

ISCA Chartered Accountant

February 2017



IS CHARTERED ACCOUNTANT
FEBRUARY 2017



FRS 109
Accounting For
Impairment Of
Financial Assets

**ACCOUNTING
DISRUPTED**
Blockchain
Applicability
And Challenges

**ISCA
PRE-BUDGET
ROUNDTABLE
2017**

**TOP 5 TAX
CONSIDERATIONS
FOR SMES IN 2017**
Key Tax Areas
To Look Out For

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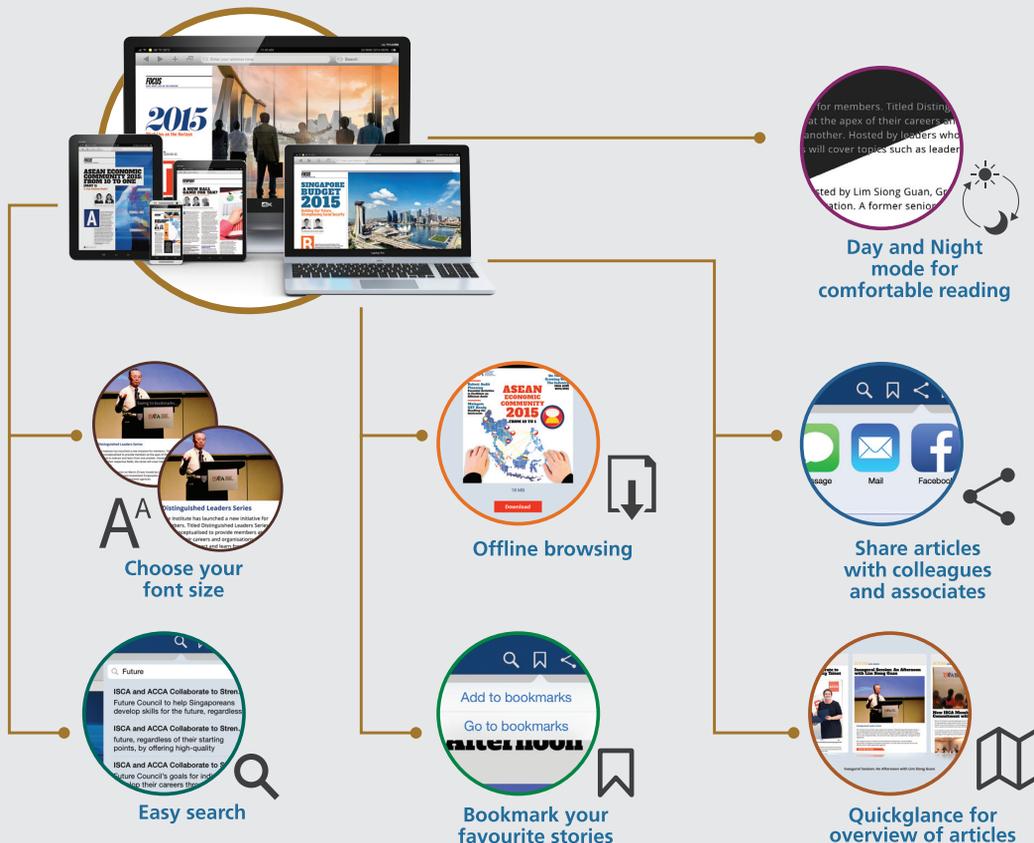
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PRESIDENT'S MESSAGE

TRADITIONS AND NEW PRACTICES, STRENGTH IN UNITY

Dear members,

Earlier this month, we enjoyed some time off because of the Chinese New Year. I always look forward to this time because I get to meet with dear family members and friends at our traditional annual get-togethers, marking the strength in familial ties. If I may extend this analogy of strength in deep ties and in numbers, ISCA, as the national accountancy body with a membership of over 30,000, is a strong voice for the Singapore accountancy profession on both the local and international fronts. The resources and broad expertise within ISCA enable the Institute to advocate the views and ideas of the profession and advance the interests of our members.

With your support, the Institute has been building its capacity in research and thought leadership to further our members' professional interests and shape the development of accounting-related matters. We share our perspective on issues impacting the profession and provide our members with opportunities to participate in thought leadership forums as well as access to various research studies. Recently, as is our "tradition", ISCA conducted the annual ISCA Pre-Budget Roundtable, gathering insights and feedback from the accounting community and business leaders on their business outlook, as well as Singapore Budget-related concerns. As the voice of the profession, ISCA submitted the key points to the government for its consideration. The feedback also provided helpful insights to policymakers, the business and accounting community, and other stakeholders. This February cover story

provides an overview of the Roundtable. Look out also for the March cover story, where we highlight key areas of Budget 2017 that have implications directly relevant to you.

Strength rests not just in numbers alone. As we hold on to traditions, we need to be aware of what's happening around us and adopt new practices to prepare us for the future. In this respect, as the business landscape is evolving faster than ever before, it is crucial to develop new skills that fulfil the requirements of tomorrow; this is how we remain relevant and talent can be maximised, and I urge members to participate in ISCA's Continuing Professional Education courses and other value-adding seminars and workshops. In this issue, we also feature the initiatives of Workforce Singapore and the Employment and Employability Institute that provide opportunities for Singaporeans to equip themselves with the relevant skills for gainful employment.

Disruptive technologies have made their presence felt in very real ways as they challenge existing models and force businesses to re-think the traditional ways of doing business. As a result, new, and often more efficient, practices have emerged, lifting industry standards as a whole. The third and final article on fintech looks at the potential and drawbacks to the widespread adoption of Blockchain technology and what its future holds.

ISCA identifies emerging issues and prepares our members early so that they are equipped with the skills to navigate the impending changes.

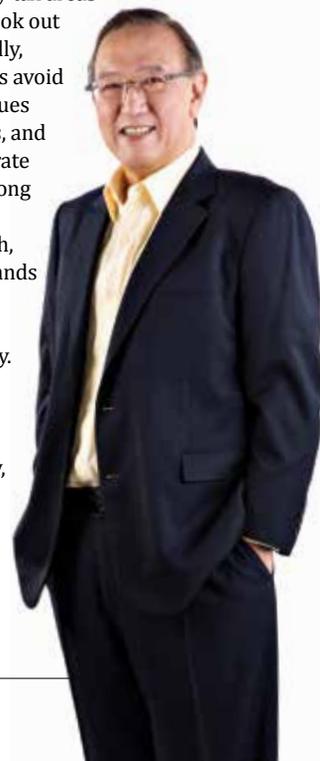
One of these was Bitcoin, and today, we continue the discussion which we started some three years ago. The world's most widespread virtual currency, Bitcoin is based on a decentralised ledger often described as Blockchain. While Bitcoin usage is not prevalent in Singapore, it is wise to keep in touch with its development. This is because as businesses go global, and when accountants practise beyond Singapore's shores, Bitcoin may feature more prominently in the financial statements.

These are challenging times and SMEs would feel the pinch more than MNCs as they do not have as deep pockets. SMEs need to stay focused on their core businesses while keeping sight of all other important areas, such as tax. Here, we highlight five key tax areas that SMEs should look out for in 2017. Hopefully, these will help SMEs avoid unnecessary tax issues with the authorities, and possibly even generate some tax savings along the way.

Unity is strength, and the Institute stands ready to progress with you on your professional journey. Let us support you as you build on existing knowledge and embark on new, innovative ways of doing things.

Gerard Ee

FCA (Singapore)
president@isca.org.sg



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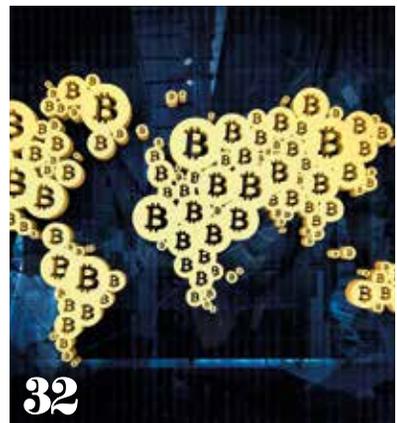
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IN TUNE

INDUSTRY NEWS



Tax Risk Management is Top Transfer Pricing Priority: EY Report

Seventy-five percent of businesses identify tax risk management as their top transfer pricing (TP) priority, according to an EY report, "In the Spotlight: A new era of transparency". Rising from 66% in 2013, the survey of 623 tax and finance executives across 36 countries reflects the striking impact of global calls for greater tax transparency on the boardroom agenda.

With initiatives such as the OECD's Base Erosion and Profit Shifting (BEPS) project compelling businesses to share more information about their operations, businesses that are not prepared to meet new reporting and disclosure standards will come under increasing pressure to be proactive in supporting TP approaches. The report finds, however, that 21% of businesses surveyed globally lack operational readiness to adapt to changing TP requirements, and only 21% are fully compliant with global documentation rules.

"The Singapore government has made significant changes to its transfer pricing framework over the last few years, with expanded transfer pricing reporting requirements and approaches introduced every year. Not unlike in other jurisdictions, staying compliant can be onerous as transfer pricing documentation rules are supplemented with requirements around Country-by-Country reporting (CbCR) and transfer pricing disclosures on the company tax returns," says Luis Coronado, Partner, EY Asean International Tax Services Leader, Ernst & Young Solutions LLP.

Singapore, a BEPS associate, had announced its commitment to adopt the four minimum standards under the BEPS project, and the Inland Revenue Authority of Singapore has released an e-Tax Guide with details on the implementation of CbCR for

Singapore tax resident multinational enterprise groups. Singapore multinational enterprise groups can file their CbC Reports for financial year beginning on or after 1 January 2016 on a voluntary basis.

"This new era of tax transparency is expected to drive monumental change throughout modern tax functions, and businesses need to begin gathering essential data to build a clearer and more optimised long-term strategy for their transfer pricing positions," adds Mr Coronado.

While 69% of global respondents consider establishing a clear vision and strategy as the best approach to addressing operational issues relating to TP, only 35% describe their readiness to do so as "high". And with many businesses still hindered by manual systems and processes, 49% identify lack of automation as the most difficult challenge in adapting the operating model. As 73% of respondents still monitor TP results on just a quarterly or annual basis, it is clear that a significant step change still needs to take shape.

"As governments increasingly move towards real-time reporting processes and the focus on transfer pricing intensifies, businesses need to evaluate the tools available to align their transfer pricing activities with IT reporting systems. Relying on periodic, *ad hoc* manual adjustments is no longer enough and could be costly both in terms of time and resources," says Henry Syrett, Partner, Transfer Pricing, Ernst & Young Solutions LLP. "Companies must play their part by ensuring that they are managing transfer pricing effectively and meeting all local compliance obligations in substance as well as in form."

The "In the Spotlight: A new era of transparency" report is available at the EY website at www.ey.com.



Singapore CIOs Fight Back against BYOD Security Threats: Robert Half Report

One in three Singapore Chief Information Officers (CIOs) believe their employees are their biggest security risk, and they are fighting back. This is according to a Robert Half report, “Cyber-security - Defending your future”, in which CIOs cite the security risks posed by the widespread use of Bring Your Own Device (BYOD) practices, where employees use their own laptops, tablets and smartphones at work.

While traditionally, the response to IT security has been to find the optimum way to protect a company’s assets from external security attacks, a growing risk now faces organisations in the form of potential internal security threats. This threat is made evident by the fact that almost three in four (74%) CIOs allow their employees to access corporate data on their personal devices.

“BYOD practices pose a major cyber-security threat which requires protecting corporate networks and data, mobile device management, and developing security policies,” says Matthieu Imbert-Bouchard, Managing Director, Robert Half Singapore. “Although it may not be intentional, simple human error can expose companies to increased cyber attacks and situations where sensitive company data can be compromised. The impact of a data security breach on a company’s

reputation can be devastating and it can take years to win back customer confidence, so proactively developing a robust IT security strategy should be a top priority.”

As BYOD practices offer many advantages including convenience, increased employee satisfaction, productivity and cost savings, companies need to take steps to balance both their employees’ needs and their security concerns, adds Mr Imbert-Bouchard.

To combat the ongoing threat posed by BYOD, 97% of CIOs are

taking action to protect their company from potential data breaches. The most common response (58%) is to train personnel on cyber security policies and corporate practices when using their personal devices. Signing an acceptable use policy also seems to be standard practice for more than half (57%) of the Singapore companies while others turn to technology to help them. Fifty-three per cent (53%) of respondents say they are deploying mobile device management technology and 52% are using authentication software.

There is an increased demand for IT security specialists with the niche skills needed to protect companies against data security risks, including risks related to BYOD. But finding the right skill set is a challenge - 100% of CIOs saying it is difficult to source skilled technology professionals, with 29% saying professionals with mobile security skills are the most in demand.

The annual study is developed by Robert Half and conducted in April 2016 by an independent research company, surveying 100 CIOs/CTOs in Singapore. This survey is part of the international workplace survey, a questionnaire about job trends, talent management and trends in the workplace.

The “Cyber-security - Defending your future” report is available at the Robert Half website at www.roberthalf.com.sg.

What is your company doing to protect corporate data on employees’ personal devices?

	Total	Small company	Medium company	Large company
Provide training to employees on maintaining security when using personal devices	58%	50%	48%	76%
Request employees to sign an acceptable use policy for keeping company information secure	57%	56%	55%	61%
Deployment of mobile device management technology to enforce enhanced protection	53%	53%	64%	42%
Implement authentication and authorisation to grant access to corporate network	52%	50%	55%	52%
Don't allow employees access to corporate data on their private devices	26%	35%	21%	21%
We are not doing anything to protect corporate data on employees' personal devices	3%	3%	3%	3%

Source: Independent survey commissioned by Robert Half among 100 Singaporean CIOs (multiple answers allowed)

IN TUNE

ISCA NEWS

Thumbs Up for ISCA Business Study Mission Trip to Vietnam

ISCA successfully mounted its fifth overseas business study mission - this time, to Ho Chi Minh City (HCMC), Vietnam. The three-day trip, from 20 to 22 November 2016, was jointly organised with ACCA Singapore and received the support of SPRING Singapore. Led by Fann Kor, Deputy Director, Quality Assurance and Industry Support, ISCA, the delegation comprised 17 participants from 15 accounting firms, namely, Assurance Partners LLP, CA Practice PAC, CA Trust PAC, Fiducia LLP, Foo Kon Tan LLP, JBS Practice PAC, Joe Tan & Associates PAC, Kaiden Corporate Services Pte Ltd, Kong Lim & Partners LLP, Lo Hock Ling & Co, OA International Holdings, Precursor Assurance PAC, R Chan & Associates PAC, UHY Lee Seng Chan & Co and Unity Assurance PAC.

The mission, which is part of ISCA's efforts to help small and medium-sized practices (SMPs) venture abroad, aims to facilitate the building of partnerships between Singapore and Vietnam SMPs, gain insights into the local economic climate, legal environment, and accounting and tax regulations. It also provided an opportunity to network with Singapore businesses based in Vietnam to gain local knowledge of the business setting and culture.



▲ Networking session with members of the Singapore Business Group

For the first time, one-on-one pre-scheduled meetings were arranged for Singapore SMPs to engage in deeper conversations with their Vietnam counterparts. A lively exchange about the two countries' respective accounting regulatory and industry landscape took place during the meeting with the Vietnamese Association of Certified Public Accountants (VACPA).

There were fruitful networking sessions between the Vietnam SMPs and members of the Singapore Business Group - including our

ISCA members who were based in Vietnam. The delegates took the opportunity to mingle and interact with fellow Singapore businessmen based in Vietnam and learn from their on-the-ground experiences.

Vietnam was the chosen destination for the mission trip as it is a growing market in ASEAN, recording a GDP growth of 6.68% in 2015, up from 6% in 2014. This is supported by strong exports growth as well as increased FDI inflow. Another driver of growth is Vietnam's young population, with 60% of its 90-million-strong population under 35 years old. HCMC alone attracts 25.3% of the total FDI in Vietnam in 2015.





▲ Networking breakfast with members of Singapore Business Group and ISCA members based in Ho Chi Minh City; (from left) Fann Kor, Deputy Director, Quality Assurance and Industry Support, ISCA; Lim Fang Sung, Director, Unity Assurance PAC; Balasubramaniam Janamanchi, Director, JBS Practice PAC; Chong Kwang Puay, Managing Partner, Audit, KPMG Ltd Vietnam; Lo Wei Shih, Partner, Lo Hock Ling & Co; Adeline Tan, Manager (Professional Services), SPRING Singapore, and Ernest Yoong, Partner Assurance Services, Ernst & Young Vietnam Limited



In addition, with Singapore as the third largest foreign investor in Vietnam, there is increased impetus for Singapore SMPs to understand more about the market and establish partner firms in order to advise and service their Singapore clients.

With Vietnam market reforms allowing 100% foreign shareholding in most industries since 2015, there is growing potential for Singapore SMEs to invest in Vietnam, and for Singapore SMPs to acquire stakes in Vietnam SMPs.

▲ Delegates listening intently to a presentation by Vo Hung Tien (centre), Vice President in charge of operation in the South, Vietnamese Association of Certified Public Accountants

This year, ISCA plans to add a benchmarking trip for SMPs to learn best practices from an advanced economy. If you are keen to find out more about future business study mission trips, please send an email to smp@isca.org.sg.



◀ The business-matching session facilitated deeper discussion between ISCA member Chua Soo Rui (right), Director, CA Trust PAC and two Vietnam SMP counterparts

WHAT DELEGATES SAY ...

“Networking with the Singapore Business Group and the Vietnamese Association of Certified Public Accountants was useful. The business partner one-on-one matching was excellent.”

LO WEI SHIH,
Partner, Lo Hock Ling & Co

“Thank you for the well-organised trip to Vietnam. It is my first mission trip with ACCA, ISCA and SPRING Singapore and I am very impressed with the logistics and itinerary. The trip is indeed fruitful and I learnt a lot about Vietnam's accounting industry.”

MAGDALENE ANG,
Director of R Chan & Associates PAC

ISCA Fifth SMP Dialogue: Practice Innovation 360

Running an accounting practice today is similar to running a business where one would need to market the practice to attract new clients and talents needed for growth, as well as retain existing clients and talents within the practice. Hence, in order for a business to prosper amid the dynamic business landscape, a progressive mindset which is responsive and receptive to change and innovation is vital. The ISCA Fifth SMP Dialogue, titled “Practice Innovation 360”, touched on some of the transformational strategies small and medium-sized practices (SMPs) could adopt to renew their business models.

The event, which was supported by Workforce Singapore (WSG), began with a welcome address by ISCA Council member Michael Chin, Chairman of ISCA’s Public Accounting Practice Committee (PAPC). Mr Chin is Deputy Managing Partner & Head of Audit and Assurance, PKF-CAP LLP. He shared with fellow practitioners on the importance of having an enterprising spirit to keep abreast of changes as past accomplishments would not necessarily guarantee future successes. He explained that innovation has several connotations and need not always be complex. Mr Chin quoted Ravi Menon, Managing Director of Monetary Authority of Singapore, who had concluded the opening address at the recent Singapore FinTech Festival, saying, “Innovation is not always about high

tech; it is about seeking newer and better ways to do things.”

Keynote speaker Karen Leong, Co-Founder and Director of Influence Solutions Pte Ltd, kicked off the Dialogue and shared four main strategies to help SMPs transform the performance of employees and achieve outstanding business results. She advised participants to flip situations around to focus on the solution instead of dwelling on the problem. Ms Leong also shared that as leaders, participants would need to have the right conversations with employees to ensure that they are engaged and enterprising as this would lead to higher productivity and in turn, higher profit margins for the company. Leaders should look at turning challenges into opportunities, focus on the person, change the perspective of the issue, probe for solutions and realise that uncovering

the process is as vital as solving the problem.

Aurelia Leopold, Director of Finance and Banking, and Ruchika Talwar, Senior Manager of Qualitative Research, Taylor Nelson Singapore, presented the findings from ISCA’s Technology Adoption Survey, which showed that although 67% of accounting firms in Singapore adopted at least one technology in their daily operations, a large percentage of firms is using it for transactional work instead of to perform higher-value work. The Survey also revealed that the accounting sector’s adoption of technology is hindered mostly by cost and that an increase in government funding quantum would make current schemes more attractive to boost technology adoption. The full report can be downloaded at the ISCA website.¹



▲ ISCA Council member Michael Chin, ISCA PAPC Chairman and Deputy Managing Partner & Head of Audit and Assurance, PKF-CAP LLP, engaging the crowd in a simple activity during his welcome address

¹ <http://isca.org.sg/id/technology-adoption/isca-technology-adoption-survey-report/>



Melvin Yang, Manager of Creative and Professional Services Division, WSG, presented the revised WorkPro Scheme which allows for a maximum grant amount of 80% of the project cost when a company implements age-friendly policies. This scheme can also be used in supplement with other government-funding grants.

Rounding off the session was a panel discussion titled "Opportunity of change and the risk of not changing" moderated by ISCA's PAPC Chairman Mr. Chin. Panellist Frankie Chia, ISCA Council member

◀ **Keynote speaker, Karen Leong, Co-Founder and Director of Influence Solutions, delivering her presentation**

▼ **Ms Leong facilitated an activity where participants had to look for a partner to share their thoughts**

▲ (From left) Moderator Mr. Chin with panellists, ISCA Council member Frankie Chia, Managing Partner, BDO LLP; Lisa Liew, Managing Partner, Philip Lew & Co, and Wee Phui Gam, Managing Partner, PG Wee Partnership LLP

and Managing Partner, BDO LLP, urged all practitioners to adopt an open mindset to anticipate and embrace changes, make investments and choose the right people to join the organisation. Having grown his practice through acquisitions, he felt that moving forward, merger is the way for SMPs to build up capacity and grow. On the other hand, panellist Lisa Liew, Managing Partner, Philip Lew & Co, used her small firm size to her advantage by implementing flexible working hours to attract and retain staff, which led to her firm's organic growth. SMPs could also follow in the footsteps of panellist Wee Phui Gam, Managing Partner, PG Wee Partnership LLP, by digitalising the practice to offer more with less. The diverse backgrounds of the panellists show that growth can be achieved via various strategies. As every firm is different, there are no one-size-fits-all strategies for SMPs.

"The Dialogue provided valuable insights on how disruptive innovation has radically changed the business environment. With the speakers sharing some innovative business models, SMPs are able to tap on some of these transformational strategies to spur growth," said Goh Sia, Partner, Crowe Horwath First Trust LLP.



IN TUNE

ISCA NEWS

ISCA Games 2016 Closing Ceremony

The annual ISCA Games 2016 came to an end after months of intense competition among fellow accountants, with the closing ceremony on 9 December 2016.

More than 150 members from Deloitte & Touche, EY, Foo Kon Tan, KPMG, PwC, members of the ISCA Community, Social and Sports Advisory Panel and ISCA senior management came together at Folks Collective to celebrate victories as well as the end of yet another successful ISCA Games.

Emerging as champions for the fourth year running was KPMG, who topped 12 of the 26 games, chalking up a total of 72 points. Coming in a close second was Deloitte & Touche with 61 points, followed by PwC and EY respectively. The Commerce Team put up outstanding performances to win in Basketball (Ladies) and Floorball (Men).

▼ Tokens of appreciation were presented to participating firms

ISCA Vice-President Kon Yin Tong quoted the late Nelson Mandela when he said that sport “has the power to unite people in a way that little else does”. Indeed, through friendly sporting competitions such as the ISCA Games, the accountancy profession has an ideal platform to get together to interact and network. This fosters camaraderie and unity, and also enhances their work-life balance.



▲ Team KPMG



▲ Vincent Lim, Chairman of the Community, Social and Sports Advisory Panel, ISCA, delivering the opening address

◀ ISCA Vice-President Kon Yin Tong giving a warm welcome to everyone present





▲ ISCA Vice-President Kon Yin Tong presenting the overall Championship Trophy to KPMG Partner Ong Pang Thye



▲ Mr Kon and Mr Lim with Team Foo Kon Tan



▲ Team Deloitte & Touche



▲ Team PwC



▲ Team EY



Rounding off the fun-filled evening which saw the participants relaxing, reminiscing the high points and reliving the Games' memorable moments over a delectable dinner, Mr Kon presented the overall Championship trophy to KPMG.

◀ Participants mingling before the start of the ISCA Games 2016 closing ceremony

Following this, the individual trophies were presented to the respective winners of the 26 games.

We would like to express our heartfelt thanks to all participants and supporters for their continuous support in making the Games a success. We look forward to even more robust participation in the upcoming ISCA Games 2017.

IN TUNE

ISCA NEWS

ISCA BREAKFAST TALK

Managing Tax Compliance and Tax Controversy

The trends in the tax landscape have evolved. Generally, tax audits are getting more stringent, response time to tax queries is becoming shorter and to cap it off, there is now stricter penalty enforcement. The cost of tax compliance has correspondingly increased and so has the number of tax controversy issues.

This dynamic and challenging backdrop of global tax developments was the focus of the ISCA Breakfast Talk, “How confident are you in managing your income tax and GST



▲ Accredited Tax Advisor (Income Tax & GST) Yeo Kai Eng, GST Partner and Indirect Tax Leader, EY Singapore, touched on the major GST developments in Singapore



▲ Accredited Tax Advisor (Income Tax & GST) Sim Siew Moon, International Tax Partner and Head of Tax, EY Singapore, provided an overview of the global and Singapore tax landscape

compliance and tax controversy?”, on January 11. Facilitated by Accredited Tax Advisors (Income Tax & GST) Sim Siew Moon, International Tax Partner and Head of Tax, EY Singapore, and Yeo Kai Eng, GST Partner and Indirect Tax Leader, EY Singapore, the capacity-filled session was attended by 88 accountants and finance executives from a cross-section of industries.

In the impactful hour-long session, participants gained a better understanding of the key areas of transfer pricing, major GST developments, possible tax controversy risks to be mindful of and the suggested approach to adopt in managing tax risks.



▲ Participants at the capacity-filled ISCA Breakfast Talk

Disciplinary Findings

Upon finding **Mr Ulaganathan s/o Karumanan**, FCA (Singapore) and Public Accountant, had contravened Rule 64.4 read with Sections SG210.17A, SG210.17A (b), SG210.17C and SG210.17D of the Code of Professional Conduct and Ethics under the Third Schedule of the Institute (Membership & Fees) Rules made pursuant to Article 63 of the Constitution of the Institute,

in that he, at the material time, did not carry out the procedures to seek and obtain professional clearance from the outgoing company auditor prior to accepting the audit engagement, the Disciplinary Committee ordered that he shall be required to attend and complete the next Public Practice Programme (PPP) conducted by the Institute at his own expense.



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ISCA CALENDAR OF EVENTS 2017

FEBRUARY

Wednesday	ISCA Breakfast Talk <i>Finance 2020: Transforming Finance for the Digital Economy</i>
08	

Wednesday	Future Employment Landscape Seminar
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Wednesday	ISCA Mingles
22	

UPCOMING

March	ISCA Budget 2017 Update & its Tax Implications <i>Impact on Corporate Firms & Individuals</i>
07	

March	ISCA Breakfast Talk <i>Introduction to New Leases Standard</i>
08	

April	ISCA Breakfast Talk
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April	ISCA Mingles
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22	

UPCOMING

March	ISCA Budget 2017 Update & its Tax Implications <i>Impact on Corporate Firms & Individuals</i>
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08	

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12	

April	ISCA Mingles
19	

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ISCA PRE-BUDGET ROUNDTABLE 2017

Advancing our Future:
Adapt. Innovate. Change



BY
PERRINE OH AND LOKE HOE YEONG

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he ISCA Pre-Budget Roundtable 2017 on January 11 served as an invaluable platform to gather the views and insights of business leaders on how Singapore can advance its future. Held for the eighth year running, the Roundtable brought together leaders of trade bodies, accounting firms

and C-suite executives to discuss and provide recommendations on the Singapore Budget.

Global economic challenges continue unabated. The backlash against globalisation was clearly witnessed last year, through the United Kingdom (UK)'s Brexit referendum



ISCA PRE-BUDGET ROUNDTABLE 2017 PANELLISTS



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



(Co-Chair)
GERARD EE
President
Institute of Singapore
Chartered Accountants



◀ Panellists (seated, from left) Cindy Lim, Tax Partner, RSM Tax Pte Ltd; Augustine Tan, President, Real Estate Developers' Association of Singapore; Ho Meng Kit, Chief Executive Officer, Singapore Business Federation; Co-Chairs Gerard Ee, President, Institute of Singapore Chartered Accountants (ISCA) and Liang Eng Hwa, Chairman, Government Parliamentary Committee for Finance, Trade & Industry; R. Dhinakaran, President, Singapore Retailers Association; Kon Yin Tong, Managing Partner, Foo Kon Tan LLP and Vice President, ISCA; Prof Sum Yee Loong, Board Member, Singapore Institute of Accredited Tax Professionals; (standing, from left) Low Hwee Chua, Regional Managing Partner, SEA Tax and Legal, Deloitte & Touche LLP; Kenneth Loo, President, Singapore Contractors Association Limited; Erman Tan, President, Singapore Human Resources Institute; Chiu Wu Hong, Head of Tax, KPMG in Singapore; Victor Mills, Chief Executive, Singapore International Chamber of Commerce; Jimmy Koh, Head of Investor Relations & Research, UOB Ltd; Ang Yuit, Vice President (Membership & Training), Association of Small & Medium Enterprises



+ ANG YUIT
Vice President
(Membership & Training)
Association of Small &
Medium Enterprises



+ CHIU WU HONG
Head of Tax
KPMG in Singapore



+ R. DHINAKARAN
President
Singapore Retailers
Association



+ HO MENG KIT
Chief Executive Officer
Singapore Business
Federation



+ JIMMY KOH
Head of Investor Relations
& Research
UOB Ltd



+ KON YIN TONG
Managing Partner
Foo Kon Tan LLP,
Vice President
Institute of Singapore
Chartered Accountants

FOCUS

ISCA PRE-BUDGET ROUNDTABLE 2017

result and the election of Donald Trump as the new President of the United States. In Singapore, the growth forecast for 2017 stands at a modest 1% to 3%.

Liang Eng Hwa, Chairman, Government Parliamentary Committee for Finance, Trade & Industry, said, "We have to find new ways to grow our economy; otherwise, we will be destined to live in a prolonged slow-growth environment. That would mean lesser business and job opportunities for Singaporeans, lesser financial ability to fund our growing social programmes and hence, a less exciting future for young Singaporeans." Mr Liang was the Roundtable Co-Chair with ISCA President Gerard Ee.

"The Singapore government has been investing resources to help firms to deepen capabilities, scale up and internationalise. A key thrust of the Industry Transformation Programme is to form close partnerships among firms, industry associations and government. The industry associations which know their members' needs best, are well-placed to help drive industry-level transformation," shared Mr Ee.

PRESSING ISSUES FACED BY BUSINESSES

Against this challenging economic climate, the panellists gave feedback on their concerns over high business



+ CINDY LIM
Tax Partner
RSM Tax Pte Ltd



+ KENNETH LOO
President
Singapore Contractors
Association Limited



+ LOW HWEE CHUA
Regional Managing
Partner, SEA Tax and Legal
Deloitte & Touche LLP



+ VICTOR MILLS
Chief Executive
Singapore International
Chamber of Commerce



+ PROF SUM YEE LOONG
Board Member
Singapore Institute of Accredited
Tax Professionals



▲ The Roundtable brought together leaders of trade bodies, accounting firms and C-suite executives to discuss and provide recommendations on Singapore Budget 2017



➤ **AUGUSTINE TAN**
President
Real Estate Developers'
Association of Singapore



➤ **ERMAN TAN**
President
Singapore Human
Resources Institute

costs, of which rental costs are a major portion. They shared that government agencies, such as the Housing and Development Board (HDB) and JTC Corporation, could take the lead in making rent more affordable for small and medium-sized enterprises (SMEs). There were also proposals that contracts for ancillary activities like property management and maintenance, for which real estate investment trusts (REITs) do not perform directly, should be put up for tender to obtain competitive prices;

the savings should then be passed down as lower rents for tenants. The panellists were concerned that if they cannot survive the current challenging environment, there are no long-term prospects to talk about.

On the manpower and productivity issues, the discontinuation of the Productivity and Innovation Credit (PIC) scheme after Year of Assessment (YA) 2018 and the continued tightening of foreign labour were viewed as a "double whammy" for smaller businesses, in terms of costs.

More often than not, small businesses are operating on tight resources and have little bandwidth to deal with onerous paperwork for grant applications. The key feature of the PIC scheme – the ease of the application procedure for eligible and deserving firms – should be replicated in any future scheme that helps firms improve productivity and innovation.

Rather than a blanket foreign manpower quota for the services sector, panellists proposed that the quotas should cater to different sub-sectoral needs. For a sector such as construction where productivity may be lower than others by nature, the momentum should be kept up by a PIC-equivalent scheme that continues to encourage the sector to invest in training for workers and equipment.

HO MENG KIT “When we asked businesses what their focuses are over the next 12 months, growing revenue and reducing costs came out as the main focus – way above transforming, growing market share and expanding to overseas markets.”

R. DHINAKARAN “First of all, we really have to think which sectors need more manpower. Secondly, we need to identify the sectors where the locals are willing to engage themselves in, and where they are not.”

R&D AS A KEY COMPETITIVE AND INNOVATION DRIVER

To have more globally-competitive companies, there was a strong sense among some panellists for the need to enhance corporate capabilities and boost the research & development (R&D) capabilities of companies.

Some panellists were of the opinion that the discontinuation of the PIC scheme, which would provide greater R&D tax deduction, would risk making Singapore uncompetitive in terms of R&D. After the PIC scheme expires, the Singapore tax deduction rate of 150% (unless the project

qualifies for EDB approval in which case there is a total 200% deduction) for qualifying R&D expenditure would look uncompetitive in comparison with markets like Malaysia, Thailand and the UK, where the rate of tax deduction for R&D activities stands between 200% and 300%.

Additionally for SMEs, a tax credit scheme for R&D may be more useful than a tax deduction scheme as it could lower net tax payable, which would be much appreciated during the current tough economic times. Furthermore, the work of SMEs are, by nature, more developmental than research *per se*. Hence, to spur SMEs to innovate, the definition of what qualifies for R&D relief could be relooked.

KON YIN TONG “The PIC, or some sort of credit scheme, should continue for training and R&D, given the emphasis on innovation and difficulty of finding talent.”

KENNETH LOO “The construction sector has been labelled as an unproductive sector. Fortunately, for the past two years, the figures have been pretty encouraging, and productivity has grown in our sector. In order to keep the momentum going, we hope the PIC scheme would continue – to encourage our members to invest in training and equipment.”

CHIU WU HONG “SMEs should be given more support for R&D as compared to MNCs. For example, policymakers can consider providing more funding for SMEs and introducing a new Innovation Tax Credit to spur value creation. While R&D activities do not always have an immediate payoff, they are ultimately crucial in building a sustainable competitive advantage and are critical for Singapore’s continued economic growth.”

INTERNATIONALISATION

Given Singapore’s small domestic market, there is an intrinsic



need for Singapore companies to internationalise to survive and grow. The panellists highlighted that while Singapore companies are good brands, they are often too small as companies. They often face scalability issues, thus, they need to “hunt in a pack” when venturing into overseas markets.

Trade associations and chambers have extensive networks in the region and are well-placed to help firms in their internationalisation journey. Continuing from recent initiatives such as Local Enterprise and Association Development-Plus (LEAD-Plus), the government should provide the trade associations and chambers with more resources, particularly towards helping to bring Singapore companies overseas, and to do more exploratory work in those markets.

Singapore’s immediate region is ASEAN, where some of the world’s fastest-growing consumer markets are. The Singapore business community should try to understand ASEAN better in economic and socio-



▲ (From left) Mr Liang and Mr Ee co-chaired ISCA Pre-Budget Roundtable 2017

cultural terms and not neglect ASEAN in its overseas ambitions. There is a need for more success stories of Singapore's SMEs in the ASEAN region to illustrate its potential.

There were also suggestions to revisit the government's 2013 Population White Paper. The proposal was that the target population figure for Singapore should be 10 million, instead of the earlier figure of 6.9 million. This would create a larger domestic economy.

VICTOR MILLS "ASEAN offers tremendous opportunities for the local Singapore business community. I think we have focused too widely on our internationalisation. This has been to the detriment of our better understanding of our own ASEAN region."

JIMMY KOH "We must see ASEAN as a franchise of Singapore, otherwise we would not be able to create the scale that is needed for the next lap of global development."

ANG YUIT "On the internationalisation front, we have been advocating 'hunting in packs'. What about putting together certain structure and maybe grants and tax breaks to large firms that bring along SMEs? There is a role to play in encouraging large firms to be more of team players."

ATTRACTING AND RETAINING TALENT

For companies going overseas, it was suggested that more attractive tax relief be offered to employees posted overseas, and double tax deduction for companies posting these employees abroad. This would give experienced employees – especially those married with families rather than just mobile fresh graduates – motivation to venture overseas, and to overcome the challenges of relocating families.

In order to attract and retain senior talent, the panellists shared that personal reliefs could be increased for older workers, to

encourage and motivate them to continue in the workforce. There should also be more incentives in place to encourage employers to hire older workers.

There was also a specific recommendation on special training grants for building maintenance engineers and technicians, to upgrade and enhance their skills in the area of building safety.

ERMAN TAN "Disruptive technologies will definitely affect the employment scene. Besides that, our workforce is better educated now; by 2020, nearly half of the new workforce is expected to have tertiary education, and these graduates would have access to more applied, practice-oriented education, gaining in-demand skills that are needed to thrive in the digital economy of the future. That changes the aspirations of our younger workforce as well as of our current workforce in the future."

TAX MEASURES TO ALLEVIATE BUSINESS COSTS

With regard to tax measures, in view of the difficult economic times for business, the following tax measures (Table 1) could be considered to help alleviate business costs.

LOW HWEE CHUA “Broadly, businesses in Singapore are able to claim foreign tax credits when they suffer taxes on foreign income. However, any excess foreign tax credits cannot be carried forward or back. This raises overall business costs as the availability of foreign tax credits becomes indirectly tied to the profitability of a business.”

AUGUSTINE TAN “Property taxation is another significant cost burden on developers and the annual yield for real estate across all property sectors has been below 5% over the years. The government could consider reducing the statutory rate for vacant private land. The current basis of determining the annual value on land designated for development is 5%, which is rather high, considering today’s high land value and the relatively lower rate of 2% to 3% annual yield one would get from land investments.”

CINDY LIM “E-commerce activities are set to increase in the digital economy. Singapore, being strategically located,

Table 1 Tax measures to help alleviate business costs

- ⊕ Increase the cap and number of years allocation for the Loss Carry-Back Relief for companies, as it is currently only for one year and up to \$100,000.
- ⊕ The wage credit scheme should be extended, given the current difficult economic times for businesses and employees alike.
- ⊕ To further help SMEs grow and internationalise, the government should reconsider the conditions under the mergers and acquisitions (M&A) allowance scheme - such as the requirement for acquiring companies to carry on a trade or business in Singapore on the date of share acquisition and to have at least three local employees (excluding company’s directors) throughout the 12-month period before the date of share acquisition - which should be relaxed due to practical commercial reasons.
- ⊕ In light of the new digital economy, there were suggestions on enhancing tax deduction and allowance for software and other related payments. Such enhanced tax deduction and allowance has the effect of incentivising businesses (and in particular, SMEs) to invest in technology and other enablers of productivity and innovation, especially in the new digital economy.
- ⊕ Singapore has the potential to be a hub for cargo movement. Incentives, such as double tax deduction schemes to benefit business activities in growth sectors like supply chain management, should be introduced to transform Singapore into a hub for cargo movement.
- ⊕ To help companies venture overseas, the foreign tax credit system should be enhanced. Currently, it cannot be carried forward or backward. Singapore companies may not have sufficient Singapore tax in Singapore, and would have to forfeit the foreign tax credit received.
- ⊕ Introduce property tax exemptions to buildings undergoing regeneration/additions/alterations. This would encourage owners to retrofit and upgrade their buildings as well as adopt innovative solutions, in line with the government’s effort to rejuvenate the city and ensure a more sustainable environment.
- ⊕ Review the current basis of property tax assessment for vacant land. A more equitable system would be to tax the land on the basis of a value that takes into consideration its lease term. The current basis of 5% of land value as the annual value of vacant land or land designated for redevelopment is much higher than the 2% to 3% annual yield from land investment.



is an ideal hub to handle logistics and supply chain management activities. Being able to precisely track the movement of products at each location will provide a competitive advantage. Some form of tax incentive or grant from the government would be helpful to spur SMEs to invest in technology and excel in this potential business segment growth.”

As the co-chair Mr Liang put it, the best way for the government to manage risks during this transformation journey would be to ensure that Singapore’s finances remain sound, so that resources are available when needed to help



▲ Mr Ee presented a token of appreciation to Mr Liang for co-chairing the Roundtable

Table 2 Ideas and measures to increase revenue

- **Do away with full tax exemption for new businesses for the first three years.** As the Inland Revenue Authority of Singapore (IRAS) has highlighted in the past, this exemption has been liable to abuse, such as through the under-reporting of company profits.
- **Raise property tax on vacant, second and subsequent properties owned by multiple-property owners.** This will induce them to let out their properties, which would make the residential rental market more affordable.
- **IRAS could consider bringing foreign suppliers into their Goods and Services Tax (GST) net.** Offshore suppliers for digital goods and services should pay GST, which would be important for levelling the playing field for domestic players in this area who are liable for GST.

individuals and businesses that are impacted by economic changes and disruptions. In order to increase revenue to balance the budget, the panellists offered several ideas and measures (Table 2) for the government to consider.

PROF SUM YEE LOONG “There are a number of owners with multiple properties, and these owners are not bothered to let out their properties, that is, they leave these properties vacant. Since they can afford to forgo rental income, then it should not be a problem for them to pay some taxes on their vacant properties. One suggestion is to assess these owners on deemed rental income based on the annual value of the unlet property. This will hopefully encourage more property owners to put their properties on the rental market and this should help bring rental costs down.”

CONCLUSION

In the last Budget, the government rolled out new initiatives such as the Industry Transformation Programme, which is tailored to the needs of specific industries to help drive productivity and innovation. The government has also continued to expand the SkillsFuture programme, to enable Singaporeans to broaden and deepen their skills with better education and training.

While the panellists recognised that long-term economic transformation is key, businesses also need short-term relief measures to tide them over the current period of slow growth. Topping the Budget wishlist from these business leaders are help with high rents, better incentives for R&D and a more collaborative approach towards regional expansion.

Together with the suggestions from the panellists to increase government revenue in other areas, Singapore businesses would be able to tide over the current challenges, while adapting and innovating for the future economy. ISCA.

Perrine Oh and Loke Hoe Yeong are Managers, Research, ISCA.

THE LABOUR MARKET AND EMPLOYMENT SUPPORT FOR PMIES

Helping Singaporeans Gain New Skills



BY
DEREK TANG
AND
WORKFORCE
SINGAPORE

The Ministry of Manpower reported in September 2016 that employment growth has remained low in the first half of 2016 while unemployment and redundancies have risen. This is a reflection of the external economic environment, continued restructuring of the local economy, and structural slowdown in growth of the local workforce.

The structural slowdown in growth of the local working-age population can be attributed to smaller cohorts of younger locals entering the workforce, and more baby boomers retiring. Apart from structural factors, local employment growth since 2015 has also been dampened by cyclical weaknesses in the economy due to the subdued global economic conditions, with the impact varied across sectors. Going forward, local employment growth is expected to continue to be modest.

With economic cycles shortening and changes occurring more quickly, there is now more pressure on people to adapt. The government understands Singaporeans' anxieties and concerns and is stepping up its support for the local workforce. One avenue is to help companies transform through productivity improvements, so workers have better prospects arising from a virtuous cycle of higher skills, higher productivity and higher wages.

Most importantly, at the individual level, workers have to understand that new skills are constantly needed as technologies change rapidly. This applies even to new growth sectors such as information and communications technology. It is therefore essential for all workers to adopt an open mind towards change, and have a willingness to learn or relearn to stay relevant and cope with changes.

To strengthen employment support

for Singaporeans, the Adapt and Grow initiative was introduced by the Ministry of Manpower to help Singaporeans adapt to changing job demands and grow their skills. Agencies such as Workforce Singapore (WSG) and the Employment and Employability Institute (e2i) have also stepped up employment facilitation efforts by organising more targeted job fairs and career preparatory workshops, and offering self-help resources to provide Singaporeans with assistance in their job search process. Taken together, these initiatives provide opportunities for Singaporeans to equip themselves with the relevant skills for gainful employment.

ADAPT AND GROW INITIATIVE

Some of the programmes under the Adapt and Grow initiative which may be more relevant to ISCA members and accountancy sector professionals are:





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It is ... essential for all workers to adopt an open mind towards change, and have a willingness to learn or relearn to stay relevant and cope with changes.

Private Provider Placement Programme

What is it?	The Private Provider Placement (PPP) programme is a collaboration between WSG and private sector placement firms to help Singaporean PMETs facing difficulties in finding employment
Who is it for?	Singaporeans aged 40 years and above who have been unemployed for six months or more and are actively searching for jobs
What can it do for you?	Private providers will work with you to identify your key competencies and skill sets, and improve your resume and interview skills, before referring you to suitable job vacancies

Career Support Programme

What is it?	The Career Support Programme is a wage support programme to encourage employers to offer suitable job opportunities to eligible Singaporean PMETs, tapping on the wealth of experience that they could bring to the workplace
Who is it for?	Singaporeans who have been retrenched or unemployed for six months or more
What can it do for you?	More opportunities to access mid-level jobs and secure employment. If successfully placed, you will undergo external WSG-approved training or structured On-The-Job training arranged by your employer

P-Max

What is it?	P-Max helps screen and match job-seeking Singaporean PMETs with suitable positions in hiring SMEs
Who is it for?	Singaporeans who are keen to pursue a full-time career in an SME
What can it do for you?	Job placement within a hiring SME, together with workshops organised to help you better acclimatise to and take on SME jobs

For more information, please visit www.wsg.gov.sg/adaptandgrow.

OTHER SUPPORT FROM THE GOVERNMENT

You can also tap on WSG’s Jobs Bank to explore the various openings available.

In addition to the suite of Adapt and Grow programmes, Singaporeans can also tap on SkillsFuture initiatives such as the SkillsFuture Mid-Career Enhanced Subsidy and the SkillsFuture Study Awards, managed by SkillsFuture Singapore.

For more information, or to find out how ISCA with the support of WSG and e2i could support you in your career, please write in to careersupport@isca.org.sg. ISCA

Read about how two recipients of the SkillsFuture Study Awards for Accountancy have successfully embraced lifelong learning in the following article.

This article was jointly developed by Derek Tang, Manager, Industry Support, ISCA, and Workforce Singapore.

LEARNING FOR LIFE

SkillsFuture Study Awards for Accountancy



BY
LIN SHUZHEN

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he SkillsFuture Study Awards is one of several government initiatives to help Singaporeans adapt to changing job demands, and develop and deepen their skill sets to meet the challenges of tomorrow. In this article, we

hear from two ISCA members on why they are upgrading themselves, and how the SkillsFuture Study Award for Accountancy is helping them in their lifelong learning journey.

SPEAKING THE LANGUAGE OF BUSINESS

When David Lee was deciding on a major in university, he wanted to study something related to business. His dad, a constant source of inspiration with ready words of wisdom, suggested accountancy. Indeed, as the saying goes, “Accountancy is the language of business”, and being well versed in accountancy is akin to knowing the ins and outs of the organisation.

“During my conversations with my dad, I realised that accountancy is very important for business. You need to be able to read financial statements and provide certain financial justifications or recommendations from there. You



PHOTO: SHUTTERSTOCK



need accountancy to really understand what's going on – it brings everything together,” David said.

With five years of experience in the accountancy sector under his belt, David has seen first-hand how accountancy helps in making critical business decisions.

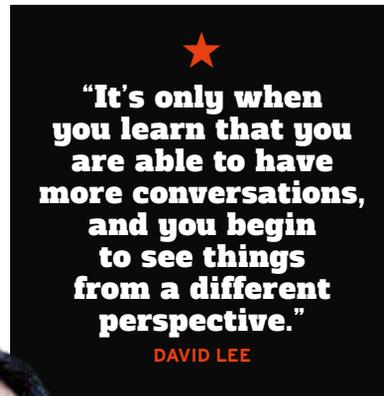
GOING PLACES WITH ACCOUNTANCY

Starting out his career at American bank JP Morgan as a Management Associate, David was thrown into the deep end, working in finance in the Singapore office before being transferred to the Hong Kong office a year later. The learning curve was steep, but David was in his element and enjoyed every minute of it.

“Working in an investment bank was interesting, because we had to support the traders and it was very fast paced. At the end of each trading day, the traders relied on us to report on the day's trading performance. More than

just providing analysis, we were there as a verification – a control of sorts – to make sure that they were doing things correctly,” he said.

After a stint at British bank Barclays, David joined American oil and gas company Exxon Mobil in an operational controls role. His accounting background proved useful here, and in one year, he had helped to strengthen its internal controls. In his own words, “I am in accountancy because I wanted to talk about numbers, to help businesses grow,



and operational controls was just one of the many roles where I was able to apply what I had learnt.”

Now a year at his current company SingTel, David works closely with colleagues in the sales department in an analytical role, but will soon be taking on a new strategy and planning role for the local telecommunications giant.

Embracing Lifelong Learning

Even with a career that has taken flight, David is not one to rest on his laurels. He is currently going on to the last semester of a Master of Business Administration (MBA) programme from the University of Strathclyde.

“It's something I've been wanting to do. I did accounting for so long and after a while, it can feel a bit silo – you wouldn't know what people from marketing do, for instance, and an MBA would be good to provide an overview of things,” he explained.

David, who is a member of ISCA, says he hopes the MBA will give him a bird's-eye view of accounting. “Already, the MBA has given me a competitive edge as I believe it played a role in securing my transfer to the Group Strategy department in SingTel,” he said.

David was a recent recipient of the SkillsFuture Study Award for Accountancy. This award is given to Singaporeans to develop and deepen their specialist skills in the sector, and all applicants must have at least three years of work experience in the accountancy sector.

The award is administered by the Singapore Accountancy Commission (SAC), the statutory body tasked to develop Singapore's accountancy sector. David had chanced upon the award at SAC's Facebook page, and was encouraged to apply for the \$5,000 cash award to defray the cost of his studies.

On what lifelong learning means to him, David shared, “I think it's something that helps keep you interesting as a person. It's only when you learn that you are able to have more conversations, and you begin to see things from a different perspective.”

★
“Lifelong learning is a never-ending journey. It’s about continuous learning and relearning to grasp the latest skills and knowledge.”

CHEN BINGRUI

LEARNING: A NEVER-ENDING JOURNEY

Chen Bingrui is an accountancy specialist in every sense of the word. The Assistant Finance Manager from the Singapore Press Holdings (SPH) has chalked up an impressive list of qualifications including *Chartered Accountant of Singapore*, *Association of Chartered Certified Accountants (ACCA)*; *Chartered Financial Analyst*, *Certified Internal Auditor...* and is about to add another feather to his cap.

Now in his sixth year with SPH, Bingrui, who works in accounting for the local newspaper publisher’s treasury and investment department, has found time to upgrade his skill sets with the newly-launched Chartered Valuer and Appraiser programme.

“My job scope in SPH is doing treasury and investment; there’s a need for fair valuation of these investments and I believe the Chartered Valuer and Appraiser programme will help in my work,” Bingrui said.

The programme, offered by SAC’s Institute of Valuers and Appraisers of Singapore, and delivered by Nanyang Business School, is Asia’s first professional business valuation certification programme. It seeks

to raise the standard of ethics and professionalism among professionals working in transactions, litigation and arbitration, and financial reporting.

Committed to Improvement

Bingrui is in the current intake and has just completed Level 1 of the programme. He had found out about the SkillsFuture Study Awards through the Chartered Valuer and Appraiser programme brochure. A recipient of the SkillsFuture

Study Award for Accountancy, he had received a \$5,000 cash award to defray the cost of his programme.

“I was nominated for the SkillsFuture Study Award by my boss, Tony Mallek, who is SPH’s Training Principal for the Singapore CA Qualification (formerly known as the Singapore QP). I’m thankful that he is supportive,” Bingrui said.

Bingrui, who is an ISCA member, knows the importance of being on top of his profession, especially in the current economic climate. “I like to attend new courses to keep my skills updated. There’s a lot of restructuring going on and, in order to stay relevant, I look for courses and programmes that can equip me with the necessary skills.” He added, “Lifelong learning is a never-ending journey; it’s about continuous learning and relearning to grasp the latest skills and knowledge.” ISCA

Cycle 3 of the SkillsFuture Study Awards for Accountancy will open in the second quarter of 2017. For more details on the eligibility criteria as well as the list of supported courses and programmes, please visit <http://www.skillsfuture.sg/studyawards/accountancy>.

Lin Shuzhen is Assistant Head, Corporate Communications, Singapore Accountancy Commission.

ABOUT SKILLSFUTURE STUDY AWARDS

The SkillsFuture Study Awards equip Singaporeans with the skills needed to benefit from quality jobs created by our economy. As Singapore continues our transition to an innovation-driven economy, new skills and competencies among Singaporeans will be in demand. Jobs are also evolving with new functions and existing ones requiring updated skill sets.

The SkillsFuture Study Awards encourage Singaporeans to develop and deepen specialist skills needed by future economic growth sectors or in areas of demand. It also supports Singaporeans who already have deep specialist skills to develop other competencies. Over 500 study awards will be available from October 2015. At a later stage, 2,000 study awards will be offered annually.

The SkillsFuture Study Awards for the Accountancy Sector was launched in April 2016. Applications are open twice a year.

For more information about the SkillsFuture Study Awards, please visit <http://www.skillsfuture.sg/studyawards/accountancy>.

ACCOUNTING DISRUPTED PART 3

Blockchain Technology, Potential and Impediments



BY
MIKKEL
LARSEN

This is the third and last article of the series on financial technologies (fintech). If you recall, in the immediate past article, "Accounting Disrupted Part 2: Impact of Technology on

Accountants" published in *IS Chartered Accountant* journal, December 2016, we outlined some of the technologies that could have a significant impact on how accountants conduct their work in the future and the value they can create. One of the technologies we identified in the article was "Blockchain".

In this two-part article, we will focus on the potential as well as the impediments for widespread adoption of Blockchain technology in different areas.

INTRODUCTION TO BLOCKCHAIN AND BITCOIN

We have included here a short non-technical explanation of Blockchain technology and Bitcoin; Bitcoin is one area where the Blockchain technology has been applied in a specific version.

¹ <https://bitcoin.org/en/faq>

² <https://bitsonblocks.net>

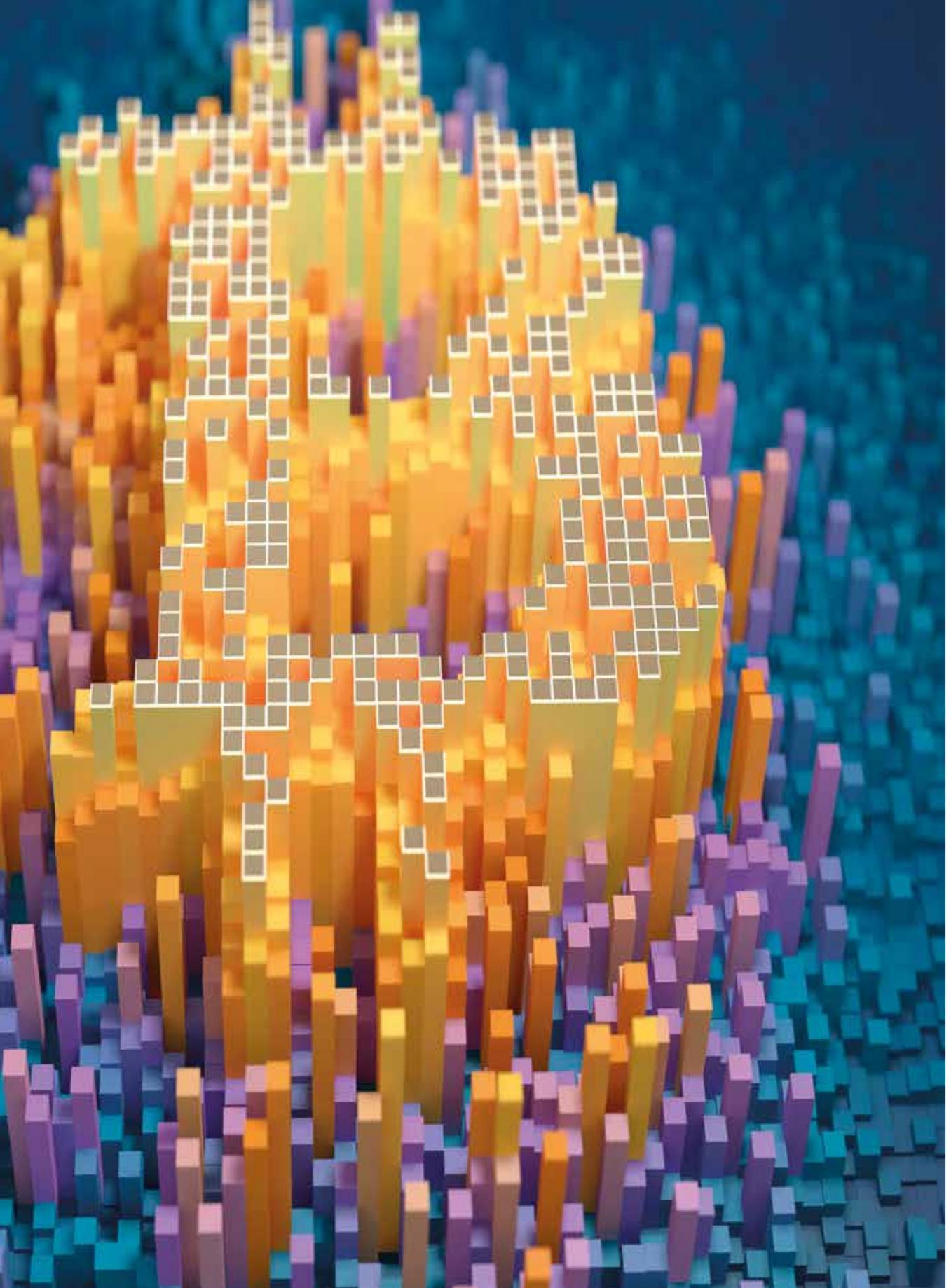
³ The notion of "finality" has been challenged in recent issues pertaining to a fraudulent activity involving another virtual currency - Ether; https://www.reddit.com/r/ethereum/comments/4qmedr/is_settlement_finality_still_important_in_ethereum

The explanation is deliberately kept short as there are existing resources¹ describing the technical aspects and security issues, etc. Antony Lewis, for example, has written comprehensively about Blockchain on his blog Bits on Blocks².

Bitcoin

Bitcoin is the most widespread virtual currency. It is not supported by any Central Bank, and is based on a decentralised ledger often described as a Blockchain. There is no owner of this database and thus, the best analogy may be the Internet, which also does not have a specific owner. Bitcoin has managed functionalities in common with cash and debit cards. Bitcoins are typically stored on a computer or mobile unit - a so-called "wallet" from which payments can be made. You cannot spend more than what is available in the wallet, and if the unit is lost, so are the Bitcoins and the wallet. No bank or other financial intermediary is involved with the transactions, although there will be if/when Bitcoins are changed to FIAT currencies. Like cash, a payment made with Bitcoin leaves no personal information as the owners of wallets are anonymous. Payment is final³ when

★
**Bitcoin is the most
widespread virtual
currency. It is not supported
by any Central Bank, and
is based on a decentralised
ledger often described
as a Blockchain.**



made. This protects the seller but offers less protection for buyers than what they are used to for credit card transactions on the Internet.

The verification mechanism typically takes up to 10 minutes to finalise a transaction. That is a long time if you are buying coffee and thus in practice, shops accepting Bitcoins tend to accept a minimum risk of fraud by finalising a sale faster.

Bitcoins are not backed by any assets or authority, and their value is ascribed solely by their users. The total “money supply” is 21 million, which is systematically released, in a process called “mining”, over time. Today, about 16 million Bitcoins (BTC) exist.⁴ Table 1 is a summary of the global spread of Bitcoins.

Blockchain

Blockchain is the technology on which Bitcoin is based but it is much more than that. Those who have followed the debate in this area will know that it is a technology that has kept banks and other companies excited – perhaps too excited, as few significant Blockchain-based solutions have been implemented so far.

As mentioned, a Blockchain essentially is a decentralised database or ledger. Blockchains can be specified with different features for security and mining to serve different purposes, and

can be “public” or “private”. A public Blockchain may be ideal for a virtual currency while private Blockchains may only be accessible by pre-defined users in a country or an industry. A public Blockchain generally has the following features:

- 1) No central authority to control the data;
- 2) Data is encrypted;
- 3) Owners of the wallets are anonymous;
- 4) The Blockchain works as a ledger of all transactions that in principle⁶ cannot be altered. The Blockchain links each transaction to the one before it, thus creating a chain (hence its name).

The Blockchain, in theory, can be held by each user on his/her own device (the Bitcoin Blockchain today is only about 20 GB). The type of data on the Blockchain exists often in summarised form and documents, such as pdf files, and are not part of the chain itself. More widespread use of Blockchain may require storage of larger files. This has given rise to many discussions⁷ around the limitations of Blockchains but solutions are currently being sought for these issues.

In what follows, we have deliberately left out considerations around “smart contracts” (example, Ethereum) that are considered to have widespread usage especially with the Internet of



... a Blockchain essentially is a decentralised database or ledger. Blockchains can be specified with different features for security and mining to serve different purposes, and can be “public” or “private”.

Things.⁸ Smart contracts essentially are just codes representing, for example, a legal document (such as a house loan or option contract). The idea is that the code automatically carries out pre-defined actions (such as a payment) when set conditions are met.⁹ We have also left out discussions around solutions with multiple signatures (multisig) and homomorphic encryption¹⁰ that may expand the usage of Blockchain.

BLOCKCHAINS: AREAS OF USAGE

Blockchains are often more expensive to develop than their centralised counterparts and are therefore not the solution to all applications. So when may a Blockchain be an effective solution? It seems that certain “characteristics” are usually present (Table 2).

Table 1 Global spread of Bitcoins

Number of Day Wallets* - (4Q2015 in millions)	13
Number of Transactions Per Day (3Q2016 in thousands)	221
Companies accepting Bitcoin (4Q2015 in thousands)	106
Bitcoin sale of goods and services (4Q2015 in USD billions)	190

Source: State of Bitcoin - 3Q2016; data is not available for 4Q2015⁵

*The number of actively-used wallets could be (and likely is) a lot larger than the number of actual users, as a single user can hold multiple wallets.

⁴<https://blockchain.info/charts/total-bitcoins?timespan=all>

⁵ State of Bitcoin 3Q2016; www.coindesk.com/research/state-of-blockchain-q3-2016

⁶ I refer to other articles that discuss the topic of a “51% attack”

⁷ www.coindesk.com/what-is-the-bitcoin-block-size-debate-and-why-does-it-matter

⁸ “Internet of Things” is a term used to describe a state where most units (car, washing machine, etc) are connected to the Internet. Gartner estimates that the amount of such units will grow exponentially over the next five years; www.gartner.com/newsroom/id/3165317

⁹ www.ethereum.org

¹⁰ Homomorphic Encryption is a type of encryption where operations can be made directly on the encrypted data without the need to decrypt the data. This would, in theory, make possible that relevant data operations can be outsourced to a third party

Table 2 Some requisite characteristics for the effective use of Blockchains

1	 There is a problem to solve	This would seem obvious but in fact, Blockchain is still often recommended as improvements to situations where the current technology suffices or is superior but may not have been optimised for different reasons. For example, a Blockchain could replace an internal accounting ledger but often, a centralised accounting database will be effective unless there are direct connections to external parties.
2	 There is an economic incentive	A public Blockchain can be expensive to maintain if mining is used for verification because this process requires issuance of additional currency (example, the Bitcoin Blockchain).
3	 Incentive for collaboration	The most common impediment to adoption of an effective Blockchain solution may be that the incumbent users of an existing system have no incentive to change as it may threaten existing business models. One incentive may be that open API can attract more developers, which may in turn reduce maintenance cost and spur innovation.
4	 A multi-user database is required	If a database is only accessed by one user or one group of users under central control, there may not be a need for a decentralised solution.
5	 A central owner is not desirable	Often, a central authority such as a Central Bank or ministry can be trusted by its users to keep the database. Hence, Blockchains can be effective when dealing with cross-border transactions or recordings where no one authority is the central owner.
6	 Transactions are linked	One benefit of a Blockchain is that it creates a chain that can work as an "audit trail". This is useful if the data registered is linked to each other, such as the movement of a currency or an asset between owners.
7	 Clear legislation around ownership	When a Blockchain is used for registration of asset rights, it is useful that the legal framework in the jurisdiction supports the rights.

Table 3 Some areas where Blockchain use is being explored

	Virtual Currencies	Payment/ Transfer	Trade Finance	Clearing and Settlement	Bonus Points	Property Rights	Academic Certificates	Medical Journals	Voting Systems
1	There is a problem to solve	(✓)	✓	✓	✓	(✓)	✓	(✓)	✓
2	Economic Incentive	(✓)	✓	✓	(✓)	(✓)	X	(✓)	X
3	Incentive for collaboration	X	✓	(✓)	X	X	X	X	(✓)
4	Multi-User Database	✓	✓	✓	✓	✓	✓	✓	✓
5	Central Owner not desirable	X	(✓)	✓	X	✓	X	X	✓
6	Transactions are linked	✓	✓	✓	X	✓	✓	X	X
7	Clear legislation around ownership	X	NA	X	X	X	NA	NA	NA

✓ = Predominantly yes

(✓) = In some cases/extent

X = Predominantly no

Based on the indicators in Table 2, some of the areas where Blockchain is being explored are listed (Table 3).

It is not the purpose of this article to go into detail about the potential cases mentioned. They all have their own inherent difficulties but there are also some which display higher potential of applicability. More consideration and discussion on the latter are thus warranted.

In the second part of this article, "Accounting Disrupted (Part 2): Blockchain Applicability and Challenges" (published in the following pages), we will delve into the applicability and challenges of the Blockchain technology across different fields. We will also explore the possible future whereby transactions are documented on Blockchains. ISCA

Mikkel Larsen is Managing Director and Group Head of Tax and Accounting Policy, DBS Group. All opinions published in this article are his, and all materials and references are provided by him to support the article.

ACCOUNTING DISRUPTED PART 3

Blockchain Applicability and Challenges



BY
MIKKEL
LARSEN



In the earlier part of this article, “Accounting Disrupted (Part 3): Blockchain Technology, Potential and Impediments”, we

explored Blockchain technology and its characteristics. Here, we look at the implications and challenges of adopting Blockchain, and what lies ahead for Blockchain technology.

APPLICABILITY OF BLOCKCHAIN

In the context of Singapore, one of the main reasons for the limited use of Bitcoin is likely the trust in the government as a central issuer of Singapore Dollars as well as the widespread options for virtual cash. The government’s stated goal to create a (near)-cashless society¹ may further impede the adoption of a rival virtual currency.

Payment/Transfer

The use of virtual currencies has long been seen as a possible solution to reduce the fees charged by established providers such as Visa

and Mastercard, or multiple transfer agents including Western Union. The risk to the incumbents was recognised by Visa when it said, “2015 has turned Blockchain into something the industry has to live with. It is no longer a choice anymore. Recent news speculating about the identity of its creator and the formalisation of virtual money as a commodity just makes it more real than ever before.”²

Trade Finance

Trade finance could utilise Blockchain technology to reduce the risk of “double financing” – where the same consignment is financed by two banks – and perhaps even more pertinent, to reduce the very archaic paper-based process.

Multiple start-ups and established Blockchain companies are working on solutions for these issues using different technical solutions. What will be critical to the successful technology will be the ability to engage the entire eco-system to use a single system. This is more a political than a technical issue.

Clearing and Settlement

Clearing and settlement of securities and derivatives are already being pursued.

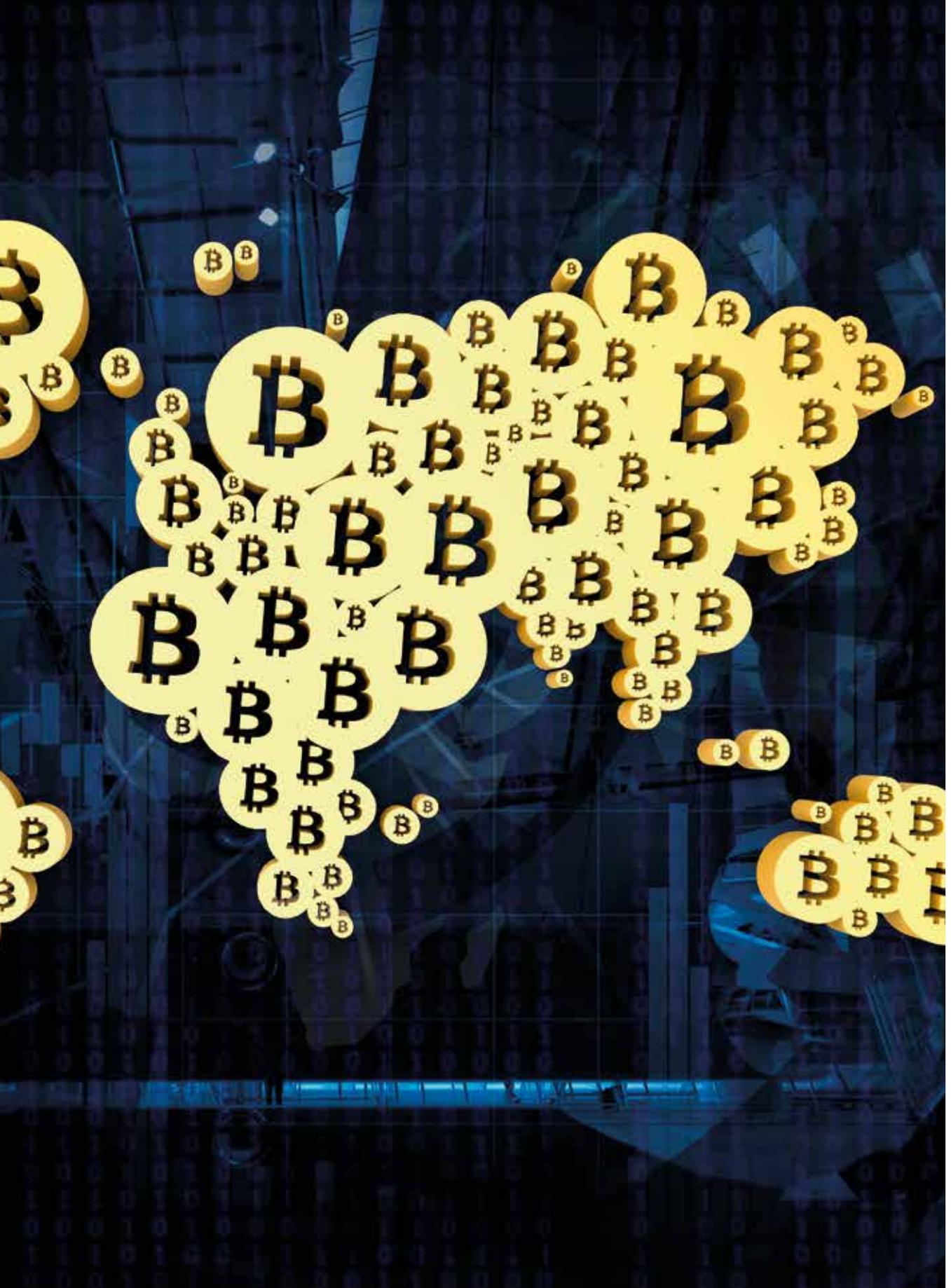


Blockchain has enormous potential to create a trusted ledger of ownership rights, which would then allow domestic and foreign lenders to provide loans against collateral.



¹ www.channelnewsasia.com/news/singapore/cashless-and-cardless/3033968.html

² www.coindesk.com/visa-europe-blockchain-no-longer-a-choice



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... the impact for auditors would be immense. By auditing the Blockchain, the auditor may get access to real-time proof of the transactions behind the financial statements.

The benefits could come from faster and cheaper settlement than what current technology affords. Most promoted are perhaps the efforts of Nasdaq³ and ASX⁴ but MAS also recently announced a similar initiative⁵. However, to be fully effective, a solution that does not require significant use of escrow accounts (with liquidity tied up) is required.

Property Rights

This may be the best example of a potential global solution. Today, in many emerging markets, the legal titles of properties and machinery often go unregistered. This means that these assets cannot be utilised as collateral for much-needed financing at “reasonable” cost. Blockchain has enormous potential to create a trusted ledger of ownership rights, which would then allow domestic and foreign lenders to provide loans against collateral.

In Singapore, a centralised ledger/database solves this problem but in emerging markets, governments may not be trusted to keep such a ledger. Herein lies the problem too – to incentivise governments to implement a decentralised solution. The benefit of a solution to the problem is obvious – a better basis for taxation. However, the incentive for a decentralised solution may come via international investors. Honduras is one country that in 2015 chose a “Blockchain solution” to this problem.⁶

Academic Certificates

Blockchain solutions have been sought for a number of databases of personal

information including academic certificates, accreditations, DNA and medical records. The document itself is not hosted on the Blockchain. Instead, a hash of the document, including a certificate of the authenticity of the document from an accredited certifier (that is, the issuing school) is hosted. One example is Sony’s intention to use a Blockchain for academic certificates.

Using the example of medical records, a person’s entire medical history (including treatment in different countries) would be available to authorised users as set by the user. In principle, this is a great idea but the challenge is again how to ensure that all those with relevant data to contribute have an incentive to contribute. One would imagine also that a lot of legal and ethical issues may need to be resolved.⁷

Voting Systems

The utility here may be obvious where there is insufficient trust in the government or the party holding the vote (example, a political party or general election). A Blockchain solution can offer features such as being immutable, decentralised and

³ www.telegraph.co.uk/finance/markets/12075825/nasdaq-blockchain-share-trade-bitcoin-technology.html

⁴ www.smh.com.au/business/banking-and-finance/asx-builds-blockchain-for-australian-equities-20160121-gmbic0.html

⁵ www.mas.gov.sg/News-and-Publications/Speeches-and-Monetary-Policy-Statements/Speeches/2016/Singapore-FinTech-Journey.aspx

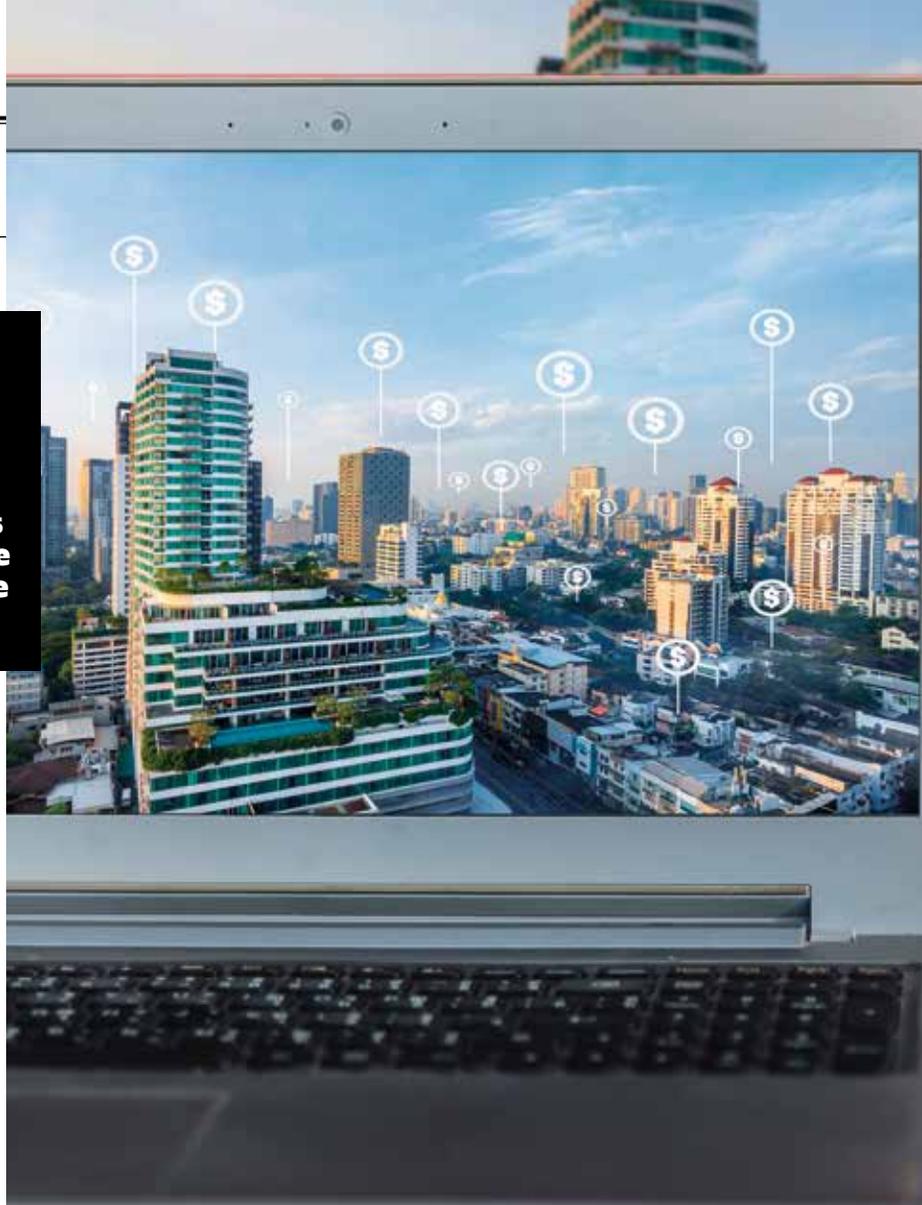
⁶ www.coindesk.com/factom-land-registry-deal-honduran-government/

⁷ <http://techcrunch.com/2016/02/22/sony-is-building-an-education-and-testing-platform-powered-by-the-blockchain/>

⁸ www.iras.gov.sg/irashome/Businesses/Companies/Working-out-Corporate-Income-Taxes/Specific-topics/Income-Tax-Treatment-of-Virtual-Currencies

⁹ www.iras.gov.sg/irashome/GST/GST-registered-businesses/Specific-business-sectors/e-Commerce

¹⁰ www.coindesk.com/singapore-central-bank-proposes-new-rules-bitcoin-startups





auditable. Its usage could perhaps be advocated by supranationals such as the United Nations (UN) for elections; currently, UN sends personnel to monitor that elections are free and fair.

There is hardly doubt that Blockchain offers attractive features in the above situation that would be of benefit to users if implemented. In some cases, a Blockchain is but one choice for solving the issue at hand but for others, the benefits are very obvious and unique. Why the solutions have not yet been implemented in these cases, in my mind, can still be put down to a combination of lack of incentives to the incumbents, lack of understanding of the technology and lack of legal clarity. To address these, we may be looking for situations where cost benefits can be obtained in the short term or where enhanced security features can be

introduced. This is true especially when a “token” on a Blockchain represents an asset right (example, a stock, property or cash). Ask yourself – would you have your entire net estate based on a solution where the net estate would be lost if you lost the access to your “wallet”? This may of course be an extreme situation, and as mentioned, solutions to this issue are being developed. Yet, the sentiment that this creates remains a relevant obstacle to overcome.

CHALLENGES FOR COMPANIES INTRODUCING VIRTUAL CURRENCIES

Here are some of the main considerations for companies choosing to accept Bitcoin or other virtual currencies.

+ **Tax rules** The Inland Revenue Authority of Singapore (IRAS) has

given guidance on when gains on virtual currencies are taxable.⁸ It broadly follows “normal” tax principles insofar that trading activities in the virtual currency are taxable whereas long-term holding (capital nature) is not.

+ **GST** When virtual currencies are used to pay for goods or services, the transaction will be considered as a barter trade. Accordingly, GST will have to be charged on each supply if the respective supplier is GST-registered.⁹ This clearly is less than optimal for companies accepting virtual currencies.

+ **Accounting** The accounting for virtual currencies has yet to be fully clarified in the IFRS or FRS accounting regimes. The treatment depends on whether the virtual currency is considered a currency (monetary item) or tangible asset. In the former case, a “mark to market” (MTM) approach would seem most relevant but as outlined above, this is not how virtual currencies are viewed for GST purposes. While an MTM seems most logical, this accounting has not yet been clarified.

+ **Financial regulation** The MAS has issued rules explaining in broad terms how it will “regulate” virtual currencies¹⁰, and explaining when licensing is required.

+ **Currency hedging** Bitcoin and other virtual currencies have been notoriously volatile in recent years, with movements of +/-10% against the USD in a day. Companies accepting Bitcoin commercially have looked to protect themselves against this volatility by immediate exchange of the virtual currency into local currency (example, SGD). There are multiple Bitcoin Exchanges that offer these services and even a technological retail solution where this exchange happens automatically. It is important that accountants understand how this exchange takes place (security, legal obligations, risk and exchange rates).

- + **Security procedures** If a company chooses to hold a virtual currency, it would want to consider some of the following questions:
 - Who should have access to the private encryption keys?
 - How and where should the wallet be kept, such that the risk of damage to IT hardware or system shutdown is reduced? Perhaps it is held in a “cold storage” (that is, not online) or even as a “paper wallet”, where the encryption keys are represented by printed QR codes.
 - How will the company’s systems be connected with, for example, a virtual currency exchange?
- + **Completion of a transaction** As mentioned, a significant practical problem when Bitcoin is used for the completion of a transaction is that it can take up to 10 minutes for a transaction to be completed and verified. When this is not practical/acceptable to the company or its customers, the company must decide what risk of loss it is willing to accept.
- + **Other transaction risk** As mentioned, the identity of the company behind a wallet is not known. However, a number of studies has shown that it may be possible to identify the company via its trading pattern. For some, this may be a pivotal issue if it does not want competitors to know, for example, the identity of its trading partners.
- + **Reputation risk** This may, in reality, be one of the most significant impediments. A company would want to consider what image it portrays by accepting a virtual currency. Is it consistent with the reputation it has among its customers, staff, regulators and other stakeholders?

The aggregate of the above considerations suggests that the introduction of a virtual currency is most often a matter to be decided upon by the Board of the company.

The relevant issues for other Blockchain solutions will depend on the exact usage and will not be explored further here.

AUDIT CONSIDERATIONS

The introduction of Blockchain and virtual currencies will be a major challenge to auditors. While the Big Four accountancy firms have recently been very active in promoting Blockchain, their interest in auditing “Bitcoin companies” have been more timid by comparison. Given the uncertainties surrounding the accounting perspectives, the new risk introduced and lack of available, easy-to-understand guidance on these ambiguities, this is not surprising.

The result so far has often been a high degree of what can perhaps be described as “industry peer audits”, where professionals within the Bitcoin industry provide some level of “assurance” over the adequacy of the processes and safety measures of a peer company. For example, Bitcoin Exchanges have asked “esteemed” professionals to provide some level of assurance using technical analysis (example, the so-called “merkle tree” analysis) that aims to verify that the money placed with an exchange is part of the amount of virtual currency at the balance sheet date.

Upon inspection though, it seems that such analysis provides little certainty around the “completeness” of the liabilities of the exchange – something clearly vital for any auditor and the clients her/his audit opinion serves.¹¹ The need for a more comprehensive and traditional audit of these often-perceived “high-risk” entities seems obvious. Currently, audit techniques are being developed, mainly in the US.

I am told that most Big Four audit



firms now have or are developing specific audit manuals for Blockchain companies and companies using virtual currencies. Some of their considerations include:

- + **Going concern** The viability of many Blockchain developers depends not only on the technological superiority of a product but also on its widespread adoption. This is specifically true for solutions in open API. The issue is relevant not just for Blockchain solutions (example, Google’s success depends on having the best search algorithm) but given the technical complexity of Blockchain, requires some understanding/skills to evaluate the viability of a Blockchain developer.
- + **Access rights** How has the company designed its procedures to ensure only authorised access to

¹¹www.coindesk.com/what-happens-inside-bitcoin-audit



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Reputation risk may, in reality, be one of the most significant impediments. A company would want to consider what image it portrays by accepting a virtual currency. Is it consistent with the reputation it has among its customers, staff, regulators and other stakeholders?

the company's wallets? Here, virtual currency is to be considered like cash in that once a transfer is made, the recipient is not identifiable.

➤ **Ownership of assets**

How does an auditor ensure that the company owns the wallets it proclaims to own? Consider a situation where two companies – being audited at different points – collude and both claim ownership of the same wallet. Can an auditor take it as sufficient evidence that the company holding the private keys are the owners of the currency in the wallet? The issue is more complicated when a privately-owned company has the potential to co-mingle the ownership between owner and the company.

➤ **Valuation of assets** With a volatile exchange rate and limited liquidity of many virtual currencies,

the traditional problem with valuation of a relevant exchange rate becomes relevant.

➤ **Completeness of liabilities** Companies accepting deposits in virtual currency (example, exchanges) or otherwise have liabilities denominated in a virtual currency. Auditors must establish what claims exist. Here, one benefit of virtual currencies may be the audit trail which is an inherent feature of the Blockchain.

A UTOPIAN FUTURE?

So what is the future for Blockchain? Some see a world where all transactions (purchases and sales) are recorded on one or more Blockchains. If that were to happen, audit of these Blockchains would allow companies' immediate reporting to the authorities. This could, among other things, reduce

the potential for tax avoidance and improve the speed and accuracy of the macro economic figures such as GDP. If both the "currency leg" and the "goods leg" (that is, the nature of the purchased good or service) were registered, the potential for statistics by those with access to the Blockchain, even in aggregated format, would be immense. Some see this as a scary "Orwellian society" not to be desired; others focus on the accuracy and reduction of fraud that could be achieved.

At a company level, one could imagine that accounting systems would be based directly on the Blockchain, with only accounting estimates and other "management adjustments" kept outside the Blockchain.

In any case, the impact for auditors would be immense. By auditing the Blockchain, the auditor may get access to real-time proof of the transactions behind the financial statements.

It is far too early to call a final judgement on the eventual spread of Blockchain and its implications for accountants. Advocates see revolution within one to two years, and sceptics see a near-impossible utopia. In any case, it is advisable that some attention is paid to this fast-evolving and exciting area. ISCA

Mikkel Larsen is Managing Director and Group Head of Tax and Accounting Policy, DBS Group. All opinions published in this article are his, and all materials and references are provided by him to support the article.



BUILDING A BUSINESS NETWORK

How to Get Ahead when You Hate Networking



BY
D. CHARLES GALUNIC, BEN M. BENSAOU AND
CLAUDIA JONCZYK-SÉDÈS

Eric, an executive at a city firm, developed close ties with an associate partner while working on a special project. The relationship was envied by many of his cohort who saw it as a major asset for future advancement. However, once the project concluded, so did the regular contact and, as Eric did little to cultivate the relationship, it faded over time. “He should be important for me,” Eric noted later, “but since I see a network as something which happens naturally and not artificially, I didn’t really try to keep him.”

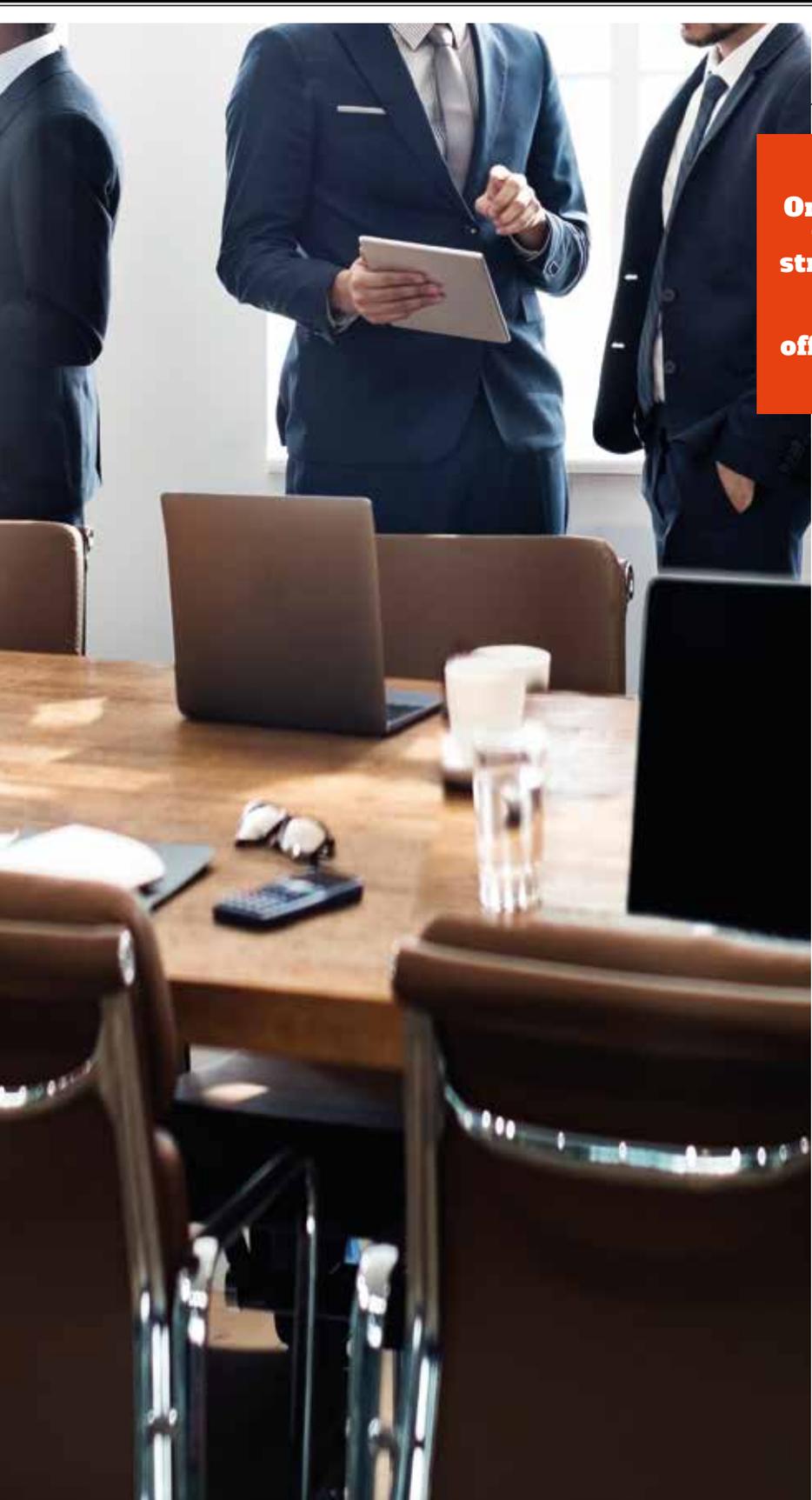
Eric’s attitude may seem odd but it is evidence that, even in today’s network-mad world, people are very different in their attitudes about chasing influential contacts and in the importance they place on work relationships when preparing their career strategies.

MORE THAN ONE WAY TO BUILD A RELATIONSHIP

A great deal of research points to the benefits of social networks to create the practical “get-me-ahead” ties instrumental for pushing ahead professional careers. It would be fair,



PHOTO SHUTTERSTOCK



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One of the best ways that we know to develop a strong, authentic network is to add value to the people around you, to offer to help others before you need it yourself.

given the weight of research, to ask, how do people who aren't passionate about networking survive? And what can firms do to help them access and leverage the knowledge that comes from developing professional relationships? In an effort to answer these questions, we identified approximately 100 recently-promoted professionals in the areas of auditing, consulting and law, and over the ensuing 12 to 16 months, studied¹ the way they developed their portfolio of professional contacts and, more generally, how they went about networking.

Surprisingly, we found that having a “networking” strategy did not necessarily mean having a penchant for it. In fact, the respondents’ basic attitudes and values with regard to networking differed profoundly. While some clearly had an affinity for developing business relationships and a natural talent for schmoozing, others were uncomfortable networking and a third group refused to take part in a practice they found both manipulative and sleazy.

In our research, we labelled these three groups the Players, the Moderates and the Purists.

PLAYERS: RELATIONAL ENTREPRENEURS

Players genuinely enjoy meeting people and are strategic in their approach, thinking several moves ahead and creating contacts well before they are needed. In general, Players are socially hyperactive, attending office events, seminars, talks, dinners, etc.;

¹https://www.researchgate.net/publication/275920135_Players_and_Purists_Networking_Strategies_and_Agency_of_Service_Professionals

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... internal performance review systems that inadvertently encourage the accumulation of contacts risk putting the equally valuable but less socially-overt members offside.

actively branching out in a way that helps them to become “brokers” in the firm, promoting the cross-flow of ideas (as well as raising their own visibility). In our study, we found that Players went out of their way to find common ground and establish rapport outside the immediate work context. They understood the benefits of maintaining ties with lead partners and peers – who could be used to provide emotional support or exchange strategic information, and high-performing subordinates with an eye to ensuring that top talent will return to their team in the future.

MODERATES SHOW BALANCE AND PRUDENCE

Despite the advantages of aggressive networking, the biggest cluster of executives in our study were the Moderates – individuals who appreciate networking but are wary of its power. Moderates’ relationship-building tends to emerge from ongoing tasks and joint work experience, with contacts maintained once a given job is over. They seek opportunities to exploit useful relationships but are less likely to ask for targeted favours such as “recommend me to partner X” or “get me on project Y”.

We also found that, lacking a proactive approach to cultivating new contacts, Moderates’ networks, unlike Players’ ever-expanding Rolodex, have a propensity to shrink over time.

PURISTS SEEK DIFFERENT CONNECTIONS

The third group, the Purists, find the whole networking process arduous and less important for their career objectives, which are focused on developing expertise and making an impact on their industry as a professional rather than climbing the partnership ladder. Eric, whose experience we noted above, is an example of a Purist, as is Gerald, a young consultant who believes networking is mostly artificial, done by posers who want to get ahead. Purists like Gerald and Eric believe networking should come naturally. They may initiate a new contact, but only when their job or task requires it, and without a long-term “angle” or the desire to tunnel their way into powerful parts of the organisation.

They prize content and the self-sufficiency of their expertise rather than “having connections” and tend to let contacts fade. Their relational energy is focused on their

team, stoking team motivation. They are also relatively active when it comes to managing client contacts, considering them an important channel through which the real quality of their work can be recognised. They tend to be wary, however, of too much contact with superiors who are often perceived as a potential source of complication and unpredictability.

Despite their reluctance to schmooze, Purists are not social losers or “geeks”. Like all the individuals who took part in our study, they had recently been promoted – a sign of competence and a signal of trust from their respective professional service firms. They do, however, face disadvantages. During the course of our research, we saw Purists’ networks shrink. Even more worrisome, at the end of the study, they expressed the least organisational commitment and, to a lesser extent, the least integration with peers. The general risk is that they may end up “drifting away” within the firm,

²https://www.researchgate.net/publication/254662016_The_Positive_Externalities_of_Social_Capital_Benefiting_from_Senior_Brokers



and become much less substantial actors on the firm's stage than their competence would suggest.

If Purists end up leaving the company, their departure can be mistakenly attributed to a lack of capability rather than what it is – a failure to embed them in the firm's culture.

LEVERAGING PURISTS' COMMITMENT AND EXPERTISE

Companies that lose Purists risk missing out on the full benefits they can bring.

In our study, they had the least dense networks, which meant they were the most likely to have interesting opportunities for creating new ties. Connecting people who can help one another is a great way to make a difference in any company.

Purists also tend to have professionalism and dedication to the task. They love the work at hand, not the schmooze. Clever managers can leverage this to help Purists develop their networks.

One of the best ways that we know

to develop a strong, authentic network is to add value to the people around you, to offer to help others before you need it yourself. Reframing networking in this more altruistic light may better fit with the sensibilities and values of Purist professionals.

Another way managers can help Purists pursue the contacts needed for the channelling of knowledge and resources is to make referrals or share their own social capital. Recent research² has found that a subordinate connected to a well-networked boss will outperform peers.

HR managers can also encourage relationship building and exploit corporate relationships by expanding task-based networking opportunities and actively looking at ways to reduce the disdain some employees may feel for overt networking events. This could be by highlighting Purists' expertise for internal leverage or building the event around some aspect of the work at hand, such as bringing in a cross-department

special speaker, or holding a seminar or symposium.

Firms should also scan their performance management systems for bias. While no company we know of measures and rewards employee networking for its own sake, internal performance review systems that inadvertently encourage the accumulation of contacts risk putting the equally valuable but less socially-overt members offside.

DEVELOPING NETWORKING ATTITUDES

Our research gave us a taste of the overwhelming sense of resentment brewing in the minds of many professionals about the exploits of Players. And, while there is an element of sour grapes towards movers and shakers who indulge in self-promotion, there is the legitimate concern that Players too easily subscribe to the worst of Machiavelli's school of tactics, and focus first and foremost on their self-preservation and not the firm's broader good.

With this in mind, Players too, should consider some self-reflective questions when it comes to networking activity: Are they really helping the firm? What are their motives? And how will their actions be perceived?

It is also important to note that networking profiles are not forever fixed. Humans can learn and adapt. While making a move from Purist to Player is quite rare, people can make adjustments as to how they go about establishing and maintaining social relations in their work settings. Like any change, however, it takes awareness of an individual's current state and some ideas for where it is they want to go. **ISCA**

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TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

ISCA ISSUES IFRS CONVERGENCE Q&AS FOR DIRECTORS AND CFOs

ASC and ISCA have jointly developed a set of Q&As to assist directors and chief financial officers of Singapore-listed companies acquaint themselves with full IFRS convergence, the key principles underpinning IFRS 1 and some of the potential implications.

For more information, please visit

<http://isca.org.sg/media/780021/ifrs-convergence-are-you-on-track.pdf>

In addition, SGX has communicated to listed issuers on the scope of IFRS convergence as follows: "All SGX-listed companies and Business Trusts, regardless of their place of incorporation currently reporting under SFRS, will be required by SGX to adopt the IFRS-identical Financial Reporting Standards. This will ensure a consistent reporting standard for all listed issuers.

Real estate investment trusts (REITs) must comply with the Code on Collective Investment Schemes issued by the Monetary Authority of Singapore, and will continue to prepare their financial statements in the manner prescribed under ISCA's Statement of Recommended Accounting Practice 7 (RAP 7): Reporting Framework for Unit Trusts. RAP 7 requires that the accounting policies generally comply with SFRS principles relating to recognition and measurement, unless prescribed by RAP 7."

For more information, please visit

<http://isca.org.sg/tkc/fr/current-issues/ifrs-convergence/>

ASC REMINDERS ON IFRS CONVERGENCE AND NEW MAJOR STANDARDS

ASC reminds Singapore-incorporated companies that have issued, or are in the process of issuing, equity or debt instruments for trading in a public market in Singapore (that is, SGX) of the requirement to apply a new Singapore financial reporting framework that will be identical to the International Financial Reporting Standards (full IFRS convergence) in 2018. Early application is not permitted.

For more information, please visit

www.asc.gov.sg/press_release_30112016

A reminder letter was also issued to companies applying SFRS on the new major standards on financial instruments, revenue recognition and leases.

For more information, please visit

www.asc.gov.sg/Portals/0/attachments/NewsEvents/2016/Reminder_Letter_on_New_Major_Standards_to_SICs.pdf



ASC AND IASB ISSUE MINOR CHANGES TO IFRSS

IASB has issued the following amendments to IFRSs and IFRIC Interpretation:

- Annual improvements to IFRSs – Minor amendments made to IFRS 1, IFRS 12 and IAS 28;
- IFRIC Interpretation 22: Foreign Currency Transactions and Advance Considerations – Address the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency, and
- Narrow-scope amendment to IAS 40 – Clarifies the requirements on transfers to, or from, investment property and is effective on 1 January 2018.

For more information, please visit

www.ifrs.org/Alerts/PressRelease/Pages/iasb-issues-minor-changes-to-ifrs-standards.aspx

ASC has adopted the above-mentioned amendments to IFRSs and INT FRS 122 on 22 December 2016.

For more information, please visit

www.asc.gov.sg/CEPafter1Jan2016

REGULATORY

ACRA ISSUES FINANCIAL REPORTING PRACTICE GUIDANCE

In 2016, weak market sentiments and continued slow growth in the global environment have affected many Singapore companies. ACRA's Practice Guidance No. 1 of 2016 highlights seven financial reporting areas, which may require more attention by the company directors before approving the 2016 financial statements. These areas include going concern assumption, impairment assessment of long-lived assets, recognition of one-off gain or loss, and business acquisitions.

For more information, please visit

www.acra.gov.sg/components/templates/newsDetails.aspx?id=f0a04cf0-3bae-4de2-a72d-2949498cc324

TECHNICAL EXCELLENCE

TECHNICAL HIGHLIGHTS

BankLink Raises Payment Security and Efficiency

CHALLENGE

An international manufacturer of solutions for product identification and traceability had been struggling with the management of voluminous payment transactions at its Asia-Pacific offices in countries such as South Korea, Taiwan, Malaysia and Thailand. Its payment processing team had to manually input all payment details into its Sage 300 accounting system, manually duplicate entries into an internet banking platform and verify the data before approving and remitting payments to vendors. Looking for a way to boost payment efficiency and eliminate manual data entry errors, the client approached Stone Forest IT (SFIT) for a solution.

SOLUTION

After assessing the client's needs, SFIT introduced WorkEzy™ BankLink (BankLink), a sophisticated tool that automates the issuance / collection of payments and integrates transactional data with several online banking platforms conveniently and easily. Its capabilities include:

- Save manual entry time as it converts transactional data from Sage 300 into each merchant bank's readable format
- Provide accurate and secure data via encryption according to the bank's compliance requirements
- Offer audit trails of payment changes and approvals
- Support multiple offices globally
- Synchronise vendor master files from Sage 300 with BankLink seamlessly

RESULTS

Following BankLink's implementation, the client enjoyed several benefits:

- Elimination of data entry duplication and human errors, increasing productivity and timely payments
- Enhanced online payment security with data encryption
- Ease of compliance with traceability of transactions for audit purposes

By aligning IT solutions with our clients' business needs, we address their challenges with appropriate tools that enhance efficiency and productivity.

HIGHLIGHTS

Industry:
Manufacturing

Location:
Asia-Pacific

Solution:
WorkEzy™ BankLink

Results:

- Increased productivity and timely payments
- Enhanced online payment security
- Ease of compliance

ACCOUNTING FOR SALE AND LEASEBACK TRANSACTIONS

A Comparison between FRS 17 and FRS 116



BY
NG ENG JUAN AND
LOW KIN YEW

Much has been written on lease accounting under FRS 116: Leases as compared to that under FRS 17: Leases (which will be superseded by FRS 116 on 1 January 2019). However, the focus has been on the accounting treatment for direct leases. This article focuses on the accounting treatment for sale and leaseback transactions.

A sale and leaseback transaction is one in which the owner of an asset sells the asset to another party and immediately leases it back.

It should be noted at the outset that accounting for sale and leaseback under FRS 116 is quite different from that under FRS 17 and the related INT FRS 27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

THE ACCOUNTING TREATMENTS

A sale and leaseback transaction may comprise a genuine sale transaction

and a genuine lease transaction. However, a sale and leaseback transaction may also be just a single financing transaction.

In the seller-lessee's books, the asset's carrying amount will most probably not be equal to its fair value, and thus a profit or loss may arise from the selling transaction.

In a sale and leaseback transaction, it is common in practice for the selling price to be artificially fixed (that is, not based on the fair value of asset sold) and the lease payments to be also artificially fixed (that is, not based on the fair market rental) as a package deal.

Thus, there are three major accounting considerations in relation to a sale and leaseback transaction, as follows:

- a) whether the sale and leaseback should be accounted for as a sale transaction plus a lease transaction, or just as a financing transaction;
- b) where the sale and leaseback is accounted for as a sale transaction plus a lease transaction, how the profit or loss from the sale transaction should be accounted for, and
- c) where the selling price is artificially fixed at lower or higher than the fair value so as to accommodate a higher or lower than market lease rental, how these off-market prices should be accounted for.





“SALE PLUS LEASE” VERSUS “FINANCING”

The most important accounting issue in a sale and leaseback transaction is to determine upfront whether the sale and leaseback should be accounted for as a sale transaction plus a lease transaction, or just as one financing transaction. Currently, this issue is addressed in INT FRS 27.

INT FRS 27 provides the principle that a series of transactions that involves the legal form of a lease is linked and should be accounted for as one transaction when the overall economic effect cannot be understood without reference to the series of transactions as a whole.

Moving forward, this issue of “sale plus lease” versus “financing” will be resolved differently under FRS 116.

FRS 116 requires the seller-lessee to determine whether the transfer of the asset is a sale under FRS 115: Revenue from Contracts with Customers (para 99).

[Under FRS 115, a sale exists only if and when buyer gains control of the asset (para 31), that is, the buyer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset (para 33). Further, FRS 115 provides that when evaluating whether a customer obtains control of an asset, an entity should consider any agreement to repurchase the asset (para 34).]

If the transfer of the asset is a sale, FRS 116 requires the sale and leaseback transaction to be

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... accounting for sale and leaseback under FRS 116 is quite different from that under FRS 17 and the related INT FRS 27: Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

TECHNICAL EXCELLENCE

FRS 17 VS FRS 116

accounted for as a sale transaction plus a lease transaction. If the transfer of the asset is not a sale, FRS 116 requires the sale and leaseback transaction to be accounted for as a financing transaction.

PROFIT OR LOSS ON SALE

Under FRS 17, the accounting treatment for the profit or loss from the “sale” transaction (assuming the selling price of the asset is equal to its fair value) depends very much on the nature of the leaseback transaction.

If the leaseback transaction qualifies as an operating lease, FRS 17 requires the profit or loss from the sale transaction to be recognised immediately (para 61). However, if the leaseback transaction results in a finance lease, FRS 17 requires the excess of selling price over the carrying amount (book value) to be deferred and amortised over the lease term (para 59). Moving forward, the issue of profit or loss on the sale transaction will be dealt with quite differently under FRS 116.

FRS 116 basically requires the seller-lessee to look at the whole sale and leaseback transaction and determine whether any rights in the underlying asset has been transferred to the buyer-lessor. If so, FRS 116 requires the seller-lessee to recognise profit or loss that relates to the rights transferred to buyer-lessor (para 100).

Thus, for example, if the asset has a 10-year useful life, and the seller-lessee enters into a sale and leaseback transaction to lease the asset for eight years, then the seller-lessee has, in substance, sold the last two years’ right to the buyer-lessor. Consequently, the seller-lessee will



have to recognise profit or loss for the last two years’ right transferred. However, if the seller-lessee enters into a sale and leaseback transaction to lease the asset for 10 years, then the seller-lessee has, in substance, not sold any part of the asset to the buyer-lessor, and consequently, there is no profit or loss to be recognised.

The profit or loss may be calculated using the formula below:

$$\text{Profit or loss} = (\text{Fair value} - \text{book value}) \times \left[\frac{(\text{Fair value} - \text{Lease liability})}{\text{Fair value}} \right]$$

OFF MARKET PRICING

Where the selling price is fixed artificially lower or higher than the fair value so as to accommodate a lower or higher than market lease rental, FRS 17 treats the off market selling price as part and parcel of the profit or loss on sale of the asset, whereas FRS 116 treats the off market selling price as a financing issue.

Under FRS 17, the general accounting treatment is to defer the difference between the selling price and the fair value and amortise it over the lease term or the period for which the asset is expected to be used, so as to adjust the off market lease rental to be approximately equal to the market lease rental.

Moving forward, FRS 116 requires the sales proceeds to be adjusted on



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The most important accounting issue in a sale and leaseback transaction is to determine upfront whether the sale and leaseback should be accounted for as a sale transaction plus a lease transaction, or just as one financing transaction.

the bases that any below-market selling price is accounted for as a prepayment of the lease payments, and any above-market selling price is accounted for as additional financing provided by the buyer-lessor to the seller-lessee (para 101).

To illustrate paragraph 101 of FRS 116, assume that the seller-lessee has an airplane with a fair value of \$100 million.

If, in the sale and leaseback transaction, the airplane was sold for \$80 million (instead of at its fair value of \$100 million), FRS 116 requires the sale to be recognised at \$100 million, except that the seller-lessee has paid \$20 million of the lease payment upfront on the commencement of the lease. Also, the lease liability would

be recognised initially at \$100 million (present value of the lease payments of \$80 million plus \$20 million of upfront payment) and immediately reduced by an assumed upfront prepayment of \$20 million.

If the above aeroplane was sold for \$110 million (instead of at its fair value of \$100 million) in the sale and leaseback transaction, FRS 116 requires the sale to still be recorded at \$100 million, and the lease liability to be recognised at \$100 million, except that the seller-lessee is deemed to have additionally taken a loan from the buyer-lessor of \$10 million. The lease is to be accounted for under FRS 116, whereas the loan is to be accounted for under FRS 109: Financial Instruments.

CONCLUSION

The accounting treatment for sale and leaseback transactions under FRS 116 will be quite different from that under FRS 17.

Whether the sale and leaseback transaction is to be accounted for as a sale transaction plus a lease transaction or as a financing transaction will be determined based on different criteria. The profit or loss on sale of asset (where the selling price is equal to the fair value of the underlying asset) will be calculated differently and accounted for differently. Also, where the selling price is fixed artificially lower or higher than the fair value so as to accommodate a lower or higher than market lease rental, the off market selling price is viewed at differently and accounted for differently.

Further, consistent with the general requirement of FRS 116, where the sale and leaseback transaction is to be accounted for as a sale transaction plus a lease transaction, the lease will have to be on the balance sheet (unlike FRS 17 where majority of the leases are off balance sheet).

Entities that expect to have sale and leaseback transactions in the year 2019 and beyond will have to take note of these differences and their impacts thereof. ISCA

Ng Eng Juan is Associate Professor, School of Business, SIM University, and Low Kin Yew is Associate Professor, Nanyang Business School, Nanyang Technological University.

TOP 5 TAX CONSIDERATIONS FOR SMES IN 2017

Key Tax Areas to Look Out For



BY
FELIX WONG

“For the last five years, the global economy has been in a low-growth trap, with growth disappointingly low and stuck at around 3% per year,” observed Catherine L. Mann, Chief Economist of the Organisation for Economic Co-operation and Development (OECD), in the OECD’s “Economic Outlook Report” for November 2016.¹ The report also estimated global real GDP growth for 2017 to remain at a modest 3.3%.

The local business community in Singapore shares the gloomy economic sentiments for 2017. Of the over 1,100 companies that took part in the National Business Survey conducted by the Singapore Business Federation, close to half of the respondents expected economic climate in Singapore to worsen in 2017.²

To stay ahead in these challenging times, small and medium-sized enterprises (SMEs), which typically

do not have deep pockets compared to multinationals, must all the more stay focused on their core businesses while keeping sight of all other important (but often neglected) areas, such as tax. For a start, here are five key tax areas that SMEs should look out for in 2017. Hopefully these will help SMEs avoid unnecessary tax issues with the authorities, and possibly even generate some tax savings for them along the way.

1 Last Hurrah for PIC

As announced in Budget 2016, the Productivity and Innovation Credit (PIC) scheme will lapse after Year of Assessment (YA) 2018. This essentially means that financial year (FY) 2017 is the final year for businesses to enjoy enhanced tax deductions or allowances on qualifying PIC activities. It is therefore timely for companies to evaluate their plans for the next few years to see if there are any tax-saving opportunities. Some possible considerations are:

- + Are there plans to upgrade the computers or purchase new software?
- + Are there plans to automate any aspect of operations (for example, assembly and testing operations)?
- + Are there relevant training programmes for your staff that have not been tapped into and require new investment?
- + Are there plans to possibly acquire, license or register any intellectual property rights



PHOTO SHUTTERSTOCK

¹ Catherine L. Mann (2016) “Escaping the Low Growth Trap: Effective Fiscal Initiatives, Avoiding Trade Pitfalls”, Organisation for Economic Co-operation and Development; www.oecd.org

² SBF National Business Survey 2016/17: “Businesses Still Facing Challenging Times and More Can Be Done to Mobilise Companies to Transform”; www.sbf.org.sg/sbf-national-business-survey-2016-17-businesses-still-facing-challenging-times-and-more-can-be-done-to-mobilise-companies-to-transform



(such as patents, copyrights and trademarks) for the business?

- + Are there plans to embark on any research and development (R&D) or design projects?

If the answer to any of the above questions is yes, companies may wish to review whether the specific expense or activity qualifies for PIC, and if so, consider the possibility of bringing forward the company's plan (assuming it makes business sense to do so) to enjoy the enhanced tax deductions before the PIC scheme lapses.

2 TP Documentation Requirements

It has been two years since the Inland Revenue Authority of Singapore (IRAS) introduced the requirement for taxpayers to maintain contemporaneous transfer pricing (TP) documentation (one that is in existence at the time of undertaking the transaction) to support the pricing of their related party transactions (RPTs). While the IRAS has been reasonable in administering the requirement (and took on more of an educational role in helping taxpayers comply with the requirement) since its introduction, there is a chance that more stringent enforcement actions for non-compliance may be used in the future (considering ample time has been given to companies to comply).

A common misconception held by many SMEs is that TP documentation is only applicable to big multinational enterprises. While the IRAS does not expect taxpayers to prepare TP

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Non-compliance with the foreign tax requirements not only can lead to fines and penalties, but also reputational risks and business disruptions for the company.

TECHNICAL EXCELLENCE

TAX CONSIDERATIONS

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A common misconception held by many SMEs is that TP documentation is only applicable to big multinational enterprises.

documentation for all RPTs, SMEs are not immune to TP documentation requirements.

For example, a Singapore company may be required to prepare TP documentation if it transacts with its Singapore related party which is subject to a different corporate tax rate. It is also not overly difficult for SMEs to exceed the stipulated RPT thresholds (over which TP documentation would be required). The thresholds for the various categories are shown in Table 1.

SMEs which have significant RPTs but have yet to make preparations to comply with TP documentation requirements are advised to review their internal processes and the various categories of RPT to evaluate whether the company is poised to meet all TP requirements before tax authorities come knocking.

3 Providing B2C e-Services to Overseas Customers

A local SME providing business-to-consumer (B2C) e-services to overseas consumers checks the Singapore Goods and Services Tax (GST) implications of its B2C sales of e-services to overseas consumers, and duly files its GST



return with the IRAS.

The above is all good, except that the local SME will also need to bear in mind the growing list of countries which now requires overseas service providers to register and account for local GST or value-added tax (VAT) on the B2C e-services supplied to consumers in their respective countries.

In Korea, for example, if a Singapore SME (which has no place of business in Korea) provides e-services (such as applications, games, music, films, electronic documents and software) to a Korea-resident consumer, the relevant e-services will be considered as being provided in Korea and as a result, the Singapore SME will be subject to a simplified VAT registration process, VAT return filing and VAT payment on these e-services.

In view of this growing movement from supplier-based to destination-based consumption tax for cross-border e-services, companies providing substantial amount of B2C e-services to overseas customers, especially those in the European Union (EU), Korea, Japan and other Asia-Pacific countries are advised to find

Table 1 TP documentation: RPT categories and thresholds

Category of RPT	Threshold per FY (S\$)
Purchase of goods from all related parties	15 million
Sale of goods to all related parties	15 million
Loans owed to all related parties	15 million
Loans owed by all related parties	15 million
All other categories of RPT (such as service income, service payment, royalty income, royalty expense, rental income and rental expense)	1 million per category of transaction



out whether there is a need to register for GST or VAT in these countries.

4 Managing Business Travel

From tax incentive schemes for internationalisation to calls from business leaders and associations, the constant message to Singapore SMEs for the past few years has been to grow beyond Singapore. As local SMEs gear up to compete in overseas markets, the number of business travels and overseas deployments of personnel is expected to increase sharply.

Business travellers may unknowingly create a permanent establishment (and hence taxable presence) for their companies overseas if they provide services exceeding a specific period(s) of time in certain countries. It is hence

essential for companies to keep a close tab on their employees' business travels to comply with any foreign tax obligations that may arise.

In this era of big data and analytics, foreign tax authorities and customs can easily track the presence of business travellers in their countries through their immigration systems. While long-term deployments of personnel (such as secondment) are normally tracked and administered through established human resources (HR) programmes in most companies, short-term business travels are often not tracked centrally by any one department. This may result in unfortunate situations where foreign tax authorities find out about a company's tax obligations in their respective countries before the

company itself realises them.

Non-compliance with the foreign tax requirements not only can lead to fines and penalties, but also reputational risks and business disruptions for the company. In this regard, SMEs that are regionalising are encouraged to consider their business travel policies and invest in a viable company-wide tracking system to mitigate such risks arising from an internationally-mobile workforce.

5 Staying Away from Tax Avoidance Arrangements

Rounding up the five key tax areas to look out for is one of the hottest tax topics in Singapore last year – tax avoidance.

The IRAS published an e-Tax Guide on “The General Anti-Avoidance Provision and its Application” in July 2016 to clarify its approach to the construction of the general anti-avoidance provisions in the Income Tax Act. While the examples in the guide do not specifically clarify how the general anti-avoidance provisions should be applied *per se*, they are useful in helping companies better understand the types of arrangements that are generally frowned upon by the IRAS.

The key takeaway for SMEs is, to minimise the risk of tax avoidance, businesses must be able to demonstrate that their transactions are carried out for *bona fide* commercial reasons and that the avoidance or reduction of tax (if any) is not one of the main purposes of the transactions. In practice, contemporaneous documentation (such as minutes of Board Meetings) is often the key to demonstrate the commercial intent behind the company's decision at the time when the transaction took place.

There you have it, the five key tax areas for SMEs to look out for in 2017. With that, may you breeze through the year with no surprises from the taxman. ISCA

Felix Wong is Head of Tax, SIATP. For more tax insights, please visit www.siatp.org.sg.

DON'S COLUMN

FRS 109 PART 1

Accounting for Impairment of Financial Assets



BY
KOH WEI CHERN AND
TONG YEN HEE

FRS 39: Financial Instruments: Recognition and Measurement para 58 states that if there is *objective evidence* that a financial asset is impaired, the entity shall apply the impairment rules in (i) para 63 for financial assets at amortised cost, (ii) para 66 for those at cost, and (iii) para 67 for those classified as available-for-sale. These multiple impairment rules for different categories of financial assets give rise to unnecessary complexity.

In addition, FRS 39 para 59 states that a financial asset is impaired and impairment losses are incurred, if and only if a loss event has occurred and this event affects the estimated future cash flows of the financial asset. This is commonly referred to as the incurred loss model. This model was identified as a weakness in accounting standards because it gave rise to delay in loss recognition (IASB Project Summary July 2014).

The impairment phase of the IFRS 9: Financial Instruments project was initiated to simplify the accounting standards with respect to impairment of financial assets and to provide more timely information on impairment loss. With the issuance of IFRS 9 (and the Singapore equivalent,

FRS 109), impairment loss accounting is now applicable to debt instruments measured at amortised cost (AC) and at fair value through other comprehensive income (FVOCI) (FRS 109 para 5.2.2). Most other classifications of debt and equity instruments are not subject to impairment rules.

Furthermore, FRS 109 para IN9 states that “it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses”. Thus, under FRS 109, impairment accounting is based on an expected loss model that will provide timelier information about credit losses.

THREE STAGES OF IMPAIRMENT

Under the expected loss model, there are three impairment stages. In Stage 1, the credit risk on a financial instrument has not increased significantly since initial recognition, and the loss allowance for a financial instrument is based on an amount equal to the 12-month expected credit losses (FRS 109 para 5.5.5). Interest income is calculated on gross carrying amount.

In Stage 2, the credit risk on a financial instrument has increased significantly since initial recognition, and the loss allowance for a financial instrument is based on an amount equal to the lifetime expected credit losses (FRS 109 para 5.5.3). Interest income is also calculated on the gross carrying amount.

In Stage 3, the credit risk on a financial instrument has increased significantly and is credit-impaired, and the loss allowance for a financial instrument is based on an amount





Impairment

Improve/Auto Loan

Mortgage

Service Providers

Mobile

Insurance

PROPERTY

Finance Purchase

Credit

Finance/Banks

Coupon Interest

Interest Income

TECHNICAL EXCELLENCE

FRS 109: IMPAIRMENT ACCOUNTING

equal to the lifetime expected credit losses (FRS 109 para 5.5.3). However, unlike Stages 1 and 2, interest income is calculated on the amortised amount.

While there are discussions on the determination of impairment stages and measurement of expected credit losses, illustrative examples on the accounting for impairment losses and the recognition of interest income are lacking. In this two-part article, we provide comprehensive illustrative examples on impairment accounting for debt instruments. In this Part I, we examine debt instruments measured at AC. In Part 2, we will examine debt instruments measured at FVOCI.

Assume that on 1 January 20x1, ABC Ltd (ABC), with 31 December year-ends, pays \$104,330 cash to acquire a five-year bond that has a nominal value of \$100,000, an annual coupon rate of 6% payable on 31 December, and a maturity date on 31 December 20x5. At initial

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... under FRS 109,
impairment accounting
is based on an expected
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information about
credit losses.

recognition, the effective interest rate of this bond is 5%. Assume that this investment is classified as “amortised cost” under FRS 109. Table 1 presents the amortisation schedule using the effective interest rate method.

On 1/1/20x1, ABC debits investment in bond and credits cash of \$104,330. On initial recognition, the bond is in Stage 1 impairment. Using a 12-month probability of default of 0.5% and an estimated loss given default of \$20,000, the estimated impairment loss is \$100 (0.5% x 20,000). So, ABC debits



impairment loss (an expense account) and credits loss allowance of \$100.

On 31/12/20x1, ABC recognises interest income based on the gross carrying amount, that is, debits cash of \$6,000, credits interest income of \$5,216 and credits investment in bond of \$784. Assume that ABC determines that there has not been any significant increase in credit risk since initial recognition of the bond. The bond is in Stage 1 impairment. Using a revised 12-month probability of default of 1% and an estimated loss given default of \$20,000, the 12-month expected credit loss is \$200 (1% x 20,000). Given a prior provision of \$100, an additional \$100 provision is required,

Table 1 Amortisation schedule using the effective interest rate method

Year ending	(1) Coupon interest received (6% x nominal value of \$100,000)	(2) Interest income (5% x beginning balance of gross carrying amount)	(3) Changes in gross carrying amount	(4) Gross carrying amount
				\$104,330
31/12/x1	\$6,000	\$5,216	(\$784)	\$103,546
31/12/x2	\$6,000	\$5,177	(\$823)	\$102,723
31/12/x3	\$6,000	\$5,136	(\$864)	\$101,859
31/12/x4	\$6,000	\$5,093	(\$907)	\$100,952
31/12/x5	\$6,000	\$5,048	(\$952)	\$100,000

Table 2 Interest income, changes to loss allowance and amortised amount

Original amortisation schedule					Stage 3			
Year ending	(1) Coupon Interest received (6% x nominal value of \$100,000)	(2) Interest income (5% x beginning balance of CA)	(3) Changes in gross CA	(4) Gross CA	(5) Loss allowance	(6) Amortised amount	(7) Interest income (5% x beginning balance of amortised amount)	(8) Changes in amortised amount
31/12/x3				\$101,859	35,200	66,659		
31/12/x4	\$6,000	\$5,093	(\$907)	100,952	36,960	63,992	\$3,333	(\$2,667)
31/12/x5	\$6,000	\$5,048	(\$952)	100,000	38,808	61,192	\$3,200	(\$2,800)



that is, ABC debits impairment loss and credits loss allowance of \$100.

On 31/12/20x2, ABC continues to recognise interest income based on the gross carrying amount, that is, debits cash of \$6,000, credits interest income of \$5,177 and credits investment in bond of \$823. Assume now that ABC determines that there has been a significant increase in credit risk since initial recognition of the bond. The bond is in Stage 2 impairment. Using a lifetime probability of default of 20% and a revised estimated loss given default of \$50,000, the lifetime expected credit loss is now \$10,000 (20% x 50,000). Given a prior provision of \$200, an additional \$9,800 provision is required, that is, ABC debits impairment loss and credits loss allowance of \$9,800.

On 31/12/20x3, ABC continues to recognise interest income based on the gross carrying amount, that is, debits cash of \$6,000, credits interest income of \$5,136 and credits investment in bond of \$864. Assume it became probable that the bond issuer is entering bankruptcy proceeding. The bond is considered as credit-

impaired, and the lifetime probability of default has increased to 80%.

The bond is in Stage 3 impairment. Based on a revised estimated loss given default of \$44,000, the lifetime expected credit loss is calculated to be \$35,200 (80% x 44,000). Since there is a prior provision of \$10,000, an additional \$25,200 provision is required, that is, ABC debits impairment loss and credits loss allowance of \$25,200.

As the bond is in Stage 3 impairment throughout 20x4, the interest income has to be recognised based on amortised cost, which incorporates the loss allowance. Table 2 shows the calculations for interest income, changes to loss allowance and amortised amount.

In 20x4, ABC will credit interest income of \$3,333 (5% x \$66,659). ABC will also debit cash of \$6,000 for the coupon payment received. The question is, into which account(s) to credit \$2,667?

One option would be to credit the entire amount to investment in bond. However, doing so will not amortise the investment in bond account to \$100,000 at maturity. A second option

would be to credit the entire amount to loss allowance. But this will result in the balance in the investment in bond account to stay at \$101,859 till maturity.

A third option would be to continue to rely on the original amortisation schedule for the gross carrying amount. Under this option, \$907 is credited to the investment in bond account. The loss allowance is calculated as the balancing figure between the gross carrying amount and the amortised cost. Hence, a credit entry of \$1,760 is passed to the loss allowance account. Note that (i) \$1,760 reflects the increase in loss allowance because of time value of money (that is, \$1,760, or 5% x \$35,200), and (ii) there is no further adjustment to the loss allowance account in 20x4 as the estimated lifetime probability of default and the expected cash shortfalls given default are assumed to remain unchanged.

On 31 December 20x5, using the third option, ABC debits cash of \$6,000, credits interest income of \$3,200, credits investment in bond of \$952 and credits loss allowance of \$1,848. The balance in the investment in bond is now \$100,000, that is, nicely amortised.

Upon maturity of the bond, assume that the principal repayment is only \$60,000. ABC would derecognise the investment in bond of \$100,000, the loss allowance of \$38,808, and recognise the cash receipt of \$60,000 and a loss on the bond of \$1,192.

Based on the illustration above, it can be seen that ABC has recognised impairment losses on a timelier basis under FRS 109 compared to FRS 39. While FRS 109 is silent on the applicable accounting entries for Stage 3 impairment, we would recommend option three so that the book value of the bond can be amortised to its par value on maturity date. ISCA

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QUIZ

1 In "Top Five Tax Considerations for SMEs in 2017", close to half the respondents in the Singapore Business Federation's National Business Survey are hopeful that the local business community will pick up this year.

- A True
- B False

2 In "Building a Business Network", one of the best ways to develop a strong, authentic network is to add value to the people around you, to offer to help others before you need it yourself.

- A True
- B False

3 In "The Labour Market and Employment Support for PMEs", the Adapt and Grow initiative was introduced by Manpower Minister Lim Swee Say to help Singaporeans adapt to changing job demands and grow their skills.

- A True
- B False

CONGRATULATIONS

JANUARY QUIZ WINNERS:

Tee Siew Kim | Tan Eng Chye | Koid Shiau Sian
Sxxxx514E | Sxxxx122B | Sxxxx675D

Answers for January quiz: (1) A, (2) A, (3) A



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