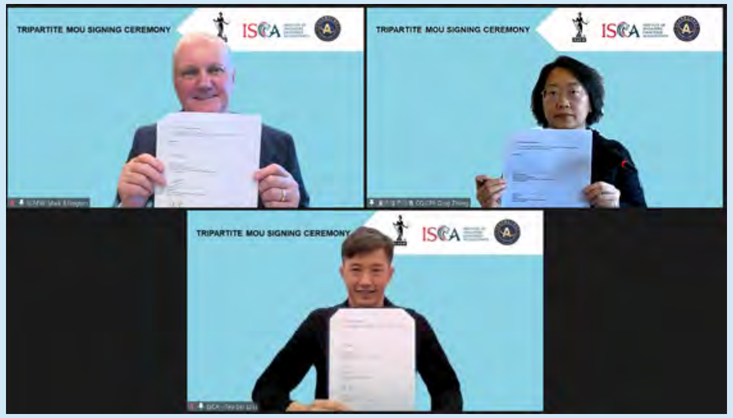
During the virtual signing ceremony, representatives from the three Institutes shared about their respective achievements and future plans to further promote and develop the accountancy profession.

ISCA President Mr Teo said, "We're delighted to deepen our relationships with CQICPA and ICAEW via this MOU. We look forward to exploring more opportunities for joint research, knowledge exchange and development of training programmes. The MOU is also in line with ISCA's plan to expand our network beyond Singapore. We look forward to working closely with CQICPA and ICAEW to explore new opportunities for members of the three Institutes, businesses and the accountancy community."

ICAEW Managing Director Mr Billington, in his opening speech, welcomed all the representatives. He expressed his gratitude to the three Institutes for the longstanding collaborative efforts and support, and said he looked forward to further strengthening cooperation to jointly promote the accountancy profession, champion sustainability and lead members to master technology and data.

CQICPA Secretary General Ms Qing agreed that the MOU signalled a starting point for cooperation among the three Institutes and hoped that it would facilitate fruitful cooperation and exchanges in the three regions.

With this MOU, the three Institutes will further reinforce their working relationships, enable new membership pathways, and facilitate the exchange of knowledge and best practices while exploring new opportunities in the areas of research, training support and business mission trips.



A (Clockwise from top left) ICAEW Managing Director Mr Mark Billington, CQICPA Secretary General Ms Qing Zhang, and ISCA President Mr Teo Ser Luck at the MOU signing ceremony

A Representatives from the three Institutes provided an overview of their achievements and future plans for the accountancy profession

Internationalisation Trip To Vietnam

Meeting with VAA President Dr Dang Van Thanh and his team at VAA's office in Hanoi, Vietnam

VIETNAM IS ONE OF THE KEY ASEAN MARKETS ON ISCA'S INTERNATIONLISATION ROADMAP. To explore opportunities in the country, the ISCA team, comprising President Mr Teo Ser Luck, CEO Ms Fann Kor and Head of Strategic Planning and International Relations Mr Kew Hon Boon, visited Vietnam from March 28 to 31, to expand our network and connect with members and friends who are based there.

We met both the professional accountancy organisations in Vietnam – Vietnam Association of Accountants and Auditors (VAA), and Vietnam Association of Certified Public Accountants (VACPA). With them, we shared more about ISCA's internationalisation plan in 2023 and in turn, learnt about the accountancy landscape in Vietnam. This led to a discussion on potential areas where we can work together to benefit our members.

ISCA will collaborate with VAA and VACPA in three areas: knowledge sharing via a "train-the-trainer" programme to support VAA and VACPA in building a talent pool to train their members and the accountancy profession, accelerating

Meeting with VACPA Vice President & Secretary General Mr Tranh Khanh Lam and his team at VACPA's office in Hanoi, Vietnam

the digitalisation of Vietnamese professional services firms by curating digital tools for the Vietnamese market; and internship programmes for accountancy students in Vietnam and Singapore to provide opportunities for cross-cultural learning and professional growth.

These plans follow the successful translation and distribution of the *ISCA Audit Manual for Standalone Entities* by VACPA as part of an MOU signed in 2019, which saw 300 printed copies distributed to government agencies and audit firms in Vietnam. The publication was also used to update VACPA's *Sample Audit Program on Auditing Financial Statements*, which has since been downloaded over 30,000 times, adopted by over 90% of audit firms in Vietnam, and is being used as training material for members and university lecturers in Vietnam. Two addendums to the MOU were subsequently signed in 2020 and 2022 to include the *ISCA Audit Manual for Group Entities* and *Audit Guidance Statement 13: Data Analytics in a Financial Statements Audit*, respectively.

We were also hosted by Vietnam's Ministry of Finance (MOF), where we met with the Accounting and Auditing Supervisory Department's General Director Mr Vu Duc Chinh. We had a fruitful discussion on the regulatory landscape in accounting, auditing and corporate governance. We shared Singapore's experience in developing the sector, our membership strategy, and the audit and accounting governance framework. Our interactions also laid the foundation for further exchange of knowledge and sharing of best practices, especially in the areas of strengthening the accountancy sector and corporate governance. We look forward to future collaborations with the Vietnam MOF.

In addition to meeting the local professional bodies and regulators, we connected with Enterprise Singapore and the Association of Chartered Certified Accountants (ACCA) to gain indepth knowledge of the business landscape and local market conditions in Vietnam. The information garnered was helpful in supporting the establishment of our ISCA Vietnam Chapter.

We met up with fellow members and business partners in Ho Chi Minh City over a networking dinner to understand how ISCA could better support their needs abroad.

As ISCA continues its internationalisation journey in 2023 to set up overseas chapters and establish local support networks in key markets of interest, we hope to have your support for our overseas events both physical and/or virtual. You can find out more at https://isca.org.sg/member-support/isca-overseas-chapters or register your interest to participate in ISCA's overseas events (physical/virtual) at https://forms.office.com/r/MKu6cUvadq.

Meeting with Mr Vu Duc Chinh, General Director of the Accounting and Auditing Supervisory Department, Ministry of Finance, at their office in Hanoi, Vietnam

Networking dinner with ISCA members and friends of ISCA at Ho Chi Minh City, Vietnam isca brown bag lunch talk

Mistakes To Avoid When Looking Out For Better Career Opportunities

Providing an overview of what the ISCA Career Growth Centre offers

ISCA HELD ITS FIRST-EVER BROWN BAG LUNCH TALK SESSION AT ISCA HOUSE ON MARCH 22. The new lunch-and-learn initiative was rolled out to encourage our sedulous accountants to attend informative talks over cosy lunch sessions.

Our inaugural session, which brought together over 30 participants, was jointly organised by ISCA Career Growth Centre and Accountancy Careers Hub, with our collaboration partner Employment & Employability Institute (e2i). The e2i career coaches delved into how one can elevate one's career in different ways, and shared valuable tips on strategising the job search and optimising one's resume. A useful takeaway for participants was the refreshing perspective to view the resume as a "golden ticket" that opens up more job opportunities.

We look forward to engaging our ISCA members in the upcoming Brown Bag Lunch Talk session in the second quarter.

The ISCA Career Growth Centre, located at level 2 of ISCA House, was established as a dedicated one-stop centre with the aim to empower members as well as aspiring accountancy professionals to achieve their career aspirations. Personalised career coaching in partnership with e2i, career consultation, job matching and board appointment service are some of the key offerings of the Centre. Members can make an appointment for one-to-one career coaching sessions, career consultation or to find out more about ISCA qualifications and specialisation pathways at the following link: https://outlook.office365.com/owa/calendar/CareerSupportCentre@isca.org.sg/bookings/

e2i career coaches sharing career tips and mistakes to avoid during the job search

It was a value-packed lunch for the participants isca mini conference

ISCA Budget And Tax Update: Changes And Implications For Corporates And Individuals

THIS YEAR, THE ISCA BUDGET AND TAX UPDATE EVENT was held on March 8 as part of the ISCA Mini Conference Series 2023. The Mini Conference Series, launched also on March 8 in 2022, has proven to be a popular platform among our members for its delivery of thought-provoking content on business issues and on-trend topics.

The ISCA Budget and Tax Update session, live-streamed from ISCA House, attracted more than 500 virtual delegates and invited guests from our Corporate Membership; this was the first time that Corporate Members were invited to the event.

As in the recent past years, Professor Sum Yee Loong, Professor of Accounting (Practice), Singapore Management University, provided an overview of Budget 2023, with specific focus on corporate taxes and incentives, and the measures implemented to address the rising costs. Prof Sum and the panel then discussed the impact of these measures on both corporates and individuals in the panel session.

A Professor Sum Yee Loong, Professor of Accounting (Practice), Singapore Management University, provided an overview of Budget 2023, with specific focus on corporate taxes and incentives, and the measures implemented to address the rising costs

Here are the key highlights of the event.

Corporate Income Tax (CIT)

Prof Sum reminded delegates that while there is no change to the CIT rate, which remains at 17%, the CIT rate remains competitive compared to that in the neighbouring countries.

Unsurprisingly, there is no tax rebate. On the contrary, Prof Sum highlighted that the government has in fact preempted us that public expenditure is increasing. Over the last two years, the government spent over $70 billion on pandemic measures.

However, a series of enhanced schemes was introduced to encourage higher capital spending:

- For the acquisition of plant and equipment in year of assessment (YA) 2024, companies may elect certain equipment for capital allowance at 75% for YA2024, and the remaining 25% for YA2025 at their discretion.
- Companies may also opt for a 100% write-off on Renovation and Refurbishment in YA2024, instead of using the three-year straight-line method. Nonetheless, the $300,000 limit over a three-year period remains.

Enterprise Innovation Scheme (EIS)

Budget 2023 introduced the EIS effective from YA2024 to YA2028; it will be applicable for five activities:

1. Qualifying R&D projects
2. Acquisition and licensing of intellectual property (IP)
3. Registration of IP
4. Approved training; the list of EIS-approved training offered by ISCA is available at https://isca.org.sg/iscaacademy/courses/course-listing/enterprise-innovation-scheme-(eis)
5. Innovation projects with polytechnics

Similar to the Productivity & Innovation Credit (PIC) Scheme, the qualifying deductions under EIS are capped at $400,000 for each activity per YA for activities 1 to 4, and at $50,000 per YA for activity 5.

Under the EIS, businesses can claim a total of 400% tax deduction up to the expenditure cap under the respective categories.

Businesses can also do a cash conversion on 20% of the qualifying deduction, capped at $100,000. However, Prof Sum commented that while cash conversion is generally not advisable as the effective conversion rate under cash conversion is only 5% while the tax benefit under EIS is 17%, it may be used in certain scenarios, such as when a company is just starting out, with little to no visible profitability in the medium term and as such, there is no taxable income expected in the foreseeable future to offset against the enhanced tax deductions.

Double Tax Deduction for Internationalisation (DTDi)

The DTDi is extended to cover "e-commerce campaign", and prior approval from Enterprise Singapore (ESG) is required. Expenses covered include:

- Business advisory
- Account creation
- Content creation
- Product listing
- Product placement

Extension of Schemes and Incentives

Prof Sum shared that the following schemes expiring this year will be extended to 31 December 2028:

- Pioneer Incentive
- Development and Expansion Incentive
- IP Development Incentive
- Qualifying Debt Security Scheme
- Exemption for Profits of Primary Dealers from Trading in SG Government Securities
- Incentives for Approved Special Purpose Vehicles
- Financial Sector Incentive
- Insurance Business Development – Insurance Broking Business Scheme
- Deduction of General Provisions for Doubtful Debts and Loss Allowance for Financial Institutions
- Withholding Tax Exemption, Writing-Down Allowance, and Initial Allowance for Submarine Cable Systems

Donations

An extension of 250% tax deductions on qualifying donations expiring this year will be extended to 31 December 2026. Prof Sum believed that there will likely be future extensions as one of the objectives of taxation is to encourage philanthropy.

Corporate Volunteer Scheme (CVS)
This scheme is extended to 31 December 2026 and enhanced by including services to institutes of a public character (IPC) that are virtual. The deductible amount per IPC is increased from $50,000 to $100,000.

Deduction for Building Modifications (S14F)
The deduction for Building Modifications under S14F will cease with effect from 15 February 2023 as companies can also claim Renovation and Refurbishment deduction in YA2024.

Prof Sum felt that the cessation was not necessary as building modification does help to encourage employers in hiring employees with mobility issues.

BEPS 2.0
Under Pillar 2, a minimum effective tax rate of 15% will be introduced for affected multinational enterprise (MNE) groups with annual revenue of more than €750 million. Prof Sum highlighted that the high annual revenue threshold means that most companies in Singapore will not be affected by BEPS Pillar 2 even though their effective tax rates may be lower than 15% due to the various tax rebates and incentives available. While Deputy Prime Minister and Finance Minister Mr Lawrence Wong had indicated in his Budget Speech that Singapore intends to implement Pillar 2 from 2025, Prof Sum reminded the delegates that developments on BEPS 2.0 are fluid and hence, the implementation of Pillar 2 in Singapore would very much depend on international developments.

Personal Income Tax Rate
There is no change in tax rate and tax rebates in YA2023. From YA2024, the taxable income of more than $500,000 and $1,000,000 will see an increase in tax rate from 22% to 23% and 24% respectively.

Despite the increase in the tax rate, Prof Sum pointed out that Singapore's tax rate remains relatively low compared to the top marginal tax rate of other countries.

Working Mother's Child Relief (WMCR)
There will be no changes to the WMCR for working mothers with Singaporean children born or adopted before 1 January 2024. Relief is based on earned income at 15%, 20%, and 25% for the first, second and subsequent children respectively.

With the revision of this relief, for qualifying children who are Singapore citizens born or adopted on or after 1 January 2024, the relief will be a fixed amount at $8,000, $10,000, and $12,000 for the first, second and subsequent children respectively. This change will result in lower WMCR for mothers who are higher wage earners, and aims to support the lower-income group.

Grandparents Caregiver Relief
From YA2024, the relief is enhanced to include grandparents who are doing part-time work.

Foreign Domestic Worker Levy Relief
With effect from YA2025, this relief will be abolished.

Central Provident Fund (CPF)
From September 2023 to January 2026, there will be a gradual increase in the ordinary wage ceiling from $6,000 to $8,000. The CPF overall contribution limit will remain at $102,000.

Goods and Service Tax (GST)
GST will be further increased to 9% from January 2024. Prof Sum commented that the GST rate is relatively lower than in other countries, in particular, Europe. The government is prepared to support Singaporeans with these increases through the Assurance Package through an additional $3 billion supplement (in 2020, it was $6 billion).

Property Tax
For owner-occupied properties, the property tax will increase 5% to 23% in 2023, and 6% to 32% in 2024, depending on the annual value of the property. The differential for non-owner-occupied properties is 4%.

Stamp Duty
With effect from 15 February 2023, new tax bands have been introduced:

- Stamp duty for residential property value above $1.5 million and $3 million are taxable at 5% and 6% respectively, and
- Stamp duty for commercial and industrial property value above $500,000 and $1,500,000 are taxed at 4% and 5% respectively.

The new tax band is also included in the additional conveyancing duty from 15 February 2023.

Additional Registration Fee (ARF)
The ARF structure revised the banding and increased rates. The maximum margin is raised from 220% to 320%. With effect from 22 February 2023, the scrap value of luxury cars is capped at $60,000.

Ⓐ Panellists (from left): Moderator Mr Lennon Lee, Singapore Chartered Tax Professionals; Mr Chew Sutat, Pro Tem Chairman, SGListCos; Mr Lee Pak Sing, Assistant Chief Executive Officer, Enterprise Singapore; Ms Selena Ling, Chief Economist and Head of Treasury Research & Strategy, Global Treasury, OCBC Bank; Prof Sum

Excise Duty
Excise duties for all tobacco products have been increased by 15% from 15 February 2023.

PANEL DISCUSSION
The panel discussion was moderated by Mr Lennon Lee, representing Singapore Chartered Tax Professionals, and featured a distinguished panel with Prof Sum; Mr Chew Sutat, Pro Tem Chairman, SGListCos; Mr Lee Pak Sing, Assistant Chief Executive Officer, Enterprise Singapore; and Ms Selena Ling, Chief Economist and Head of Treasury Research & Strategy, Global Treasury, OCBC Bank.

In this riveting segment, the panellists shared their insights and views on the Budget 2023 measures, which add up to $123.7 billion. Here is a summary of the main points:

- EIS and internationalisation efforts from the Budget reflect Singapore's commitment to support companies to become globally competitive. Unlike PIC, EIS is a more focused approach towards innovation and external training. For instance, smaller companies can group and pool resources together for innovation (for example, to collaborate on R&D projects in Singapore).
- The government is generous in supporting individuals through the Assurance Package with an additional $3 billion, even though Singapore has moved into a post-pandemic period.
- The whole approach towards fairness is through a differentiating "implied wealth tax" on those who are able to contribute more to society. This can be seen through the changes in various areas, such as property taxes, WMCR, GST, and ARF.
- Budget 2023 aims to support the fundamental needs of companies and individuals while balancing the ecosystem for Singapore to thrive in the new era, such as developing Singapore into an IP hub, and through workforce development.
- There are challenges for policymakers as they balance the needs of corporates that are facing rising business costs, while providing measures to help individuals manage inflation. Additionally, Singapore is also striving towards achieving its sustainability objectives.

If you missed our live ISCA Budget And Tax Update event on March 8, worry not. The playback option is still available if you sign up for the ISCA Mini Conference Series 2023 (https://isca.org.sg/iscaacademy/isca-mini-conferences-2023). See you at the next session where you will hear from thought leaders and industry experts!

ISCA Annual General Meeting 2022/2023

The ISCA Stories

(From left) ISCA Council members Ms Lai Chin Yee, Mr Christopher Wong, Mr Choo Eng Beng; Vice Presidents Mr Shariq Barmaky and Ms Yiong Yim Ming, President Mr Teo Ser Luck, Treasurer Ms Jocelyn Goh; ISCA CEO Ms Fann Kor, ISCA Divisional Director Ms Ang Pei Fen; Council members Mr Kelvin Tan (stepped down after the AGM) and Mr Don Wee

TAKE AWAYS

- ISCA has reached every milestone it set out, thanks to the hard work and support of the management team and staff, past and present Council members, and ISCA members.
- 2022 was about building the foundation for the management and staff and the Council to look at how ISCA should be structured.
- Key focus areas for this year include internationalisation, leveraging technology, enhancing the accountancy pipeline, and working with the authorities to develop Singapore into a multi-professional services hub.
- The diversity of the ISCA Council, which has four newly elected and four re-elected members, ensures that a range of perspectives and experiences are represented in the Council's decision-making process.

ISCA HELD ITS ANNUAL GENERAL MEETING (AGM) 2022/2023 ON APRIL 29.

With the lifting of COVID-19 restrictions, the Institute organised, for the first time, a hybrid-format AGM, providing members the option to attend the event on-site or virtually. It was also the first time many members got to experience the well-equipped meeting facilities of the renovated ISCA House. In total, 130 ISCA members attended the AGM, keeping themselves updated on the happenings at the Institute and profession.

The AGM attendees received a snapshot of the key milestones that ISCA had achieved during the past year. They also heard about the upcoming new initiatives designed to prepare members for the future economy.

The meeting saw the election of four new Council members and re-election of four Council members. They joined the other Council members at the first Council Meeting, held after the AGM. The ISCA Council members are difference makers who come from various segments of the profession and across industries; women leaders make up almost half the Council. The diversity ensures that a range of perspectives and experiences are represented in the Council's decision-making process. The elected and re-elected members will serve on the ISCA Council until the Institute's AGM 2024/2025.

For members who were not at the AGM, here are some highlights of what transpired at the event.

ISCA held its AGM on April 29

Over the past year, ISCA issued 13 guidance and publications in auditing, financial reporting, ethics and sustainability reporting. Housed under the Standards & Guidance tab on the ISCA website, they are easily accessible to members.

UPDATES FROM CEO MS FANN KOR

ISCA CEO Ms Fann Kor kickstarted the AGM proceedings by identifying how, in the last year, various aspects of ISCA were transformed to create value for the accountancy profession, the business community and for members.

For the accountancy profession

Staying relevant is of utmost importance. To do this, ISCA has created an Advisory Panel to enhance, strengthen and update the Singapore Chartered Accountant Qualification (SCAQ). The Singapore Chartered Accountant (CA) Qualification is the key pathway for young graduates to become CAs Singapore. The panel has tabled 13 recommendations to enhance the SCAQ.

Over the past year, ISCA issued 13 guidance and publications in auditing, financial reporting, ethics and sustainability reporting. Housed under the Standards & Guidance tab on the ISCA website, they are easily accessible to members. The Institute also formed a research network to proactively research topics aligned with the needs of the profession and business community, while a PIE Firms Network brought together managing partners of the top 15 accounting firms in Singapore to share their views about how ISCA can champion change on matters relevant to the profession

To encourage greater inclusivity and diversity, ISCA expanded its membership framework, where a new pathway allows ISCA to invite senior finance professionals to join the Institute. Similarly, students across academic levels from Secondary 1 are welcome to join ISCA, thus increasing its youth outreach. Despite being located on a small red dot, ISCA has set up three overseas chapters, in the Philippines, Malaysia and Vietnam, to advance the accountancy profession. The Institute is looking to establish more overseas chapters this year.

A CEO Ms Kor shared on ISCA's initiatives for members over the past year

For the business community

The C-Suite Network was formed to bring ISCA closer to the business community through senior leaders who may or may not be in the accountancy space. The Network marked the beginning of ISCA's outreach programme targeting the business community, while the Institute continues to deepen relationships with other trade associations and chambers.

With the ISCA Corporate Membership, over 200 (and growing) organisations can tap on ISCA's resources to gain knowledge in the areas of accounting, finance, audit, corporate governance, sustainability and regulatory compliance. Environment, social and governance (ESG) factors are becoming increasingly important and constantly evolving, and sustainability is becoming an essential part of businesses. ISCA recently issued two guidances featuring climate-related scenario analysis and how small and medium-sized enterprises can obtain green and sustainable finance, to help members support businesses in their sustainability journey. The Institute also partnered SAC Capital to launch the Sustainability E-Training for directors, as well as more training content for everyone to learn.

Through the newly set-up Charity Accounting Committee, ISCA strives to help small charities with limited resources to strengthen their governance and accountability, such as through automating their financial statement close process with a cloud-based accounting software. On advancing Financial Forensics, the ISCA Financial Forensic Accounting Qualification has received high recognition in the market, with the signing of two Memorandums of Understanding with the Commercial Affairs Division of the Singapore Police Force, as well as the Hong Kong Police Force.

For members

The Institute has repurposed ISCA House to serve as a connector between members, ISCA, and the business community, with amenities designed and built for members in mind. In this space, the ISCA Career Growth Centre has been set up, to offer members training programmes and job-matching services which link them to potential employers with vacant positions. These services are complimentary for members.

Through ISCA Connects, the Institute has organised 15 events (and counting) to help members build stronger networks to foster impactful connections. ISCA also held three

Ms Kor thanked the members who have stepped down from the ISCA Council; (from left): Ms Yvonne Chan, Mr Balasubramaniam Janamanchi, Mr Darren Tan, Mr Kelvin Tan and Mr Roger Tay

engagement sessions with the government, where members provided their feedback on the formulation of economic and manpower policies; more of such sessions are on the horizon.

The launch of the ISCAccountify learning platform has made training as accessible and affordable as possible for ISCA members, with 50% of subscribers joining ISCA's training offerings for the first time.

Ms Kor concluded her presentation by extending her utmost appreciation to the Council members who were stepping down – Ms Yvonne Chan, Mr Balasubramaniam Janamanchi, Mr Darren Tan, Mr Kelvin Tan and Mr Roger Tay.

Treasurer Ms Goh touched on the financials

UPDATES FROM TREASURER MS JOCELYN GOH

ISCA Treasurer Ms Jocelyn Goh spoke about ISCA's performance for the financial year ended 31 December 2022. She said that the Institute recorded a surplus from operations, and that the core revenue streams are from membership fees and the running of Continuing Professional Development courses.

While Singapore's headline inflation rate averaged 6.1% in 2022, the Institute will continue to be prudent in managing costs and expenses.

The Institute repurposed ISCA House to serve as a connector between members, ISCA, and the business community, with amenities designed and built for members in mind.

ISCA House

Due to the COVID-19 disruptions, ISCA pivoted to hybrid work arrangements and the demand for physical classes declined. The Institute decided to repurpose the use of ISCA House, to make more space available to members. The new look and feel of ISCA House was designed with members in mind.

The renovation costs incurred to transform ISCA House to what it is today include costs to implement an integrated booking and access system to support ISCA's new revenue stream, replace the audio-visual systems to facilitate hybrid meetings and training courses to be conducted in the meeting and training rooms, as well as to upgrade the restrooms and air-conditioning system across all six levels. The new facilities also allow ISCA to launch another new class of membership – the ISCA Corporate member. Since its launch in January, the Institute now has more than 200 corporate members and has received bookings for the function rooms, which constitute a new revenue source for ISCA. The team is actively reaching out to corporates to book and make use of the new facilities.

Rounding off, Ms Goh suggested that 2023 would be another busy year for ISCA. She encouraged members to participate actively in the Institute's programmes and initiatives, especially those that are curated for members.

UPDATES FROM PRESIDENT MR TEO SER LUCK

For ISCA President Mr Teo Ser Luck, the core of ISCA lies with the Council members, former Council members, and members, and he expressed his appreciation for all their hard work over the years.

2022 was about building the foundation for the management and staff, as well as the Council, to look at how ISCA should be structured. The Institute also looked at how its range of services aligned with the Institute's strategic priorities to focus on its members, the profession and the community.

In 2023, ISCA's priority will be internationalisation, with the target to set up overseas chapters in 10 countries by the end of the year. At home,

ISCA President Mr Teo updated on ISCA's upcoming plans

with technology's impact on the accountancy profession in the spotlight, ISCA will be looking into researching on how technology will impact and enhance its work processes for the better.

This year, ISCA also wants to work closely with the Accounting and Corporate Regulatory Authority (ACRA) and Ministry of Finance (MOF) to assume a heavier role and ownership of the SCAQ.

In closing his delivery, Mr Teo shared ISCA's vision of building Singapore into a multi-professional services hub, with legal, valuation and other aspects of professional services coming together through the leveraging of multiple professional skills. In turn, the knowledge and marketability of chartered accountants will also be elevated.

FOUR NEW MEMBERS AND FOUR RE-ELECTED MEMBERS FOR ISCA COUNCIL

At the ISCA AGM 2022/2023, four accountancy professionals were elected to the ISCA Council and four Council members were re-elected.

The elected and re-elected Council members will serve on the ISCA Council until ISCA's AGM 2024/2025. Here are their profiles.

NEWLY-ELECTED COUNCIL MEMBERS

Ms Lo Mun Wai
CA (Singapore)
Audit Partner and Head of Real Estate (Audit), KPMG LLP

Ms Lo Mun Wai was a member of the Financial Statements Review Committee from 2015 to 2017. She has over 25 years of working experience in Singapore and London. She audits listed companies in a wide range of industries, particularly real estate, hospitality and retail, and has been involved in due diligence and internal audit work. In addition, she is also actively involved in the IPOs of REITs and business trusts in Singapore, as well as in follow-on offerings and placements. Ms Lo is also the quality review partner for various listed entities and has carried out pre-issuance reviews in the firm and peer reviews within the KPMG network.

Ms Cyndi Pei
CA (Singapore)
Chief Financial Officer, Regional Data Centre, Singapore Telecommunications Limited

Ms Cyndi Pei was a member of the Investigation and Disciplinary Panel from 2020 to April 2023.

She is a finance leader with more than 20 years of experience. Currently, as the CFO for the Regional Data Centre in Singtel, Ms Pei helms finance and business partnering in the Regional Data Centre business to grow its data centre footprint across the region and become a leading data centre player in ASEAN. Prior to this, Ms Pei garnered her experience from an SGX-listed F&B group covering a full spectrum of finance and corporate responsibilities, as well as from her formative years with a Big Four accounting firm auditing and advising global companies across diverse industries. Her experience includes strategic planning, performance and change management, merger and acquisition, treasury and investments, real estate, tax planning and transfer pricing, enterprise risk management, sustainability management and reporting, investor relations, business development, and people development.

Ms Pei serves as an Audit & Risk Committee member of SATA CommHealth.

Mr Song Yeow Chung
CA (Singapore)
Chief Financial Officer, Old Chang Kee Ltd

Mr Song Yeow Chung has been a member of the ISCA Young Finance Leaders Network since 2020.

He has more than 20 years of experience in financial auditing and accounting, which includes working in a Big Four accounting firm, US-listed multinational corporation, and Singapore-based small and medium-sized enterprise. As CFO of Old Chang Kee, Mr Song is responsible for the full spectrum of financial functions, including financial and management accounting, budgeting and forecasting, as well as internal controls and compliance with corporate, legal, tax, and accounting requirements.

Ms Maria Teo Yen Shan
CA (Singapore)
Associate Director, Sustainability and Climate Change Lead, CLA Global TS Risk Advisory Pte Ltd

Ms Maria Teo Yen Shan is Chairperson of the Young Professionals Advisory Committee (YPAC) and a member of the Sustainability and Climate Change Committee. She has also participated in mentoring programmes under ISCA Cares and YPAC, and advocates the improvement of professional development programmes such as the Financial Forensic Accounting qualification.

Ms Teo leads the Sustainability and Climate Change team at CLA Global TS Risk Advisory Pte Ltd, and also specialises in areas such as risk management and data governance. During her career, she had been deployed to various departments including assurance and advisory services, and spent several months on secondment to the UK.

Ms Teo has also been appointed Treasurer of Kreta Ayer People's Theatre Foundation (Management Committee) since 2018, and has been involved in projects involving community outreach and cultural promotion.

RE-ELECTED COUNCIL MEMBERS

Ms Judy Ng
FCA (Singapore)
Chief Financial Officer, Institutional Banking Group, DBS Bank

Ms Judy Ng was elected to the ISCA Council where she has been serving as Secretary since 2022. She is currently Chairperson of the Investment Committee as well as ISCA Research Fund Evaluation Committee.

Ms Ng is the CFO for the Institutional Banking Business Group (IBG) at DBS Bank and has more than 30 years of experience in banking and financial services. As part of the core management team, she works closely with the IBG Group Business Head in providing strategic recommendations, leadership, direction and management of the financial goals, objectives and planning. The role requires being at the forefront of managing the implications of changes arising from macroeconomic, geopolitical, regulatory, business and human resource changes; and recommending re-pivots to the business.

Prior to joining DBS Bank, she worked in a foreign bank and started her career at KPMG. Her experience spans coverage for banking, securities and insurance.

Mr Don Wee Boon Hong
FCA (Singapore)
Member of Parliament;
Senior Vice President, United Overseas Bank Limited

Mr Don Wee Boon Hong was elected as Council member in 2019. He is a member of the Audit Committee and Advisor of the ISCA Young Professionals Advisory Committee. He also represents ISCA on the Accountancy Workforce Review Committee set up by the Ministry of Finance.

Mr Wee has over 22 years of banking experience and is Senior Vice President of United Overseas Bank Limited (UOB). Prior to UOB, Mr Wee held the position of Senior Vice President of HSBC.

He is a Member of Parliament for Chua Chu Kang GRC. He also serves as Court-appointed Deputy, Office of the Public Guardian, and is an Institute of Mental Health Visitors' Board member. He is in the Advisory Council on Community Relations in Defence, under the Ministry of Defence, as well as Advisor to the Union of Institute of Technical Education (ITE) Training Staff.

Mr Tan Kuang Hui
FCA (Singapore)
Chief Executive and Managing Partner, Crowe Singapore

Mr Tan Kuang Hui was first elected as Council member in 2019 and is a member of the Audit Committee. He also served as a member of the Ethics Committee from 2019 to 2022.

Mr Tan has over 27 years of experience in the audit and financial consulting services, providing audit and financial consulting services to a broad range of clients, including financial institutions, technology, manufacturing, trading, publishing and agricultural companies. As Chief Executive and Managing Partner of Crowe Singapore, Mr Tan leads the company, which comprises 11 partners and approximately 200 professionals. He is particularly well-versed in business in the People's Republic of China, accounting and tax matters. Mr Tan is a member of the Board of Directors of Crowe Global.

Mr Christopher Wong Mun Yick
FCA (Singapore)
Head and Partner, Assurance, Ernst & Young LLP

Mr Christopher Wong Mun Yick is Chairman of the Audit Committee. He has served on the Nominations Committee and Membership Committee since his election to the Council in 2019.

Mr Wong has extensive experience in serving public-listed, private and multinational companies from a range of industry sectors, some of these in a senior capacity as the global client service partner. He previously held the role of the firm's staff partner.

Mr Wong is a member of the Industry Advisory Committee for Accountancy at the Singapore Institute of Technology, and serves on the Accounting Advisory Board of the National University of Singapore Business School. He is Board Director of Tripartite Alliance Limited and Chairman of its Audit and Risk Committee. He is also a Board and Audit Committee member of the Trailblazer Foundation, and a Trustee of St Joseph's Institution Philanthropic Fund. ISCA

TEXT BY

CA Kiran Bafna

PHOTO: SHUTTERSTOCK

The Future of Audit

Quality, Talent And Technology

TAKE AWAYS

- More than just detect financial reporting issues, a quality audit must drive continuous improvement, enhance risk management, elevate financial planning, and provide reliable financial information in the capital markets.
- With technology adoption, audit can assume a more strategic role in driving business outcome while navigating a constantly evolving regulatory environment.
- Next-gen auditors, tapping on next-gen technology, are expected to demonstrate higher levels of critical thinking and judgement, and create greater value for their clients as well as their own organisations.

GONE IS THE IMAGE OF A TRADITIONAL AUDITOR in a pinstripe suit with thick glasses, a thick briefcase, and an even thicker notebook. But while auditors may have substituted their notebook for a laptop, they must also invest in the right technology to replace dated processes and elevate audit quality in today's complex business environment. Quality is essential for assuring the audit is being conducted correctly and efficiently.

Clients, too, expect their auditors to be current with new technologies, stay abreast of the evolving regulatory changes and professional standards, and maintain a skilled workforce that can provide the highest level of service. Virtual audits are now becoming quite common, and technology is transforming the audit process through automation and access to real-time data and analytics.

Quality, talent, and technology are all key components for success in this new era of auditing. As firms continue to invest in these areas, they will ensure that their audits remain compliant with regulations while also providing valuable insights for their clients and into their own operations.

NEXT-GEN AUDIT: WHAT A QUALITY AUDIT LOOKS LIKE AND HOW TO RAISE THE BAR IN THE AUDIT INDUSTRY

A quality audit should do more than just detect financial reporting issues; audits must drive continuous improvement, enhance risk management, elevate financial planning, and provide reliable financial information in the capital markets.

Audit technology is raising the bar

Due to the recent increase in fraud cases, such as the Wirecard[1], Patisserie Valerie[2], and Luckin Coffee[3] incidents, there's greater scrutiny of the audit industry and its processes, prompting a push towards digitalisation to drive business success and ensure business continuity.

The nature of auditing and the auditing standards against which performances are measured is constantly evolving. Regulatory changes, such as the ISQM1, specifically demand firms to establish quality objectives in relation to resources provided by service providers. This regulation also makes the firm solely responsible for the design, implementation and operation of its own system of quality management (SoQM).

The audit industry is transitioning as it evaluates the right tech investments to assume a more strategic role in driving business outcomes while traversing a constantly evolving regulatory environment.

Auditors today must have the capacity to navigate the complex regulatory landscape and meet standards like SSA 505 issued by The Auditing and Assurance Standards Board (AASB) and others for high-quality audits.

NEXT-GEN AUDITORS: HOW TO BUILD RESILIENCE, OVERCOME CHALLENGES, AND COPE WITH CHANGES

The COVID-19 pandemic and its widespread economic and social repercussions around the globe, and the rise of hybrid work models have increased the focus on improving risk assessment and management.

These shifts have revealed several areas of improvement to the audit process that need to be promptly addressed as we move into the future of work. Next-gen auditors also must demonstrate higher levels of critical thinking and judgement for greater value creation.

As such, next-gen auditors must speed up audit processes using the right technology investments. Their expectations from technology are to:

- Elevate client collaboration, make the relationship more interactive, and ensure continuous, seamless, and secure data flow between the organisation and auditors;
- Shift to paperless systems, completing most procedures online and allowing virtual audits for fast and reliable audits;
- Ensure comprehensive and secure data tracking, delivering real-time information and enhanced recordkeeping with automated reporting and analytics tools for improved financial reporting;
- Automate data in unstructured formats such as contracts, emails, PDFs, and other documents to improve audit documentation for greater accuracy, transparency, and confidence.

Technologies such as data analytics, cloud, artificial intelligence (AI), and robotic process automation (RPA) are building greater audit resilience in the face of a constantly evolving global business environment.

According to the Future-Proofed study conducted by KPMG and Forbes Insights[4], nearly all business leaders (98%) say their external audit firm uses advanced technology extensively. Most of the business leaders have their eyes on AI (61%), smart analytics (50%) and RPA (48%).

The nature of auditing and the auditing standards against which performances are measured is constantly evolving

[1] https://www.reuters.com/business/finance/rise-fall-wirecard-2022-12-06/
[2] https://www.bbc.com/news/business-58671915
[3] https://www.reuters.com/article/us-usa-sec-luckincoffee-idUSKBN28Q34P
[4] https://audit.kpmg.us/content/dam/audit/pdfs/2021/kpmg-future-proofed-lores.pdf

Millennials and Gen Z are now the dominant demographic in the workplace. Technology-powered processes, in this case, not only drive up business value but also play a central role in attracting this digitally savvy workforce.

PHOTO SHUTTERSTOCK

Clearly, next-gen auditors need technology to deliver high-quality audits, save time and money, mitigate fraud risk, and build greater trust in capital markets.

ATTRACTING TALENT WITH AUDIT TECH AND ELEVATING AUDIT QUALITY

Audit firms are under increasing pressure to drive productivity while reducing pressures on a shrinking number of staff.

Millennials and Gen Z are now the dominant demographic in the workplace. Technology-powered processes, in this case, not only drive up business value but also play a central role in attracting this digitally savvy workforce, who are looking for state-of-the-art tools and processes.

Technology allows for better allocation of limited resources, reduces workloads and redundant tasks, enables people to automate tasks, and provides better analysis in appropriate areas easily. This helps to ensure accuracy and consistency in the audits conducted by the auditors, which leads to better results for both the auditors and their clients.

Given the shifts in workplace demographics, firms that still run a manual, non-digital, and labour-intensive environment will struggle to hire and retain top talent.

Organisations must also identify training needs and upskill their existing workforce to leverage technology-enabled audit processes, conduct guided audits with precision, and proactively identify risk areas. Easy-to-use technology platforms are crucial to upskilling initiatives and driving greater digitalisation of audit firms.

AUDIT TECHNOLOGY STRATEGY AND ADOPTION

As we concur that next-gen auditors need next-gen technology solutions powering up their work, moving along this path demands a clear strategy for adoption. After all, the rate of digital transformation failing to meet their original objectives ranges from 70% to 95%, with an average at 87.5%, according to Harvard Business Review[5].

Easy-to-use technology platforms are crucial to upskilling initiatives and driving greater digitalisation of audit firms

[5] https://hbr.org/2022/09/3-stages-of-a-successful-digital-transformation

Some of the key areas to focus on when developing an audit technology adoption strategy are:

- Leadership and governance capabilities of the service provider and clarity on security, confidentiality, availability, processing integrity, and privacy commitments to user entities;
- Assessing software capabilities and scope of service from the technology platform to ensure it can fulfil required activities with the least possible effort;
- Looking for clearly documented policies and procedures to facilitate smooth change management, including documenting changes to technological resources such as operating systems, computing hardware, networks, and application maintenance;
- A robust, comprehensive, and highly secure information security management system that protects sensitive customer data at rest and in transit;
- Comprehensive privacy and confidentiality features, including access authentication and authorisation, access requests, and access revocation;
- An uncomplicated and agile maintenance process with clear patch management policies for up-to-date software and lower downtime;
- Comprehensive data protection policies, including disaster recovery and backup. Data encryption and formal incident response policies that detail procedures to follow to detect, contain, and recover from potential security and privacy incidents;
- Robust business continuity plan to reduce risk and assist in the management and handling of operations;
- Certifications that prove a commitment towards quality control and ensure standard privacy and security practices, such as SOC Examinations/ISO 27001.

The next-gen auditor has evolved and is one who creates value for their clients. They also become responsible for attracting, retaining, and training staff, remaining current with new technologies for better client engagement and reducing risk and fraud.

As the complexity of business, supply chains, market environments and economies increases, the question no longer remains *whether* the audit industry needs the power of next-gen tech. The question now is, *how fast* can we change and make this industry agile and more responsive to the forces of change and disruption? ISCA

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TEXT BY
Manfred F.R. Kets de Vries

PHOTO SHUTTERSTOCK

Get out of our narcissistic bubble and appreciate life from another person's point of view

10 Steps Towards A More Fulfilling Life

The Journey Begins With You

TAKE AWAYS

- To become a better version of ourselves, we need to push ourselves beyond our current capabilities, beliefs and boundaries.
- We need to be proactive and take control by focusing on the things we can act on.
- Begin by making subtle changes that nudge us in the direction of the life we want.

ON THE SURFACE, PHILIP SEEMED TO HAVE A SUCCESSFUL LIFE AND CAREER AS THE CEO OF A LARGE, PROFITABLE FIRM. But Philip's inner world was in complete disarray. He felt like a hamster in a wheel, running aimlessly at an ever-increasing pace.

He described his life as a series of never-ending assignments or, when things got really bad, a straitjacket. It often felt like other people's needs were drowning out his own. His wife left him because he was never present physically or emotionally. His children no longer lived at home and wanted little to do with him.

Philip was also in bad shape and suffered from insomnia, worrying about all the things that needed to be done. Sleep deprivation affected his decision-making capabilities. It felt like he was sleepwalking through a meaningless life.

He believed he had no hope left and longed for a new life.

THE JOURNEY TO A LIFE WELL LIVED

Many of us can relate to Philip. At some point, we all feel tired or dissatisfied with our lives and yearn for change. In many of my conversations with senior leaders, there is a common desire to become the best version of ourselves. We seek to learn, grow and enjoy our life to the fullest.

The only way to achieve this is to push ourselves beyond our current capabilities, beliefs and boundaries. We need to be proactive and take control of our lives by focusing on the things we can act on.

Without completely overhauling our lives, we can start with subtle changes to nudge us in the direction of the life we want. While there is no such thing as having a perfect life, we can begin to lead a more fulfilling one.

With this in mind, here are 10 steps you can take towards a more fulfilling life.

1. Identify who you really are

To live an authentic life, you must first identify what it really means to be you. The key is to realise that everything you do in the outer world begins in your inner world. When you discover your purpose and what makes you feel most alive, you can make wise choices and changes.

There is a common desire to become the best version of ourselves. We seek to learn, grow and enjoy our life to the fullest.

PHOTO SHUTTERSTOCK

2. Let go of unpleasant experiences
Often, the only real obstacle in your path to a fulfilling life is your past. You need to work through all the hurt and disappointment and let go of any unpleasant experiences that are affecting your present behaviour. Understanding the things that hold you back will enable you to move forward and make a conscious effort to act differently in the future.

3. Practise empathy and compassion
Everyone desires meaning, fulfilment and security, even if it is expressed in different ways. It is therefore important to get out of our narcissistic bubble and appreciate life from another person's point of view. One way to express empathy and compassion[1] is through kind deeds. Kindness begets kindness and there is no better way to grow than to help others grow.

4. Take care of yourself first
It is difficult to live a full life when you are in poor health. Self-care[2] involves looking after your mental, emotional, physical and spiritual health. When you are able to take good care of yourself, it is much easier to support and care for others.

5. Find meaning at work
As we spend a lot of our time at work, it is crucial to find a job that you feel passionate about and that best fits who you are. Feeling bored or unsatisfied at work is a sign that change is needed. If you can determine the root of your unhappiness, you will know what action needs to be taken so you can spend your time and energy on work you enjoy.

6. Be selective about your relationships
Humans are social beings, hardwired for connection. However, you need to be selective about these connections. Let go of draining relationships with negative, dishonest or overly critical people, as well as people who don't respect you or prevent you from growing. At the end of the day, you want to spend time with people who energise and encourage you.

To lead a fulfilling life, acknowledge the good that you already have in your life

[1] https://knowledge.insead.edu/blog/insead-blog/taming-your-inner-critic-18566
[2] https://knowledge.insead.edu/blog/insead-blog/burnout-wont-prevent-itself-18671
[3] https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3780662/?utm_source=givelifyblog&utm_medium=blog&utm_campaign=givinggoodforhealthgen&utm_term=&utm_content=&
[4] https://knowledge.insead.edu/blog/insead-blog/carpe-diem-dont-postpone-your-dreams-18106

7. Never stop learning
Life is a process of continuous learning; the moment you stop learning, you are dead. There is always something new to discover – you just need to get out of your comfort zone and embrace the unknown.

8. Seek help and guidance from professionals
Coaches or psychotherapists can guide you on this journey. These professionals can help you become mindful of your patterns of behaviour. They will challenge your fears, unlock your potential and guide you to experience feelings of personal worth, purpose, and richness in living.

9. Give generously to others
A life directed chiefly towards the fulfilment of personal desires will only lead to bitter disappointment. True fulfilment entails taking responsibility for the happiness of others by contributing to improving the world.

Generosity also has beneficial side effects, both mentally and physiologically. Giving to others increases your self-esteem, improves your happiness, and has also been proven to lower your blood pressure and help you live a longer life[3].

10. Practise gratitude
Finally, to lead a fulfilling life, acknowledge the good that you already have in your life. The benefits of expressing gratitude include improved relationships, physical and emotional health, sleeping habits, mental stamina, energy, and overall happiness. Being grateful is one of the simplest and most powerful things you can do.

In a nutshell, an effective way to begin living more authentically is to envision the life you want[4] and identify the elements that energise you and make you happy. While happiness is not the goal but a by-product of a life well lived, you can still build happy memories with lasting impact.

Ask yourself three questions: Who are you? What do you stand for? And who would you like to be? If you can visualise this person, try to be this person. If you can pinpoint what you love to do, spend more time doing these things. And if you know who you love, make an effort to love them even more.

Instead of fixating on status, wealth or material possessions, think about your personal legacy. Consider what you would like people to remember and say about you when you are gone. By answering this question, we gain perspective on the value of our lives and what is most important. While you are still living, focus on becoming that version of yourself. It is never too late to begin authoring a truly meaningful life. ISCA

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PHOTO GETTY IMAGES

Keeping Fit To Stay Sharp

Physical Activity Benefits Mental Wellness

TAKE AWAYS

- Regular exercise has been linked to a reduced risk of depression and other mental health conditions, as well as an improvement in overall mood and well-being.
- As there is no one-size-fits-all solution, the best thing to do is to set some fitness goals, and then find an activity you enjoy and can pursue regularly.
- Employers also have a role to play in facilitating and encouraging physical activity for staff.

SOME SPORTS – like golf, for instance – are inextricably linked with working professionals and offer all manner of business opportunities such as networking and deal making. But a day out on the green with colleagues and business partners can also be good for one's mental health. In fact, research has established that staying physically active has a strong positive impact on mental well-being and on workplace productivity. Of course, the physical benefits of staying active should be enough to motivate anyone, but throw in stress management and other mental health benefits and it becomes a no-brainer.

People in the workforce can find maintaining a healthy work-life balance challenging. "Physical activity is well recognised as a key factor for the prevention and management of mental illness, including mental disorders such as depression and anxiety as well as the promotion of mental health such as well-being," according to a 2023 study[1] published in *BioMed Central*. The constant pressure of meeting deadlines, long hours of sitting in front of a computer, and having to juggle various tasks can cause stress and anxiety, leading to poor mental health. This appears to be a mounting problem in Singapore, if global health service provider Cigna International's latest 360 Well-Being report is anything to go by. Titled "Stressed in Singapore – Employer Opportunity"[2], it reveals that in Singapore, 86% of adults are stressed – well above the global average of 82%.

However, many years of research and not just the most recent data indicate that a physically active lifestyle can go a long way in alleviating the effects of stress, making it essential for workers to prioritise exercise in their daily routine. Here are just a few of the obvious benefits, starting with the most obvious.

STRESS MANAGEMENT

Stress and anxiety are common mental health issues faced by all working professionals, at every age and every level. So, what can you do about it? As it turns out, quite a lot! And, you can start by just taking brisk walks.

"We saw a 26% decrease in odds for becoming depressed for each major increase in objectively measured physical activity," says Karmel Choi, a clinical and research fellow at the Harvard T.H. Chan School of Public Health, and author of a 2019 study[3] that was published in *JAMA Psychiatry*, on the Harvard Health Publishing website. "This increase in physical activity is what you might see on your activity tracker if you replaced one hour of sitting with one hour of moderate activity like brisk walking."

Engaging in regular physical activity helps in reducing the production of stress hormones such as cortisol and increasing the production of endorphins – the feel-good chemicals that improve mood and promote a sense of well-being. Even moving around during the lunch break or doing some stretching exercises can help clear the mind and reduce stress levels.

Unsurprisingly, the symptoms of stress and a variety of anxiety disorders can be addressed with various forms of exercise. The Mayo Clinic goes so far as to suggest that any form of sustained and regular physical activity[4] will do the trick. Below is a summary of the benefits the health institution has identified, aside from the endorphin boost typically referred to as a "runner's high".

- **Building resilience.** Counter-intuitively, some forms of exercise imitate the effects of stress, inducing the fight-or-flight response. This can be a form of training to help the body work through the same effects. It can also lead to positive effects in the body, including the cardiovascular, digestive and immune systems, by helping protect the body from the harmful effects of stress.

> "Physical activity is well recognised as a key factor for the prevention and management of mental illness, including mental disorders such as depression and anxiety as well as the promotion of mental health such as well-being."

[1] https://bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-022-12590-6
[2] https://cignainternational.com/360-well-being-study/
[3] https://www.health.harvard.edu/mind-and-mood/more-evidence-that-exercise-can-boost-mood
[4] https://www.mayoclinic.org/healthy-lifestyle/stress-management/in-depth/exercise-and-stress/art-20044469

Engaging in regular physical activity helps reduce the production of stress hormones and increase production of endorphins

Symptoms of stress and a variety of anxiety disorders can be addressed with various forms of exercise

- **Strength in focus.** Concentrating on returning a powerful serve in tennis has the same effect as looking for a secure handhold (or foothold) while rock climbing – nothing else exists in those moments except the immediate goal. The same is true of various martial arts, running and also swimming laps in a pool. "As you begin to regularly shed your daily tensions through movement and physical activity, you may find that this focus on a single task, and the resulting energy and optimism, can help you stay calm, clear and focused in everything you do," according to the Mayo Clinic.
- **Mood enhancer.** Any kind of regular physical activity can boost self-confidence, lighten mood, enhance relaxation, and reduce symptoms of mild depression and anxiety. Sleep disruption can also be alleviated by exercise. (Sleep is often negatively impacted by stress, anxiety and depression.) "All of these exercise benefits can ease your stress levels and give you a sense of command over your body and your life."

TOWARDS NEURAL WELL-BEING

There is plenty of scientific and anecdotal evidence that physical activity has a positive impact on the brain, helping to improve one's cognitive function, memory, and concentration. Exercise has been demonstrated to increase blood flow to the brain, which helps to promote the growth of new brain cells and improve overall brain health.

Thus, people who engage in some sort of regular physical activity may find themselves more focused and productive at work, improving their overall job performance. The exact types of activities and what regularity means will of course differ, depending on a variety of factors, but this is something everyone should research. There is no one sport or even one type of exercise that will work for everyone. Older adults should also take note that exercise can slow cognitive decline, among other benefits.

LONG-TERM UPSIDES

Physical activity has long-term mental health benefits that go beyond spiking one's endorphins. Regular exercise has been linked to a reduced risk of depression and other deleterious mental health conditions, as well as an improvement in overall mood and well-being. This means that working professionals who engage in regular physical activity may experience fewer mental health issues and enjoy better mental health in the long term. "I have found that a tranquil setting for walking soothes the spirit and calms the nerves, inducing a sense of quiet in the mind and in the body," wrote Chan Lishan[5] for Singapore's Institute of Mental Health. "During my walks, I forget about the stresses of life and simply focus on immersing myself in nature, connecting with the universe."

Even though there have been many studies and years of research, no causal link has been established between an active lifestyle and good mental health. "Despite this, lower stress levels may mean a person is less likely to experience certain health problems," according to *Medical News Today*. "Older research from 2013 notes that 75–90% of visits to a primary care doctor are for stress-related conditions, such as cardiovascular disease, obesity, diabetes, sleep problems, headaches, immune system suppression, and neck and back pain."[6]

SUCCESS STORIES

Nevertheless, there are several success stories of working professionals who have found relief from mental health issues through physical activity, including from the Mayo Clinic in the US. For instance, a sales executive, who suffered from depression, found that running outdoors helped improve his mood and made him feel more positive. Another individual found that regular yoga sessions helped her to manage her anxiety and improve her overall psychological state. These examples may read like bullet points in a generic mental health pamphlet, but a simple Internet search will reveal many such stories. Indeed, the examples in this article have been averaged out from a variety of different sources culled from studies done over multiple years.

As noted earlier, there is no one-size-fits-all solution, so the best thing to do is to set some fitness goals and then find an activity you enjoy. There is no point in deciding to cycle to work every day if you do not like cycling! On the other hand, even if you enjoy running, your physical state might prevent you from reaping the best results. It goes without saying that you should not only tailor your physical activities to your schedule but also build them around any injuries you might have. Remember that taking long walks count as physical activity, as far as getting psychological benefits go, and you can break this up into shorter stretches throughout the day. The most important thing is to make some sort of physical activity a part of the daily routine and to stay consistent with it.

WHAT EMPLOYERS CAN DO

Employers have a role to play in facilitating and encouraging physical activity among staff to reap the benefits and, for certain, promoting good mental health should be added to the list.

In the past, Japanese companies became famous worldwide for their fastidious morning exercise rituals and, more recently, progressive employers such as Alphabet and Meta have included spaces for physical activity on-premises. In Singapore, the Health Promotion Board is encouraging workplace wellness[7] through a slew of programmes featuring exercise sessions, healthier food options, health talks and workshops, and health screenings, which take place close to or at the office premises, the latter with prior arrangement. Many of these activities are co-funded or even free.

Employers looking to have a happier, healthier and more productive workforce do not have to look far for inspiration or assistance. But they do need to take the first step by establishing a culture which supports the pursuit of physical activities. **ISCA**

[5] https://www.imh.com.sg/Mental-Health-Resources/Mental-Wellness-and-Recovery/My-Say/Pages/Nature-Walks-for-Better-Mental-Health.aspx
[6] https://journals.lww.com/acsm-healthfitness/Fulltext/2013/05000/STRESS_RELIEF__The_Role_of_Exercise_in_Stress.6.aspx
[7] https://www.hpb.gov.sg/workplace/healthy-workplace-ecosystem

PHOTO SGUTTERSTOCK

VIEWPOINT

TEXT BY
Institute Of Mental Health

Responding To Employees With Mental Health Conditions

A Guide For Employers

TAKE AWAYS

- Employers can make the workplace more open and inclusive by learning how to respond to employees who disclose their mental health condition, and how to support them thereafter.
- Employers can build trust with their employees, assure them that their conditions will be kept confidential, and also create a safe workplace.
- Employers may want to look out for early signs of stress and intervene early, or approach community partners or mental health professionals for more support.

PHOTO SHUTTERSTOCK

THE 2016 SINGAPORE MENTAL HEALTH STUDY found that one in seven people in Singapore has experienced a mental illness in their lifetime, which is an increase from before[1]. A survey done with more than 500 organisations revealed that at least 50% of them are hesitant to employ persons with mental health conditions, with the main reason being uncertainty on how to support them[2].

Employers can make the workplace more open and inclusive by learning how to respond to employees who disclose their mental health condition, and how to support them thereafter.

ACKNOWLEDGE, BUILD TRUST

Acknowledge the effort and courage it took for the employee to share their mental health condition with you as there is always fear of rejection or stigma.

Assure them that support will be provided.

Reassure them that their health information will be kept confidential and will only be disclosed if absolutely necessary – and with their consent.

LISTEN, AND EXPLORE ACCOMMODATIONS

Allow the employee to lead the conversation, and give them time and space to express themselves. As much as possible, keep an open mind when listening and try to convey this through your body language, by giving appropriate eye contact and having an open posture.

Listen to their requests for flexibility or work accommodations, and let them know that you will explore possible arrangements, but make sure not to overpromise. Find out how the employee's work performance may be affected, and consider how changes can be made based on their specific needs. Some accommodations may include:

- Flexible hours: planning days off to break up the work week, adjustments to start/finish time;
- Time off for medical appointments;
- Having a workspace with minimal distractions, and quiet rooms to provide a "safe space" during breaks;
- Increased frequency of supervision or support, for example, to prioritise workload, to provide encouragement or constructive feedback, to debrief after a difficult encounter or task, to mediate between colleagues.

ARRANGE REGULAR CHECK-INS, RECOGNISE EARLY SIGNS OF STRESS

Scheduling regular check-ins with the employee to find out how they are coping at work can help normalise and encourage conversations about mental health. Doing so builds trust and provides them with a platform to share difficulties faced, allowing for early intervention.

Reviewing and affirming them for their achievements can also help to build self-esteem and confidence.

It is worthwhile to have a conversation with the employee about their symptoms, triggers, early signs of stress, and who to contact in a crisis. It is necessary to note that this is unique to each person, as everyone experiences and manages mental health problems differently.

Some common signs of stress that impact work behaviours include but are not limited to:

- Behavioural changes: anxiety, agitation or disorganised speech that may be observed when interacting with colleagues;
- Cognitive changes: lower productivity levels, decreased ability to concentrate;
- Mood changes: appearing tired or sad, withdrawing from activities they previously enjoyed;
- Physical changes: decreased appetite, increased smoking or drinking.

REFER THEM TO AVAILABLE RESOURCES

You may refer the employee to your organisation's Employee Assistance Programme (EAP) so that more support is provided for personal or work-related problems that have an impact on work performance and overall well-being.

Alternatively, they can approach community partners or mental health professionals. Supervisors may refer to the Mental Health Resource Directory[3] for more information. ISCA

[1] https://www.imh.com.sg/Newsroom/News-Releases/Documents/SMHS%202016_Media%20Release_FINAL_web%20upload.pdf
[2] https://www.ncss.gov.sg/press-room/publications/
[3] https://www.ncss.gov.sg/press-room/publications/detail-page/MentalHealthResourceDirector

This article was contributed by the Institute of Mental Health and first published by the Tripartite Alliance for Fair and Progressive Employment Practices. Reproduced with permission.

TEXT BY
TAFEP

Kind Leaders Are Effective Leaders

Supporting Employees, Achieving Business Goals

TAKE AWAYS

- When their managers genuinely care and address their work-related problems, employees are more productive and also less likely to participate in fraudulent activities that are detrimental to the company.
- To fully understand the workforce, a culture of transparent communication is needed, with authentic leadership role-modelling from the top.
- Kind leaders invest in efforts that support employee well-being, and ensure that these are relevant and sustainable over the long term.

HOW CAN EMPLOYERS LEAD WITH KINDNESS TO SUPPORT EMPLOYEES and achieve business goals?

At the height of the COVID-19 pandemic in 2020, Dr Daniel Tan, Chief Executive Officer of healthcare company Parkway Laboratories, did something unexpected – he shared about having burnout in an email to his employees.

"In the old days, the boss was expected to be a warrior leader – fearless, brave and would charge through anything. That was the old perception," Dr Tan told *Today*[1]. "Times have changed, and that's where we have to start to change as well."

The traits associated with effective leadership have shifted over the years. Now, progressive employers recognise that qualities such as being able to show vulnerability, empathy and kindness are important to connect with employees and support them so they can do their best work.

Leading with kindness could ensure less exhaustion and more productivity for your workforce. According to a Gallup poll[2], employees are 62% less likely to be burnt out when their managers genuinely care and address their work-related problems. After all, stress-related illnesses cost Singapore's economy US$2.3 billion a year[3]. Another study by Nanyang Technological University and the University of Amsterdam showed that when organisations have caring bosses, employees are less likely to participate in fraudulent activities that are detrimental to the company[4] – a notable trait, as employee collusion costs companies worldwide an estimated 5% of their annual revenue.

So, what does being a kind leader at the workplace entail?

DEVOTE TIME AND EFFORT TO KNOW YOUR PEOPLE

The better you know your workforce, the more targeted your employee engagement and retention strategies can be. What intentional steps can you currently take to understand your employees? How do you gauge their needs, interests, strengths and personal aspirations?

Leaders can gather qualitative data through informal chats and small group discussions to understand employee attitudes and concerns. More formal channels of information may also be used, including anonymous employee engagement surveys and assessments such as the TAFEP's Fair and Progressive Employment Index[5], which enable employers to audit their workplace culture and offer recommendations to address identified gaps in practices.

In order to fully understand your workforce, a culture of transparent communication is needed. This culture needs to be built from the top, with the leadership role-modelling authentic and open conversations. When leaders are open about their thoughts and challenges, as Dr Tan had done, employees, too, feel encouraged and supported to share honest feedback and opinions; this ultimately provides accurate insights that leaders can act on.

PHOTO SHUTTERSTOCK

[1] https://www.todayonline.com/singapore/courage-new-normal-ceos-leaders-taking-bolder-steps-talk-about-their-mental-health
[2] https://www.gallup.com/workplace/313160/preventing-and-dealing-with-employee-burnout.aspx
[3] https://www.todayonline.com/singapore/stress-related-illnesses-cost-singapores-economy-s32-billion-annually-study
[4] https://www.sciencedirect.com/science/article/pii/S0361368221000714
[5] https://fairprogressive.sg/

Progressive employers recognise that qualities such as being able to show vulnerability, empathy and kindness are important to connect with employees and support them so they can do their best work.

PHOTO SHUTTERSTOCK

Flexible work arrangements and other work-life practices can help employees achieve better work-life harmony

DEVOTE RESOURCES TO IMPROVE WORKPLACE CULTURE AND PRACTICES

Kind leadership in the workplace also translates to allocating resources to create a workplace where employees are treated fairly and with mutual respect. For some employers, this may even extend to reviewing current HR practices and policies to eliminate bias. These initiatives may range from implementing an objective performance management framework[6] to assess employee performance, to creating an effective grievance handling process[7] to ensure employees have proper recourse.

Progressive employers may go a step further by addressing the work-life needs of employees, through flexible work arrangements[8] and other work-life practices designed to help employees achieve better work-life harmony.

However, it is worth noting that a kind leader does not accede to all requests. "A kind leader is not a permissive person or pushover," writes Dr William Wan, General Secretary of the Singapore Kindness Movement, in an article for the Singapore Institute of Management. Rather, when such a leader says "no", it comes not from impatience but from a desire to guide, challenge and mentor. Thus, when kind leaders invest in efforts that support employee well-being, they also ensure that these are relevant and sustainable over the long term – by understanding employee needs, assessing suitability of resources, and finally, implementing them well.

In summary, effective leadership is no longer based on command and control but built on communication, honesty and empathy.

How are you cultivating kindness in your leadership model today? ISCA

This article was first published by the Tripartite Alliance for Fair and Progressive Employment Practices (TAFEP). Reproduced with permission.

[6] https://www.tal.sg/tafep/employment-practices/performance-management
[7] https://www.tal.sg/tafep/-/media/tal/tafep/employment-practices/files/grievance-handling-handbook_2018.ashx
[8] https://www.tal.sg/tafep/employment-practices/work-life-harmony/fwas

Technical Highlights

AUDITING AND ASSURANCE

ISCA Comments On IAASB's Consultation Paper: The IAASB's Proposed Strategy And Work Plan For 2024-2027

While ISCA supports IAASB's overall proposed strategy, ISCA urged for the prioritisation of technology-targeted projects to update the ISAs for the impact of technology, especially in relation to the auditing of complex IT environments and digital assets.

For more information, please visit https://isca.org.sg/content-item?id=3970debf-0775-43e6-9316-43a5c31458e9

ISCA Comments On IAASB's Exposure Draft: Proposed ISA 500 (Revised) *Audit Evidence* And Proposed Conforming And Consequential Amendments To Other ISAs

ISCA is supportive of the revised standard, especially on the enhancements over the application of technology and professional scepticism in audits. ISCA proposed for further elaboration on the use of data analytics to support and facilitate its adoption.

For more information, please visit https://isca.org.sg/content-item?id=839d4bd0-a1ac-4843-b34c-45fff4fc6755

ETHICS

Fireside Chat On Ethics Standard On Sustainability Assurance And Reporting

ISCA is proud to have hosted IESBA's Sustainability Roundtable at ISCA House on April 3. After the roundtable, Ms Eng Chin Chin, ISCA Ethics Committee Chairperson, engaged Mr Mark Babington, IESBA member and IESBA Sustainability Working Group Chair, in a fireside chat on the development of a set of ethics and independence standards for sustainability reporting and assurance.

Watch the video of the conversation at https://youtu.be/LM72xkxQN2Y.

For more information, please visit https://isca.org.sg/content-item?id=12342937-0920-41d1-bf43-ae81d6e4b281

FINANCIAL REPORTING

ISCA Issues FRB 10 "Real Property Valuation For Financial Reporting – Fair Value Based On The Highest And Best Use"

Is the "market value" of a property the same as its "fair value"?

FRB 10 explains both concepts and provides guidance on what management should do in assessing the appropriateness of the reported value for financial reporting purposes. This FRB also includes an example to illustrate the application of highest and best use as the valuation premise.

For more information, please visit https://isca.org.sg/standards-guidance/financial-reporting/technical-guidance-issued-by-isca-professional-standards-division/technical-guidance-issued-under-codification-framework/financial-reporting-bulletins

IFRS Foundation Publishes IFRS Accounting Taxonomy 2023

The IFRS Accounting Taxonomy enables electronic reporting of financial information prepared in accordance with IFRS Accounting Standards. IFRS Accounting Taxonomy 2023 is based on IFRS Accounting Standards as at 1 January 2023, including those issued but not yet effective. It incorporates changes made to IFRS Accounting Taxonomy 2022 which resulted from amendments made to IFRSs.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/ifrs-foundation-publishes-ifrs-accounting-taxonomy-2023/

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IASB Proposes Narrow-Scope Amendments To Classification And Measurement Requirements For Financial Instruments

IASB has proposed amendments to the classification and measurement requirements in IFRS 9 *Financial Instruments* to address matters identified during the post-implementation review of IFRS 9. The comment period will end on 19 July 2023.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/iasb-proposes-narrow-scope-amendments-to-classification-and-measurement-requirements-for-financial-instruments/

IASB Concludes Project To Improve Its Approach To Developing Disclosure Requirements In IFRS Accounting Standards

IASB has concluded its project on improving its approach to developing disclosure requirements in IFRS Accounting Standards, to enable companies to provide more useful information to investors.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/iasb-concludes-project-to-improve-its-approach-to-developing-disclosure-requirements-in-ifrs-accounting-standards/

IASB Initiates Project To Consider Climate-Related Risks In Financial Statements

IASB has added a project to its work plan to explore whether and how companies can provide better information about climate-related risks in their financial statements. The project was initiated in response to feedback received from IASB's recent Agenda Consultation for IASB to enhance the reporting of climate-related risks in the financial statements.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/iasb-initiates-project-to-consider-climate-related-risks-in-financial-statements/

March 2023 IASB Podcast Available

In this podcast, the topics discussed include initial discussions on the Climate-Related Risks in the Financial Statements project; progress in the development of the Request for Information on the Post-Implementation Review of IFRS 15, and key decisions made in the Primary Financial Statements project.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/march-2023-iasb-podcast-now-available/

March 2023 IASB Update Available And Work Plan Updated

This Update highlights IASB's discussions on topics such as Post-Implementation Review of IFRS 15, issues arising from the application of the Equity Method in IAS 28, Business Combinations – Disclosures, Goodwill and Impairment and Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures. The IASB work plan has also been updated.

For more information, please visit https://www.ifrs.org/news-and-events/updates/iasb/2023/iasb-update-march-2023/

March 2023 IFRIC Update Available

This Update is a summary of discussions by the IFRS Interpretations Committee (IFRIC). Topics discussed include tentative agenda decisions on Guarantee over a Derivative Contract (IFRS 9), Premiums Receivable from an Intermediary (IFRS 17 and IFRS 9), and agenda decision on Definition of a Lease – Substitution Rights (IFRS 16).

For more information, please visit https://www.ifrs.org/news-and-events/updates/ifric/2023/ifric-update-march-2023/

SUSTAINABILITY & CLIMATE CHANGE

ISCA Issues Guidance On Climate-Related Scenario Analysis And Green Finance

ISCA has issued two publications to guide businesses in their sustainability journey.

ISCA Climate Disclosure Guide Vol 2: First Steps in Conducting Climate-Related Scenario Analysis provides direction for businesses on how to analyse climate-related scenarios to help businesses understand and manage the impact of climate-related risks. The second publication, *Green & Sustainable Finance: Guide for SMEs*, shares a roadmap for businesses to access green and sustainable finance.

For more information, please visit https://isca.org.sg/standards-guidance/sustainability-and-climate-change/thought-leadership

March 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 March meeting, including activity underway following final decisions on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-Related Disclosures*, and summary of the Board's discussions on the SASB Standards, including expectations on timing of updates to the SASB Standards.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/march-2023-issb-update-and-podcast-now-available/

Seven Key Takeaways From The IFRS Sustainability Symposium

Key takeaways from the symposium include: the ISSB Standards are nearing issuance; SASB Standards as a practical tool to implement S1 and S2, and global comparability remains paramount.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/03/seven-key-takeaways-from-the-ifrs-sustainability-symposium/

Update On ISSB's Meeting On March 16 To Discuss International Applicability Of SASB Standards Project

ISSB is developing an exposure draft (ED) that explains the process and methodology for updating specific jurisdictional laws and regulations in the SASB Standards to enhance the international applicability of the SASB Standards. ISSB expects to publish the ED in May 2023.

For more information, please visit https://www.ifrs.org/projects/work-plan/international-applicability-of-the-sasb-standards/

TEXT BY


Chen Voon Hoe


Wong Tien Chi

As companies consider the use of carbon credits as part of their decarbonisation strategies, they should also consider the accounting treatment in view of the potential complexity and financial implication.

Carbon Credit Accounting

What Are The Challenges?

PHOTO SHUTTERSTOCK

TAKE AWAYS

- Carbon markets are developing around the world, with the key goal to attribute a price to emissions and to reflect such costs in the financial results of companies, either mandatorily or voluntarily.
- The absence of specific accounting standards for carbon credits creates challenges as there is considerable diversity in the accounting approaches for carbon credits.
- Companies should use their judgement in developing and applying accounting policies that are relevant and reliable pursuant to SFRS(I) 1-8 requirements.

AS NATIONS AND BUSINESSES AROUND THE WORLD COMMIT TO THE RACE TO NET ZERO, stakeholders – including investors, customers and regulators – are compelling companies to measure, manage and report their greenhouse gas emissions. Coupled with the continuing development of the voluntary carbon market, companies in Singapore may be considering acquiring carbon credits to offset their emissions. As such, companies need to understand the accounting implications of purchasing or investing in carbon credits. Considering that carbon emission is generally not a visible item in the financial statement, how then will its offset be accounted for?

BEING ACCOUNTABLE FOR CARBON EMISSIONS

Externalities like environmental and social costs are generally not reported in financial accounting. Carbon emission tends to not be accounted for in the financial statement, as the boundary of traditional financial statements is framed with respect to economic values. In the context of Singapore, where carbon tax is imposed only on large emitters, while the cost of carbon tax may be passed on to consumers via higher product prices, the price of carbon emission remains invisible in the financial reporting of most companies in Singapore.

In order that companies are accountable for their emissions, the reporting of carbon emissions separately in sustainability reports is expected, or even mandated, for public companies in many countries including Singapore. With the growing scrutiny over emissions metrics and targets, companies may have to incur decarbonisation expenditure such as investments in green technology, earlier retirement of brown assets, procurement of sustainable materials, as well as the use of carbon credits to offset their remaining emissions. In the last two decades, carbon markets have developed around the world, with the key goal to attribute a price to emissions and to reflect such costs in the financial results of companies – either mandatorily or voluntarily.

The price of carbon emission remains invisible in the financial reporting of most companies in Singapore

CHALLENGES IN ACCOUNTING FOR CARBON CREDITS

Financial accounting standards have not kept pace with the development of carbon markets. In December 2004, the International Accounting Standards Board (IASB) issued IFRIC 3 to provide guidance on how to account for emission rights issued under emission trading schemes (ETS). However, IFRIC 3 was short-lived and was

PHOTO SHUTTERSTOCK

withdrawn in July 2005. The "Pollutant Pricing Mechanisms" project has remained inactive in IASB's research pipeline. In the recent IASB's Third Agenda Consultation, many respondents rated the project as high priority. Acknowledging that developing specific requirements for pollutant pricing mechanisms would be complex, IASB decided to add the project to its reserve list, such that the project could be added to its work plan (from 2022 to 2026) if additional capacity becomes available.

The absence of specific accounting standards for carbon credits creates various challenges. As can be gleaned from the PwC/IETA surveys in 2007[1] and 2021[2], there is considerable diversity in the accounting approaches to emission rights (or carbon credits). This is partly because carbon credits can be purchased, granted or self-generated. Accounting can also vary depending on the uses for the carbon credits. In fact, companies should already consider the accounting treatment when they are entering into contracts to acquire carbon credits, as accounting for these contracts is often more complex than accounting for the underlying carbon credits.

There are many ways for companies to acquire carbon credits. Starting at the top of the value chain, companies may directly invest in carbon offset projects to lock in a long-term supply of carbon credits. Investors should carefully evaluate the agreements with the project developers as they may constitute joint arrangement, lease over the underlying nature-based assets or other forms of investment structures. Alternatively, sourcing carbon credits from brokers or carbon exchanges may be more accessible to companies. If the carbon credits are to be delivered only at a future date, the purchase contract may in substance be a forward contract. Depending on whether the underlying carbon credits are for "own use"[3], the forward contract may have to be fair valued as derivatives under SFRS(I) 9. Different contract terms and different business models may lead to different accounting outcomes.

Upon receipt of the carbon credits on delivery date, companies should then consider whether the costs should be capitalised or expensed. As defined under the SFRS(I) Conceptual Framework for Financial Reporting, an asset is a present economic resource controlled by the entity as a result of past events. This would be the case if the entity has the right to resell the carbon credits or use them to extinguish liabilities in the future. Buying entities should understand the characteristics of the carbon credits, such as whether they are certified and transferrable, to determine if the carbon credits received should be recognised as assets or expensed.

Financial statements and sustainability reports are separate but related parts of a company's report on enterprise value

If a carbon credit meets the definition of an asset, ensuing questions arise over its classification and measurement. While carbon credits generally meet the definition of intangible assets under SFRS(I) 1-38 due to their non-monetary nature and non-physical form, they would be accounted for under another standard if within the scope of that other standard. For example, a company that buys carbon credits to sell in its ordinary course of business should account for its carbon credits as inventories under SFRS(I) 1-2. In contrast, if a company uses carbon credits to offset its own emissions and/or carbon tax, it should account for the carbon credits as intangible assets under SFRS(I) 1-38. Depending on whether there is an active market for the relevant carbon credits, either the cost model or the fair value model may apply. Therefore, companies could present and measure carbon credits differently due to different uses and liquidity of the carbon markets.

We may note from the above that there are numerous factors to consider. Companies should use their judgement in developing and applying accounting policies that are relevant and reliable pursuant to SFRS(I) 1-8 requirements.

CONNECTIVITY BETWEEN FINANCIAL ACCOUNTING AND SUSTAINABILITY REPORTING

While this article focuses on the financial accounting for carbon credits, it is important to note the interaction between financial accounting and reporting of emissions in sustainability reports.

In financial accounting, carbon credit should be expensed in the same period when it is retired or when it no longer meets the definition of asset; for the purpose of sustainability reporting, companies should also consider whether the carbon credit is reported as an emission offset in the same period. We can also observe that the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (GHG Protocol) adopts certain key financial accounting concepts – for example, the consolidation scope for emissions may follow the assessment for control and consolidation under international financial accounting standards. With the establishment of the International Sustainability Standards Board (ISSB) under the IFRS Foundation, we can expect increasing connectivity between the ISSB's Sustainability Disclosure Standards and the IFRS Accounting Standards.

Afterall, financial statements and sustainability reports are separate but related parts of a company's report on enterprise value. As the interest and use of carbon credits and other decarbonisation strategies are set to grow, companies should seek to understand the impact to their sustainability metrics as well as to their financial reporting. ISCA

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[1] https://www.ieta.org/resources/Resources/Reports/trouble_entry_accounting.pdf
[2] https://www.pwc.com/gx/en/emissions-trading-systems/pdf/emissions-trading-systems_ieta.pdf
[3] With reference to paragraph 2.4 of SFRS(I) 9, "own use" contracts refer to those entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

TEXT BY


Felix Wong


Joseph Tan

Does your business urgently need the cash payout at the modest 20% conversion rate, or can it wait till such time that it generates sufficient profits to utilise the enhanced tax deductions/allowances for greater tax savings instead?

Key Budget Tax Changes For Businesses

What To Look Out For And Plan Ahead

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TAKE AWAYS

- The new Enterprise Innovation Scheme enhances the tax deductions/allowances for five qualifying activities in the innovation value chain, including R&D projects conducted in Singapore and registration of qualifying IPs.
- Businesses looking to acquire capital assets and/or rationalise their office space during this period may consider whether they can utilise the options to accelerate their capital allowance claims and/or deductions for renovation and refurbishment expenditure.
- The DTDi scheme has expanded its scope to cover "e-commerce campaign".

DESCRIBED BY DEPUTY PRIME MINISTER AND FINANCE MINISTER LAWRENCE WONG as a "Valentine's Day present to all", this year's highly anticipated Budget delivered a slew of supporting measures designed to help Singaporeans cope with the immediate challenges of higher costs of living and, at the same time, it sets out key moves to enhance Singapore's competitiveness amid a challenging economic climate and growing geopolitical tension.

High on the list of the government's priorities is to enable more Singapore businesses to embark on their innovation and internationalisation journey despite economic headwinds and global uncertainties. Below is a lowdown on three Budget tax changes that local businesses can leverage for the year of assessment (YA) 2024.

(1) ENTERPRISE INNOVATION SCHEME

While many businesses had benefited from the old Productivity and Innovation Credit (PIC) scheme, the scheme was lapsed after YA2018 with some critics faulting it for being too broad-based to be effective. Fast forward to 2023, Minister Wong introduced a brand new Enterprise Innovation Scheme (EIS) to encourage businesses to engage in research and development (R&D), innovation, and capability development activities. EIS will be available to businesses from YA2024 to YA2028.

At first glance, EIS may resemble PIC, largely due to the overlap in the scope of activities covered by both schemes and the same expenditure cap of S$400,000 per qualifying activity. However, if one can look past these obvious similarities, it would not be difficult to notice that EIS is, in fact, a much more targeted and refined incentive scheme which has been designed to enhance the tax deductions/allowances for five carefully curated qualifying activities in the innovation value chain:

(i) R&D projects conducted in Singapore;
(ii) Registration of qualifying intellectual property (IP), including patents, trademarks, designs, and plant varieties;
(iii) Acquisition and licensing of qualifying IP rights;
(iv) Training via courses eligible for SkillsFuture Singapore funding and aligned with the Skills Framework; and
(v) Innovation carried out with polytechnics and Institute of Technical Education (ITE).

EIS is a much more targeted and refined incentive scheme than PIC

Cash payout option

Businesses that do not have sufficient profits to benefit from the enhanced tax deductions under EIS can opt to convert up to S$100,000 of the total qualifying expenditure across all qualifying activities for each YA into a non-taxable cash payout (at a conversion rate of 20%). The maximum cash payout per YA is thus S$20,000.

Once an amount of qualifying expenditure is converted into cash, the same amount is no longer available for tax deductions and/or allowances. The option to convert the qualifying expenditure into cash is irrevocable once exercised.

Questions for businesses to ponder

- Can your business undertake its R&D projects in Singapore without compromising on the speed and the quality of research? If so, it may be worthwhile to consider moving some overseas R&D projects to Singapore to take advantage of the generous enhanced tax deductions under EIS.
- Are there any innovation projects[1] that your business would like to embark on but has been putting off due to cost pressures? EIS provides a unique chance for businesses to leverage on polytechnics or ITEs to undertake small-scale innovation projects.
- Does your business urgently need the cash payout at the modest 20% conversion rate, or can it wait till such time that it generates sufficient profits to utilise the enhanced tax deductions/allowances for greater tax savings instead?

[1] Qualifying innovation projects refer to projects that predominantly involve one or more of the following innovation activities defined within the Oslo Manual 2018:
(a) Research and experimental development activities;
(b) Engineering, design and other creative work activities;
(c) IP-related activities; and
(d) Software development and database activities.
https://www.iras.gov.sg/schemes/disbursement-schemes/enterprise-innovation-scheme-(eis)

(2) OPTIONS TO ACCELERATE CAPITAL ALLOWANCE CLAIM AND DEDUCTION FOR RENOVATION AND REFURBISHMENT EXPENDITURE

The option to accelerate capital allowance (CA) claims and the option to accelerate deductions for renovation and refurbishment (R&R) expenditure have been reintroduced for YA2024 after a one-year hiatus. Both options, if exercised, are irrevocable.

Businesses that incur capital expenditure on the acquisition of plant and machinery (P&M) in the basis period for YA2024 (that is, FY ending in 2023) will have an option to accelerate the write-off of the cost of acquiring such P&M over two years, with 75% of the cost incurred to be written off in the first year (YA2024) and the remaining 25% of the cost incurred to be written off in the second year (YA2025). Deferment of CA claims is not allowed under the accelerated write-off option.

Separately, businesses that incurred qualifying expenditure on R&R for the purposes of its trade, business, or profession in the basis period for YA2024 will have an option to claim their R&R deduction in one year (instead of over three years). That said, the R&R expenditure cap of S$300,000 for every relevant three-year period will continue to apply.

With the growing popularity of hybrid work arrangements and a rising rental market, it may be timely for businesses to plan ahead and consider whether they can utilise these two options to ease their cashflow if they are looking to acquire capital assets and/or rationalise their office space during this period.

Questions for businesses to ponder

- Is your business in a tax-paying position to benefit from the options to accelerate CA claims and/or deductions for R&R expenditure?
- In respect of the accelerated deduction for R&R expenditure, is YA2024 the first of the three-year cycle for your business? If not, has the business fully utilised the expenditure cap of S$300,000 in the earlier year(s)?

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(3) ENHANCED DOUBLE TAX DEDUCTION FOR INTERNATIONALISATION (DTDi) SCHEME

While online marketplaces have been around since the 1990s, it was not until recent years that the world witnessed the explosion in e-commerce made possible by the widespread Internet and smartphone adoption and accelerated by the COVID-19 pandemic.

Recognising the growing importance and relevance of e-commerce as a way for local businesses to grow their reach overseas, Singapore has expanded the scope of the Enhanced Double Tax Deduction for Internationalisation (DTDi) scheme in this Budget to include a new qualifying activity: the "e-commerce campaign". The enhancement aims to support businesses in their efforts to overcome the initial challenges and to kickstart their e-commerce journey overseas.

Options to accelerate capital allowance claims and deductions for renovation and refurbishment expenditure are irrevocable

All double tax deduction claims under the "e-commerce campaign" activity require prior approval from Enterprise Singapore. This approval is subject to a one-year time limit and will be applied on a per-country basis.

The scope of qualifying expenses under the "e-commerce campaign" activity covers the following e-commerce campaign startup expenses paid to e-commerce platforms or service providers:

(i) Business advisory;
(ii) Account creation;
(iii) Content creation; and
(iv) Product listing and placement.

It should be noted that all double tax deduction claims under the "e-commerce campaign" activity require prior approval from Enterprise Singapore (ESG). This approval is subject to a one-year time limit and will be applied on a per-country basis.

Questions for businesses to ponder

- Given that ESG's approval for the "e-commerce campaign" is subject to a one-year time limit and applied on a per-country basis, to maximise the tax benefits, you may wish to consider whether it makes business sense to focus your resources on selected markets before moving on to other countries subsequently.
- Is your business looking to expand overseas and expecting to carry out other activities in addition to e-commerce campaigns? Do note that the DTDi scheme also supports various other qualifying activities (such as overseas trade fairs and overseas advertising and promotional campaigns).

The government has taken the first steps in this Budget to introduce new schemes and enhance existing schemes to support Singapore businesses. It is now up to individual businesses to plan ahead and leverage on the applicable schemes as they chart their paths ahead. ISCA

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don's column

Contracts With Customers

Assessing And Measuring If They Are Onerous

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* defers the disclosures of onerous contracts to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.[1] Under IFRS 15 para 31, an entity recognises revenue when it satisfies a performance obligation – the unit of account being a performance obligation. Under IAS 37 para 66, an entity provides for the present obligation of a contract if it is onerous – the unit of account being a contract. How should an entity reconcile the different units of account in IFRS 15 and IAS 37 when determining whether contracts with customers are onerous?

In this article, we discuss the assessment and measurement of onerous contracts containing satisfied, unsatisfied, and partially unsatisfied performance obligations.

REVENUE RECOGNITION UNDER IFRS 15

For revenue recognition under IFRS 15, an entity will need to (a) identify the contract with a customer, (b) determine the performance obligations within the contract, (c) establish the transaction price, (d) allocate the transaction price to the performance obligations, and (e) recognise revenue when each performance obligation is satisfied. Revenue is recognised over time when a performance obligation is satisfied over time based on meeting any of the three conditions stated in IFRS 15 para 35. Otherwise, an entity recognises revenue when a performance obligation is satisfied at a point in time.

TEXT BY


Low Kin Yew


Tong Yen Hee


Choo Teck Min

Takeaways

- Currently, the unit of account differs between IFRS 15 (based on performance obligation) and IAS 37 (based on contract), leading to different interpretations of how onerous contracts with customers are assessed and measured.
- This article discusses and recommends certain treatments of the ambiguities.
- Clarifications and more specific guidance from IASB may be needed.

ASSESSMENT OF ONEROUS CONTRACT UNDER IAS 37

Under IAS 37, a contract is onerous when the unavoidable costs *exceed* the expected economic benefits from fulfilling the obligations in the contract. IAS 37 para 68 defines unavoidable costs as the lower of the fulfilling costs and the penalties arising from non-fulfilment of the contractual obligations. Thus, when a contract turns onerous, an entity will measure and recognise a provision for the present obligation under the contract.

ONEROUS CONTRACT WITH PERFORMANCE OBLIGATIONS THAT ARE FULLY SATISFIED, UNSATISFIED AND PARTIALLY UNSATISFIED

Assume Entity A signs a contract with customers that has three performance obligations and a total transaction price of $145 at the beginning of the reporting period. At the inception of the contract, Entity A expects all performance obligations to be profitable. Figure 1 shows the allocated transaction price and fulfilment costs of the performance obligations in the contract at the end of Entity A's reporting period.

In Figure 1, the first performance obligation (PO1) is fully satisfied with an allocated transaction price of $90 and incurred fulfilment cost of $30, resulting in a realised profit of $60. The second performance obligation (PO2) is fully unsatisfied with an allocated transaction price of $25 and an expected fulfilment cost of $15, resulting in an expected profit of $10. The third performance obligation (PO3) is partially unsatisfied with an allocated transaction price of $30, of which $20 has been recognised as revenue. PO3 has a total expected fulfilment cost of $45, of which $10 has been incurred and recognised as expense. Hence, PO3 has a recognised profit of $10 and an unrealised loss of $25, resulting in an overall expected loss of $15.

[1] See IFRS 15 Basis for Conclusions para BC268

FIGURE 1 CONTRACT WITH SATISFIED, UNSATISFIED, AND PARTIALLY UNSATISFIED PERFORMANCE OBLIGATIONS

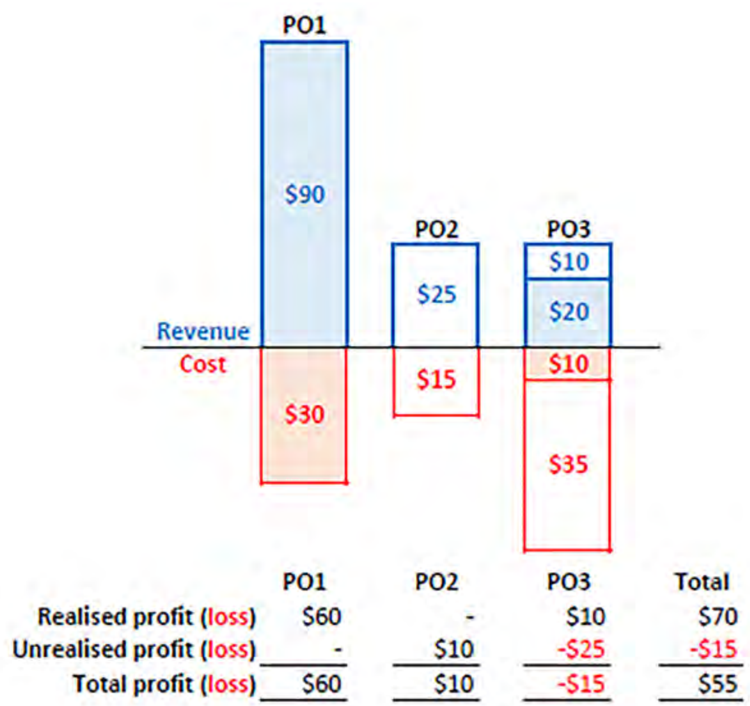


PHOTO SHUTTERSTOCK

ASSESSMENT OF ONEROUS CONTRACT

Onerous contract assessment under IAS 37 can potentially be interpreted in two ways depending on whether (1) fully satisfied, unsatisfied and partially unsatisfied performance obligations are included, and (2) only unsatisfied and partially unsatisfied performance obligations are included. If we include *all* satisfied, unsatisfied, and partially unsatisfied performance obligations to date (that is, PO1, PO2 and PO3), Entity A's contract is not onerous because there is an expected overall profit of $55. However, if we include *only* unsatisfied and partially unsatisfied performance obligations (that is, PO2 and PO3), Entity A's contract is onerous because of the expected loss of $5 arising from the unsatisfied and partially unsatisfied performance obligations in PO2 and PO3 (we will discuss the measurement issue of whether realised revenues and costs of partially unsatisfied performance obligation should be excluded in the computation of onerous loss provision later in the article). Which of these two interpretations is more consistent with IAS 37 requirements?

IAS 37 para 66 requires an entity to provide for the present obligation under an onerous contract, which constitutes a liability. Per the Conceptual Framework for Financial Reporting (para 4.43), a *present obligation* arises from past events where an entity has already acted or obtained economic benefits and consequently, the entity is expected to transfer economic resources that it would not otherwise need to transfer. In addition, the discussion in IAS 37 on unavoidable costs exceeding revenue from meeting the obligations under the contract seemingly requires onerous contract assessment to be forward looking. Hence, realised profits from satisfied performance obligations in *prior* periods should not be used to offset future expected losses from unsatisfied and partially unsatisfied performance obligations that remain on a contract. As such, we conclude that onerous contract assessment under IAS 37 should be based *only* on unsatisfied and partially unsatisfied performance obligations remaining in the contract on reporting date.

A further question arises as to whether to exclude *non-onerous* unsatisfied and partially unsatisfied performance obligations in onerous contract assessment as their inclusion will lead to a smaller or no onerous loss. As noted, IFRS 15 measures and recognises revenue at a performance obligation level while IAS 37, which is issued prior to IFRS 15, assesses and measures onerous loss at a contract level. In Entity A's example, the expected loss of $5 is based on unsatisfied and partially unsatisfied performance obligations, which is the sum of an expected profit of $10 from PO2 and an expected loss of $15 from PO3. However, at a performance-obligation level, only PO3 is onerous but not PO2. If Entity A were to structure PO2 and PO3 as separate contracts, it will need to recognise a larger provision for onerous loss of $15 for the contract containing PO3. This difference in the amount of provision seems to be driven by form rather than substance. To ensure consistency between IAS 37 and IFRS 15, the International Accounting Standards Board (IASB) should (re)consider aligning the unit of account for assessment of onerous contract in IAS 37 and IFRS 15, and provide explicit guidance on whether non-onerous unsatisfied and partially unsatisfied performance obligations should be excluded in onerous contract assessment.[2]

[2] In the early Exposure Draft on *Revenue from Contracts with Customers*, IASB initially included guidance on the assessment of onerous contracts using performance obligation as the unit of account for contracts with recognition of revenue over time. Subsequently, the proposed requirement was withdrawn and IASB instead referred to IAS 37 requirements for onerous contract assessment.

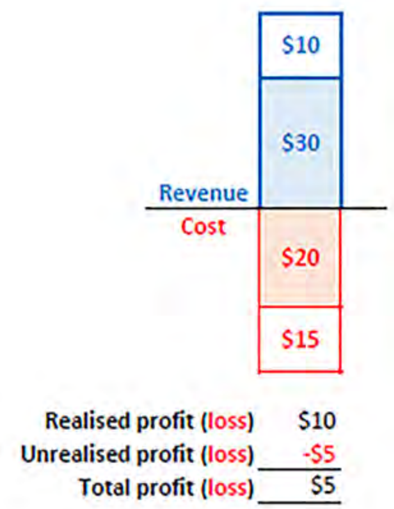
The measurement of onerous loss of fully unsatisfied performance obligation is straightforward. However, the measurement of onerous loss for partially unsatisfied performance obligation can differ if realised profit to date exceeds expected loss and whether realised profit is considered in the measurement of onerous loss.

MEASUREMENT OF ONEROUS LOSS FOR PARTIALLY UNSATISFIED PERFORMANCE OBLIGATIONS WITH OVERALL EXPECTED PROFIT

The measurement of onerous loss of fully unsatisfied performance obligation (that is, PO2) is straightforward. However, the measurement of onerous loss for partially unsatisfied performance obligation (that is, PO3) can differ if realised profit to date exceeds expected loss and whether realised profit is considered in the measurement of onerous loss.

Consider the following example of a contract with only a partially unsatisfied performance obligation at the end of the reporting period. The allocated transaction price is $40, of which $30 has been recognised as revenue. Its total expected fulfilment cost is $35, of which $20 has been recognised as expense. Hence, the partially unsatisfied performance obligation has a recognised profit of $10 and an unrealised loss of $5, resulting in a net expected profit of $5.

FIGURE 2 CONTRACT WITH ONLY A PARTIALLY UNSATISFIED PERFORMANCE OBLIGATION



In this example, the computation of onerous loss can vary depending on whether the recognised revenue and incurred costs to date are included. *Excluding* realised revenue and incurred costs to date in the assessment of onerous loss is consistent with IAS 37 requirements to be forward looking in the assessment of onerous contracts. Based on this, the amount of onerous loss will be $5 for this contract. However, we believe an argument can be made for *including* the realised revenue and incurred costs to date in the measurement of onerous loss. Note that in this instance, the revenue recognition process is ongoing (that is, over time) as opposed to fully completed and realised.

Recognition of revenue over time is based on an estimated measure of progress towards complete satisfaction of the performance obligation, which is calculated using either output or input methods. IFRS 15 para 43 requires an entity to update the measure of progress over time to reflect changes in the outcome of a performance obligation according to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.* Revenue to be recognised in the current reporting period is then based on an updated measure of completion progress and the amount of revenue recognised to date. Extending this computational requirement to the measurement of onerous loss, *including* the recognised revenue of $30 and incurred costs of $20 to date in the computation of the expected profit or loss for the contract, will lead to an expected profit of $5 instead of an onerous loss of $5. Hence, based on this argument, the contract will be assessed as non-onerous.

CONCLUSION

Currently, the unit of account differs between IFRS 15 (based on performance obligation) and IAS 37 (based on contract). Consequently, there may be different interpretations of how onerous contracts with customers are assessed and measured depending on whether to consider (1) fully satisfied, unsatisfied and partially unsatisfied performance obligations or only unsatisfied and partially unsatisfied performance obligations, (2) both onerous and non-onerous or only onerous unsatisfied and partially unsatisfied performance obligations, and (3) the recognised revenue and incurred costs to date of partially unsatisfied performance obligations. While we have discussed and recommended certain treatments of these ambiguities, IASB can consider clarifying and providing more specific guidance on them. ISCA

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IASB should (re)consider aligning the unit of account for assessment of onerous contract in IAS 37 and IFRS 1

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