IS Chartered Accountant Journal
APRIL 2019

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focus

THE FUTURE OF FINANCE IN THE DIGITAL ECONOMY

CFOs Can Embrace Technology And Lead Change

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

IS Chartered Accountant Journal

Analyses, Frameworks, Strategies; People Still Hold The Key

Dear members,

THE TECHNOLOGICAL REVOLUTION IS UPON US AND DAILY, we feel its significant impact on the way we live, work and play. Just think of a typical day and you'll realise how reliant we are on information and communication technologies (ICTs) to perform a multitude of tasks from communication to research, project fulfilment, data collation and analyses. The list goes on.

The ICT sector plays an essential role in facilitating digitally-enabled trade in goods and services, which in turn fuels economic growth. According to a 2018 Bain & Company report, the ICT sector in ASEAN has been expanding 9% annually in the last five years, and now contributes more than US$113 billion to the ASEAN GDP. It will continue to grow, supported by existing infrastructure and the initiatives under the ASEAN ICT Masterplan 2020. In fact, ASEAN's digital integration is projected to add US$1 trillion to the region's GDP by 2025.

Our cover story, "The Future Of Finance In The Digital Economy", underscores the value that ICTs bring to businesses as they help to drive innovation, unlock business opportunities and enhance efficiencies. But there are also the inevitable dark clouds in the form of disruptions to the norm, which may result in redundancies due to job redesign or obsolescence, or when people and companies cannot keep up with the fast pace of change.

ISCA started preparing our members for the future economy even as the Institute embarked on its own transformation journey in 2012. To help members take charge of their professional growth, we launched two learning roadmaps (LRMs) – PAIB Framework and corresponding PAIB LRM for financial and management accountants, and SMP LRM– to delineate the key competencies and skills required of them along their career journeys. Both LRMs have technological elements for the development of members' competencies – Future Finance (agile finance, digital awareness) for PAIB LRM, and Information Technology (data analytics, cybersecurity, IT) for SMP LRM. The Institute's many online learning offerings cater to the needs of members who prefer anytime, anywhere learning, while workshops and resources bring members up-to-date with the latest standards and developments.

To support members in this digital age are publications and guidance that provide relevant insights including "Artificial Intelligence: Opportunities, Risks And Implications" and "Cybersecurity Risk Considerations In A Financial Statements Audit". Our CPE courses also feature ICT-related topics such as cryptocurrency, robotic process automation, artificial intelligence, blockchain and cybersecurity. To deepen skill sets and support members' entry into specialised areas of high demand, we have the ISCA-SUSS (Singapore University of Social Sciences) Business Analytics Certification programme, and ISCA Financial Forensic Accounting Qualification. As accountants play an essential role in protecting their organisations against cyber attacks, we are currently exploring the development of a cybersecurity certification aimed at better defining the role of accountants in this important discipline. ISCA has different events to meet the needs of our various member segments, such as the ISCA Ethics Seminar and ISCA Audit Quality Seminar, and our flagship Singapore Accountancy and Audit Convention series.

In the accountancy profession, technology has made things more efficient, such as relieving executives from the more tedious, repetitive tasks so that they can assume higher-level analytical and strategic work. Ultimately, human foresight underlines the decision to leverage technology and which technology to use at different junctures of the company's development. Tan Khoon Guan, Managing Director of Precursor Assurance PAC, who is featured in this month's Member Profile, is a case in point. In the early years, he was looking for an integrated automation software for the firm. Finding none in the market, he built his own customised version and plugged a gap. Today, technology services is one of the firm's business lines.

The common thread that runs through the cover story and feature articles is that people – not machines – hold the key to the most crucial industry and corporate functions. These range from standard-setting (in the article "Singapore Re-Affirms Commitment To International Accounting Standard-Setting") to application of standards and tax laws (respectively, "Tax Treatment Of Leases By Lessees Post-FRS 116" and "A Spotlight On Singapore Tax Cases"), and collaborations ("The Values Behind Data"). Given the importance of human talent, I urge members to commit to your own development both for professional sustainability, and in order to create the most value for your organisation and your clients.

As professionals advance along the career ladder, soft skills like information processing, problem-solving and communication become as valued as domain competencies, and these are reflected in our LRMs. In "Crafting Your Own Leadership Style (Part 3)", the emphasis continues for top corporate executives to know themselves well so that they can optimise their effectiveness as leaders. ISCA, too, is collaborating with people in the region – to co-develop and enhance the capabilities of the accountancy profession. We are currently working with Myanmar, Lao PDR, Vietnam and Cambodia, and here, we have updates of the recent leadership programme for Lao government officials in Singapore.

As usual, the Journal is brimming over with useful resources for our members, and I wish you a fruitful read.

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

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ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

PUBLISHER
Institute of Singapore Chartered Accountants
60 Cecil Street, ISCA House, Singapore 049709
Tel: (65) 6749-8060 **Fax:** (65) 6749-8061
Email: isca@isca.org.sg **Website:** www.isca.org.sg

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Asia-Pacific Companies Bullish About AI

MORE THAN HALF OF COMPANIES ACROSS ASIA PACIFIC have adopted artificial intelligence (AI), according to a new survey by MIT Technology Review Insights, in association with ADP, Info-communications Media Development Authority (IMDA), Genesys, Splunk, and the Asia School of Business. The research, which has been published in two reports, "Asia's AI agenda: The ecosystem" and "Asia's AI agenda: AI for business", is based on a multi-industry survey of 871 senior executives drawn from 13 Asia-Pacific markets.

"While AI is not yet a mainstream application, it is being used by more than half of the companies we surveyed across Asia Pacific to solve business problems, create new products and services, and increase productivity," says Claire Beatty, editor of the report. The first AI-augmented business areas are customer channels and processes.

Key findings

- **Asia has credible potential for becoming a frontrunner in the AI era**
  Policymakers across Asia are developing national-level plans for using AI to enhance domestic and regional competitiveness. Business leaders are positive about the region's AI resources, particularly data availability and the quality of external talent. More can be done to bolster the R&D environment, and governments can still provide greater support.
- **China is rapidly applying AI, but basic research lags**
  The abundance of data, firm government push, and highly innovative tech companies give China a distinct advantage in applying AI to domains such as healthcare and finance, and across mobile platforms. Foundational research can be strengthened by further integrating private-sector and academic R&D.
- **More than 50% of Asia-Pacific companies surveyed have already launched AI**
  Businesses in Asia are past the halfway mark when it comes to deploying AI. The highest level of AI penetration is in North Asia, namely, Japan and South Korea. Indonesia and Vietnam are at the most nascent stage, with just a quarter of companies using AI.
- **The top three AI priorities are improving the customer experience, faster and better business decisions, and increasing operational efficiency**
  Less than a third of the AI adopters have a centralised strategy for AI, with the majority (39%) deploying AI on a case-by-case basis. Improving the customer experience is the number one priority, with more than half of the survey respondents already having used AI in customer processes. Greater decision-making speed and quality, and increased operational efficiency, are also ranked as organisational priorities for AI.
- **AI constraints include talent, a lack of data, and high costs**
  A shortage of internal talent, noted by 58% of the survey respondents, ranks as the region's greatest challenge in deploying AI. Yet, filling the gap is not easy, as AI engineers are scarce and in high demand. Other top AI challenges reported in the survey include insufficient data and high costs of deployment.

Singapore's AI story

AI Singapore (AISG) is a national programme for Singapore to catalyse, synergise and boost the country's capabilities to power the digital economy. In February, AISG announced plans to launch two new programmes – AISG Industrial Postgraduate Programme (IPP), and AISG Fellowship Programme (FP) – to train AI research talent in strategic industrial areas and to engage Singapore's top AI experts to help narrow the gap between academic research and industry solutions.

Under the AISG IPP, AISG will train postgraduate students to deliver meaningful and purpose-based AI research that can be applied by the industry partners sponsoring the research. Ocean Protocol, as the pioneer partner under this programme, will fund four doctoral students to work on AI research and develop technologies, models and governance to enable borderless sharing for AI.

AISG FP is aimed at engaging Singapore's top AI researchers and faculty members in AISG's activities and the local AI ecosystem. Among the incentives and benefits, AISG Fellows will be able to work with AISG postgraduate students and interns and AISG industry partners on projects and research collaborations, as well as tap on the AI ecosystem. The programme will be formally launched in the second quarter of 2019.

PHOTOS SHUTTERSTOCK

Malware, Malicious Insiders Accounted for One-Third of All Cybercrime Costs Last Year

THE COST TO COMPANIES FROM MALWARE and malicious insider-related cyberattacks jumped 12% last year and accounted for one-third of all cyberattack costs, according to new research published in March 2019 by Accenture and the Ponemon Institute.

Based on interviews with more than 2,600 security and information technology (IT) professionals at 355 organisations worldwide including in Singapore, Accenture's 2019 "Cost of Cybercrime Study" found that the cost to companies due to malware increased 11%, hitting more than US$2.6 million per company, on average, and the cost due to malicious insiders – defined as employees, temporary staff, contractors and business partners – jumped 15%, to US$1.6 million per organisation, on average.

Together, these two types of cyberattacks accounted for one-third of the total US$13.0 million cost to companies, on average, from cybercrime in 2018 – a jump of US$1.3 million from the year before. Similarly, the cost to companies from phishing and from social engineering increased to US$1.4 million per organisation, on average.

The study calculated cybercrime costs as what an organisation spends to discover, investigate, contain and recover from cyberattacks over a four-consecutive-week period, as well as expenditures that result in after-the-fact activities, that is, incident-response activities designed to prevent similar attacks, and efforts to reduce business disruption and loss of customers.

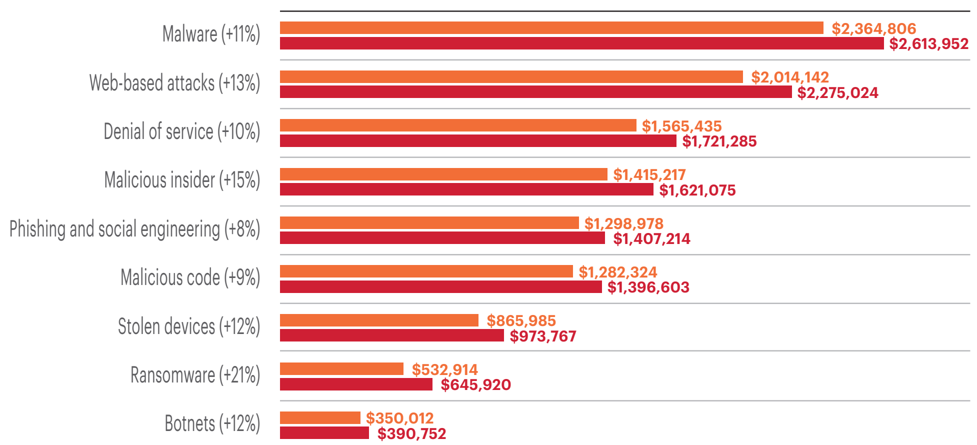
"From people to data to technologies, every aspect of a business invites risk and too often, security teams are not closely involved with securing new innovations," says Kelly Bissell, Senior Managing Director, Accenture Security. "This siloed approach is bad for business and can result in poor accountability across the organisation, as well as a sense that security isn't everyone's responsibility." He adds that "it's time for a more holistic, proactive and preventative approach to cyber-risk management involving full business engagement across the entire ecosystem of partners".

Other notable findings include:

- In 2018, surveyed companies each recorded an average of 145 cyberattacks, resulting in the infiltration of a company's core networks or enterprise systems. This is an increase of 11% over 2017, and 67% higher than five years ago.
- Malware is the most expensive type of attack, costing companies US$2.6 million, on average, followed by web-based attacks, at US$2.3 million.
- The number of organisations experiencing ransomware attacks increased by 15% in 2018, with the costs increasing 21%, to approximately US$650,000 per company, on average. The number of ransomware attacks more than tripled in the past two years.
- Six in seven companies (85%) experienced phishing and social engineering cyberattacks in 2018, an increase of 16% from a year earlier; 76% suffered web-based attacks.
- Automation, orchestration and machine-learning technologies were deployed by only 28% of organisations – the lowest of the technologies surveyed – yet, they provided the second-highest cost savings for security technologies overall, at US$2.9 million.

"Increased awareness of people-based threats and adopting breakthrough security technologies are the best way to protect against the range of cyber risks," advises Dr Larry Ponemon, Chairman and Founder, Ponemon Institute.

Average annual cost of cybercrime by type of attack (2018 total = US$13.0 million)



Ninth Annual Cost of Cybercrime Study
Accenture and the Ponemon Institute

CEO Activism: A Competitive Reputational Advantage

TWO-THIRDS OF COMMUNICATIONS AND MARKETING EXECUTIVES (67%) in the US, UK and China whose CEOs have spoken out on hotly-debated current issues believe that CEO activism reaps reputational rewards. According to "CEO Activism: Inside Comms and Marketing", a survey commissioned by global communications and marketing solutions firm Weber Shandwick with KRC Research, only 7% of those whose CEOs have spoken out say the impact was negative; 72% of those reporting a positive impact believe the benefits were long term.

"As expectations grow for business leaders to speak out on political and social issues, companies must anticipate which issues affect their businesses and challenge their values, and be prepared to address them," says Andy Polansky, CEO, Weber Shandwick. The study, released in January this year, provides an inside look at how companies are faring at a time when CEO activism is becoming the "new norm and earning competitive reputational advantage".

Part of the corporate agenda

CEOs taking a stand is becoming a part of the corporate agenda. More companies are discussing if their CEOs should speak out (53%), and more time is being dedicated to this discussion (59%).

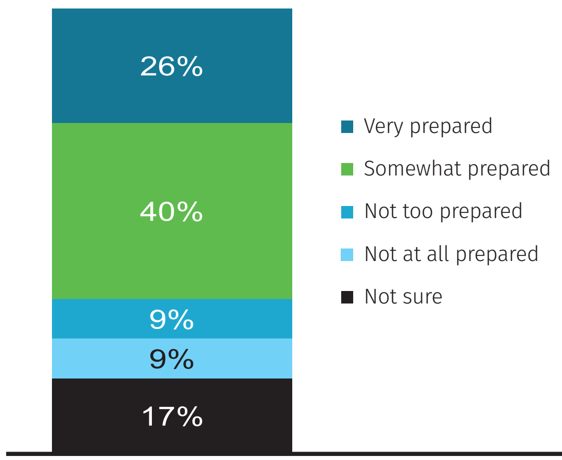
CEOs, too, are more prepared to take a public stance, with 66% (26% "very prepared"; 40% "somewhat" prepared) of communications and marketing executives reporting that their CEOs are prepared to do so. Among those who know whether their CEOs are prepared to respond, 41% say their CEOs are better prepared than they were one year ago; only 4% report that their CEOs are less prepared.

CEO activism reaps reputational rewards, say 67% of communications and marketing executives whose CEOs have spoken out on issues. Among them, 72% believe the positive impact is long term. It seems companies recognise this benefit as well – half of those whose CEOs have not spoken out on an issue (51%) say their companies' reputation would have a moderate to big advantage if their CEOs were to do so.

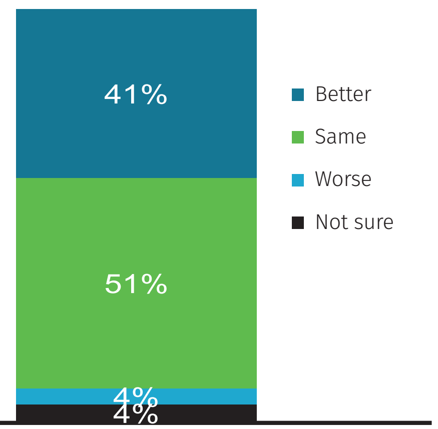
Potential downside

Seven in 10 communications and marketing professionals (73%) think there is a moderate to big risk to company reputation if a CEO speaks out. They consider the top perceived risk to be criticism in the social media (59%), followed by criticism from customers (55%), and criticism from employees (49%). Interestingly, perceived risk is lower among those whose CEOs have spoken out (68%) than those whose CEOs have not (77%). This suggests that experience with CEO activism helps to alleviate concerns, and hence, points to the importance of adequate preparation.

How prepared CEO is, to respond to hotly-debated current issues
(% of communications/marketing executives)



CEO preparedness compared to a year or so ago
(% of communications/marketing executives who know if CEO is prepared)




PHOTOS SHUTTERSTOCK

A GUIDE TO CEO ACTIVISM

It is clear that communications and marketing executives support CEO activism, and the research shows them "placing activism squarely on their C-level agendas", reveals Leslie Gaines-Ross, Chief Reputation Strategist, Weber Shandwick. These professionals "recognise that having business leaders be vocal on issues can strengthen a company's reputation for the long term" and are "making sure that their leaders prepare for the inevitable".

Based on the research findings, Weber Shandwick recommends that CEOs and their companies consider the following guidelines when preparing for activism.

Start talking about activism internally; vet now
Weigh the pros and cons of having a CEO speak out on a particular issue. With companies increasing the amount of time spent discussing this dynamic, other companies are at a competitive disadvantage if they leave CEO activism off the table entirely.

Recognise the reputational advantage
While there are risks associated with CEO activism, the reputational advantages were strong for companies whose CEOs have taken a stand. Consider how your company might benefit from the CEO expressing a public opinion, particularly if aligned with the company's corporate values and principles.

Make sure the CEO and other top leaders know which issues they need to prepare for
Companies need to be prepared to respond to issues whether they pre-emptively decide to speak out or not. A "no comment" can be misinterpreted, so organisations should have a plan in place in the event stakeholders demand a perspective.

Shape your response around employee expectations and company values
Companies need to be firmly tapped into the pulse of employee sentiment on societal issues before they make a move that may not be in line with employee attitudes and expectations.

Understand the wide reach of CEO activism beyond geographic borders
While much of the public focus on CEO activism revolves around emerging issues in the US, companies around the world are faced with deciding whether their leaders should respond. The research shows that there is increased planning and preparation in China and the UK, in addition to the US.

MARK YOUR CALENDAR

10 APR

ISCA Breakfast Talk: Investment Positioning – Proven Strategies to Attract Investors

Hear successful investment strategies from an M&A expert on what makes a company attractive to investors, how to position your company to capture investors' interest and how to effectively engage these investors.

16 APR

NEW!

General Data Protection Regulation (GDPR) Compliance: Overcoming Potential Issues and Challenges

This course provides an overview and understanding of the GDPR and practical applications for companies to be compliant. It will also cover the potential challenges of GDPR compliance and suggest practical ways to overcome them.

17 APR

NEW!

Big Data and Machine Learning in Finance with Learning Journey

Learn to harness the potential of big data and machine learning to compete in today's market.

Get the inside scoop on the industry through a behind-the-scenes guided tour of these labs and startups.

23 APR

Getting a Good DEAL by Understanding Taxation Aspects of Mergers & Amalgamations and Tax Due Diligence

Have the opportunity to understand the potential Singapore income tax, GST and stamp duties consequences arising from common M&A deals in Singapore.

SkillsFuture Credit & UTAP Funding approved

04 MAY

ISCA Run 2019

Join us for a day of camaraderie and fun among members of the accountancy profession and the public at #ISCARun2019. This is also an opportunity to give back to the profession via ISCA Run's chosen beneficiary, ISCA Cares. The charity supports disadvantaged Singapore youths with academic potential in having access to quality accountancy education. Registration is now open!
For more information, visit **www.iscarun.sg**

ISCA RUN

06 & 07 MAY

Time Saving Excel Tips and Tricks for HR and Finance Professionals

This workshop will equip participants with essential skills to increase productivity in various HR scenarios. Learn how to clean up raw data for analysis, use advanced formulas and functions to perform calculations, highlight important values in reports using color, create reusable templates, set up worksheet on auto-pilot, re-use the user data entry forms in other applications, protect sensitive data, summarize large amounts of data with PivotTable & PivotChart reports, create organization charts and flow chart.

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

Temasek Foundation International–ISCA Public Administration Programme In Accountancy For Senior Lao Government Leaders

FROM JANUARY 28 TO FEBRUARY 1, ISCA played host to Athsaphangthong Siphandone, Deputy Minister of Finance, and a team of 20 senior government officials from Lao PDR. The delegation was in Singapore to attend the second edition of a five-day leadership programme organised by ISCA, with the support of Temasek Foundation International (TF Intl), Laos Ministry of Finance and Laos Chamber of Professional Accountants and Auditors (LCPAA).

"The implementation of this programme is in the period when the Lao government is putting more efforts to strengthen its public finance management by collaborating with all stakeholders in order to build strong capacity for enhancing the financial stability and sustainable economic development of Lao PDR. I would like to express our sincere gratitude to ISCA and Temasek Foundation International for your support towards Ministry of Finance of Lao PDR."

ATHSAPHANGTHONG SIPHANDONE
Deputy Minister of Finance, Lao PDR

"We are heartened to see that ISCA's contributions have helped to strengthen the capabilities of the local accountancy profession in Laos. But more importantly, we now share a close bond and warm friendship. I look forward to more opportunities to share our knowledge and extend our programmes to help other developing countries in their journey to develop and strengthen their accountancy profession."

KON YIN TONG
President, ISCA

"Public-sector leadership and effective policymaking are important elements of development and growth. This programme is our first in the area of financial accounting for the public sector and we are pleased that the learning and exchange have been meaningful and effective so far, and have helped strengthen friendships and networks of cooperation between the partner organisations from Lao PDR and Singapore."

BENEDICT CHEONG
Chief Executive, Temasek Foundation International

The TF Intl-ISCA Public Administration Programme in Accountancy will train more than 50 government officials from Laos over three years. This programme arose from the ISCA-LCPAA Memorandum of Understanding (MOU) signed in October 2016. One of the objectives under the MOU was to develop and enhance the capabilities of the accountancy profession in Laos. ISCA has since organised four workshops in Laos and Singapore, for Lao finance and government professionals in both the private and public sectors.

The leadership programme covered modules such as Principles of Accounting, Ethics and Governance, Micro Accounting Model, Public Sector Financial Management and Tax Mechanism. Classroom learning was complemented with a field trip to Inland Revenue Authority of Singapore (IRAS) and interactions with Accounting and Corporate Regulatory Authority (ACRA) officers, to better understand the taxation mechanism and regulatory instruments in promoting audit quality respectively. Using the Train-the-Trainer model, the Lao officials who have completed the programme will cascade their knowledge to their colleagues in Laos, to build a core team of skilled accountancy officials and bring about sustained improvements in their communities.

According to Asian Development Bank, the Lao economy achieved a steady growth averaging 7% per annum[1] over the past three years. In his opening speech, Mr Siphandone shared that the Ministry of Finance of Lao PDR developed the "Vision to 2030 and Public Finance Development Strategy to 2025" in 2017, which included plans for the Lao government to undergo a rigorous process to reform and strengthen the country's public expenditure policy, revenue collection and technical capacity of civil servants, among others.[2]

"This intensive leadership training organised by ISCA would help us to have a better understanding of how accounting and audit can help in enhancing the credibility of financial reporting to serve all levels of decision-making, and how stakeholders can collaborate in building a harmonised management framework to solve national socio-economic issues," said Mr Siphandone.

During his stay in Singapore, Mr Siphandone met with key stakeholders from the local accountancy sector. He paid courtesy calls on Yee Ping Yi, Deputy Secretary, Ministry of Finance, and Ow Fook Chuen, Accountant-General, Accountant-General's Department, where they exchanged insights on Singapore's experience in public-sector financial management.

ISCA is honoured to share in the excitement of building up the accountancy sector in one of the fast-growing economies in ASEAN. By helping to bridge the developmental gap and raising the professional standards of the accountancy profession in ASEAN, ISCA recognises that it will help support the larger objective of facilitating trade and investments in the region, as espoused by the ASEAN Economic Community. Through active collaboration and mutual assistance among countries, ASEAN, as a region, can enjoy shared prosperity.

[1] Country data – Lao PDR, Asian Development Bank, 2018
[2] "Lao fiscal personnel beef up on public finance management", Vientiane Times/Asia News Network, 29 Nov 2017

The Lao delegation in Singapore, including (row 1, from left) Phouthanouphet Saysombath, Director General of Tax Department, Ministry of Finance, Lao PDR; Kon Yin Tong, President, ISCA; Athsaphangthong Siphandone, Deputy Minister of Finance, Lao PDR; Benedict Cheong, Chief Executive, Temasek Foundation International, and Lee Fook Chiew, Chief Executive Officer, ISCA


Delegates participating in an interactive lesson on Ethics, conducted by Sarjit Singh, Executive Chairman, Ardent


Classroom learning was complemented with a field trip to Inland Revenue Authority of Singapore

Membership Privileges

ISCA Members' Privileges Programme (MPP) is a platform where various merchants of different industries offer their respective services and products as a form of privilege to our esteemed members. Membership benefits now extend beyond signing up for CPE courses at members' rates and accessing the Technical Knowledge Centre as ISCA members can ride on and take advantage of the various discounts or deals that are offered throughout the year.

Our newly-revamped ISCA MPP allows our members to enjoy special deals and discounts from various merchant partners, enhancing our value to you as an esteemed member of the Institute.

You may also access your privileges online at http://bit.ly/memberssignup.
*Terms and conditions apply.

Flash your membership e-card to enjoy these benefits as an ISCA member.

Style Theory

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*Valid till 30 September 2019

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3. Invisalign Package at $5588 nett
4. Dental Braces Package at $3388 nett
5. Teeth Whitening Package at $358 nett

*For more information, please visit the ISCA website
**All prices quoted are nett except for Woodlands, Ghim Moh and Clementi, whereby 7% GST is chargeable
***Valid till March 2021

isca breakfast talk

Keeping Your Data Secure

WITH SECURITY DATA BREACHES AND CYBER ATTACKS ON THE RISE, is every company at risk?

At the ISCA Breakfast Talk titled "Keeping Your Data Secure For Your Day-To-Day Business" on March 13, Johnny Kho, Exco member, Association of Information Security Professionals (AiSP), and Lead for AiSP Cybersecurity Awareness & Advisory Programme, explained the essentials of cybersecurity both at the corporate and personal levels. As companies embark on the digitalisation journey, formulating an IT plan can be complex as requirements to enhance efficiency and mobility, ensure cost savings and also enable instant upgrades are all equal priorities. However, cybersecurity rarely makes it to the top of that list.

Mr Kho emphasised that it is increasingly important to put a focus on cybersecurity as it will result in dire consequences if the issue is not properly managed. Participants picked up essential tips to reduce cyber risks, such as putting in place an incident response procedure, destroying sensitive data after use and upkeeping routine password change.

Mr Kho then debunked the myths on the high security risks arising from the use of cloud services. Instead, he encouraged participants to tap on the security measures put in place by cloud solution providers. Nevertheless, business owners are ultimately responsible for performing the necessary due diligence on the cloud solution providers.

Association of Information Security Professionals Exco member Johnny Kho explaining how emerging technologies can aid businesses in cybersecurity

Citing humans as the weakest link in cybersecurity, he shared some security tips to prevent fraud and scam attacks including:

- Staying vigilant of the information to be released;
- Verifying the sources of information and intended recipients;
- Identifying and protecting assets which are the most valuable to criminals, and
- Giving employees a sense of ownership with respect to cybersecurity.

Gearing Up For Excellence In Tax

AS TRANSFER PRICING (TP) CONTINUES TO BE AT THE FRONTLINE OF TAX ISSUES that companies with related party transactions face, it is vital to have a solid grasp of TP fundamentals. Functional analysis, which is one aspect of TP fundamentals, was the key area that participants delved into at a recent *Tax Excellence Decoded* session organised by Singapore Institute of Accredited Tax Professionals (SIATP).

Equally important as TP fundamentals are the past tax cases, and many accredited tax professionals grabbed the opportunity to hear from Allen Tan, Principal, and Ng Chun Ying, Local Principal, from Baker & McKenzie.Wong & Leow, as they shed light on the various case laws arising from the tax cases last year. From deductibility to exchange of information and taxation of employment income, an array of issues was analysed and discussed.

Want to excel in tax? Email enquiry@siatp.org.sg.

Adriana Calderon, Director at Transfer Pricing Solutions Asia, divulges the key tips and best practices of TP functional analysis

An interactive and enlightening session by Allen Tan and Ng Chun Ying, Baker & McKenzie. Wong & Leow, on recent tax disputes

BY TIM WAKEFORD

THE FUTURE OF FINANCE IN THE DIGITAL ECONOMY

CFOs Can Embrace Technology And Lead Change

THERE HAS BEEN MUCH ATTENTION raised in recent years over the digital economy and its impact on economic growth and businesses in the modern day. While there has been some understanding on what the digital economy entails, there is a lack of consensus on the generally-agreed definition or practical concepts of the technologies that comprise it.

Providing another descriptor of the digital economy, it refers to a globally-networked system of economic activities, commercial transactions and digitally-enhanced interactions that are enabled and empowered by information and communication technologies (ICTs). Some of these technologies, which are ever-increasing in popularity in today's commercial world, include cloud computing, big data, machine learning, robotic process automation and artificial intelligence (AI) as they have become integral to how we live, work and play.

The proliferation of ICTs has enabled our workforce and economies to be more flexible, agile and smart. These technologies can help drive innovation, unlock business and employment opportunities, and create greater efficiencies. We already see some of these benefits at play in Southeast Asia, with the digital economy projected to contribute an additional US$1 trillion to the region's GDP by 2025, according to a 2018 report by Bain & Company.[1] To exemplify this growth, the e-commerce/online shopping market in Southeast Asia's six biggest economies is projected to reach US$64.8 billion in 2021, almost doubling the US$37.7 billion in 2017.[2]

However, it is also important to consider that the transformative nature of technology comes with potential risks and challenges in adoption. Technology is both a great enabler and disruptor and can have complex, far-reaching and disruptive consequences for businesses and workplaces alike. This process of change, often referred to as *digital transformation*, must be carefully considered in order to maximise opportunities while managing change.

> **Long recognised for their role in measuring and implementing quantitative elements of performance and efficiency, CFOs today will also be required to devise top-to-bottom strategies and be agents of change for digital transformation across their organisations, using their innate financial knowledge and analytical expertise.**

[1] "Advancing Towards ASEAN Digital Integration – Empowering SMEs to build ASEAN's digital future", Bain & Company, 2018

[2] Opening speech by Minister for Communications and Information S. Iswaran, ConnecTechAsia 2018, 26 June 2018

PHOTO SHUTTERSTOCK

PHOTO **SHUTTERSTOCK**

THE FUTURE OF WORK

One aspect that can be addressed with digital transformation is the perceived detrimental effect on the workforce and the future of work. History (and economic theory) has demonstrably shown that while there are definitely noticeable periods of instability brought about by technological disruption, ultimately, our economies and workforce still stand to benefit both cyclically and long term. The advent of the Internet and new digital communication protocols such as e-mail revolutionised how businesses work globally and led to a boon in e-commerce and digital platforms. Recent estimates of Asian economies by the Asian Development Bank found that the adoption of robots and AI stimulated higher productivity and economic growth, creating an estimated 134 million new jobs, significantly exceeding the 101 million jobs at risk to reorganisation.[3] In the context of job growth and bettering our work lives, technology is to be embraced.

Ultimately, what makes the future of work murky can be attributed to its timing and impact. The threat of redundancy and/or reskilling that accompanies the adoption of digital technologies is a lot more evident and occurs much faster than the emergence of new work opportunities, with the latter often requiring significant investments in training or structural change. These changes also tend to have a disproportionate impact across employee classes, with lower-skilled, blue-collar workers bearing the brunt of disruption. According to a 2017 study by the McKinsey Global Institute,[4] almost 60% of all jobs today can be further automated. In the face of such stark projections, it can be easy to assume that with the increasing prevalence of digitalisation, our labour-intensive workforce is greatly at risk. However, the very same research also highlights that the proportion of work that will actually be displaced by 2030 is likely to be low (an average of 15% globally).[5] Nonetheless, it is still crucial for our workforce to constantly reskill and retrain themselves to prepare for the digital future.

These new jobs created by digital technologies will undoubtedly require different skill sets. These may be technical in nature, such as web design or fluency in a programming language, but just as important are *soft skills*, such as information-processing, creativity, problem-solving, people skills and communication. How we work with one another also matters, and there is a shift away from the traditional workplace models of independent silos or production lines, towards a more globalised and interconnected workplace.

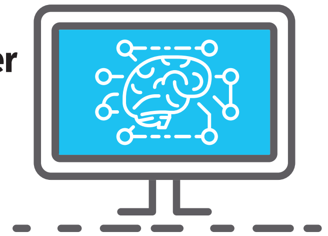
Chief Financial Officers and their teams play a crucial role in this digital transformation process as they act as gatekeepers for critical financial and operational information across an entire organisation, which is required for essential forecasting and supporting senior leaders' strategic plans.

[3] "Asian Development Outlook 2018 – How Technology Affects Jobs", ADB, April 2018

[4] "Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation", McKinsey Global Institute, Dec 2017

[5] "Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation", McKinsey Global Institute, Dec 2017

The difficulty in integrating financial and non-financial data is also an issue with adoption (of technology), due to the looser structured and often qualitative nature of non-financial data, which can require a significant amount of effort and time in processing for analysis.



THE CHANGING ROLE OF THE CFO

Of all the various facets of an organisation, the impact of digital transformation in finance is perhaps the most profound. Many organisations are still in the early stages of applying digital technologies to finance processes, in ways that will create more efficiencies, insights, and value over the long term. Chief Financial Officers (CFOs) and their teams play a crucial role in this digital transformation process as they act as gatekeepers for critical financial and operational information across an entire organisation, which is required for essential forecasting and supporting senior leaders' strategic plans. These may include data relating to sales, operations and supply chains, as well as real-time industry and market statistics.

In a digital economy, the traditional metrics of financial controllership and compliance are no longer the defining qualities of effective financial leaders. According to a 2018 study by the Aspen Institute, the most critical skills for CFOs to succeed today are general management and creative strategy.[6] Long recognised for their role in measuring and implementing quantitative elements of performance and efficiency, CFOs today will also be required to devise top-to-bottom strategies and be agents of change for digital transformation across their organisations, using their innate financial knowledge and analytical expertise.

Advancing digitalisation of the finance function is an important objective for organisations, as business data becomes more readily available and manageable with more innovative connectivity tools. Another study by McKinsey in 2018 emphasised certain areas of digital technology that will become especially prevalent in the finance function – *automation and robotics* to improve processes in finance, *data visualisation* to give end-users access to real-time financial information and improve organisational performance, *advanced analytics* for finance to accelerate decision-making and *advanced analytics for business operations* to uncover hidden growth opportunities.[7]

ROADBLOCKS BETWEEN FINANCE AND DIGITAL AMBITIONS

Workday, a company which provides enterprise cloud applications for finance and human resources, recently commissioned a global survey of more than 670 senior financial leaders to understand the challenges and opportunities faced by finance leaders in the digital economy. The findings unveiled jarring perceptions in the upper echelons of corporate finance and highlighted stark challenges that could hinder efforts to digitally transform finance.[8] For many finance practitioners today, there is often a rift between expectations and reality in digital transcendence, with many barriers to adoption in place. These barriers can exist due to a myriad of issues, such as differences in culture, familiarity, technological aptitude and organisational adaptability.

In today's volatile and uncertain business world, the ability to manage risks on behalf of the organisation is critical for CFOs. Yet, respondents reflected that there was a lack of meaningful data that could be used to build data models and predictive capabilities to support risk management. This was attributed to data being trapped in legacy systems and organisational silos where different functions within an organisation do not share information and knowledge with one another.

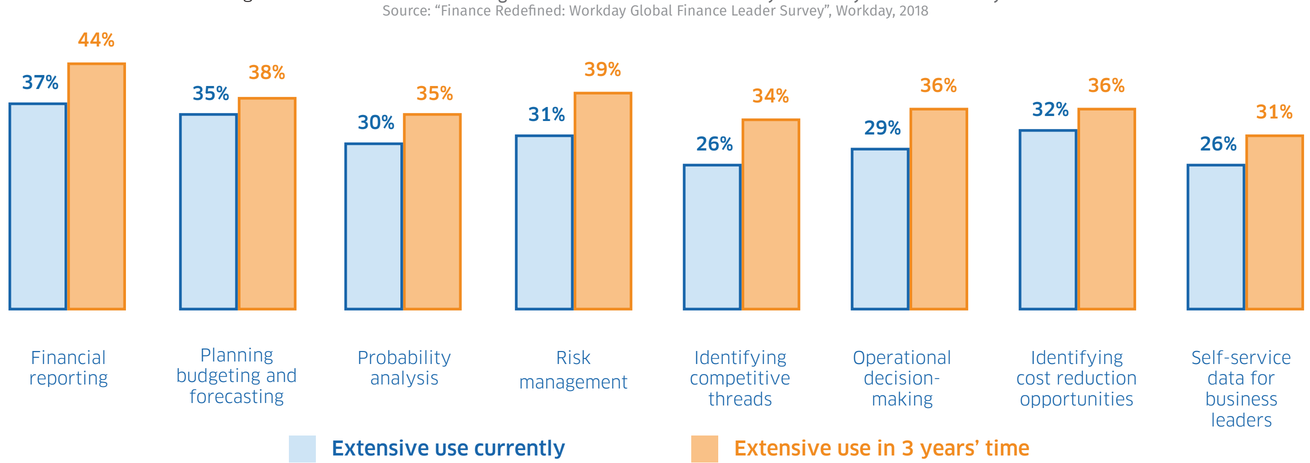
Similarly, even though there is awareness among CFOs for the potential that *advanced data analytics* has in providing useful insights to drive growth and strategy, only around one-third surveyed actually said they use those technologies actively in finance tasks such as risk management and financial reporting. Finance leaders surveyed also do not foresee the extensive use of advanced analytics in the finance functions to increase significantly in three years' time, with only minor increments in adoption projected. The difficulty in integrating financial and non-financial data is also an issue with adoption, due to the looser structured and often qualitative nature of non-financial data, which can require a significant amount of effort and time in processing for analysis. Workday's survey also discovered that many finance teams still work with disparate systems and spend a disproportionate amount of their time aggregating and reconciling data instead of using that time for analysis.

PHOTO SHUTTERSTOCK

[6] "Blurred Lines: Understanding the Value – and Values – of Success in the Digital Economy", White paper #1, The Aspen Institute, May 2018
[7] "Memo to the CFO: Get in front of digital finance – or get left back", McKinsey Global Institute, July 2018
[8] "Finance Redefined: Workday Global Finance Leader Survey", Workday, 2018

PHOTO SHUTTERSTOCK

Figure 1 Finance functions making extensive use of advanced analytics: Today versus in three years' time
Source: "Finance Redefined: Workday Global Finance Leader Survey", Workday, 2018



For any organisation to redefine its finance functions and maximise the benefits to be reaped from the digital economy, **it has to ultimately focus on certain crucial aspects of the business;** some of these aspects include build resilience, deliver strong leadership and foster talent.

The survey also revealed a significant divide between *next-generation* finance executives (those below the age of 40, and who have considerable business experience outside of finance) and *traditionalists* (who are above the age of 50, and who have spent the majority of their careers in the finance function) in the way they view data and analytics. Next-generation finance executives generally reflected greater awareness of the impact of new technologies than their traditionalist peers, with more than half (52%) of the next-generation identifying the pace of technological change as a key risk, compared to 35% among traditionalists.

This lack of consensus is exacerbated in another area – the lack of effective collaboration between the CFO with other key C-suite peers (such as Chief Information Officers). As digital transformation often encompasses multiple parts of the organisation rather than in a controlled and isolated manner, a strong relationship between the senior management team is critical in driving change. However, more than two-thirds of finance leaders surveyed said that they found it hard to collaborate effectively with their peers, primarily due to the use of different terminology, perspectives on work or simply the reluctance to work with one another.

Lastly, finding the right people with the right skills was a key concern, as organisations across different industries are vying for finance executives with the relevant digital skills and experience. Up to 71% of the finance leaders surveyed said they face tough challenges recruiting the right talent due to the limited pool of talent available. This is a big issue across various industries with retail, insurance and hospitality being among the most labour-competitive.

REDEFINING FINANCE FOR THE FUTURE

There is still a significant amount of work to be done in order for today's finance leaders to successfully herald in the digital future. For any organisation to redefine its finance functions and maximise the benefits to be reaped from the digital economy, it has to ultimately focus on certain crucial aspects of the business; some of these aspects include build *resilience*, deliver *strong leadership* and foster *talent*.

Building business resilience requires organisations to invest in systems and data management approaches that can allow them to identify the right financial data, ensure the quality of the data and make it easily accessible to key business leaders within the team for informed decision-making. CFOs should take the lead in equipping employees in the organisation with the skills required to analyse data and build risk analysis models, as well as drive a culture that prioritises a quantitative and data-driven approach to financial analysis.

Strong leadership within an organisation is equally crucial. CFOs will be required to work closely with their C-Suite peers to transform and unlock systems, where they have traditionally been confined to their various departments. CFOs will also need to put in place structures and processes to facilitate better communication and understanding through a top-down approach.

Finally, through staying abreast of changes in the workplace as well as fostering dialogue with human capital leaders, CFOs will be better able to forecast what organisational talent will be needed for the future. An effective partnership in this regard will ensure that finance teams are suitably future-proofed and prepared in the ongoing war for talent. ISCA

Tim Wakeford is Vice President of Financials Product Strategy, Workday.

Even today, Mr Tan thinks the business story of any given company is best told by an accountancy professional. **"Financials tell the in-depth story of a company, including how (that company and its business are) changing."**

Tan Khoon Guan, FCA (Singapore), Managing Director, Precursor Assurance PAC

MEMBER PROFILE

Going Above and BEYOND

DURING THE COURSE OF OUR CONVERSATION, Tan Khoon Guan, FCA (Singapore), Managing Director, Precursor Assurance PAC, reveals a key facet of his keen intellect. "The trust that (Precursor) has built is something that cannot be compromised. We have to build on that trust and go beyond," says Mr Tan, known even within the firm he founded as KG.

The point Mr Tan was making relates to the foundation of trust that, in his opinion, must be established between chartered accountants and business leaders. Without this, accountants would not be able to work with any organisation. He recognises that this trust must be used to get to the "next level of engagement", and shares Precursor's expansion. He explains that for the firm, compliance services are just the start of a relationship with a client; this is why the firm continues to add competencies and services outside traditional accounting.

A well-known figure in the accountancy scene, Mr Tan, 45, was most recently recognised at last year's Singapore Accountancy Awards for the work of Precursor Assurance PAC, where the firm received the Best Practice Award in the Small & Medium Practice (SMP) category. The firm has also captured the attention of the media for its journey to constantly redefine its services and solutions by embracing technology.

Founded in 2006, the firm, which was called K.G. Tan & Co. PAC until 2016, when it was renamed Precursor, saw Mr Tan embracing the bootstrap mentality, using his own passion for technology to learn how to code with Microsoft Access. He did this because he wanted to build an integrated automation software as there was nothing like it in the market. "We were quite small in the beginning. I didn't have the budget to invest in anything, so I eventually took up a Microsoft Access book and tried to figure out my own solutions. I did come up with a simplified software developed via Microsoft Access in the end," he shares.

Mr Tan spent his nights coming to grips with Access on his own, working for six months just to get the results that he needed. This software was adopted by the firm internally, and was the seed of the company's growth trajectory. According to Mr Tan, in 2008, the firm was the first and only accounting firm to have developed a web-based practice management system that automated the entire workflow of its operations, while integrating seamlessly with accounts, payroll, customer relationship management and administrative functions.[1]

[1] "Meet the man behind homegrown K.G. Tan & Co. PAC", *Singapore Business Review*, 25 June 2014

CAREER HIGHLIGHTS

1999
Graduated from Nanyang Technological University (NTU);
Joined Arthur Andersen (now Ernst & Young)

2002
Chief Financial Officer, Asia Power Corporation Limited

2006
Founder and Managing Director, K.G. Tan & Co. PAC

2014
Received Nanyang Outstanding Young Alumni Award, NTU;
Accredited as People Developer, for Business Excellence in People Development, Enterprise Singapore;
Winner of Excellence in Innovation Award, Singapore Accountancy Awards, ISCA

2016
Firm was renamed Precursor Assurance PAC
Winner of Excellence in Innovation and Best Practice Award (Highly Commended), Singapore Accountancy Awards, ISCA

2018
Winner of Best Practice Award, Singapore Accountancy Awards, ISCA

DRIVING HIS OWN DESTINY

Today, Precursor's technology services are powered by its own specialised development unit and offered to other SMPs. Called Precursor Technology, it comprises two teams based in Singapore and India. The SmartCursors Marketplace service that was launched at last October's Accounting and Finance Show is just the latest chapter in a successful arc for the firm.

Owning this arc was the main reason for Mr Tan to embark on his journey as a business owner. "I've always felt (in my past jobs) that my satisfaction levels hovered at a maximum of 90% because I needed somebody else to finish the job. I could not go further because I did not own the process. Now, I'm driving my own destiny and that's really exciting!" he says. Laughing, he reveals that his 10-to-16-hour work days both motivate him to get out of bed in the morning and tire him out in time to hit the sack. So, how does he handle the issue of a work-life balance? "Balancing is always an art," he explains. "You will not be looking at an equitable balance because something always has to give. Just remember that you don't live in this world alone – you wear many different hats across your personal and professional lives." He credits jogging, meditation and his family for helping him establish an ideal work-life harmony.

POWERED BY POSITIVITY

In the current age where technological developments often outpace the speed of business decisions, Mr Tan remains a firm believer in a brighter future. "Disruption is a negative word as far as I am concerned. I look at technology as an enabler," he shares. He adds that SMPs are keen on new technologies to improve their efficiency and effectiveness. "The challenge is in people's mindset... to some extent. If you are offered a new tool that changes how you have been working for the last 10 or 20 years, you may see it as disruptive."

> **"You have to have passion to really make a difference, and to challenge norms. With the right attitude, you can uplift the accountancy sector. This is the mentality that accountants, and aspiring chartered accountants, should adopt."**

For Precursor and Mr Tan, bringing a new technology to the table is like an invitation to start a journey – one with many levels or stages. "The most elementary level should always allow you to taste success fairly easily," he says. Elaborating, he invokes the example of a game where you would need to select the right level to play at. "If you are a beginner and start off at a very high level, you won't find the fun in it; you wouldn't be interested in playing on. Every step needs to lead to something more complex or advanced, once you have determined the appropriate start point."

Speaking of start points, Mr Tan's tech-savvy future was presaged by a love for mathematics and the need as a student to plan a career that included math. "Accountancy made sense (for me in junior college) because of the link between business and math." So, to a younger Mr Tan, business literacy was already vital. Till today, Mr Tan thinks the business story of any given company is best told by an accountancy professional. "Financials tell the in-depth story of a company, including how (that company and its business are) changing."

BEYOND FAIR AND TRUE

In various ways, the link between business and accountants remains highly relevant today, especially when given the importance of data to many businesses. "There is a lot more information out there today – information overload, even. The question (for chartered accountants) is how to derive insights from the data," says Mr Tan. He likens the process to driving a car. In this case, the business leader is the driver and the accountant is the navigator. The navigator ensures that the path ahead is good, and keeps an eye out for danger on the road. Clearly, such a person requires credentials, and Mr Tan points out the benefits of the ISCA membership. "ISCA has evolved over the years (that I have been a member and former Council member). To its credit, it has done a lot in terms of upgrading the members, going above and beyond technical matters," he explains. He also points out that an ISCA membership is not something that anyone can attain, as there are stringent membership criteria in place. "It shows something (positive) to prospective clients and employers. I treasure and appreciate this."

On the other hand, Mr Tan notes that accolades and credentials should not be the primary motivation for doing one's best. He would know, considering the firm's multiple awards and his own inclusion in the "2014 Class of 40 and Under"[2], a list which features some of Singapore's most influential young individuals aged 40 and under in selected industries. "You have to have passion to really make a difference, and to challenge norms. With the right attitude, you can uplift the accountancy sector. This is the mentality that accountants, and aspiring chartered accountants, should adopt." This goes further than just possessing good principles, as Mr Tan associates it with delivering above and beyond the basics. "Take, for example, audit. For chartered accountants, our basic role is to determine if the accounts are fair and true. But this does not add value. What else can the business learn beyond this, that they did not already know? What else can you tell them from the financials? It's the ability to deliver this value-add to business partners that will make you a successful chartered accountant." ISCA

[2] "2014 Class of 40 and Under" is the inaugural list by *Singapore Business Review*, comprising some of Singapore's influential individuals aged 40 and below.

BY LIM JU MAY, FELICIA TAY AND MARCUS CHAN

SINGAPORE RE-AFFIRMS COMMITMENT TO INTERNATIONAL ACCOUNTING STANDARD-SETTING

ISCA Shines Spotlight On Performance Reporting In The Digital Era

WITH ISCA'S FULL SUPPORT, the Accounting Standards Council (ASC) hosted the 10th Annual Asian-Oceanian Standard-Setters Group (AOSSG) meeting on 21 and 22 November 2018. The AOSSG meeting was attended by delegates from 20 national accounting standard-setters in the Asian-Oceanian region, as well as key representatives from the International Accounting Standards Board (IASB) and IFRS Foundation.

Indranee Rajah, Minister in the Prime Minister's Office, and Second Minister for Finance and Education, delivered the keynote address at the AOSSG meeting, re-affirming Singapore's commitment to international accounting standard-setting. She added that the global adoption of International Financial Reporting Standards (IFRS) is a journey and not a destination, and that jurisdictions will face different challenges in this journey.

In view of the shift of economic weight to Asia and digitalisation, Minister Indranee highlighted that AOSSG can play a greater role in standard-setting in three areas, namely, research activities, post-implementation reviews and initiatives. In the area of research activities, AOSSG could consider conducting research and collecting evidence for IASB's research programmes. On post-implementation reviews, AOSSG could consider contributing empirical evidence of the post-implementation review on IFRS 11 *Joint Arrangements* that could be obtained from the increase of infrastructure investments in Asia. Lastly, on initiatives, AOSSG could share with IASB on the Asian-Oceanian region's insights and perspectives in relation to digitalisation.

In view of the shift of economic weight to Asia and digitalisation, ... AOSSG can play a greater role in standard-setting in three areas, namely, research activities, post-implementation reviews and initiatives.

A The AOSSG meeting was attended by business leaders, government officials, and representatives from standard-setters including IASB Chairman Hans Hoogervorst; IASB Vice-Chair Sue Lloyd; Guest-of-Honour Indranee Rajah, Minister in the Prime Minister's Office and Second Minister for Finance and Education; ISCA President Kon Yin Tong and Accounting Standards Council Chairman Kevin Kwok

"The ASC and ISCA share a deeply complementary relationship in Singapore's financial reporting landscape – ASC is the standard-setter for accounting standards, while ISCA leads the implementation of those standards and champions quality financial reporting."

KON YIN TONG, President, ISCA

Kevin Kwok, Chairman of the ASC, shared in his welcome speech that since its formation, "the strength of AOSSG lies in its unique ability to bring the benefits of experience and diversity to IASB in the development of robust principles-based IFRS Standards". He added that AOSSG will have an increasingly important voice in the standard-setting arena, and it would require the collective effort of all AOSSG members to "share knowledge and experiences, encouraging greater participation, mentoring new IFRS adopters and supporting aspiring IFRS adopters".

During the welcome dinner for the AOSSG delegates, Kon Yin Tong, President of ISCA, said, "The ASC and ISCA share a deeply complementary relationship in Singapore's financial reporting landscape – ASC is the standard-setter for accounting standards, while ISCA leads the implementation of those standards and champions quality financial reporting." He mentioned that the IASB accounting standards are principles-based, require the application of judgement and are often complex. He highlighted ISCA's role in supporting members with the implementation and adoption of standards in Singapore and cited one such example where the Institute "worked with the financial services industry to address challenges in applying IFRS 9", leveraging "our strong base of technical expertise".

UPDATES AND DISCUSSIONS

The AOSSG meeting had a comprehensive and full agenda. Members of IASB first provided a summary of IASB's developments in 2017/2018. Subsequently, AOSSG members provided feedback to IASB on various projects/areas such as Primary Financial Statements, Virtual Currencies, Business Combinations under Common Control, IFRS 17 *Insurance Contracts*, Islamic Finance, IFRS for SMEs and accounting issues involved in bullion (gold) lending and borrowing.

There were discussions on the challenges faced by countries in the Asian-Oceanian region when implementing IFRS and how international standard-setting could potentially address these challenges. ISCA as well as AOSSG members from Saudi Arabia, Sri Lanka and Thailand provided updates on the IFRS application and implementation issues in their respective jurisdictions.

Reinhard Klemmer, Chairman of ISCA Financial Reporting Committee, spoke on lessons learnt from Singapore's IFRS convergence journey. He shared that conversion to IFRS is technically challenging and requires planning and appropriate resourcing. This is contrary to market perception that because Singapore's accounting standards are already largely aligned with IFRS, the transition is simple or does not require much effort. Challenges in applying IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* were also discussed. The complexities in meeting the solely payments of principal and interest (SPPI) criteria for financial instruments with bail-in clauses or benchmark rates, and the expected credit loss model, were some of the Singapore-specific issues discussed. Mr Klemmer also highlighted that on the revenue front, availability of data and capitalisation of cost for longer-term projects where revenue is recognised over time are key challenges.

With the growth of digital companies and their increasing market capitalisation, investors are relying more on Non-Generally Accepted Accounting Principles (Non-GAAP) measures to value such companies. Unlike traditional businesses, much of the value of digital companies lies in volatile intangibles which, under existing accounting standards, would fail to be capitalised as assets on the financial statements. Mr Klemmer discussed this balance sheet dilemma with the AOSSG and questioned whether reconsideration of the current financial reporting standards is required to maintain its value proposition. Also discussed were the accounting for proceeds received from new funding models in the digital economy and virtual currencies. This conversation continued after the AOSSG meeting at the ASC-ISCA Financial Reporting Technical Forum on 23 November 2018. ISCA moderated the panel discussion titled "Performance Reporting and the Digital Era", where panellists addressed challenges relating to the relevance of existing accounting standards and financial reporting.

The AOSSG delegates were hosted to a financial technology (fintech) experience at The Open Vault at OCBC (TOV), where they gained insights into the fintech developments in the Singapore banking sector; they also learnt about artificial intelligence and fintech as they visited the demonstration booths at TOV. The visit provided delegates with valuable insights into the future of the financial sector, which could further develop into future accounting standard-setting work.

1 Guest-of-Honour Ms Indranee re-affirming Singapore's commitment to international accounting standard-setting in the keynote address

2 ISCA President Mr Kon highlighted ISCA's role in supporting members with the implementation and adoption of standards in Singapore

3 ASC Chairman Mr Kwok lauded the collective experience and diversity of AOSSG to contribute to standards development

4 Reinhard Klemmer, Chairman of ISCA Financial Reporting Committee, spoke on lessons learnt from Singapore's IFRS convergence journey

ASC-ISCA FINANCIAL REPORTING TECHNICAL FORUM

On 23 November 2018, ISCA and ASC jointly organised the ASC-ISCA Financial Reporting Technical Forum, which was held in conjunction with the AOSSG. The Forum was well-attended by 162 participants, including members of IASB and a wide-range of stakeholders including Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore, Singapore Exchange, valuers, insurance and financial services industry representatives, auditors and preparers.

Mr Klemmer, who delivered the welcome address, shared about ISCA's Technical Bite-Size (Tech Bites), which serves as a platform for the sharing of technical knowledge and ISCA's views on accounting issues in a comprehensive and easy-to-read manner. He also announced the issuance of three new Tech Bites at the Forum, which address application challenges in the following areas:

1) Costs deferment/capitalisation for a single performance obligation satisfied over time in accordance with paragraph 35(c) of FRS 115;
2) Treatment of variable rent leases by JTC Corporation under FRS 116;
3) Amounts due from related parties – classification and asymmetrical treatment by lender and borrower (FRS 1).

Panel discussion "Performing Reporting and the Digital Era": (From left) Moderator Mr Klemmer with panellists Mr Hoogervorst; Marcus Lam, Council member, ASC, and Samba Natarajan, CEO, Singtel Group Digital Life

With digitalisation, corporate reporting will evolve, and it is crucial that all stakeholders in the financial reporting ecosystem adapt accordingly or risk facing obsolescence in the new era.

The AOSSG delegates were hosted to a fintech experience at The Open Vault at OCBC

Mr Hans Hoogervorst, Chairman of IASB, spoke about how the new expected loss model and insurance accounting standard could contribute to financial stability. He shared that these are two examples of how IASB listens to its stakeholders and adapts to the changing economy.

Sue Lloyd, Vice-Chair of IASB and other IASB members shared on resources for supporting the implementation of IFRS Standards, and the key implementation issues relating to IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. In addition, IASB gave an overview of the Discussion Paper on Financial Instruments with Characteristics of Equity.

Panel discussion: "Performance Reporting and the Digital Era"

Digital companies are becoming more prominent in the economy and physical companies are becoming more digital in their operations. Key questions that arise include: Are financial statements still able to appropriately capture and communicate the value of these companies? How should cryptocurrencies be accounted for?

The above sets out the theme for the ensuing hour-long panel discussion moderated by Mr Klemmer, and featured panellists Mr Hoogervorst; Marcus Lam, Council member, ASC, and Samba Natarajan, CEO, Singtel Group Digital Life.

The ASC-ISCA Financial Reporting Technical Forum provided key implementation takeaways to aid preparers transiting to new accounting standards

Mr Klemmer opened the panel discussion with the question, "In the era where the value of digital companies lies in non-physical assets, unlike traditional brick-and-mortar companies, are financial statements still painting the right picture with the current financial reporting standards?"

In addressing this question, the panellists acknowledged that financial statements currently do not provide the complete picture as the value of non-physical assets are not recognised on the balance sheet and investors do rely on non-GAAP performance measures to value such digital companies. The seemingly straightforward solution to this issue might appear to be to allow for the recognition of such intangibles in the financial statements. But the panellists cautioned that the inclusion of such intangibles would introduce greater subjectivity to the financial statements. Valuation is an art, not an exact science. The valuation of intangibles – items without physical substance – makes it even more judgemental and subjective. Such intangibles can also be fleeting in nature. As demonstrated by the "disappearance" of large companies in the technology sector whose products seemed strong at a point in time but were quickly overtaken by other companies, any intangibles of a company could dissipate overnight.

In light of the above challenges on the recognition of intangibles in the financial statements, the possibility of introducing non-GAAP measures in the financial statements was discussed since investors do rely on such measures in valuing digital companies. It was further shared that the provision of such non-GAAP measures could be made outside of the financial statements, for example, in the management commentary, and that IASB has an ongoing project on its Practice Statement on Management Commentary[1].

Moving onto the topic of cryptocurrencies – a new medium of exchange which is gaining popularity around the world – the key question facing the accountancy profession is, "How should these cryptocurrencies be accounted for?" Acknowledging that confusion does exist in this area, it was shared that IASB will consider issuing agenda decisions through its IFRS Interpretations Committee to provide some form of guidance on it.

In closing the panel discussion, the distinguished panellists left the audience with the following concluding thought – With digitalisation, corporate reporting will evolve, and it is crucial that all stakeholders in the financial reporting ecosystem adapt accordingly or risk facing obsolescence in the new era.

ASC-ISCA FINANCIAL REPORTING ROUNDTABLE

ISCA and ASC also jointly organised the ASC-ISCA Financial Reporting Roundtable for CFOs and Users (Roundtable) on 23 November 2018. The Roundtable was attended by representatives from IASB, preparers of financial statements, analysts as well as representatives from the accounting profession. The key topics discussed include how financial statements could better communicate the performance of companies to the users, and goodwill impairment and amortisation.

Participants were generally supportive of providing flexibility in reporting performance measures in financial statements and had mixed views on whether and how goodwill should be amortised. ISCA

[1] The current IFRS Practice Statement 1: *Management Commentary* was published in December 2010 and provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with IFRS Standards.

In November 2017, IASB added to its agenda a project to update this Practice Statement to include consideration of developments from other narrative reporting initiatives and acknowledged gaps in narrative reporting practice indicating that the goals of the Management Commentary and other narrative reporting regimes are unmet. For more information, please refer to https://www.ifrs.org/projects/work-plan/management-commentary/#about.

ABOUT THE AOSSG MEETING

The AOSSG is a grouping of 27 national accounting standard-setters from the Asian-Oceanian region, including those from Australia, China, Hong Kong, India, Japan, Korea and Singapore. Since its formation in 2009, AOSSG has emerged to become an influential voice in international standard-setting. The AOSSG meeting serves as a key platform for national accounting standard-setters to discuss with representatives from IASB about its accounting standard-setting projects and other developments, and to share experiences in the adoption of IFRS Standards.

Lim Ju May is Deputy Director, Felicia Tay is Manager, and Marcus Chan is Assistant Manager, Technical, ISCA.

BY MARK JANSEN

THE VALUES BEHIND DATA

Unlocking The Vast Potential

THE EMERGING BUZZ WORD IN THE WORLD OF DATA is *value*. By 2025, the total value of the data economy is set to rise to over US$400 billion[1] and today, we're already seeing tech giants and emerging tech platforms boom in value largely due to the data they have. That, in turn, enables them to bring value to every touch point – whether it's their customers, advertisers, or to other companies that they could potentially partner with.

Before we delve into that topic of discussion, let's take a step back and ask ourselves, "What does value actually *mean*?" In the above context, the natural assumption is the monetary worth of data. But in this chase for monetary value, we seem to be forgetting other long-cherished things that we value – privacy and wellness.

PROTECTING YOUR PRIVACY

Privacy is notably one of the areas where organisations holding the data have been intensively scrutinised. To be clear, data privacy is always critical, valued by everyone, and even more so with increasing volumes of information stored in today's information age. The ability to correlate data sets in order to isolate and identify people is not a storyline to the next Mission Impossible movie – it's very real.

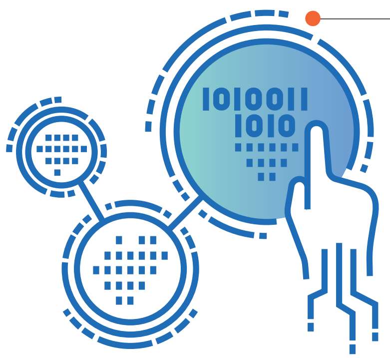
The public has every right to stand up for and challenge how privacy is managed. When we trust companies with our data, we trust that they will safeguard it. In fact, the slew of data-related controversies that arose last year, such as the Strava heatmap that exposed military locations, had consumers questioning the management of privacy and how it can be enhanced.

Given measures in place such as Europe's General Data Privacy Regulation (GDPR), Singapore's Personal Data Protection Act (PDPA) and the upcoming ASEAN Digital Data Governance Framework (expected to be fully developed in 2019), there is an urgency for companies to demonstrate how they will safeguard their consumers' data.

BUILDING A HEALTHIER SOCIETY

In tension with privacy protection is the pursuit of wellness. We are seeing an unprecedented amount of health-related data. In 2013, it was estimated that this had reached over four zettabytes (10^{21}), which will increase to yottabyte (10^{24}) proportions by 2020 and beyond.

With the number of chronic diseases on the rise, the value that we generate from understanding this data becomes even more crucial. It's alarming to note that we are seeing 60% of the chronic disease burden coming from emerging markets. With aging populations across the world requiring more and more care, healthcare costs as a percentage of GDP will increase.[2]



We see that 10 years ago, business leaders already knew data was critical to business, and this rings even truer today. Data has massive potential, but there is still a lack of capability to tap on that potential.

[1] "Tomorrow's Data Heroes", strategy+business, 19 Feb 2019
[2] "Emerging Trends in Healthcare", PwC, 2019

PHOTO SHUTTERSTOCK

While we're seeing the move towards data-driven medical solutions which are focused on collaborative, preventative care to predict and even prevent diseases, we are still not there. Medical research continues much in the traditional way, with specific trials and analysis of specific data sets.

Technological solutions like artificial intelligence (AI) have vast potential to find new treatments and potentially even cures for some ailments. Researchers globally sit on masses of health data that could be used for a multitude of purposes, but due to privacy constraints, this potential remains largely untapped.

BALANCING THE CHALLENGES

Right now, these two elements that we value – privacy and wellness – are in tension, but why does it have to be? Well, simply put, companies are terrified of sharing data. They are just as concerned as the public is around data breaches, regulatory penalties and reputational damage. In recent industry dialogue sessions, we have found that the biggest road block to leveraging data is regulatory and legal concerns.

Let's be clear though – these concerns are valid, as not many people are happy for their medical data to be shared. That said, we can't downplay the importance of wellness. But if we acknowledge that health data is inherently vital to improving healthcare, we must ensure that the data can be shared while still protecting users' privacy.

Controversial as it may be, we need to relook at whether data sharing is really that detrimental, but first, we should address how best to protect one's privacy. Privacy and security is critical and should be maintained, but locking things down in the traditional way, like stuffing money under the mattress, is a fallacy. For example, banks are implicitly more secure places to store your money; however, going back in time, this was not always the case. Similarly, where we store data and how we manage privacy is critical. We need to look closely at this versus the naive hope that our trusty mattress is safe.

What we need is a healthy debate around what safeguards need to be put in place, and what the vision would be; for example, if our vision is that health data can be used to drive wellbeing, the next step would then be to discuss the "how".

It is worth reflecting on the results of PwC's 22nd "Global CEO Survey", which highlights an interesting point. Figure 1 shows how companies globally have not moved forward in managing their data as an asset. We see that 10 years ago, business leaders already knew data was critical to business, and this rings even truer today. Data has massive potential, but there is still a lack of capability to tap on that potential. This divide, or perhaps opportunity, illustrates how much more needs to be done.

We need to see that more and more, our data has immense value, and we need to manage it in a way that in turn, creates value. In enabling innovation, we need more sandboxes where security and privacy requirements can be safely tested. It is simply not good enough to say "trust me" – negative impact through public perception of getting this wrong is too high. We need better frameworks to define what trust is, and how we build trust around data.

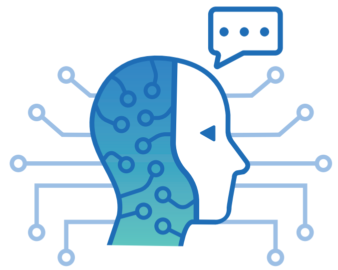
We are seeing promising advances in blockchain to enable the tracking of data sharing, as a means of knowing who has what, therefore enabling accountability and trust. This could be the next step forward.

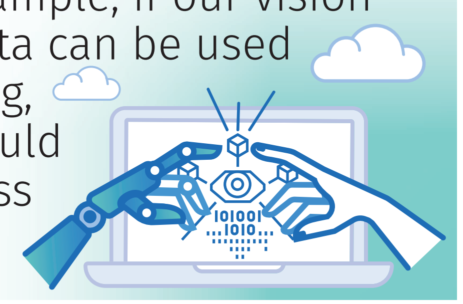
Importantly, we also need to consider how the data subject (that is, the person whose data is being used to create value) is remunerated or incentivised. This is recently getting more attention and could be critical in the future, with significant value driven by data without much transfer of benefit to the subjects. In the future, data subjects, you and I, are likely to have more control over our data, and ultimately pick who can use it based on incentives.

Singapore, with its small size, can easily climb up to be a leader in the space. The country's technology architecture is world-class, regulatory bodies keep up with advancements, and government agencies such as the Info-communications Media Development Authority (IMDA) are championing efforts around data sharing.

If organisations strive harder to strengthen data privacy while concurrently harness data to drive wellness, Singapore could be the first country where the two can exist in harmony. ISCA

PHOTO SHUTTERSTOCK





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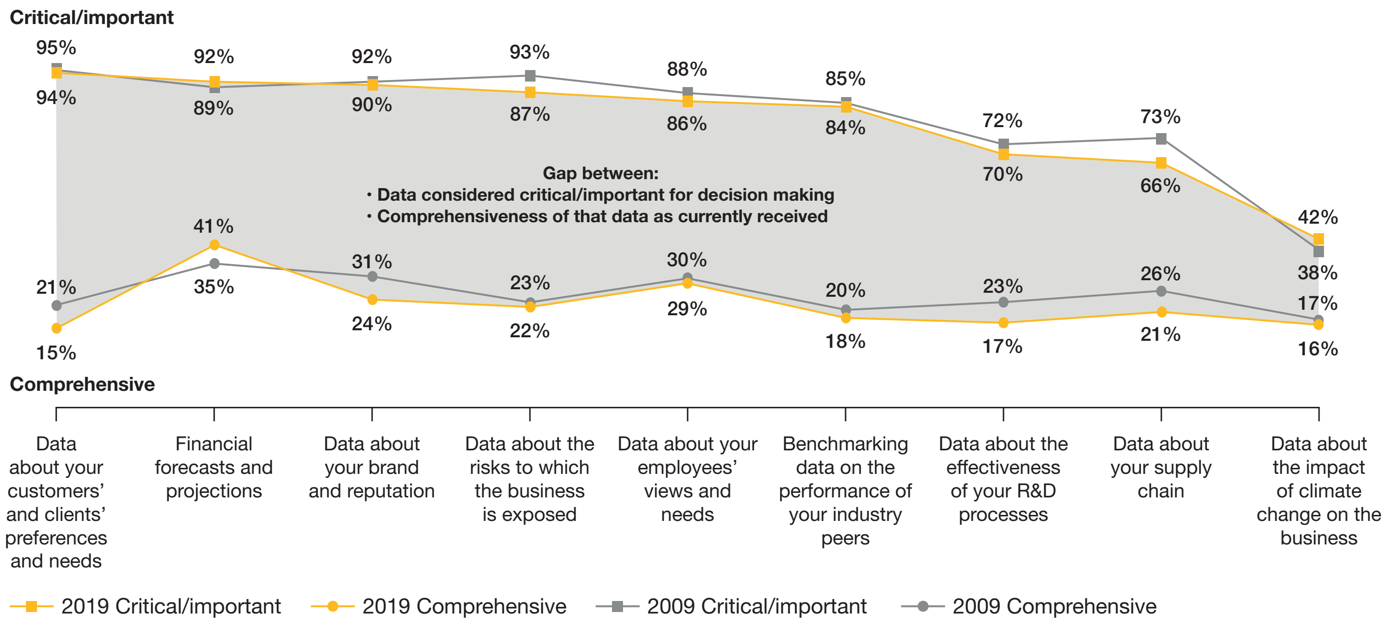
Mark Jansen is Data & Analytics Leader, PwC Singapore.

Figure 1 CEOs face issues with their own capabilities, mostly in terms of data adequacy, with a huge gap that remains 10 years on



Source: PwC, 22nd Annual Global CEO Survey
Base: All respondents (2019=1,378; 2009=1,124)

"How do we use these new technologies, not only to identify new risks, but to find new opportunities to change and challenge the way in which we think about risk management as a practice?" We must use the opportunities presented by technology to come up with and inspire new solutions that add more value to business.

PHOTO SHUTTERSTOCK

FROM STRATEGICRISK

CHALLENGE AND CHANGE OR BE REPLACED BY ROBOTS

Risk Managers Must Embrace Technological Opportunities

THERE IS NO GREATER AMMUNITION FOR #CHANGINGRISK than the opportunities presented by new technology. We must use it to enhance and evolve risk management practices or we risk becoming obsolete, writes Philippe Cotelle, Board member of Ferma and Amrae.

TODAY'S RISKS

Digitalisation is beginning to transform the way in which businesses operate and if risk managers want to continue adding real value to their businesses, they must join today's digital transformation journey. This is crucial because as the cyber revolution started to build momentum, risk managers were too late. They are now having to play catch-up, both in terms of learning about new technologies, and the associated risks. And that is the first of two key challenges for risk managers – responding to today's technological landscape.

New technologies provide companies with the potential to diversify their services and take advantage of new opportunities, but they are moving ahead without a clear view of the risks associated with digitalising and building new services. In the past, once you've delivered a product, you transferred the risk to the buyer but now, all that will be far less clear cut. Manufacturers and service providers will become more interlinked as technology advances, and risk managers of the future will need the capabilities to address that situation.

IMAGINE THE FUTURE

And that is the second challenge – for risk managers to learn from the past and be well-equipped and prepared for a second tranche of technological development in the future, when the cyber revolution picks up pace and continues to advance into the next decade.

The technologically-connected world is going to completely change the rules. In the future, people will not buy products, they'll buy facilities. For example, manufacturers will fulfil a very different role as their products undergo constant reconfiguration. This, in turn, will transform the risks that companies face and the risk profile of the entire supply chain.

Indeed, the risk management industry needs to be more agile and comfortable with change, to engage and interact with new technological developments and trends – which will continue to grow aggressively. Risk managers must ask themselves, "How do we use these new technologies, not only to identify new risks, but to find new opportunities to change and challenge the way in which we think about risk management as a practice?" We must use the opportunities presented by technology to come up with and inspire new solutions that add more value to business.

Imagine a future in which we can monitor all the products and hardware on each site with the tap of a finger. That we can visualise the stock and financial sales, and then immediately adapt our insurance coverage, in real time, as the nature of our inventory evolves. Or that we can use the huge amounts of data available to us to better pinpoint the best new sites for investment. We must view technology as a tool that could help the risk management community to work in a much more dynamic way. We must embrace these technological developments – use it to add value – or we risk being replaced by machines that will do the traditional jobs of past and dated risk management practices.

The advanced digital transformation train is about to leave the platform and we must all get on that train before it is too late, so that we can be ahead of the game and involved in the decision-making process.

For me, #ChangingRisk is about rethinking and challenging risk management practices by embracing technological opportunities so that we can better respond to new risks, so that we can add tangible value to our business.

#CHANGINGRISK TO ADD TRUE VALUE

For me, #ChangingRisk is about rethinking and challenging risk management practices by embracing technological opportunities so that we can better respond to new risks, so that we can add tangible value to our business.

Companies are always looking for new opportunities and of course, we as risk managers must help our companies do that. And as soon as executives begin developing growth strategies, we need to ensure we're involved in the discussion, both from the perspective of identifying the risks but ultimately, to help the C-Suite make the right decisions, by using risk management in a more compelling way.

Staying relevant as a function is also about looking inwards and seeing how technology can present opportunities for the risk management industry at large. We must embrace these technological developments – use them to add value – or we risk being replaced by machines that will do the traditional jobs of past and dated risk management practices.

And, if we don't want to be replaced by technology, we must concentrate on evolving our services, challenge ourselves so that we are always adding true value. ISCA

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BY HENRIK BRESMAN AND DEBORAH ANCONA

CRAFTING YOUR OWN LEADERSHIP SIGNATURE

PART 3

How Leaders Can Maximise Their Impact

A LEADING SUPERMARKET CHAIN IN AN EASTERN EUROPEAN UNION COUNTRY feared an 8% drop in sales as discounting giant Lidl was about to enter its market. So, in collaboration with researchers, it decided to run a randomised controlled experiment. The goal was to reduce its costly personnel turnover problem, in a bid to improve quality and operational efficiency. Selected store managers received a letter from top management, encouraging them to do something about the 90% yearly staff turnover. It worked. Over the next three quarters, the monthly quit rate fell by 20% to 30%. However, surprisingly, this vast improvement led to no discernible effect on the predefined performance metrics (sales and value of perished food). In interviews, the researchers found the explanation. As store managers focused more on HR issues, they spent less time interacting with customers (to increase sales) and dealing with the flow of goods (to reduce food wastage).

Of course, the firm still benefited through a reduction in hiring and training costs (estimated at a minimum of Euro 400 per head). But at the store level, the data showed a remarkable truth – it is rather difficult, perhaps even impossible, for a single manager to wear all hats equally well. This confirms what we have been saying for years – distributed leadership, which leverages expertise and vision wherever it sits in the organisation, is the way forward. Organisations with distributed leadership are more innovative and more adaptable. They are permeated by a greater sense of purpose and meaning.

Before leadership can be distributed, managers must become well acquainted with their own strengths and weaknesses so they can seek out people whose skills complement their own. Hence, we have developed the x360, a feedback tool based on leadership research published in the top academic journals in the field. We've already written about the first and second dimensions of the x360: the traits and capabilities of leaders, respectively. In this article, we discuss effectiveness, the third and last dimension of the x360, or how leaders can maximise their impact.

People-oriented leaders excel at motivating team members. They know how to excite them to meet challenges. They are particularly apt at building trust with team members and keeping them satisfied.


PHOTO SHUTTERSTOCK

Task effectiveness is the second main way leaders can have an impact. It describes leaders who, above all else, tend to focus on satisfying the goals and demands of external stakeholders. They deliver quality products and services and feel very committed to delivering strong financial and commercial returns.

ARE YOU PEOPLE- OR TASK-ORIENTED?

Talking about his job as casino chief, Caesars Entertainment CEO Mark Frissora said, "If you take your eye off the cash, customers or employees, you're dead." Hired just two days after the casino owners filed for bankruptcy protection in 2015, he spent his first three months visiting 27 Caesars casinos, asking employees for suggestions on how to revitalise the business. He emphasised how important it was not to get rid of people who run operations as oftentimes, they're the "golden goose" – the ones with knowledge of the business. He initially did a lot of hand-holding, even distributing to staff wallet-sized cards that distilled the feedback received. Frissora is a good example of a leader particularly at ease wearing a "people" hat.

People effectiveness is one of two main ways leaders can have an impact. People-oriented leaders excel at motivating team members. They know how to excite them to meet challenges. They are particularly apt at building trust with team members and keeping them satisfied. Obviously, such an orientation needs to be paired with a focus on money and customers, as Frissora himself said. It took two years, but Caesars successfully came out of bankruptcy.

Now consider Cisco CEO Chuck Robbins, who's been described as the "epitome of focus" with "a reputation for getting things done". When asked why he got the top job at the technology conglomerate, he listed his ability to "connect strategy to our real ability to execute pretty effectively", his scientific background and his deep understanding of Internet networking gear. Make no mistake, Robbins also knows the importance of having a management team with a sense of conviction. But in that regard, one of his priorities as new CEO was to filter out "passive-aggressive behaviour", referring to the people who "nod in the meetings and then just nothing happens". In the team shakeup that followed, only a handful of direct reports managed to keep the same position they had under his predecessor.

Task effectiveness is the second main way leaders can have an impact. It describes leaders who, above all else, tend to focus on satisfying the goals and demands of external stakeholders. They deliver quality products and services and feel very committed to delivering strong financial and commercial returns. We refer to this orientation as the "P&L" hat, which is most easily worn by task-oriented leaders such as Robbins, who says that if he hadn't been in business, he would have chosen a profession "with clear metrics".

DOING AWAY WITH THE MYTH OF THE INFALLIBLE LEADER

To be clear, effective leaders need both a people hat and a P&L hat to succeed. Neither is more important than the other. However, in times of stress, the less comfortable hat is likely to slip. Great leadership requires great self-awareness.

The x360 is a powerful development tool that can uncover your blind spots as a leader. The resulting observations let you know how you are perceived and may even serve as a wake-up call for some. As you discover your leadership signature, you gain clarity about the unique contribution you bring. Last but not least, you are empowered to seek out the people with the traits, skill sets and effectiveness style that best complement you.

While many senior executives know, deep down, that they can't possibly have all the answers, there's a lingering assumption that they need to be a hero, the one who knows it all. The truth is, we are all incomplete leaders. In the programmes that use the x360, we have often witnessed our participants' sense of relief when they have frank conversations about the myth of the infallible leader.

Ultimately, our goal with the x360 is to humanise organisations. They should be places where leaders are comfortable acknowledging their limitations. Concentrated leadership has had a good run, but the most impactful leaders of tomorrow will be those best able to draw on and magnify the complementary talents of their fellow co-leaders. ISCA

This is the last article of a three-part series. Parts 1 and 2 were published in *IS Chartered Accountant* Journal, February and March 2019.

Henrik Bresman is Associate Professor, Organisational Behaviour, INSEAD, and Academic Director, INSEAD Global Leadership Centre. Deborah Ancona is Seley Distinguished Professor of Management; Professor, Organisation Studies and Founder, MIT Leadership Center, MIT Sloan School of Management. This article was first published in "INSEAD Knowledge". Reproduced with permission.

TECHNICAL HIGHLIGHTS

FINANCIAL REPORTING

IFRIC ISSUES FINALISED AGENDA DECISION ON CAPITALISATION OF BORROWING COSTS

In November 2018, the IFRS Interpretations Committee (IFRIC) issued a Tentative Agenda Decision whereby capitalisation of borrowing costs is not allowed under specified fact pattern – property developers that recognise revenue over time. ISCA has submitted its comment letter to IFRIC and issued a Tech Bite to raise awareness of this tentative agenda decision. IFRIC issued the finalised agenda decision in March 2019 which is consistent with the tentative agenda decision. IFRIC also stated that an entity is entitled to sufficient time to determine the potential change in accounting policy as a result of an agenda decision.

For more information, please visit www.ifrs.org/news-and-events/updates/ifric-updates/march-2019/

ASC ISSUES REVISED SFRS(I) AND FRS CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

ASC issues revised SFRS(I) and FRS *Conceptual Framework for Financial Reporting*, together with amendments to references to the Conceptual Framework in SFRS(I)s and FRSs (collectively, the Amendments). The Amendments are effective for annual reporting periods beginning on or after 1 January 2020.

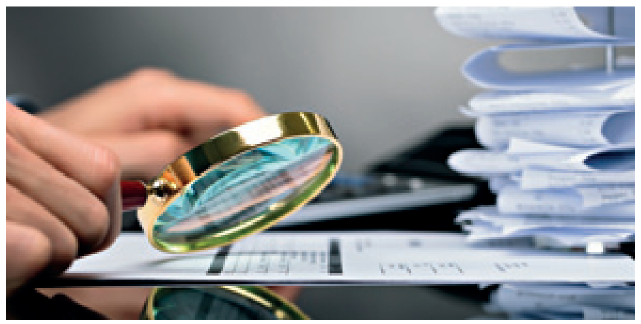
For more information on SFRS(I) *Conceptual Framework for Financial Reporting*, please visit https://www.asc.gov.sg/pronouncements/singapore-financial-reporting-standards-international/changes-effective-for-annual-periods-beginning-after-1-jan-2019

For more information on FRS *Conceptual Framework for Financial Reporting*, please visit https://www.asc.gov.sg/pronouncements/Financial-Reporting-Standards/changes-effective-for-annual-periods-beginning-after-1-jan-2019

WEBCAST: IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* FOR INVESTORS

In this webcast, IASB member Nick Anderson and investor engagement member Sid Kumar draw on several case studies to explain the new revenue recognition model and the changes resulting from its application. Disclosure requirements introduced by IFRS 15 are also discussed.

For more information, please visit www.ifrs.org/news-and-events/2019/02/webcast-ifrs-15-revenue-from-contracts-with-customers-for-investors/



AUDITING AND ASSURANCE

ISCA COMMENTS ON IAASB'S REVISED STANDARD ON AGREED-UPON PROCEDURES

Our stakeholders agree with the overall direction of the proposed revisions to ISRS 4400. Specific comments are provided as follows:

- Establish independence framework for agreed-upon procedures (AUP) engagements so that there is a standard to refer to when independence of the practitioner is required and valued;
- When independence of practitioner is not required, consider if the proposed statement will reduce the perceived value of the report, and if additional disclosure on the reasons why independence is not necessary may minimise misinterpretation;
- When an expert is used, greater clarity that only the expert's competence and capabilities are applied, and the expert's application of professional judgement does not go beyond that typically applied in an AUP engagement;
- Inclusion of sub-headers in AUP report;
- Management's comments, if any, should be presented in a separate letter and not as part of the AUP report;
- Illustrative procedures and findings should be more granular, and
- Clarity in the definition of "professional judgement".

For more information, please visit https://isca.org.sg/media/2822571/isca-comment-letter-iaasb-aup-ed.pdf

REGULATORY

ACRA ISSUES PRACTICE GUIDANCE NO. 1 OF 2019

ACRA has issued Financial Reporting Practice Guidance No. 1 of 2019 on 1 February 2019.

For more information, please visit www.acra.gov.sg/news-events/news-details/id/499

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BY KOH WEI CHERN AND TOMMY YEE CHUN TSIAN

DON'S COLUMN

TAX TREATMENT OF LEASES BY LESSEES POST-FRS 116

Implications And Applications

FINANCIAL REPORTING STANDARD (FRS) 116, AND THE SINGAPORE EQUIVALENT – Singapore Financial Reporting Standard (International) (SFRS(I)) 16 *Leases* – replaces FRS 17 *Leases* for financial year periods beginning on or after 1 January 2019. In view of this, the Inland Revenue Authority of Singapore (IRAS) examined the income tax implications that would arise from entities adopting FRS 116. It issued an IRAS Public Consultation Paper setting out its propositions on 8 August 2017 to seek public comments by 28 August 2017. Thereafter, IRAS issued an IRAS e-Tax Guide on the "Tax Treatment Arising from Adoption of FRS 116 or SFRS(I) 16 *Leases*" on 8 October 2018. This article serves to recap key changes to the leases accounting standard and identify the tax treatment post-FRS 116/SFRS(I) 16 adoption.

KEY CHANGES TO THE LEASE ACCOUNTING STANDARD FOR LESSEE

Under FRS 17, a lessee had to classify whether a lease arrangement is a finance lease (FL) or operating lease (OL). FRS 17 paragraph 4 defines an FL as "a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred", and an OL as "a lease other than a finance lease". The accounting under an OL and FL by a lessee will give rise to different financial statement effects.

However, under FRS 116, where a lease arrangement exists, the lessee no longer does the OL/FL classification. Instead, FRS 116 requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments (ASC, 2018, FRS 116 para IN10). Lessees "recognise depreciation of lease assets and interest on lease liabilities in the income statement over the lease term, and separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the cash flow statement".[1] In other words, there is a dual lessee accounting model under FRS 17 but a single lessee accounting model under FRS 116.

[1] "Getting Ready for FRS 116: Leases", *IS Chartered Accountant Journal*, Oct 2016

TAX TREATMENT OF LEASES BY LESSEE POST-FRS 116

The current tax treatment of leases under FRS 17 for a lessee is as follows. The tax preparer will have to assess whether the lease arrangement meets the definition of an OL/FL under Section 10D(3) of the Income Tax Act (ITA). Under Section 10D(3), FL "means a lease of any machinery or plant (including any arrangement or agreement in connection with the lease) which has the effect of transferring substantially the obsolescence, risks or rewards incidental to ownership of such machinery or plant to the lessee", and OL means the leasing of any machinery or plant, other than finance leasing. It is interesting to note that both the ITA and FRS 17 use the concept of significant transfer of risks and rewards in defining FL and OL. There are three potential tax treatment scenarios.

In the first scenario, if the lease is an OL, then "lessee is allowed to claim the contractual lease payments as deductions against his income in the basis period in which such payments are incurred, provided the lease expenses are wholly and exclusively incurred in the production of income". No capital allowance is allowed on the leased asset.

After the entity establishes that it is an FL, the tax preparer has to assess whether the FL satisfies any of the paragraphs (a) to (e)[2] of Regulation 4(1)[3] of Section 10D Regulations. Where none of the paragraphs is satisfied, then the FL is not regarded as a sale agreement. This is the second scenario. The lessee is then allowed a deduction on the full amount of lease payments comprising the interest and principal repayment. No capital allowance in respect of the leased asset will be granted to the lessee.

If any of the paragraphs is satisfied, then an FL shall be regarded as a sale agreement. In this third scenario, the lessee is allowed a deduction of interest expense on an incurred basis. Principal repayment is not tax deductible but capital allowance in respect of the leased asset will be granted to the lessee.

With the change to FRS 116, the lessee no longer has to perform the OL/FL classification. However, for tax purposes, IRAS continues to require the lessee's tax preparer to assess whether the ROU asset meets the statutory definition of FL under Section 10D(3) of ITA. Specifically, paragraph 6.7 of the IRAS e-Tax Guide provides guidance that the lessee company can use the indicators provided in paragraphs 63 and 64 of the FRS 116/SFRS(I) 16 for lessor's classification purpose to assess whether its lease arrangement is OL or FL. In addition, if it is an FL, the lessee's tax preparer would have to consider whether it is regarded to be a sale agreement under Regulation 4(1) of Section 10D Regulations. Similar to the tax treatment under FRS 17, one of the three tax treatment scenarios explained in the preceding paragraphs has to be established by the lessee.

PHOTO SHUTTERSTOCK

Even though there is only a single lessee model post-FRS 116 for accounting purpose, IRAS still requires lessee entities to assess whether the lease is an operating lease or finance lease and if it is the latter, whether it is regarded as a sale agreement or not.

Table 1

	Scenario 1: OL	Scenario 2: FL not regarded as sale agreement	Scenario 3: FL regarded as sale agreement
Tax treatment	1. Deduction not allowed for interest and depreciation 2. Deduction claimed on contractual lease payments incurred 3. No capital allowance allowed	1. Deduction not allowed for interest and depreciation 2. Deduction claimed on contractual lease payments incurred 3. No capital allowance allowed	1. Deduction allowed for interest 2. No deduction allowed on principal repayment and depreciation 3. Capital allowance allowed based on principal payments incurred
Adjustments in tax computation	Add back: 1. Depreciation of $10,000 2. Interest expense of $2,000 Subtract: 1. Lease payment of $11,524	Add back: 1. Depreciation of $10,000 2. Interest expense of $2,000 Subtract: 1. Lease payment of $11,524	Add back: 1. Depreciation of $10,000 Subtract: 1. Capital allowance of $3,175 ($9,524/3 years[4])

ILLUSTRATION

Suppose Lessee Company Limited (LC) enters into a two-year lease for a piece of equipment with an annual lease payment of $11,524 made at the end of each year. The implicit interest rate and incremental borrowing rate is 10%. The ROU asset and the lease liability is measured at the present value of the two payments of $11,524 discounted at 10% per annum, which is $20,000.

Under FRS 116, at the start of Year 1, LC will debit ROU Asset $20,000 and credit Lease Liability $20,000. At the end of Year 1, LC will debit interest expense $2,000 (10% of outstanding lease liability), debit lease liability $9,524 and credit cash $11,524. LC will also debit depreciation and credit accumulated depreciation of $10,000 (ROU asset depreciated over two years).

The tax treatment and adjustments required for the first relevant year of assessment are summarised in Table 1. Note that the tax treatment and adjustments in tax computation for Scenarios 1 and 2 are in effect similar.

SUMMARY AND CONCLUSIONS

Even though there is only a single lessee model post-FRS 116 for accounting purpose, IRAS still requires lessee entities to assess whether the lease is an OL or FL, and if it is the latter, whether it is regarded as a sale agreement or not. Even though there are three potential tax treatment scenarios, the tax effects of scenarios 1 and 2 are similar. ISCA

Koh Wei Chern is Associate Professor, and Tommy Yee Chun Tsian is Senior Lecturer, Accountancy Programme, School of Business, Singapore University of Social Sciences.

[2] Paragraphs (a) to (e) are replicated here for ease of reference: (a) the lessee has an option to purchase the machinery or plant during the term of the lease including any extension or renewal thereof or upon its expiry; (b) the machinery or plant which is leased is a limited use asset; (c) the machinery or plant in a sale and lease-back transaction has been previously used by the lessee or any other person; (d) the lessor and lessee are related to each other, and (i) the lessee or any other person related to the lessee lends to the lessor any of the funds necessary to acquire the leased asset or guarantees any debt of the lessor incurred in connection with the lease; or the terms of the lease are determined otherwise than on the basis that there is no such relationship between the lessor and the lessee; or the total value of the rentals or hire received or receivable for the term of those finance leases entered into by the lessor with lessees, who are related to the lessor, at any time during the basis period for any year of assessment exceeds half of the total value of the rentals or hire received or receivable for the term of all finance leases entered into by the lessor in that basis period; or (e) the lease is a leveraged lease.

[3] Government of Singapore (2018) Income Tax (Income from Finance Leases) Regulations. Chapter 134, RG13; accessed on 21 December 2018

[4] Assume three years under S19A(1) of the ITA


BY FELIX WONG AND ANGELINA TAN

A SPOTLIGHT ON SINGAPORE TAX CASES

Get Updated On Recent Tax Decisions

THE YEAR 2018 MARKED AN EVENTFUL YEAR FOR SINGAPORE'S TAX LEGAL SCENE as it saw several tax appeals being decided by the Courts. To help tax practitioners keep abreast of the latest tax decisions, Accredited Tax Practitioner (Income Tax & GST) Allen Tan, Principal, and Ng Chun Ying, Local Principal, Baker & McKenzie. Wong & Leow, provided an overview of recent tax cases and shared their insights at a *Tax Excellence Decoded* (TED) session organised by the Singapore Institute of Accredited Tax Professionals (SIATP).

Accredited Tax Practitioner (Income Tax and GST) Allen Tan, Principal, and Ng Chun Ying, Local Principal, Baker & McKenzie.Wong & Leow, provided an overview of the 2018 tax decisions and shared their insights

INTEREST DEDUCTIBILITY ON SHAREHOLDER BONDS – *BML V COMPTROLLER OF INCOME TAX* [2018]

BML v Comptroller of Income Tax (CIT) [2018] (BML) relates to an appeal against the High Court's decision to disallow the taxpayer's interest deduction claim on its shareholder bonds.

The taxpayer was a company that owned and operated a shopping mall. It underwent a securitisation exercise where it assigned its rights to rental income from the mall as security for a $520-million loan, of which $333 million was lent to its shareholders. The taxpayer went on to capitalise $325.3 million from its retained earnings and reserves, and reduced its share capital by $333 million. Upon the capital reduction, a debt of $333 million became due and payable to the shareholders. Instead of returning cash to the shareholders, the taxpayer issued interest-bearing bonds to the shareholders, resulting in the shareholders earning interest on the bonds.

> The direct link test, which has found support in at least three previous CA decisions before *BML*, has once again been affirmed as the universal test for Section 14(1)(a).

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To ascertain a taxpayer's intention, the Court can only examine the action or conduct of that person and see on the balance of probabilities, whether the conduct was more consistent with one intention or the other.

The taxpayer sought to claim deductions in respect of the interest payable on the bonds under Section 14(1)(a) of the Income Tax Act (ITA). For the interest to be deductible, the underlying debt which resulted in the interest payment must have been "capital employed in acquiring the income". Applying the direct link test established in the Court of Appeal (CA)'s decision in *Andermatt Investments Pte Ltd v CIT* [1995], the High Court dismissed the taxpayer's appeal as no direct link could be established between the money borrowed and the rental income produced.

In its appeal before CA, the taxpayer repeated its earlier arguments that the direct link test was not the only test to determine interest deductibility, and proposed two possible alternatives – the representation test (where interest is deductible if it is payable on capital that appears on the same balance sheet as income-producing assets) and the retention test (where interest is deductible if it enables the retention of income-producing assets).

CA rejected the representation test on the basis that it does not seem compatible with the term "acquiring the income" in Section 14(1)(a). The phrase "acquiring the income" as opposed to "acquiring any income" connoted a clear nexus between the capital and the particular source of income from which a deduction was sought to be made. This requirement would not be satisfied under the representation test.

On the retention test, CA declined to definitively decide as the facts did not satisfy the test. However, CA made the observation that the retention test may be too broad and may not be consistent with the language of Section 14(1)(a), which suggests that there must be active usage of the loan to generate the income.

On these grounds, CA dismissed the appeal and held that the shareholder bonds did not constitute "capital employed in acquiring the income" of the taxpayer.

KEY OBSERVATIONS AND COMMENTS

Direct Link Test – the Universal Test for Section 14(1)(a)

The direct link test, which has found support in at least three previous CA decisions before *BML*, has once again been affirmed as the universal test for Section 14(1)(a). In *BML*, CA has also highlighted that the direct link test is in line with the statutory language of Section 14(1)(a) – that a direct link must be established between the money borrowed and the income produced for the interest to be deductible.

Interaction between Sections 14(1), 14(1)(a) and 15(1)(c)

CA expressly acknowledged that there are concerns with the current approach in dealing with the interaction between Sections 14(1), 14(1)(a) and 15(1)(c) as laid down in the decision of *BFC v CIT* [2014]. While the difficulties with the proper interaction of Section 14(1)(a) and the other provisions did not arise in *BML*, it is noted that CA may revisit this issue when the facts call for it in future cases.

TAXATION UNDER SECTION 10(1)(a) – *GCH V CIT* [2018]

In *GCH v CIT* [2018], the taxpayer, an individual who worked as a real estate agent, acquired 11 residential and commercial properties within a three-year timespan. Of these, five were sold within two years of purchase. The profits from these sales were assessed to tax as gains arising from trading activities under Section 10(1)(a) of the ITA on the basis that the taxpayer was engaged in a trade of buying and selling the properties.

In ascertaining whether the profits arose from trading activities, the Income Tax Board of Review (ITBR) examined the activities for various characteristics of trade (also known as the "badges of trade"), such as the duration of ownership and multiplicity of similar transactions. It was held in *NP v CIT* [2017] that the presence of "badges of trade" may support the inference that trading activities have been carried out.

The ITBR observed that there was a multiplicity of similar transactions in *GCH* – 11 properties were purchased within three years, out of which four of the disputed properties were purchased within the same year. The ITBR also observed that the holding periods of the properties, ranging from zero days to 1.8 years, were short. Despite the taxpayer's assertions that the acquisition and sale of each property were not made with the intention of trading, the observable case facts collectively led to the inference that the taxpayer was indeed carrying out trading activities.

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KEY OBSERVATIONS AND COMMENTS

Specialised Knowledge is Not a Badge of Trade

The CIT commented that the taxpayer was engaged in speculative trading as she was a real estate agent who had specialised knowledge of the local property market. The ITBR opined that while the taxpayer's specialised knowledge may be relevant in explaining her motives, it is not a badge of trade from which any inference of trade can be drawn. This clarifies that no trading inference should be drawn simply because one possesses specialised knowledge relevant to their investments.

Evidence Prevails

GCH illustrates the importance of having credible and convincing evidence to support one's stated intention. The taxpayer had failed in her appeal as she was unable to substantiate her assertions (that the acquisition and sale of each property were not made with the intention of trading) with observable evidence. Ultimately, the ITBR's decision was led by its inference from the facts of the case.

TAXATION UNDER SECTION 10(1)(g) – *BQY V CIT* [2018]

BQY v CIT [2018] concerns the taxability of gains from the sale of residential properties under Section 10(1)(g) of the ITA. The taxpayers are husband and wife. They bought three properties and subsequently disposed of them, making an aggregate net profit in excess of $16 million. The taxpayers asserted that one of the properties was purchased for own use while the other two were purchased for rental purposes, and that all three properties were sold to realise profits.

In its appeal before the ITBR, the taxpayers contended that they had purchased and sold the properties because they found them to be unsuitable family homes. The ITBR dismissed the appeal and held that the profits were taxable on the basis that the taxpayers' intention was to purchase the three properties for resale with a view to profit.

The issue before the High Court was whether the ITBR had erred in finding that the taxpayers had an intention to derive a gain or profit from the disposal of each of the properties at the time of acquisition.

Given that the taxpayers did not move into any of the properties after their purchase, the High Court dismissed the taxpayers' appeal and held that the ITBR did not err in its findings of the taxpayers' intention (to derive a gain or profit from the disposal of the properties at the time of acquisition).

KEY OBSERVATIONS AND COMMENTS

Taxpayer's Intention

Intention is a subjective enquiry of the taxpayers' minds. To ascertain a taxpayer's intention, the Court can only examine the action or conduct of that person and see on the balance of probabilities, whether the conduct was more consistent with one intention or the other.

While the taxpayers claimed that the properties were purchased as residential home and for rental purposes, the observable actions contradict their assertions. Accordingly, the High Court concluded that based on its assessment of the taxpayers' actions and on a balance of probabilities, the ITBR did not err in finding that the taxpayers purchased the properties for resale with a view to making profits. ISCA

Felix Wong is Head of Tax, and Angelina Tan is Technical Specialist, SIATP.

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