IS Chartered Accountant Journal
FEBRUARY 2020

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ISCA PRE-BUDGET ROUNDTABLE 2020

Deepening Capabilities: A Continuous Process

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

FEBRUARY 2020

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Dear members,

LEARNING IS AN UNENDING CONTINUUM. This theme has been played out again and again from government to industry, from trade associations and chambers (TACs) to professional bodies, and even at the social and community levels. The Institute is an active advocate for member upgrading and upskilling, and our initiatives are focused on equipping members with updated, applicable competencies to navigate a complex, evolving business environment. And as emerging technologies spawn new work opportunities, ISCA has schemes to help our members enter these nascent areas of promising potential. The enduring message to members is this: keep learning and continue to develop your abilities.

"Deepening Capabilities: A Continuous Process" is the theme of this year's ISCA Pre-Budget Roundtable. The hallmark ISCA event, now in its 11th year, gathers the insights of business leaders from TACs, accounting firms and other stakeholders on how the Budget can be shaped to advance Singapore's future. Unsurprisingly, the panellists were of one mind on the need to press on with business transformation, and that capabilities should be deepened at both the enterprise and worker levels. We bring you the key points of the Roundtable in our cover story. Like many of you, I will be tuning in to the Budget Statement 2020 on February 18 to find out what's in store for us in the coming year.

The global economic climate plays a significant role in shaping the budget of any country, including Singapore's. Accountants should therefore keep in tune with the latest business news and happenings, including geopolitical issues, as they have an impact on the world around us. One avenue to keep up is to hear the views of experts, such as Professor Kishore Mahbubani, a notable academic and former diplomat. The Distinguished Fellow of the Asia Research Institute, National University of Singapore, forwarded his views on how ASEAN should respond to the challenges posed by the ongoing US-China disputes at an ISCA conference in November 2019. We have a summary of his presentation and panel session in the article "Why ASEAN Should Be On The Fence And On Our Toes".

The US-China tension is not a straightforward trade war. As Prof Mahbubani shares, it is a multi-dimensional contest that has economic, political, military and cultural aspects. Taking a look at the complexity that is "China Inc" is the article titled "Foreign Firms' China Challenges", which examines why foreign firms are not making the headway they hope to in the world's most populous nation.

Shifting the focus from companies to individuals, ISCA members are a diverse lot who are making their marks across different industries and countries as they perform a multiplicity of roles and functions. As you would have read from our Member Profile column, an accountancy education provides a solid foundation for professional accountants in business and in practice and as well, it paves the way for a myriad of other career choices, such as being a financial crime investigator. As this month's featured member David Chew says, "The combination of accounting knowledge and legal, technological and investigative skills in the Financial Forensic Accounting Qualification will allow accountants to take on the role of an investigator, as the first line of defence against illicit financial activities across industries and sectors." Although David's background is not in accountancy – he is a Legal Service Officer on whom ISCA had conferred an Honorary Lifetime Membership in recognition of his significant contributions to Singapore's development as a global business hub – the white-collar crime buster recognises the value of accountancy training.

Beyond formal training, David highlights three essential traits for success, namely, passion, adaptability and tenacity. I, too, consider these qualities to be critical, and in my December radio interview with CNA938, I had called attention to the soft skills of adaptability and resilience, among others, that accountants aspiring to leadership positions should possess. The interview transcript is reproduced in this issue.

As always, the Journal is packed with resources that are designed to benefit you. Enjoy!

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Enhancing Capabilities; In Tune With Evolving Business Landscape

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Cybersecurity Trends In 2020

CYBERSECURITY SPENDING has been on the rise as organisations rush to protect themselves from potentially crippling losses as a result of cyber crime. Research company IDC had predicted in 2016[1] that the global cybersecurity market will grow some 38% over a period of five years – from US$73.7 billion in 2016 to US$101.6 billion in 2020 – with the figures representing the spending on security-related hardware, software and related professional services. Given the dynamic nature of cyber threats and the range of cyber solutions that continue to come onstream, it has proven challenging for researchers to ascribe a common value to the size of the cybersecurity market. However, they share some common views about the cybersecurity trends in 2020.

PHOTO SHUTTERSTOCK

Spending on cybersecurity will continue to grow

Cyber research company Cybersecurity Ventures expects global cybersecurity spending to exceed US$1 trillion cumulatively over the five-year period from 2017 to 2021, while research and advisory firm Gartner pegs the worldwide spending on information security (a subset of the broader cybersecurity market) at around US$124 billion in 2019, with the figure moving up to US$170.4 billion in 2022. An increased focus on building detection and response capabilities, privacy regulations and the need to address digital business risks are the main drivers for global cybersecurity spending.

Security as a service will represent at least 50% of security software delivery

Gartner predicts that security as a service (subscription and managed) will surpass on-premises deployments, and hybrid deployments are enticing buyers. "Cloud-delivered security is becoming the preferred delivery model for a number of technologies," says Siddharth Deshpande, Research Director, Gartner.

Gradual shift towards cloud-based security

Security, flexibility and scalability are the three main reasons why organisations have started shifting towards cloud-based security platforms. CyberSecurity Mag predicts that such platforms will rule the security market. With their open application programming interfaces (APIs) – which simplify the implementation and maintenance of software – integration and switching of security technologies are more straightforward and less costly.

Shortage of cybersecurity talent

There is a global shortage of cybersecurity professionals. Assurance, tax and advisory professional services firm BDO[2] points to the ongoing under-investment in cybersecurity education, training, and certification programmes at the undergraduate, graduate and continuing education levels. Combined with the incredible rise in cyber attacks worldwide, more needs to be done to ensure a healthy pipeline of cybersecurity professionals and related data scientists to meet the increasing demand.

Blockchain-based security

Developments in blockchain have expanded beyond recordkeeping and cryptocurrencies. The integration of smart contract development has ushered in a wider set of applications including cybersecurity.[3] Blockchain's distributed network and smart contracts underlie a comprehensive network capable of delivering accessible web performance and security services. Decentralisation builds a network of trust which enables companies to spread sensitive and vital information across the globe while remaining encrypted. The openness and transparency also make it potentially more secure than traditional online systems. In fact, Cybersecurity Ventures predicts that the global blockchain market will exceed US$40 billion by 2025, with healthcare, financial services and banking feeling the greatest impact.

Supply chain attacks

Cyber criminals will look for the weakest link in the supply chain, whether it's an individual or a third party in the network. Smaller companies such as vendors or suppliers tend to be the target as they likely have weaker cybersecurity measures; criminals will use them as the gateway to the different businesses in the supply chain.

Insider-threat cyber attacks

As organisations improve their overall integrated cyber defence, cyber criminals will try to bypass the security measures by bribing employees who have valuable, restricted-access intellectual property and key data assets in order to steal the data, says BDO.

Using AI to combat cyber attacks

When artificial intelligence (AI) and robotic process automation (RPA) join hands, it is a formidable partnership. The network environment will have more potential to respond to cyber attacks dynamically. The "secure network" of the future will not only protect the privacy of the user but also strive hard to process and prioritise data. RPA, in particular, will automate the process of attack detection, analysis, and response. RPA is already being used by accountancy firms to perform routine, repetitive work in cyber-secure conditions.

Next-gen authentication technology

Globally, more than 85% of cyber attacks are a result of people getting tricked out of their password. More organisations will gravitate towards next-generation authentication technologies such as biometrics (example, thumb/finger print; iris or facial recognition), and multi-factor authentication, which is already in use in Singapore. Take note though, the biometric data must be kept safe, and the network authentication token that is generated must also be protected.

Unwanted apps edging closer to malware

Ever more stealthy and aggressive adware, and other potentially unwanted apps like browser plug-ins, are becoming brokers for delivering malware and fileless attacks.

Investment apps are new targets

Mobile investment apps are becoming more popular among users worldwide, and this trend won't go unnoticed by cyber criminals, says cybersecurity company Kaspersky. Given the ubiquity of apps from fintech companies and exchanges (for both real and virtual money), cyber criminals know that not all of them are secure – for example, some apps still lack basic protection for customer accounts, and do not offer multi-factor authentication or certificate pinning to protect app communication. Cyber criminals can substitute the interfaces of these apps with their own malicious versions.

Crimes involving crypto assets

The successful launch of cryptocurrencies such as Libra and Gram might lead to the worldwide spread of this type of asset, which naturally will attract the attention of criminals. Given the serious surge in cyber criminal activity during the rapid growth of bitcoin and altcoins in 2018, Kaspersky predicts that a similar situation will most likely unfold around Gram and Libra. Large players in this market should be especially careful.

[1] "Worldwide ICT Spending Guide: Industry And Company Size", IDC, 2016
[2] "Cybersecurity In 2020: Top Ten Predictions And Recommendations", BDO, Dec 2019
[3] "New Blockchain Platforms Emerge To Fight Cyber Crime & Secure The Future", Roger Aitken, 13 Nov 2017, Forbes

Singapore Businesses Embrace Transformation; Overseas Expansion Gains Momentum

PHOTO SHUTTERSTOCK

AMID THE CHALLENGES FACING SINGAPORE BUSINESSES IN THIS UNCERTAIN ECONOMIC CLIMATE, nine in 10 of them now recognise the importance of business transformation to maintain competitiveness and competency. Nearly two in three companies (66%) also view technology adoption as fundamental in transforming their businesses. This was a key finding in the Singapore Business Federation (SBF)'s latest National Business Survey 2019/2020. The annual survey, unveiled in mid-January, drew responses from more than 1,000 companies across all major industries.

The report also showed that internationalisation has picked up pace among businesses, with SMEs expanding overseas at a greater rate than seen previously (78%, versus 68% in 2018). Eight in 10 businesses also reported having a presence overseas.

BUSINESS TRANSFORMATION NOW SEEN AS CRITICAL

Nearly a decade after the government began its push for companies to innovate, companies now view business transformation as critical. Nine in 10 (94%) Singapore companies acknowledged the importance of transformation to stay relevant and competitive (78%), and to improve business efficiency (66%), in the face of changing market dynamics. One in two (50%) also see business transformation as key to improving customer experience.

Technology continues to play a major role in transformation. While two in three (66%) believe that adopting new technology is fundamental to their own transformation and survival, the biggest roadblock perceived is cost (69%), followed by challenges such as training/adapting staff to use new technology (49%), and cybersecurity risk (40%). Notwithstanding, the pace of change in digital and e-commerce is providing some hope for the road ahead, with 27% of businesses saying they are optimistic about getting positive returns from their investment in digitalisation and e-commerce transformation.

"The shift in mindset is a big step in the right direction and we hope to see this increased awareness translate into action," said SBF CEO Ho Meng Kit. "The perceived high cost of technology adoption is a common misconception. Companies can start small, such as setting up a website or getting on social media." He urged companies to continue to invest in their people and develop their digital skills. Businesses should also cultivate a company culture of continuous learning, and provide staff with opportunities to take on roles that are more value-based and rewarding.

UNCERTAINTIES NOT STOPPING SMES FROM EXPANDING OVERSEAS

More businesses are going beyond Singapore's shores, with eight in 10 saying they now have an overseas presence. Internationalisation picked up pace particularly among SMEs recently (78%, versus 68% in 2018). In comparison, 93% of large companies said they have expanded overseas (90% in 2018). Furthermore, 41% of businesses reported that more than half of their sales turnover originates from overseas.

Southeast Asia remains the most popular region for expansion, with 82% of Singapore businesses reporting a presence in the region. Malaysia (61%), Indonesia (48%) and Thailand (40%) are the three most popular countries, while China (46%), Japan (29%) and India (28%) are the top countries of interest outside Southeast Asia.

Among companies with an overseas presence, 25% indicated that they grew in 2019. Companies pointed to increased demand for their products or services (98%), as well as the Free Trade Agreements (FTAs) that Singapore has secured with other countries (75%) as crucial to their overseas business growth.

The report is available at the SBF website.

ISCA Hands Over AFA Chairmanship To Myanmar Institute Of Certified Public Accountants

ISCA PRESIDENT KON YIN TONG COMPLETED A SUCCESSFUL TWO-YEAR TERM AS PRESIDENT, ASEAN Federation of Accountants (AFA), from 1 January 2018 to 31 December 2019. The AFA President's position is rotated among the 10 ASEAN countries every two years.

AFA'S ACHIEVEMENTS FROM 2018 TO 2019

Under Mr Kon's leadership, AFA member bodies stepped up efforts to co-develop the accountancy profession in ASEAN. The efforts were driven by AFA's three main strategic priorities, namely, support adoption and implementation of international standards, position AFA as a regional thought leader in discussion of issues relevant to the accountancy profession, and build the capacity of the ASEAN professional accountancy organisations (PAOs).

AFA represents the accountancy profession in ASEAN. Its Primary Members are the recognised national PAOs of each of the 10 ASEAN member states. Collectively, AFA has approximately 200,000 members. AFA is also supported by nine Associate Members from Malaysia, Indonesia, Japan, Australia, New Zealand, and the United Kingdom. AFA can be likened to a lighthouse for ASEAN's accountancy profession, guiding its development and progress by working closely with stakeholders.

AFA celebrated LCPAA's admission as an IFAC Associate member at the IFAC Council Meeting in November 2019

Tripartite collaboration between LCPAA, Malaysian Institute of Accountants and World Bank on IFRS transition, facilitated by AFA in Lao PDR

The strategic priorities seek to uplift the professional standards of the accountancy profession in ASEAN so as to support the region's booming economy, as well as keep pace with the rapid and disruptive changes that are reshaping the global accountancy profession.

During Mr Kon's term as AFA President, AFA celebrated many achievements and successes as a regional accountancy body. Notably, Mr Kon was the first AFA President to be invited to speak at the World Congress of Accountants in Sydney, Australia, in November 2018.

There were also many bilateral and trilateral collaborations. These included 10 capacity-building workshops in ASEAN conducted by ISCA; tripartite collaboration between Lao Chamber of Professional Accountants and Auditors (LCPAA), Malaysian Institute of Accountants, and World Bank on IFRS transition in Lao PDR, and an ethics workshop co-organised by Brunei Darussalam Institute of Certified Public Accountants and Institute of Indonesia Chartered Accountants.

In November 2019, AFA reached a significant milestone when the International Federation of Accountants (IFAC) announced that it had approved AFA's application to become the first new regional organisation under IFAC's newly established framework for strategic relationships. Under this framework, IFAC and AFA can look forward to mutually beneficial collaborations in the near future.

At the same time, AFA celebrated LCPAA's successful admission as an IFAC Associate member. Laos' admission serves to motivate other PAOs in developing countries that have yet to join the IFAC family that with determination and commitment, it is possible to gain the coveted IFAC membership.

Workshop on ISCA's Audit Manual for Group Entities, co-organised by ISCA and MICPA

ISCA President Kon Yin Tong (left) handing over the AFA leadership to Wan Tin, President, MICPA

Strong friendships and camaraderie among AFA members

The achievements during Mr Kon's term as AFA President further bolstered AFA's vision to be globally recognised as the body that represents the accountancy profession in ASEAN. The success is underlined by AFA members' warm fraternity and camaraderie as everyone is ever ready to lend a helping hand.

PASSING THE BATON

On 26 November 2019, ISCA organised the ISCA Financial Reporting Committee (FRC) – AFA Financial Reporting & Business Conference at One Farrer Hotel. This also marked the final milestone of Mr Kon's term as AFA President as he passed the baton to Wan Tin, President, Myanmar Institute of Certified Public Accountants (MICPA).

"ISCA hopes to continue working with our ASEAN colleagues to build an innovative and resilient ASEAN for us all and for future generations. If we embrace the ASEAN motto 'One Vision, One Identity, One Community' and stand united, co-operating and collaborating on our common interests, we can look forward to more prosperous times together," said Mr Kon.

isca career pathway talk

Illuminating Insights Into Myriad Opportunities For Accountants

BACKED BY THE SUCCESSFUL FIRST RUN IN 2018, the ISCA Young Professionals Advisory Committee (YPAC) presented Season 2 of our highly anticipated Career Pathway Talk. Held on 27 November 2019 at the KPMG Clubhouse, participants enjoyed an evening of fun-filled conversations with food, drinks and laughter.

When asked what type of career an accountancy degree or a Chartered Accountant (CA) qualification brings, responses never fail to deviate from audit and financial accounting roles – stereotypes that are entrenched in many people's minds. In order to debunk these misconceptions, the panel discussion, titled "Opportunities Ahead And Beyond" (Season 2), was focused on sharing the various career pathways a CA can pursue in addition to audit and financial accounting roles.

Kicking off the session for the evening was YPAC Chairperson Belinda Teo, Assurance Senior Manager, Ernst & Young LLP. She welcomed the participants and encouraged them to pursue their dreams. Thereafter, John Doyle, Associate Manager, Contracting Division for Accounting and Finance, PageGroup Singapore, shared insights into the company's recently launched Singapore Salary Benchmark 2020 report. He also addressed some of the common problems faced by both employers and employees in the industry, as well as the current recruitment trends in the Accounting and Finance sector.

A Around 70 young Finance and Accounting professionals and accounting undergraduates attended the ISCA Career Pathway Talk

HEARING FROM THE PANELLISTS

The panel comprised four experts from various fields in the Accounting and Finance sector, bearing testimony to the versatility of a CA qualification. They shared their decisions behind their unconventional career choices, as well as the dilemmas they faced at the crossroads of their careers.

Andre Toh, Partner, Transaction Advisory Services, Ernst & Young Solutions LLP, spoke about how he chose to start his career in advisory and his journey to become a veteran in this field. Wong Dan Chi, Global ESG Specialist, Nikko Asset Management Group, explained how she got into the field of sustainability, the current trend that was unnoticed back then. Maria Teo, Associate Director, Forensics and Litigation, Nexia TS, elaborated on her decision to venture into the field of forensics, an unconventional shift from her original audit and assurance route. Tay Toh Sin, Managing Partner, Alva Investment LLP and Founder, Laevo Art, disclosed the details of how she exited corporate finance to join the business of investing in technology ventures, and touched on her personal endeavour – the art of living.

Moderator Willy Tai, Business Analyst, Hong Leong Finance, invited questions from the floor which the speakers responded to candidly. The question that garnered the most interest among the participants centred on their decision to make a mid-career switch, and the various challenges they faced during that transition. Although skills were transferrable across industries, the panellists stressed the importance of continuous learning throughout one's career. Coupled with the complexity of taking on a completely new role, the Accounting and Finance landscape has also been undergoing revolutionary changes in the past decade. As a result, young accountancy professionals should be well-informed of the latest trends in the economy and the shifts in demand for different business offerings.

As decision-making figures in their respective organisations, the panellists also shared numerous interview tips with the participants. They elaborated on the attributes and attitude they would look for in an ideal candidate. Apart from soft skills, they touched on the practical skill sets and prerequisites that would differentiate a candidate from the rest. The candidate must have a positive attitude towards change, a constant willingness to learn, a good fit into the current organisational culture – all of which point to exponential growth potential.

As they shared amusing anecdotes to illustrate their ideas, the participants also garnered a better understanding of the job requirements and what it takes to make a career switch. The evening ended with a brief networking session, during which many participants approached the speakers to continue the conversations.

If you are keen to join us for our next instalment of the Career Pathway Talk series, do register your interest with us at ypac@isca.org.sg. To receive the latest updates and information, follow us on Instagram at @isca_ypac.

A YPAC Chairperson Belinda Teo, Assurance Senior Manager, Ernst & Young LLP, delivering her welcome address

A A representative from Michael Page, part of the Page Group (in blue jacket), sharing the current recruitment trends, as well as answering participants' queries

A (From left) Panellists Tay Toh Sin, Managing Partner, Alva Investment LLP and Founder, Laevo Art; Andre Toh, Partner, Transaction Advisory Services, Ernst & Young Solutions LLP; Maria Teo, Associate Director, Forensics and Litigation, Nexia TS; Wong Dan Chi, Global ESG Specialist, Nikko Asset Management Group, and moderator Willy Tai, Business Analyst, Hong Leong Finance

A YPAC members, ISCA Industry Support team and panellists

Maintaining An Eagle Eye On Tax Excellence

PHOTO SHUTTERSTOCK

AS WE MARCH FORTH AT THE START OF A NEW DECADE, the Singapore Institute of Accredited Tax Professionals continues to maintain an eagle eye on tax excellence. Accredited tax professionals will be involved in a series of new programmes and initiatives, boosting their technical knowledge and related expertise as SIATP ramps up its efforts to benefit the accredited.

Ranging from the popular *Tax Excellence Decoded* (TED) sessions to hot favourites Tax Peek networking sessions that are designed to give tax professionals doses of booster shots in the form of personal anecdotes and tips from the established, to scale to the top, and from the new and revamped website to having access to exclusive resources at their fingertips, accredited tax professionals are well-equipped with a cornocopia of opportunities and tax resources to advance in the new year.

Bolstering the work of tax professionals, the revamped SIATP website's multi-layered tax resources range from the post-event technical articles outlining the insights and takeways from the myriad of TED sessions organised by SIATP to the vital information on the tax regimes across the region. These provide tax specialists and business leaders with valuable materials at their fingertips.

Besides securing a sturdy footing amid an evolving business and tax landscape through the many opportunities made available through the professional body, accredited tax professionals also have greater access to consolidated information on the step-by-step tax guide to technology adoption and available tax solutions, not to mention funding support. SIATP members can now efficiently assess and tap into the technology highway for greater productivity.

The support for tax professionals, particularly the accredited, does not stop at technical excellence. It is also very much about creating platforms for tax professionals to stand out with accreditation. In this respect, the online directory set within SIATP's website has been successfully overhauled for interested parties to seek out an accredited tax professional. People who are looking to engage one or require verification can easily utilise the feature.

The new year also calls for new breakthroughs in tax excellence as SIATP will be partnering the established international organisations and bringing in international expertise to share their knowledge with members.

Join in and be part of the action as tax professionals look forward to a year of exciting programmes and initiatives. Email enquiry@siatp.org.sg for more information.

MARK YOUR CALENDAR

12 FEB

ISCA Breakfast Talk – Offshore Wind Financing in Taiwan

With Asia's rapid development, accountants are well placed to capture opportunities in the infrastructure space. In this session, our speaker from DBS will share how infrastructure/project financing works in real-life action, using a deal that closed recently.

This seeks to highlight the role that Singapore-based institutions can play across Asia.

14 FEB

Withholding Tax - Fundamentals that Accountants Need to Know!

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

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

19 FEB

Becoming a Creative Accountant: Analytical and Creative Problem Solving

UTAP approved

Learn how to use creativity to generate ideas and solutions and how such thinking may be fostered and developed in you and your team. Also, it will equip you with the ability to approach challenges and problems with techniques and tools for practical application in real life.

26 FEB

Budgeting: Going Beyond a Routine Exercise

In today's dynamic business environment, budgeting process is more robust than just putting numbers together.

Learn the techniques and confidence to present, manage and control budgets effectively. This programme will include practical hands-on session on how to build an effective budget and boardroom survival techniques during budget review will also be covered.

12 MAR

ISCA Budget Update 2020

In It to Ace It. Get in tune with SG Budget 2020 in 4 hours!

Join us at the ISCA Budget Update 2020 Seminar where SMU's Professor of Accounting (Practice) Sum Yee Loong will analyse the tax implications of the various Budget 2020 proposals and how these will affect businesses and individuals. Mr Irvin Seah, Executive Director, Group Research, DBS Bank, will deliver a presentation on the Economic Outlook and Analysis of Budget 2020, followed by a panel discussion with industry leaders on Budget proposals.

16 MAY

ISCA Run 2020

With more than 1,900 participants last year, ISCA Run is back for the seventh year to promote camaraderie among members of the accountancy profession and is giving back to the profession via the event's chosen beneficiary, ISCA Cares. All proceeds will be donated to ISCA Cares.

So strap-on your running shoes and come join your fellow ISCA members, colleagues and clients in this meaningful race!

Early Bird Registration opens on 13 January 2020.
For more information, please go to: http://www.iscarun.sg

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

isca mingles

Thriving In Today's Fragmented Work Environment

THE FINAL ISCA MINGLES EVENT IN 2019 TOOK PLACE ON NOVEMBER 14, bringing together about 60 members from the three accountancy bodies, namely, ISCA, Chartered Accountants Australia and New Zealand (CA ANZ) and The Institute of Chartered Accountants in England and Wales (ICAEW). The quarterly session is a platform for networking and interaction, with the aim of establishing professional networks that widen the sphere of opportunities beyond direct contacts while picking up a tip or two from the presenter.

The evening event at ISCA House began with a sumptuous buffet dinner that encouraged lots of mingling in a cosy setting before settling down for a sharing session on the topic, "The Smart Workspace: Thriving In A Fragmented Digital World".

Koh Su Hock, Head of Local Business and Partners - Asia, Dropbox Singapore, talked about today's digital environment, how it has changed the way we work and the various challenges that have arisen as a result of having to keep up with emerging demands. Scattered contents in the form of multiple work-related apps and constant interruptions have negative financial impact on an individual's productivity, energy and work satisfaction.

He went on to share how Dropbox Business can be effectively utilised as a one-stop workplace – a tool that can streamline work processes, thus freeing up time to focus on what matters most to our clients. Dropbox Business provides a smart workspace which enables team collaborations. This is because team members can access the team's work from their own computers, mobile devices or web browser anytime, anywhere. Teams can create, store and share cloud content from Google Docs, Sheets and Slides, Microsoft Office Files, and Dropbox Paper alongside traditional files in Dropbox, resulting in a centralised team content.

Mr Koh also demonstrated how easy it is to retrieve the required information from the large amount of content that is put online, by searching through intelligently suggested files and folders. All the tools allow organisations to stay organised, connected and in sync to have the best collaborative outcomes, resulting in a more productive work environment for everyone.

Koh Su Hock, Head of Local Business and Partners - Asia, Dropbox Singapore, spoke about how digitalisation is impacting business isca breakfast talk

An Illustrative Explanation Of Changes In Ownership Interests

THE ISCA BREAKFAST TALK ON JANUARY 15 brought together 94 members to hear from Dr Pearl Tan, Associate Professor (Education), Singapore Management University. Dr Tan explained and illustrated the principles behind the accounting for changes in ownership interests with and without change in control, in Financial Reporting Standard (FRS) 103 *Business Combinations* and FRS 110 *Consolidated Financial Statements*. Although the standards are not new, she emphasised that clarity in their principles is essential in group reporting.

Dr Tan explained the coherent framework of principles and requirements to account for these four scenarios:

- Gain in control;
- Loss of control;
- Increase in ownership interest without change in control, and
- Decrease in ownership interest without change in control.

Dr Tan went on to elaborate on the concept of de facto control. Moving away from the simplistic view that majority voting rights are presumed to give rise to control, FRS 110 requires a holistic and dynamic evaluation of all the facts and circumstances. In addition to evaluating the sources of power, FRS 110 also requires the demonstration of the ability to use the power to affect returns.

The date when control is obtained or when control is lost is deemed a significant economic event. In a business combination achieved in stages (or a "step acquisition"), the relationship between investor and investee (for example, an associate) changes to one of parent and subsidiary. Conversely, when there is a loss of control, with some interest retained, the parent-subsidiary relationship is replaced with other relationships such as that of an investor-associate. Consequently, the substance of the change may be seen as two transactions: a disposal of a former relationship and an acquisition of a new relationship. In view of the significant economic event brought on by a change in relationship, she explained that the International Accounting Standards Board requires the re-measurement of previously-held interest or retained interest to fair value with the re-measurement gain or loss to be taken to the income statement

FRS 103 does not result in an aggregation of piecemeal goodwill acquired over time. The re-measurement of previously-held interest in the investee to fair value at acquisition date in line with other determinants of goodwill results in a goodwill figure that reflects the conditions on the date when control is obtained. Subsequent to acquisition date, goodwill does not change even though incremental purchases or sales are transacted with non-controlling interests.

Alongside the underlying principles, Dr Tan also illustrated the concepts using illustrative consolidation journal entries where participants had the opportunity to apply the concepts on case study questions.

Dr Tan concluded the session by stating three critical principles when there are changes in ownership interests in a subsidiary without change in control:

- First, there is no re-measurement gain or loss because there is no change in the relationship with the subsidiary.
- Second, transactions between controlling and non-controlling interests are owner transactions. Hence, gains and losses are to be taken direct to equity and not to the income statement.
- Third, there is a "re-balancing" of non-controlling interests to reflect the latest ownership interest. The proof or analytical check of the balance of non-controlling interests remains as a useful technique that can be applied using the latest ownership interest.

Dr Pearl Tan, Associate Professor (Education), Singapore Management University, explained the underlying principles of changes in ownership interests

Participants worked on practical examples to better comprehend the principles behind different scenarios

Diverse Career Paths In Accountancy: ISCA President's Interview With CNA938

ISCA PRESIDENT KON YIN TONG WAS INTERVIEWED BY LOCAL RADIO STATION CNA938, in the Career Compass segment of the Money Mind show on 4 December 2019.

Mr Kon spoke about the varied career opportunities the accountancy profession offers. He also spoke about technology as an enabler for the profession to provide higher value-added services. He ended with the key skills and competencies required of accountants in the digital age. Find out what else transpired at the interview from the transcript below.

STANLEY LEONG Hello, this is Stanley Leong with Susan Ng. This is CNA938 Money Mind programme. Whenever big companies crash and burn – think Enron in 2001, some banks in 2018, Noble Group last year and water firm Hyflux earlier this year, investors always demand, "Where were the auditors, why didn't they warn us?" Even regulations in some Asian countries are getting tougher on auditors after landmark defaults.

SUSAN NG This is an increasingly high-stakes game, as investors call for earlier warning signs. But what do the auditors themselves have to say and what exactly is involved in the profession?

Well, joining us to tell us more is Kon Yin Tong. Yin Tong is President of the Institute of Singapore Chartered Accountants. Thank you for joining us today, Yin Tong.

KON YIN TONG Thank you, Susan; thank you, Stanley. It's a pleasure to be here.

STANLEY The role of auditors has come under much scrutiny recently. Not all of us may know that auditors are part of the accountancy profession. Give us a bit more background as to the accountancy profession and all the different scopes and job roles that it entails.

YIN TONG Accountants and auditors hold a variety of roles. If you are in public practice, meaning in an accounting firm, you can do many things – from cybersecurity to forensic accounting to valuations, risk management, technology advisory, obviously accounting, as well as audit. If you are an accountant in business, meaning in commerce, in industry, you can have varied roles as well – as investment professionals, obviously as an accountant, you can be involved in transformation, you can be an analyst, Chief Financial Officer, and of course CEO. I think accountants, because of their training and versatility, make very good CEOs.

SUSAN So, there are quite diverse roles that accountancy is able to offer?

YIN TONG That is correct. In fact, the career path is one that is varied as well. If you look at what auditors do, you will be using technology and tools in your work. You will work in teams and form strong bonds with your teammates. You get to meet the management, have discussions with them as well as your teammates. No two days are the same. The topics are varied – you will be dealing with IT, tax, valuations, risk and so on. When you are involved in meetings with senior management, that's where you get to learn about business, leadership and management.

An audit is not just about financial numbers. It's not just about understanding dollars and cents – it's about looking at how a company organises itself, looking at the controls and processes in the company. If you look at what some auditors are doing now, they are looking at a company's investment in sustainable business practices. They are looking into how companies fight climate change, because there are calls from the stakeholders, such as the clients, for auditors to disassociate themselves from companies that don't have sustainable business practices.

SUSAN I guess our perception of accountants and auditors may have been something from the past? I still have visions of accountants sitting in rows just looking at numbers, and when companies or businesses need to do their taxes, auditors would come in and do them. Perhaps that could have been the misconception over the years that has carried on. From what you have just said, people in the accounting industry are able to look at a company maybe a lot more holistically than most?

YIN TONG Certainly, and this is sort of enabled by technology. One of the key developments in technology is cloud computing. With cloud computing, you can basically get information directly to your mobile devices, your laptop and so on, in the format you want. It's real time, anytime. It is a double-edged sword, in the sense that you can't get away from work. I think the other key development would be the use of data analytics in audits as well as in corporate companies. That has enabled companies and auditors to advise their clients as to how to harness data analytics to improve their organisations and businesses.

If I can cite one example: I was in Tottenham Hotspur Stadium in London recently, and they have got a cashless point-of-sale and inventory system. That system is fantastic in the sense that during match day, if the sales of hotdogs are slow in one sector, the system can price the hotdogs dynamically in real time and inform the spectators, via an app, that in that sector, the hotdogs are down by 50 pence and so on. It is great. Depending on who is there on match day, who are expected to come, they can order the inventories accordingly. Auditors are well placed to advise their clients in terms of how to reduce inventory costs, how to reduce holding costs; it's a great profession.

STANLEY That's technology at work. We are hearing from Mr Kon Yin Tong, President of the Institute of Singapore Chartered Accountants. Now, Yin Tong, would you say that there's a lot of misunderstanding regarding auditors, on who they are and the work that they do? Often, when we hear "audit is around the corner", everybody sort of scrambles, get their act together, the paperwork, the processes, make sure they have got it all penned down. Auditors strike fear sometimes in people. Do you think they are often misunderstood as a profession?

YIN TONG Well, auditors are there for a reason. There is a regulatory or statutory requirement in most cases, but audits are more than just customary, more than just a requirement. They are confirmatory, in the sense that they add value and credibility to the financial statements.

An audit opinion provides value beyond just the opinion you see in the accounts. Auditors obviously share key insights on management controls, on where processes can be improved, finding and addressing emerging issues before they become deep-seated and costly problems. Some of these incipient issues can include investments in or the adequacy of accounting and finance resources, internal control weaknesses that can be exploited for fraud. This gives business leaders more visibility into how their organisations are run, giving deeper and broader insights into their organisations.

Audits are not new to us. All of us have been through an audit before, and that is called examinations. If you think of the examinations we take in school – 'O' Levels, 'A' Levels, university and professional exams – they are a check on where we stand, what our progress is and whether we can make it. Audits are just like an exam, there's nothing to be too worried about.

SUSAN You mentioned technology several times and obviously you need to keep up with it. It's a double-edged sword if you look at it. You can look at it like what the Tottenham guys do at the Hotspur's stadium, but that's one way to look at it. The other way to look at it could be, "Could technology take over my job?" because you can compute all these numbers into the system and then technology takes over.

YIN TONG I think there is some job displacement and we can't run away from that. Certainly, job displacements will happen most at the lower end of the scale where you are looking at low-level tasks, more mundane and routine tasks like bookkeeping. Technology will take care of (the work previously done by) these bookkeepers, especially those outsourced ones in India, Philippines, for example. In fact, there is also a lot of skill displacements in the sense that auditors have to learn to employ technology and use it in their work.

But it has helped auditors in that sense. I think you have alluded to the fact that auditors are boring – they just go through invoices, vouchers; they cast ledgers and they use the calculators and so on but it is actually quite different now.

Let me share with you an example. We have a client who's a contractor. Contractors sometimes outsource part of their work; they get supplies from vendors. So, this contractor client of ours issued about 20,000 purchase orders during the year. What we found using data analytics was that a lot of payments were approved for payment before the goods were delivered, or before the service was provided. Ultimately, the payments were made only when everything's hunky dory, everybody's happy. But

PHOTO SHUTTERSTOCK

that raises a few questions: Why did management approve payments before work was completed? One, you need to think about whether the system is adequate; two, you need to think about the integrity of the management and a whole host of other issues.

In the past when we looked at invoices, we picked 30 to 50 out of thousands and we vouched them accordingly. It is quite different today. Today, we can look at 100% of the population, look at outliers, look at anomalies. Before technology, you couldn't do that. Technology has enabled, enhanced and given auditors a tool to provide higher value-added services and advice.

STANLEY We are hearing from the President of the Institute of Singapore Chartered Accountants, Mr Kon Yin Tong, and hearing more about the role of auditors. The landscape is changing. Apart from technology which we have spent quite a bit of time talking about and how it's shaping the way auditors go about their work, especially affecting those people doing the basic administrative aspects of things and how it is also enabling auditors to do more higher-level, meaningful tasks, what other factors may be changing the way auditors are doing their work apart from technology?

YIN TONG I mentioned sustainability development goals earlier. You cannot just look at numbers alone now. You need to be equally comfortable with sustainable development goals, as well as robotics and artificial intelligence. Auditors need to be versatile; the audit profession needs to be more multi-skilled. Once you are multi-skilled, you are better placed to address the variety of issues that clients will throw at you.

The ability to deal with numbers is important. If you look at what auditors do and in fact, what CEOs do, they exercise judgement and they communicate that judgement. If you don't communicate well, and when I talk about communication, it's not just about holding a conversation or writing well, you need to be able to persuade, negotiate, convince people to accept your decisions, see your point of view. You can do all these technical stuff, you can deal with sustainability, RPA, robotics and artificial intelligence, but if you can't communicate, your skill set is probably incomplete.

STANLEY So you are talking about soft skills, not just knowing your numbers.

YIN TONG That is correct. There are other soft skills as well. I would like to talk about two – one being *adaptability*, and the other *resilience*.

If we just look at resilience, being an accountant/auditor is quite hard.

SUSAN It sounds hard.

YIN TONG Yes, you need to probe, you need to ask the last question. That's how you cut your teeth. There will be many roadblocks and hurdles. For example, if you can't go to the bottom of issues, it can be quite difficult for you.

The other key competence is the need to be adaptable. We live in a complex and fast-paced environment where things change regularly. There's a lot of volatility, uncertainty and ambiguity. If you are adaptable, then you can handle these things. Let's look at what are the necessary ingredients to be adaptable. Obviously, critical thinking comes to mind. Critical thinking is not just joining the dots, it's about weighing the pros and cons of the evidence you have obtained, exercising your judgement about the evidence, and coming to a conclusion and decision. These are the soft skills you need to have to be a good accountant, to be a good auditor.

STANLEY Yeah, to be good at numbers, to be very aware of the laws, the roles, the regulations. To be abiding, adhering and to be a good communicator. You also mentioned resilience and adaptability, very important points for being an effective auditor at that.

SUSAN Yes, critical thinking skills.

STANLEY Thank you so much for allowing us to peer into the role, the lives and the purpose of auditors and the auditing profession. We have been speaking with the President of the Institute of Singapore Chartered Accountants, Mr Kon Yin Tong, our guest for this part of Money Mind. Thank you, Yin Tong, for your company.

SUSAN Thank you.

YIN TONG Thank you, Stanley; thank you, Susan. ISCA

BY STELLA LAU

A Panellists (seated, from left): Selena Ling, Head, Treasury Research & Strategy, OCBC Bank; R. Dhinakaran, President, Singapore Retailers Association; Dr Bicky Bhangu, Deputy President, Singapore Manufacturing Federation; Co-Chairs Lee Fook Chiew, Chief Executive Officer, ISCA, and Liang Eng Hwa, Chairman, Government Parliamentary Committee (Finance, Trade & Industry); Ho Meng Kit, Chief Executive Officer, Singapore Business Federation; Prof Sum Yee Loong, Board Member, Singapore Institute of Accredited Tax Professionals; Max Loh, Managing Partner, Singapore & Brunei, Ernst & Young LLP; (standing, from left) Chris Woo, Tax Leader, PricewaterhouseCoopers Singapore LLP; Lam Kong Hong, Executive Director, Singapore Contractors Association Ltd; Wong Wai Meng, Chairman, SGTech; Ang Yuit, Vice President (Membership & Training), Association of Small & Medium Enterprises

ISCA PRE-BUDGET ROUNDTABLE 2020

Deepening Capabilities: A Continuous Process

THE ISCA PRE-BUDGET ROUNDTABLE 2020 took place on January 8 at InterContinental Singapore. Focused on Singapore's commitment to industry transformation in the face of strong global economic headwinds, this year's theme was "Deepening Capabilities: A Continuous Process". Held for the 11th consecutive year, the Roundtable is a key platform organised annually by ISCA to gather views and insights of business leaders from trade associations and chambers (TACs) and accounting firms on how Singapore's Budget can be shaped to advance the nation's future.

Liang Eng Hwa, Chairman, Government Parliamentary Committee for Finance, Trade & Industry, who co-chaired the Roundtable, recognised the swelling pressure in the global trade and tax environment. He acknowledged that companies in Singapore will need to "adjust nimbly to shifts in supply chains to increase business resilience" and "enhance non-tax factors to maintain attractiveness and compete for investments".

Co-chairing the Roundtable, Lee Fook Chiew, Chief Executive Officer of ISCA, noted that Deputy Prime Minister and Minister for Finance Heng Swee Keat had highlighted in his Budget 2019 announcement the critical task of focusing on structural reforms and outlined key tasks such as building enterprise capabilities and deepening

worker skills in supporting industry transformation. Mr Lee urged panellists to contribute their views on how the government can encourage the business community to power ahead on transformation in the face of a sluggish economy.

A) PRESSING AHEAD WITH BUSINESS TRANSFORMATION

Despite the less than positive outlook, panellists unanimously agreed on the need to press ahead with business transformation. There was an encouraging sign from a recent Singapore Business Federation survey that revealed that the message of business transformation has finally "sunk in" and that companies are now "more aware of the urgent need to transform".

However, transformation efforts have been uneven, with outward-oriented sectors making better progress than domestic-oriented sectors.[1] One panellist pointed out that having successfully raised the level of awareness only after efforts spanning a couple of years, the next phase to drive action and implementation is likely to be even more arduous, and will require a more consistent effort and greater outreach.

Panellists also highlighted the risk of a digital divide among companies due to different levels of maturity in technology adoption. For example, there are still some companies that are unaware of the Industry Transformation Maps (ITMs) and Industry Digital Plans (IDPs), while others do not understand them. On the other hand, some small and medium-sized enterprises (SMEs) have already embarked on digital platforms, and are using digital dashboards and cash management systems such as PayNow Corporate.

Further, panellists stressed the importance of establishing benchmarks and key performance indicators for measuring the

Ⓐ Mr Liang (left) and Mr Lee co-chaired the ISCA Pre-Budget Roundtable 2020

success of ITMs and IDPs (such as quantification of increase in productivity), as well as having more sector-specific data to be shared to render more targeted support.

Also, while the government offers many schemes and grants to support companies in their digital transformation, some panellists felt that processes can be better streamlined. For example, the reimbursement process is still quite slow despite having improved compared to before. One suggestion was to speed up grant disbursement by reimbursing 80% of expenses to companies upon submission of claims, while withholding the remaining 20% until audit checks are completed.

Another idea raised was to tap into the strong liquidity currently present in the funds market for capability upgrading of SMEs. This could include

[1] According to Ministry of Trade and Industry's Economic Survey of Singapore, outward-oriented sectors refer to manufacturing, wholesale trade, transportation and storage, accommodation, information and communications, finance and insurance, and professional services. Domestic-oriented sectors refer to construction, retail trade, food and beverage services, other business services and other services industries.

◀ Ⓐ The Roundtable brought together leaders of trade associations and chambers and accounting firms to discuss and provide recommendations on Singapore Budget 2020

sovereign funds, hedge funds and venture capital (VC). In addition, with the rising trend of traditional private equity players moving into the VC space, there could be an opportunity to collaborate with them to fund business transformation initiatives in SMEs.

B) DEEPENING ENTERPRISE CAPABILITIES

Panellists asserted that the complexities of business transformation entail changes across the whole organisation, from redesigning business models and processes, to talent management.

As such, many SMEs find it difficult to make major business process changes as they lack knowledge and capabilities, and require help to implement on-ground changes effectively. It was pointed out that there were also not many grants available to support companies in business process reengineering.

One possible way to render such support is to provide SMEs with access to expertise at very low or no cost to them. Seconding consultants to SMEs and handholding them throughout the transformation process can help smoothen transitions and minimise disruptions. Consultants can be sourced from multinational companies (MNCs) based in Singapore, which possess a rich pool of talent who are at risk of displacement due to reshoring of

WHAT PANELLISTS SAID...

A) PRESSING AHEAD WITH TRANSFORMATION

HO MENG KIT "Findings from our latest survey show that the message of transformation has sunk in. People are aware of the urgent need for transformation in their companies and industries. Even in a well-connected country like Singapore, it takes two to three years to get the message through. The next phase will be even more difficult – to get businesses to do something about it."

WONG WAI MENG "There is a risk of a digital divide in Singapore where companies are at vastly different levels of maturity in technology adoption. We have to drive awareness and upskill those who are not aware or not exhibiting basic 'hygiene' solutions."

MAX LOH "When we look at digitalisation, do not just do digital. Be digital. Being digital is about taking on a fluid and agile mindset that is focused on innovation, using technology as an enabler. People must be at the heart of digital transformation. If we can get this right, we will substantively move the needle."

LAM KONG HONG "It is true that many SMEs do not understand what ITMs/IDPs are and do not know how to start the transformation process. However, with the construction sector undergoing rapid changes, companies that don't transform will find themselves left out in the value chain."

CHRIS WOO "The key backbone behind transformation is to measure its success – we will need to determine benchmarks and KPIs against the ITMs and IDPs, such as increase in productivity."

B) DEEPENING ENTERPRISE CAPABILITIES

R. DHINAKARAN "My suggestion is to classify businesses into clusters and identify specific steps for transformation for each. SMEs can benefit from access to expertise and handholding by placing a consultant onsite for a year and reimbursing costs incurred so that there is minimal or no cost burden. This can help drive transformation."

ANG YUIT "Not enough is being done to transform business processes. Oftentimes, a drastic switch and overhaul is required to change the existing workflow and processes within a company. Currently, many SMEs struggle to grapple with that."

HO MENG KIT "Build an enabling industry ecosystem and not just rely on the government. The financial services industry for example, has made strong progress in transformation. It has a strong ecosystem comprising a strong regulator, strong industry players, a strong TAC, and has developed training and capability-building programmes. Let's try to deliberately build similarly strong ecosystems for key industries to facilitate transformation in the long term."

C) INTERNATIONALISATION

WONG WAI MENG "Larger companies are pretty successful in their internationalisation. There is an opportunity to incentivise our big motherships to pull along smaller local companies and internationalise together. This is a safer route for SMEs as well."

R. DHINAKARAN "While Singapore welcomes foreign businesses in the retail landscape with open arms, our companies have to deal with many restrictions and regulations when venturing overseas. For example, Indonesia does not allow Singapore SMEs to start retail business in Indonesia. Similarly, in Thailand, a total of only five retail stores can be operated by foreigners (Singapore SMEs)."

DR BICKY BHANGU "Currently, the Free Trade Agreements are still in a narrative that is too complex for our SMEs to comprehend. There can be efforts to translate them into layman terms that SMEs can easily understand. Only then can they start to leverage the potential benefits."

D) DEEPENING WORKER CAPABILITIES

SELENA LING "One way to bring in the talent fast is by importing them, but at the end of the day, we also have to ensure there is a local supply pipeline coming through. If we are serious about deepening worker capabilities, this shouldn't start at the Institute of Higher Learning level. You really have to start much earlier to ingrain the mindset and to ensure that graduates entering the workforce will be appropriately trained with the right skill sets."

ANG YUIT "The Professional Conversion Programme (PCP) has been useful in assisting professionals, managers, executives and technicians (PMETs) to move into new sectors. As larger companies are moving towards staff augmentation and reducing headcount, many existing workers may be at a greater risk of being made redundant. Therefore, the PCP can be extended to include those in the gig economy who may find it difficult to be re-employed in a full-time capacity after undertaking flexible work for a period of time."

PROF SUM YEE LOONG "While companies may train their staff and such training costs are tax-deductible, in line with the government's emphasis on greater productivity, what is more useful is to encourage companies to spend more on training, which is where the deepening of the expertise comes in. To encourage companies to do that, we should consider a double (tax) deduction for staff training to spur these companies on."

E) NEAR-TERM SUPPORT

DR BICKY BHANGU "Our SMF members think that the outlook for 2020 and beyond could be a little more optimistic, but with concerns. Their top three priorities are, firstly, sales and revenue within Singapore or the region, followed by relooking at products and services, and routes to markets. Only when the above strategies are in place will they then look at systems and use technologies and data to re-strategise about the future."

LAM KONG HONG "The reality on the ground is that the construction sector is still facing very challenging times. Even as the jobs are available and there are a lot of projects, the tender bids are still highly competitive. From one of our surveys, 80% of companies think that profit margins will decrease. The immediate challenges of bread-and-butter issues are still very important. If we don't address these challenges, it will be difficult for companies to see the way forward."

SELENA LING "As a manufacturing hub and key player in the region, Singapore must really think about how to navigate this challenging environment. The tariffs are here to stay, as are the bilateral tensions between US and China. Where we put our investments, how we gear up our manufacturing sectors, whether it is to support US or China's different 5G systems… a lot of thought has to go into that."

HO MENG KIT "While we look to build deepened capabilities, I think it is important that we don't lose sight of another important component to businesses, which is to provide near-term support. One way is for the government to give back cash into the system, such as by way of providing corporate tax rebates. Secondly, the government can help to manage the cash flow situation as some companies are facing a credit crunch."

CHRIS WOO "In the financial sector, there is a lot of liquidity, especially in the fund space. We are seeing a lot of interest investing in this part of the world. Something to think about is how can TACs and Singapore enterprises tap on these opportunities, to find some way of collaborating with these funds. We are seeing traditional private equity players starting to move into the venture capital space. Venture capital could provide funding needed as we try to upgrade capabilities of some our small enterprises."

Panellists shared on-ground insights from respective industries and contributed a range of suggestions to drive business transformation

jobs. This ensures that the capability built in MNCs can be transferred to SMEs in specific sectors via consultancy engagements. Separately, the government can help by funding consultancy expenses, as cost barrier is a common impediment to implementing transformation, especially with the current challenges in the economic landscape.

Deepening collaboration and partnerships to build an enabling industry ecosystem that is less reliant on the government was a theme that emerged from the panel discussion. One method is to drive collaboration and knowledge exchange between the academic community and companies. Institutes of Higher Learning, such as universities and polytechnics, possess the capabilities to help SMEs transform. It is mutually beneficial as students can be involved in the process such that they apply what they have learned in the classrooms and also gain practical experience, while SMEs can tap on new ideas and views.

Panellists also proposed more partnerships between SMEs and startups that can lead to more co-creation and innovation. While startups are better at innovation than SMEs, SMEs have a better understanding of the markets and can provide a good foundation for startups to build, develop and innovate.

C) INTERNATIONALISATION

Although the situation has been highly encouraging as more SMEs are increasingly expanding into new markets and more grants have also been awarded to fund these ventures, panellists shared areas for further improvement.

One idea is to establish dedicated communication channels with relevant agencies to facilitate timely feedback in the finetuning of grants so that more SMEs can make use of them. For example, the Overseas Marketing Presence programme grant is quite rigid in certain requirements and is not well catered to on-ground situations.

Additionally, to help SMEs internationalise, larger companies can be encouraged to bring along smaller companies when venturing overseas. The government can consider incentivising larger companies in Singapore, such as government-linked companies, to partner smaller local enterprises in overseas ventures. This will also be a safer route for SMEs to internationalise compared to them venturing out to unfamiliar territories on their own.

Free Trade Agreements (FTAs) can greatly boost internationalisation efforts by enhancing market access. However, FTAs are usually legalistic and may not be easily understood by SMEs. Panellists highlighted the need to translate FTAs into simpler layman terms so that SMEs can better understand and leverage potential benefits, as well as to make such information available on websites.

Also, more work needs to be done on harmonising the interpretation of FTAs across borders in ASEAN to ensure consistent treatment and application. One way is to leverage technologies such as blockchain in the adoption of FTAs and continue to enhance processes around goods qualifications and dispute management. For example, the European Parliament has proposed to use blockchain technology to enable traders to upload all their documents in one place, including those related to compliance, to benefit from preferential tariffs. The technology could also help authorities to automatically get information from these parties and improve verification and trade processes.

Mr Lee (right) presented a token of appreciation to Mr Liang for co-chairing the ISCA Pre-Budget Roundtable 2020

Lastly, the government can consider negotiating fairer terms for Singapore companies going overseas. While Singapore welcomes companies from ASEAN to do business here, the same may not be said of Singapore companies looking to go overseas as they still face many restrictions and regulatory hurdles when entering ASEAN markets such as Indonesia and Thailand.

D) DEEPENING WORKER CAPABILITIES

Talent and skills required for digital transformation are highly lacking in Singapore and this has driven up the costs of acquiring such capabilities. Panellists proposed several options.

Firstly, the government can look into how manpower can be redeployed to address concerns of job loss, and labour and talent shortage. One idea was to extend the Professional Conversion Programme to support workers in transiting to the gig economy. As companies move towards a manpower augmentation model and reduce headcount, many at-risk workers could seek opportunities in the gig economy, which has grown over the years. This will also help older workers who are laid off and who find it hard to be re-employed.

Issues were also raised on the growing aging population in Singapore and how efforts can be made to leverage older workers. For example, the government can offer special employment credits to companies as retirement ages are raised, and work on changing mindsets around ageism among employers.

As transformation disrupts tasks rather than jobs, another proposed solution is to encourage job sharing. One way to adapt would be to split job roles into tasks performed by different people. In this case, older workers can be tapped on in a bite-sized employment approach in which they are required to just fulfil a minimum number of hours of work in a week. This will better utilise the under-employed segments of the population to contribute to economic output, leading to increased productivity level. Further, the relevant government agencies may consider tweaking the SkillsFuture programme and related initiatives to provide incentives and cater specialised training to older and mature workers.

Secondly, panellists suggested investing in the training of workers. Digital transformation requires the cultivation of people who can "be digital", that is, they have a greater understanding of the concepts of digital technology and have integrated its application into their daily lives. From a long-term perspective, it is crucial to start building a local supply of skilled talent which will require training students from an early age, even before the tertiary level, in order to ingrain the right mindset and produce a future workforce with appropriate skill sets.

In the near term, there are several measures that may be undertaken. One is to offset training costs by providing enterprise skills credits, similar to the SkillsFuture credits awarded to individuals. The credits could be utilised within a limited time period (example, a year or two) and attached with conditions (example, only catered for Singaporeans and Permanent Residents, only for junior to mid-level staff). There was a suggestion to earmark training credits for business leaders, especially in SMEs, to help them understand the importance of deepening capabilities and how to drive associated initiatives such as those geared towards increasing productivity.

Another possible course of action is to provide double tax deduction on training costs for companies and individuals. This is to encourage companies to further spend on staff training, which is where deepening of skill sets comes in. It also sets the tone for individuals to take more initiative to upgrade themselves rather than to wait for companies to act.

E) NEAR-TERM SUPPORT

The uncertain outlook for the global economy has unsurprisingly weakened on-ground business sentiments. Panellists shared that companies raised concerns over immediate issues such as rising business costs, lack of manpower and falling consumer spending. They agreed some form of near-term support from the government would be helpful. One recommendation was to put cash back into the system, such as via corporate tax rebates. However, one panellist highlighted that Singapore's existing corporate tax rate is already low and giving corporate tax rebates will only benefit profitable companies. It would be more impactful to help companies that are not profitable and render support to specific industries and areas in a more targeted manner.

F) CONCLUSION

Overall, the panellists concurred that there is a compelling need to remain committed to existing efforts to drive transformation in the economy, despite the challenging economic environment. With increased collaboration and better communication between the government, TACs and companies, as well as a more enabling ecosystem, Singapore can continue to grow in resilience. ISCA

Stella Lau is Manager, Insights and Publications, ISCA.

ISCA PRE-BUDGET ROUNDTABLE 2020 PANELLISTS

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

(Co-Chair)
LEE FOOK CHIEW
Chief Executive Officer
Institute of Singapore Chartered Accountants

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

DR BICKY BHANGU
Deputy President
Singapore Manufacturing Federation

R. DHINAKARAN
President
Singapore Retailers Association

HO MENG KIT
Chief Executive Officer
Singapore Business Federation

LAM KONG HONG
Executive Director
Singapore Contractors Association Ltd

SELENA LING
Head
Treasury Research & Strategy
OCBC Bank

MAX LOH
Managing Partner
Singapore & Brunei
Ernst & Young LLP

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

WONG WAI MENG
Chairman
SGTech

CHRIS WOO
Tax Leader
PricewaterhouseCoopers Singapore LLP

MEMBER PROFILE

WHITE-COLLAR CRIME BUSTER

RARELY, IF EVER, do crooks now physically go to a bank, make a large cash withdrawal over the counter and then walk away with the loot. With the click of a mouse, criminals can, in a flash, transfer money electronically and wire it to an offshore 'safe haven'. They can even move the loot through a number of 'money mule' bank accounts in multiple jurisdictions, to throw investigators off the trail.

David Chew, 53, a Legal Service Officer who has specialised in white-collar crime since 2006, has seen this transformation with his own eyes. "Technology has changed the landscape of financial crime in three ways: One, it has sped up transactions; two, it has enabled transnational financial crime, making it harder to follow the money trail, and three, it has disintermediated the human, specifically bank tellers, as transactions can be done remotely," says Mr Chew. The only way to stop crooks from getting away with the crime, he insists, is to "fight technology with technology".

David Chew, Honorary Member (ISCA), Director, Commercial Affairs Department, Singapore Police Force

SPEED IS OF THE ESSENCE

Financial crimes are on the rise globally, and Singapore is no exception. From January to November 2019, a total of 8,361 reports were lodged with the Singapore Police Force (SPF) for the top 10 types of scams, most of which were tech-enabled, such as those involving e-commerce, with victims losing S$188.5 million to the scammers. This marked a 62.3% increase in the number of police reports filed and a 21.6% increase in amounts cheated, compared to the same period the year before.

However, the problem is not technology per se. As Mr Chew points out, technology is "agnostic" in that it can be used for good or for evil. People who use technology for nefarious ends are to blame for this unfortunate trend. Therefore, the importance of the work carried out by individuals like Mr Chew, now Director of SPF's Commercial Affairs Department (CAD), the principal white-collar crime investigation agency in Singapore, cannot be overstated.

CAD has embarked on several initiatives in the past year to further its mission to prevent, deter and detect financial crime. One example is Project POET (Production Orders: Electronic Transmission), an ongoing public-private collaboration between CAD and OCBC Bank that leverages OCBC's robotic process automation software to enable prompt exchange of banking information. Under the Project, the turnaround time taken by the bank to process a police request has been shortened to as little as one or two working days, thus improving the agility of law enforcement to react faster to catch the perpetrator and solve the crime.

By aggregating financial information onto one platform, Project POET also enhances Singapore's anti-money laundering and countering the financing of terrorism (AML/CFT) regime. OCBC Bank can use artificial intelligence and transaction link analysis tools to mine the data, so as to identify hidden connections and suspicious activities within its customer base. "The monitoring and indepth analysis of suspicious accounts will strengthen the sense-making capabilities of both OCBC Bank and CAD's Suspicious Transaction Reporting Office," says Mr Chew. Project POET is also being extended to more banks and other law enforcement agencies in Singapore.

In addition, CAD established the Anti-Scam Centre (ASC) in June 2019. ASC aims to disrupt scammers' operations and mitigate victims' losses by working with various stakeholders including banks, to swiftly freeze suspicious bank accounts and stop fund transfers involving such accounts; digital platforms like Carousell, to introduce scam prevention measures such as scam advisories and secure payment methods, and telecommunications companies, to quickly terminate the mobile lines used by scammers.

The hardest part of intercepting financial crime as they are being committed, according to Mr Chew, is the "cross-border" element of illegal money flows in today's globalised world. Although the inter-governmental Financial Action Task Force (FATF) has developed global standards to uphold the integrity of the international financial system, not all members are

> "The combination of accounting knowledge and legal, technological and investigative skills in **the Financial Forensic Accounting Qualification will allow accountants to take on the role of an investigator,** as the first line of defence against illicit financial activities across industries and sectors."

CAREER HIGHLIGHTS

1992
Magistrate, Subordinate Courts (now called State Courts)

1997
District Judge, Subordinate Courts

1999
Deputy Public Prosecutor, Financial and Technology Crime Division, Attorney-General's Chambers

2013
Deputy Chief Prosecutor, Financial and Technology Crime Division, Attorney-General's Chambers

2015 to Present
Director, Commercial Affairs Department, Singapore Police Force

> **"Find your calling. Find meaning in a cause greater than yourself. Instead of just counting things, find that which makes your life count for something. And remember that you can't do it alone; success can only be achieved by journeying together with other people. As 'iron sharpens iron', so life is about the friends you make along the way."**

equally effective at implementing the FATF standards. "There are territorial limits to the exercise of police powers, and formal legal assistance between sovereign states is not the most efficient of processes," he laments.

Nevertheless, CAD is committed to cooperating across jurisdictions at all levels – between police, prosecutors and regulators – to uncover such cases and bring those responsible to justice. "We share intelligence and investigative and prosecution results with other countries, so as to enable swift prosecutions and asset recoveries across national boundaries," says Mr Chew. For example, thanks to a joint operation by the police from Singapore, Malaysia, Hong Kong and Macau, a transnational Internet love scam syndicate based in Malaysia was recently smashed.

GROWING DEMAND FOR FORENSIC ACCOUNTANTS

Given these developments, the launch of ISCA's Financial Forensic Accounting Qualification in 2017 could not have come at a better time. "The combination of accounting knowledge and legal, technological and investigative skills in the Qualification will allow accountants to take on the role of an investigator as the first line of defence against illicit financial activities across industries and sectors," says Mr Chew. His interest in this area was piqued while serving a stint as an inhouse Deputy Public Prosecutor (DPP) at CAD from 2007 to 2009. "My role wasn't just to provide legal input but to also assist Investigation Officers (IOs) in collecting evidence. I liked the challenge of solving the puzzle."

Mr Chew notes that forensic accountants can collaborate with police investigators in a variety of ways:

One, they can, as internal or external auditors of companies, report to the police any findings of irregularities linked to criminal offences, or share pertinent observations or insights, when conducting *special audits*. They can also hand over the devices (or images of the devices) used by employees, which may contain crucial evidence that may culminate in charges or convictions.

Two, they can join the police force and work in an *inhouse* capacity alongside investigators. This approach has helped CAD notch successes in locating and confiscating hidden criminal assets.

Three, they can contribute their expertise in *public-private partnerships* to deepen the collective understanding of the risks associated with white-collar crime. The AML/CFT Industry Partnership (ACIP), formed in 2017, has brought together key government and private-sector stakeholders, among them CAD, MAS and practitioners from KPMG, PwC and Deloitte. ACIP has so far issued three practice papers.

In recognition of his significant contributions to the accountancy sector and the wider business community, which have boosted Singapore's reputation as one of the least corrupt nations worldwide, Mr Chew was conferred an ISCA Honorary Lifetime Membership in 2018. While not a trained accountant, he is well-placed to dispense advice to younger ISCA members, many of whom wonder what it takes to be successful. "As I moved forward in my career, I realised that focusing on professional success – being highly remunerated or getting accolades for a job well done – is inadequate," says Mr Chew. He urges younger accountants to adopt a "transcendental" outlook to gain more life satisfaction. "Find your calling. Find meaning in a cause greater than yourself. Instead of just counting things, find that which makes your life count for something. And remember that you can't do it alone; success can only be achieved by journeying together with other people. As 'iron sharpens iron', so life is about the friends you make along the way."

That is precisely why, after joining the Singapore Legal Service in 1992, Mr Chew has remained there ever since. "During my time in the public service, I have rotated between the judicial, prosecutorial and enforcement branches. I've built up a strong camaraderie with fellow judges, DPPs and IOs. Some of my CAD colleagues are, like me, avid fishermen, and we often go on fishing trips together. Being posted to the different branches has also improved my proficiency in a variety of legal matters," he adds.

For those who find their calling in combating financial crime, Mr Chew highlights three essential traits for success. "First, you have to be *passionate* about what you are doing. This will keep you going during tough times, especially early on in your career when the learning curve is very steep. Second, you have to be *adaptable* to changes and demonstrate a willingness to learn new things. Because technologies and legal provisions are constantly changing, what you learned in school quickly goes out the window once you enter the real world. Third, you have to be *tenacious* in staying on the trail and following the evidence to its final conclusion. There will be people who are more seasoned than you and who have experience in beating the system, but you cannot give up." ISCA

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BY RACHEL KWEK

WHY ASEAN SHOULD BE ON THE FENCE AND ON OUR TOES

Insights from a distinguished former diplomat on how ASEAN should respond to what the US-China trade war brings to the region

BOTH THE UNITED STATES (US) AND CHINA ARE IMPORTANT ECONOMIC PARTNERS OF ASEAN and their ongoing disputes have deeply impacted the region. Professor Kishore Mahbubani, Distinguished Fellow, Asia Research Institute, National University of Singapore (NUS), shared his insights on how ASEAN should respond to the challenges that this conflict brings, as well as the opportunities that arise from it, at the ISCA Financial Reporting Committee-ASEAN Federation of Accountants (AFA) Financial Reporting & Business Conference 2019. The event, which took place in Singapore on 26 November 2019, marked the 21st AFA Conference hosted by ISCA.

Professor Kishore Mahbubani, Distinguished Fellow, Asia Research Institute, NUS, sharing insights into how ASEAN should respond to the escalating tension between US and China

The Conference gathered 180 participants comprising delegates and business leaders from the 10 ASEAN countries as well as senior members of the Singapore accountancy profession. Everyone was all ears as Prof Mahbubani began, "No matter where you live, your lives will be affected, in one way or another, by the largest geopolitical contest probably ever in human history that is now playing out between the US and China. It's going to shape you."

ORIGINS OF THE TRADE WAR

As the superpowers continue to be embroiled in a trade tussle that has grabbed headlines the world over, you might have wondered why it has even happened in the first place. To put this in perspective, Prof Mahbubani said it is important for us to be aware that the ongoing dispute between US and China is a multi-dimensional contest covering economic, political, military and cultural aspects. The strange thing about this dispute, he said, is that it is both inevitable and avoidable, and the fact that an emerging player threatens to overtake the world's number one power is bound to prompt resistance from the latter. Such turbulence seems to be mandated by a sort of geopolitical iron law and historians will think it is normal, he explained. As to why the US-China trade war started in 2018, he candidly said it is partly the result of events like the election of Donald Trump as US President.

ASEAN – with its success in providing regional stability and unique position to bring together various countries – plays a critical role in how the US-China conflict plays out and is therefore vulnerable.

ISCA Advisor Dr Gerard Ee (left) and Prof Mahbubani addressed queries at the Q&A session

In his view, President Trump's "very strange view of economics" seeded the trade war. While trade is generally seen as something good that will bring about a win-win situation, the US leader regards it as a zero-sum game; moreover, he believes that trade deficits are bad and trade surpluses are good. Prof Mahbubani explained that unfair trade practices of one country do not necessarily lead to trade deficits in another country – which President Trump seems to attribute as the cause of US' trade deficits. He highlighted, "The US is experiencing a trade deficit due to structural imbalances between savings and investments, so even if the country brings its trade deficit with China to zero, its overall trade deficit will not change." Why does everyone in America – including the Democrats who used to oppose anything President Trump does – support the idea of going against China though it "violates plain common sense in economics"? Something fundamental has changed, the veteran diplomat explained.

In the past, there were instances where previous US administrations had wanted to hit China hard for various reasons but were dissuaded by the American business community, which had interests there. But this did not happen when President Trump launched the trade war in 2018. Prof Mahbubani pointed out that this is because China has alienated the American business community – "even if they are making money in China, they resent the fact that they are getting their arms twisted: they have to share some of their technology, get local partners and there is often theft of intellectual property".

Prof Mahbubani said even experts can't tell what the US hopes to achieve by engaging in a trade war. In view of President Trump's economic reasoning, he said one plausible objective might be to reduce the US trade deficit in China. That is America's proclaimed goal although China had compromised in initial negotiations. Another possible objective is to decouple the US and China economies as there are "some people in the Trump administration (who take) a long-term strategic view and believe the only way to stop China from becoming number one is to decouple the US economy from the Chinese economy". However, judging from how trade talks between the two countries have developed so far, Prof Mahbubani said, "We're not sure what game is being played."

ABOUT PROFESSOR KISHORE MAHBUBANI

Prof Kishore Mahbubani is one of Singapore's foremost experts in the field of international relations. As a diplomat, he worked in the Singapore Foreign Service from 1971 to 2004 during which he was posted to Cambodia, Malaysia, Washington DC and New York. He was twice Singapore's Ambassador to the United Nations (UN) and served as President of the UN Security Council in January 2001 and May 2002. He was Permanent Secretary at the Ministry of Foreign Affairs from 1993 to 1998 and was conferred the Public Administration Medal (Gold) by the Singapore government in 1998.

Prof Mahbubani is now a Distinguished Fellow at the Asia Research Institute, NUS, Singapore. He joined academia in 2004, when he was appointed the Founding Dean of the Lee Kuan Yew School of Public Policy, NUS, a position he held till 2017. He was a professor in the Practice of Public Policy from 2006 to 2019. In April 2019, he was elected an honorary international member of the American Academy of Arts and Sciences, which has honoured several distinguished thinkers.

Prof Mahbubani has published nine books including *Can Asians Think?*, *Beyond The Age Of Innocence*, and *Has The West Lost It?*.

OPPORTUNITIES AND DANGERS

Even though some experts say a full-scale military faceoff is more likely than not, Prof Mahbubani assured the delegates that there will be no war, explaining that both countries would stand to lose should they engage in a nuclear showdown. Despite this, he emphasised that "there will be dangerous moments and unfortunately for us, some of the most dangerous moments will take place here in Southeast Asia". In his book, *The ASEAN Miracle: A Catalyst For Peace*, published in 2017, he anticipated the US-China conflict and pointed out how ASEAN will be badly affected. ASEAN – with its success in providing regional stability and unique position to bring together various countries – plays a critical role in how the US-China conflict plays out and is therefore vulnerable.

Undoubtedly, both powers will put pressure on individual ASEAN countries. Some ASEAN countries are closer to the US while others are closer to China; ASEAN will be caught in a conundrum if its member states are forced to make a choice between the two superpowers. Prof Mahbubani gave the practical example of deciding which 5G wireless technology for digital cellular networks to go for among the different providers, commenting that "ASEAN countries are going to have a hard time".

At the same time, there is also a massive opportunity for ASEAN because both the US and China will want to strengthen their presence in ASEAN countries for different reasons. Just as

Ho Chi Minh City, Vietnam

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Being a region of steady economic growth, ASEAN is of value to both countries, providing American businesses with an important market and a congenial environment to operate, and presenting immense investment opportunities for China's Belt and Road Initiative.

the US succeeded in the first Cold War against the Soviet Union as it had mounted a massive containment policy, it may want to use ASEAN to contain China now.

Global supply chains are shifting, American investment is being diverted to ASEAN countries, and Vietnam has benefited the most so far. On the other hand, to make sure ASEAN does not join the US containment policy, China will be very generous. It is investing more in the region, including through infrastructure projects under its Belt and Road Initiative (BRI), which has brought many opportunities to the region.

Realising that "one way to maintain Chinese influence in this region is to keep signing free trade agreements", China had initiated the Regional Comprehensive Economic Partnership (RCEP) — the world's largest free trade agreement that involves 16 countries (the 10 ASEAN countries as well as Australia, China, India, Japan, New Zealand and South Korea) that make up nearly half the world's population and one third of global gross domestic product, according to a Reuters report. (Note: India is not joining in the first round.) In contrast, the US, the traditional leader in free trade agreements, is walking away from such agreements. Prof Mahbubani said the geopolitical space for US has shrunk but for China, it has expanded.

RIDING THE TIDE OF THE TRADE WAR: STRATEGIES THAT ASEAN SHOULD ADOPT

How then can ASEAN countries navigate the challenges and continue to engage and work with both the US and China? There are no simple black-and-white answers; nor is it easy to say who is "right" or "wrong". Therefore, "it is important for us to be seen as objective and not supporting one side," Prof Mahbubani said, adding that ASEAN should remain friendly to both the US and China. He elaborated, "ASEAN has done well in this regard so far by launching its own ASEAN Outlook On The Indo-Pacific, which emphasises the centrality of ASEAN in the region and is independent of both American and Chinese strategies towards the region. Singapore Prime Minister Lee Hsien Loong has also said at the Shangri-La Dialogue that ASEAN countries do not want to take sides." Additionally, Prof Mahbubani said ASEAN could take advantage of the opportunities presented by the US and China. Being a region of steady economic growth, ASEAN is of value to both countries, providing American businesses with an important market and a congenial environment to operate, and presenting immense investment opportunities for China's BRI.

However, despite these opportunities, ASEAN countries need to be careful and very mindful "of the more volatile economic conditions created by the trade war" and "manage both powers delicately".

Another key strategy all leaders in ASEAN should adopt is "to develop sophisticated and nuanced views of the major geopolitical situation and see how they can use these to their advantage to enhance their own interests", Prof Mahbubani said. One way ASEAN has done this is to be part of RCEP. He reiterated the criticality for leaders of ASEAN to understand that this geopolitical contest is a very complex one with different dimensions. Apart from the economic dimension of the trade war, there are also deeper driving forces and misunderstandings at play. On the political front, the US has become unhappy with China because its engagement policy has not led to China becoming more democratic. On the military front, proxy wars may occur and China's neighbours will have to be careful. On the cultural front, America's fear of the "yellow peril" is also driving irrational behaviour towards China. Finally, the US has become addicted to primacy – Americans cannot conceive being number two. Therefore, in order to develop nuanced views of the geopolitical contest, ASEAN leaders need to be sensitive to what issues are of deep concern to the US and China. Prof Mahbubani will cover all these issues in his forthcoming book, *Has China Won?* ISCA

Rachel Kwek is a contributing writer.


BY DARREN TAN AND CHRISTINA KWANG

THE GOOGLER'S EDGE

Do You Need It?

WE RECENTLY CHATTED WITH AN EX-GOOGLER who was establishing an online-to-offline (O2O) digital platform that would lure online customers to make purchases at brick-and-mortar stores. When we asked him if Googlers were indeed smarter than most people, he deferred to the book, *Are You Smart Enough To Work At Google?* by William Poundstone. The American author described how brainteasers and puzzles were used by Google to sieve out aspiring contenders who were creative, methodical and articulate, even under pressure.

As an example, the O2O founder piqued our interest with a classic problem by physicist Enrico Fermi that challenged us to estimate how many basketballs would fill a school bus; it instantly became a hit at our soiree.

Working on the assumption that the objective was to fill the school bus with as many basketballs as possible, one member of our party surmised that the school bus could contain more basketballs if they were deflated. Another tackled it mathematically using the volume of the school bus over that of a basketball. Yet another zealous guest pointed out that the equation should be adjusted with the size of the seats, and the empty spaces between the basketballs when they were stacked. And the list of enthusiastic responses continued. We later learnt that Google had dispensed with these brainteasers, citing them as "a complete waste of time". Google found that there was no correlation between how candidates scored in these questions and how they fared at work.

In its place, Google and other companies like Tesla now rely on structured behavioural interviews to assess how a candidate thinks, collaborates and communicates. For example, Tesla's Chief Executive Officer Elon Musk would ask his candidates, "Tell me the story of your life, the decisions you made along the way, and why you made them." This enables Musk to assess the ability of the candidates in explaining and dealing with challenges that they faced in real-life situations.

No matter how these hiring techniques may evolve, most organisations would subscribe to former Google Chief Executive Officer Eric Schmidt's cardinal rule of hiring smarter people who can advance an organisation's agendas. This is corollary to the late Apple visionary Steve Job's mantra to "hire smart people so that they can tell us what to do". There is no western bias in this – it is simply good common sense that resonates with the seasoned Asian business leaders that we have met.

Operating on the same logic, those of us who do not work for Google can find solace in our organisation's hiring process as it should rightfully select people who are smart enough for the role. This then begs the question of what differentiates us from someone who works at Google? If the hiring principles are aligned, does a Googler have an edge over you?

We dug deeper, in hopes of unravelling the secret sauce behind Google's success by visiting its Singapore office. As with several awe-stricken blogs raving over Google's sprawling open workspace at Mapletree Business City, our tour of Google's office ignited a strong desire to be part of the culture that lives and breathes creativity.

As we discovered more well-thought-out facilities and amenities, it dawned upon us that the fun, quirky and unrestrained vibe of the workplace was more than what met the eye. As our tour guide

... most organisations would subscribe to former Google Chief Executive Officer **Eric Schmidt's cardinal rule of hiring smarter people who can advance an organisation's agendas.**

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Google's office, Singapore

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While it may be imperative to create an environment that fosters serendipitous encounters, such communication-by-chance should never supersede the need for communication-by-choice.

revealed, the Googler's office was meticulously designed to create opportunities for serendipitous encounters – for "when ideas have sex", as writer Matt Ridley famously quipped. He was drawing parallels to the accidental discoveries made by the three brothers in "The Three Princes Of Serendip", a Persian fable of a lost camel. Making reference to the story, Horace Walpole had minted the word "serendipity" in 1754, to refer to chance or unplanned findings that were not the intent of a search.

As counter-intuitive as it might sound, it was no accident that the Google workplace was deliberately engineered to create serendipitous encounters and spontaneous collaboration, with the hope that it could spark new ideas, birth innovations, and foster esprit de corps. Apart from obvious communal spaces and technology that enabled flexible hot desking in different locations, every minute detail down to the optimal lunch queue was designed for people to bump into one another and exchange ideas.

As the immediate hype from the tour waned, the Googler's edge is apparent to us. Aside from reaping the traditional benefits (of high morale and productivity) from effective employee communication-by-choice (through meetings, townhalls, and structured performance reviews), it is the serendipitous employee communication-by-chance, spurred by the creativity and innovation ethos, that the workplace breeds.

In the wake of a fast-moving world that is fraught with volatility, uncertainties, complexities and ambiguities, the constant drive to innovate is the new norm for organisations to stay ahead of the curve. As ideation and innovation do not activate like clockwork, organisations can create an environment that induces serendipitous communication, which in turn taps on the latent potential of employees to generate innovative ideas.

But before an organisation acts on the impulse to design an open-plan workplace like Google, it (or certain aspects of it) may not be a surefire lifeline of creativity and innovation for every organisation. For example, during the tour, we chanced upon a Bishibashi machine in the games room. While the initial temptation was to buy one just like it, the significance of plugging employees into a seemingly fun but expensive ice-breaker was unclear.

There is also a mounting body of research that certain aspects of an open architecture did quite the opposite. For starters, there is a lack of privacy with noise distractions which may depress work satisfaction and productivity. All it takes is one "loudspeaker" to reverberate through the entire workspace and interrupt the concentration needed to get things done and done right.

And personally, the ideology of boosting morale from staff empowerment and socialist behaviour by having your boss sit in the midst of the pack is faux pas. To be candid, the most unenviable positions would be to sit close to the boss. One could feel pressured to appear engaged and intelligent whenever the boss is around!

Additionally, while hot desking has clear cost advantages as more employees can utilise the same space at different times, it may not be efficient for teams that need to button down together to deliver a project.

A recent Harvard study corroborates the result, showing a 70% decrease in face-to-face interaction and an increase in electronic communication after employees moved to an open architecture. This runs contrary to the core impetus for building serendipitous physical encounters in an open-plan workplace to promote collaboration.

One possible adaptation around this is to assign fixed work desks for functions that demand them. For example, Google provides options for engineers to have dedicated desks while employees who do sales have more mobility to hot desk within the compound. The caveat emptor here is to ask "why" before launching into a frenzy of fussing over how and what to build and demolish for an ostensibly hip, open-plan workplace.

In sum, there is a Googler's edge in all of us. While it may be imperative to create an environment that fosters serendipitous encounters, such communication-by-chance should never supersede the need for communication-by-choice.

Ultimately, it is the ability to execute an innovation well by highly-engaged and well-informed employees that makes an organisation successful. ISCA

Darren Tan is Chief Financial Officer, OCBC Bank and member, ISCA Council. Christina Kwang is Head of Capital Management, OCBC Bank. An edited version of this article was first published in *The Business Times* on 4 January 2020.

PHOTO SHUTTERSTOCK

BY MARK HOLTON

DEVELOPING YOUR BUSINESS ADVISORY SERVICES PART 1

A Step-by-step Guide

INCREASINGLY, BUSINESS OWNERS IN THE SMALL TO MEDIUM-SIZED ENTERPRISE (SME) SECTOR are looking for quality advice to help them run their businesses and, in theory at least, no one should be better placed to offer that advice than their accountants. But if these accountants are more focused on compliance, then they are not going to be in a position to support their SME clients with the knowledge, experience and resources they need, to make a tangible difference to their cash flow and profitability and ultimately, to increase the value of their businesses.

For accountancy firms, especially small and medium-sized practices (SMPs), business advisory plays a critical role in the future of the profession and offers enormous opportunities for the people who work in it. Such services can bring about a new revenue stream and already, some SMPs have made a tentative start in the right direction. But in my experience, only a small number makes a success of it within a reasonable timeframe.

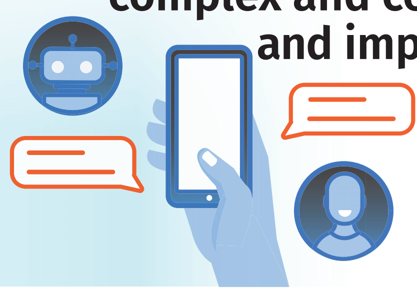
Why? From first-hand experience, I'd say they lack a workable advisory model that enables businesses to prosper – a model that not only brings financial and professional rewards to advisory firms and their partners but also empowers their clients to grow and thrive.

This article outlines the seven steps of the Enabler™ process and will give you enough information to get you started in creating a business advisory implementation plan for your firm. This framework gives you a step-by-step guide as you evolve from being a compliance-focused firm to one that gains a substantial percentage of its income from advisory work.

WHY OFFER BUSINESS ADVISORY SERVICES?

When run successfully, a business advisory model has the potential to revolutionise your business. It could enable you to:

- Do less work for more money;
- Even out your cash flow across the full financial year;
- Increase the worth of key clients to your practice over both the short and long term (as your client's business grows under your guidance, so too will your fees);
- Differentiate yourself to gain new clients, or incentivise existing ones to continue doing business with you instead of shifting to cheaper, compliance-focused competitors;
- Have more meaningful relationships with your clients (and make them more inclined to refer



> **Helping (your clients) navigate this increasingly complex and competitive business environment and improve their business performance and value** will be some of the most challenging but satisfying work you could ever hope to do.

new business to you, and less likely to switch providers);

- Spend your time doing more satisfying and personally rewarding work, and attract and retain quality team members who have the same aspirations.

Don't get me wrong. You and your firm are most likely pretty comfortable as you are, and at the moment, the sky is probably not going to fall if you decide an advisory model isn't for you. But there's no question that the revenue streams the industry has traditionally relied on for its bread-and-butter fees are coming under pressure.

Over the past few years, I've personally observed SME clients becoming better educated about financial matters, and being more aggressive in choosing their accountants. Coinciding with the advent of easy-to-use cloud accounting software and low-cost outsourcing options, this has led to compliance work becoming increasingly price-sensitive and commoditised.

Given how many SMEs are looking for external advisors to help them run and grow their businesses, offering business advisory services makes good sense, and can firmly establish you as the firm of choice in the minds of your current and future clients.

IS IT WORTH THE HASSLE?

Every firm is different, as is every practitioner within it. Not every firm or individual will be well suited to specialist advisory work. What I can tell you is that I've worked with SMPs that have added hundreds of thousands of dollars to their revenue – not necessarily by suddenly snaring a blue-chip client from the big end of town but by systematically increasing their volume of existing engagements, often from within their existing fee base.

Perhaps the most rewarding aspect of all is that your advisory work stands to have very real, tangible benefits for your clients.

As business models evolve, SMEs may find themselves facing declining revenues and profits, increased pressure on their pricing and margins, escalating labour and fuel costs and adverse exchange rates. Helping them navigate this increasingly complex and competitive business environment and improve their business performance and value will be some of the most challenging but satisfying work you could ever hope to do.

WHAT WILL IT COST?

The financial gains you stand to make are significant, but you'll probably need to make some sacrifices in order to achieve them.

You'll probably need to invest time and money in software and the upskilling of your team. Crucially, you'll probably also need to

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... SME clients (are) becoming better educated about financial matters, and being more aggressive in choosing their accountants. Coinciding with the advent of easy-to-use cloud accounting software and low-cost outsourcing options, this has led to compliance work becoming increasingly price-sensitive and commoditised.

free someone up to champion the project – and the right person may be a Partner or Senior Accountant, responsible for a significant percentage of your existing billings. Then there are the complexities and challenges of driving through a new business culture, complete with updated processes and fresh priorities.

Most importantly, you'll need to be prepared to push yourself out of your comfort zone – and bring your colleagues along for the ride. It can be confronting to push through the discomfort of initiating more intimate relationships with your clients and giving them advice without initially knowing what the consequences will be.

GUIDE TO IMPLEMENTATION

Smithink's Enabler™ process, and others like it, is designed to help firms that want to add business advisory to their suite of services. The method addresses the obstacles and helps SMPs make the most of every opportunity. In this article and the next, we'll guide you through the seven steps of implementation, beginning with Step 1 here.

Step 1: Prepare your firm for success

If you've decided you're up for the challenge of business advisory work, the single most important piece of advice I can give you is this: You're not going to succeed if you don't have a solid implementation plan, dedicated resources and the capacity to systematically roll it out. With that in mind, some of the key steps I recommend you consider at the outset include:

A sound implementation plan

We urge you not to proceed down the advisory path without a plan. We've seen too many firms try and fail, and we know that doing so can be not only demoralising but also very, very expensive.

Increase capacity

Setting up a business advisory service is not something you can squeeze in around the edges of a busy compliance practice. One of the first things your plan should cover is how you're going to increase your firm and staff members' capacity, and free up the time of those who will be most crucial to your success. This might involve hiring more team members, delegating work others can do, improving your internal processes and staff training to improve efficiency, upgrading your IT hardware and systems, or even letting go of some clients whom you no longer want to work with.

Resourcing

Have you got the right staff in the right roles, with the right decision-making power available to dedicate themselves to business advisory engagements? If you're considering taking on business advisory and its implementation yourself, do you have a succession plan for handing over your existing responsibilities?

Targets

Firms that set themselves solid targets are the ones most likely to succeed. For example, you might want to set a goal that in two years, your advisory income from the first 10 clients you introduce to the service will reach 50% of your compliance billing to them. A solid goal like this will also help you gain buy-in from your partners and co-workers.

Accountability

Aside from the list of action steps involved in implementing your plan, make sure you've considered how you're going to keep yourselves accountable to your commitment.

Systems

There are several software tools that will enhance your advisory work. However, the systems and processes involved in successfully implementing an advisory service go beyond IT. How will you identify suitable clients to offer your advisory services to? How will you track your success rate? How will you price your services? How will you ensure that each opportunity – now and in the future – is followed up for optimal outcomes for both the firm and the client? And how will you ensure that all relevant people on the team receive the ongoing training they need in order to develop and improve their advisory skills? ISCA

In the second of this two-part article, to be published in the March issue of this Journal, we will guide you through Steps 2 to 7 of how to add business advisory to your suite of services.

Mark Holton is Director, Smithink Advisory Pty Ltd.

BY J. STEWART BLACK AND ALLEN J. MORRISON

FOREIGN FIRMS' CHINA CHALLENGES

From Entering The Market To Growing The Business

FOR GROWTH-STARVED WESTERN ENTREPRENEURS, the Chinese market is appealing. Think about it – since 1995, China's economy (excluding Hong Kong) has grown by a factor of 18.5 from US$735 billion to US$13.6 trillion. In terms of purchasing power parity, it is now the number one economy in the world.

Accordingly, many foreign companies have gone out of their way to build supply chains within the country and go-to-market mechanisms in order to access its market. Across industries, American firms have invested more than US$276 billion in China since 1990. In 2018, foreign direct investments from all countries flowing into China reached US$139 billion.

Despite these investments, only some western companies have been able to make large inroads in the Middle Kingdom. For example, Coca-Cola, which has been in China for 40 years, now sells 140 million servings of soda in the country per day. Since 2012, China has been General Motors' largest retail sales market. Although sales have since slowed down, the Greater China region was Apple's third largest source of revenues in 2018. Buoyed by brisk sales and despite the existence of copycats, Lego is planning to open 80 new shops in China this year (2019).

But putting these success stories aside, our new research shows that China remains an elusive market for most US businesses. In the S&P 500, a mere 41 companies generate 10% or more of their global revenues in China.

In 2017, an analysis by Goldman Sachs found that while S&P 500 companies earned 30% of their revenues outside of the US, China accounted for only 1% of their revenues.

A PROPER TRADE AGREEMENT WON'T BE A PANACEA

Nonetheless, many western business leaders are hoping for China and the US to reach a trade agreement as soon as possible. An underlying assumption is that the end of the trade war will create a kind of golden bridge for US companies to reach China's one billion-plus consumers.

A proper trade agreement is unlikely to be the key to such riches. Our research shows that breaking into China is very difficult because of its intricate business landscape – one dominated by domestic mega firms operating in a tight matrix of political influence. In particular, the Chinese Communist Party controls a lot more enterprises, directly or indirectly, than westerners imagine. This creates severe hurdles for foreign firms that wish to do business there.

Chinese mega firms are unique in the degree of involvement of the government, be it at the national, provincial or municipal level, in corporate affairs. Rather than merely serving as a regulator, the state is itself a large business owner and plays a much greater coordination role than most westerners understand.

Guangzhou, China

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There are parallels to be drawn between China's fast-growing conglomerates and the *chaebol* of South Korea and *keiretsu* in Japan. These large groups of companies are themselves embedded in sprawling, hierarchical businesses. Similarly, the affiliates and subsidiaries of Chinese mega firms are typically part of a network of cross-owned enterprises. The ownership structures, often opaque, represent high barriers to entry for foreign companies.

Adding to these difficulties, Chinese mega firms are unique in the degree of involvement of the government, be it at the national, provincial or municipal level, in corporate affairs. Rather than merely serving as a regulator, the state is itself a large business owner and plays a much greater coordination role than most westerners understand.

THE LONG ARM OF THE STATE

Take the 10 largest Chinese companies by revenue. All of them are either state-owned or owned by a blend of publicly listed investors and Chinese government entities. State-owned entities represent nearly 71% of the 111 Chinese firms on the Fortune Global 500 list in 2018.

No matter how high that publicly acknowledged percentage is, it remains an understatement. With only a few exceptions, publicly listed companies in China are invariably partly owned by other companies that in turn are owned, partly or wholly, by either the state or government-controlled entities. The maze of cross-ownerships combined with the dearth of publicly accessible information often makes efforts to understand the trail of ownership in China difficult or even futile.

Foreign companies that wish to succeed in China must find a way to fit into one of its major business ecosystems. These are composed of networks of suppliers, banks, distributors, retailers and trading companies centred around one or several mega firms. Failing such an integration within local supply chains, foreign businesses can't thrive in China. The Chinese government has a large say in who gets in and who doesn't. Its influence exceeds formal ownership structures. Through public or private statements, local officials can point to the outcomes they desire. In the near future, China's corporate "social credit system" will give it the near-Orwellian power to punish and reward companies based on a wide-ranging set of criteria.

In addition, the government also largely controls China's business environment through the banking system. For instance, mega firms typically receive loans at preferential rates that give them an unfair advantage over their competitors.

Beijing, China

China's meteoric rise largely correlated with the expansion of its domestic market, which is now vulnerable to a major slowdown.

BLEAK DEMOGRAPHIC OUTLOOK

China's business ecosystem, with its mega firms and layers of affiliates with the government at the centre of it all, will remain enormously difficult for western companies to access. However, even if foreign firms were to break en masse into China, they should be aware that its domestic market faces some serious, long-term headwinds. The data point to an economy that is likely to slow down for years to come and may even face a growth crisis.

China's working-age population is shrinking. By 2050, there should be about 20% fewer Chinese workers than today. This represents a loss of 200 million workers – or about 60% of the entire US population. The country's birth rate had begun falling even in the decade before the one-child policy was implemented in 1979. The recent abolition of the policy won't change this decline. In 2018, the number of births dropped 12% from 17.23 million the year before to 15.23 million.

Could China reverse its demographic disaster through immigration? This remains unlikely. The United Nations estimated that there were only one million foreigners living in China in 2017, and that number included people born in Hong Kong and Macau. This amounts to 0.07% of the population – the smallest share of migrants of any country in the world. New York City has more than thrice as many foreign-born residents.

WEAKENING PRODUCTIVITY GROWTH AND LOOMING DEBT CRISIS

Could China compensate for its population woes through increasing the productivity of its remaining workers? Also unlikely, as its productivity growth has already started slowing to an average of 5.7% since 2014, down from an average of 15.5% from 1995 to 2013. In addition, the future outlook isn't good because the key factors that helped drive productivity improvements have lost their steam.

First, China is no longer working off a low base, and therefore adding even 5% productivity to a US$13-trillion GDP is extraordinarily more difficult. Second, it no longer has an excess supply of rural labour rushing to leave the countryside to jobs with much higher productivity. And third, it can't rely on easy technology expropriation anymore, as more multinationals are reconsidering whether it makes sense to give away proprietary technology in exchange for access to an increasingly mature market that's heavily influenced by the government and giant state-owned firms.

Finally, could China prop up its growth through massive domestic investments? The fact is that China already has a looming debt crisis. The government's debt alone corresponds to 300% of its GDP, more than double that of the US government (itself no slacker in terms of racking up debt). Chinese state-owned firms have about 15% more debt than all US non-financial corporations combined. This leaves little room for China to continue borrowing on a large scale to stimulate the economy.

While it is entirely possible that China will soon overtake the US as the country with the highest number of Fortune 500 firms, this triumph would likely be fleeting. China's meteoric rise largely correlated with the expansion of its domestic market, which is now vulnerable to a major slowdown. Foreign firms keen to partake in the Chinese economic miracle should wake up to the harsh challenges the country is facing in terms of its bleak demographics, slowing productivity, rising debt and looming growth crisis. ISCA

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TECHNICAL HIGHLIGHTS

ETHICS

ISCA ISSUES EP 100 IG 3 FAQS ON RESPONDING TO NOCLAR

EP 100 IG 3 provides guidance to address the concerns that professional accountants may face when adopting the NOCLAR Pronouncement in EP 100, which is expected to be effective as of 1 April 2020. Below are the key areas addressed in the IG 3:

- addressing conflicts between NOCLAR requirements and existing laws and regulations;
- what is considered "clearly inconsequential";
- the concept of "public interest";
- the professional clearance between predecessor and proposed successor auditors with respect to tipping-off;
- the legal protection available to whistle-blowers, and
- the disclosure of NOCLAR to an appropriate authority with respect to group audit.

For more information, please visit https://isca.org.sg/ethics/ethics-headlines/ethics-headlines/2020/january/isca-issues-ethics-pronouncement-100-implementation-guidance-3-ep-100-ig-3-frequently-asked-questions-on-responding-to-non-compliance-with-laws-and-regulations/

FINANCIAL REPORTING

ISCA COMMENTS ON IASB'S ED ON DISCLOSURE OF ACCOUNTING POLICIES

We agree with the Board's proposals. However, we highlighted that in order for entities to change behaviour, support is required from the financial ecosystem. We urge the Board to streamline and improve disclosure requirements in individual accounting standards. In addition, the Board could consider providing guidance for determining when an accounting policy would not be material and also shift examples S and T in the IFRS Practice Statement 2 to IAS 1 *Illustrative Examples*.

Please see comment letter for more details: https://isca.org.sg/media/2823846/comment-letter_disclosure-of-accounting-policies.pdf

ISCA ISSUES RAP 7 (REVISED DECEMBER 2019)

RAP 7 (Revised December 2019) *Reporting Framework for Investment Funds* sets out recommendations on the way in which the financial statements of investment funds should be prepared. RAP 7 is intended to be applicable to all authorised unit trusts and authorised Variable Capital Companies in Singapore. Managers, directors and trustees, where appropriate, are encouraged to comply with the recommendations set out in RAP 7. RAP 7 will be effective for annual periods beginning on or after 1 July 2020.

For more information, please visit: https://isca.org.sg/tkc/fr/financial-reporting-standards/singapore/recommended-accounting-practices-rap/

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COMMENTS SOUGHT FOR IASB'S EXPOSURE DRAFT GENERAL PRESENTATION AND DISCLOSURES

ISCA seeks comments on IASB's Exposure Draft *General Presentation and Disclosures*. Please send comments to technical@isca.org.sg by 31 March 2020.

For more information, please visit https://isca.org.sg/tkc/fr/exposure-drafts-comment-letters/iasb-exposure-drafts-comment-letters/

DECEMBER IASB PODCAST NOW AVAILABLE

In this podcast, IASB Chair Hans Hoogervorst and IASB Vice-Chair Sue Lloyd discuss the key developments during the December Board meeting. The podcast focuses on the proposed outline in the newly published General Presentation and Disclosures ED and the progress in terms of amendments to IFRS 17 *Insurance Contracts*, IBOR Reform project and Financial Instruments with Characteristics of Equity.

For more information, please visit https://www.ifrs.org/news-and-events/2019/12/november-iasb-podcast-now-available/

DECEMBER 2019 IASB UPDATE AVAILABLE

This Update covers IASB's discussions on Accounting Policies and Accounting Estimates (Amendments to IAS 8), Amendments to IFRS 17, IBOR Reform and the Effects on Financial Reporting and Business Combinations under Common Control.

For more information, please visit https://www.ifrs.org/news-and-events/2019/12/december-2019-iasb-update-available/

BY FELIX WONG AND ANGELINA TAN

MERGERS AND ACQUISITIONS

Navigating Complexities Amid Changing International Tax Landscape

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COMPANIES ENGAGE IN MERGERS AND ACQUISITIONS (M&AS) FOR A MYRIAD OF REASONS. Greater synergies, enhanced supply chain, access to new markets and increase in market share are just some of the motivations for them. The Big Four accounting firms, for example, are all outcomes of M&As. Considering its many benefits, why is M&A not the default solution to every business problem? The reason is simple – engaging in an M&A deal can be risky for businesses.

While the fundamental concept of M&A (that is, the combination of two corporations to form one) is simple, M&A transactions can be complex and may adversely affect the business if not properly implemented. Amid the geopolitical uncertainties and fast-changing international tax landscape, it is now trickier than ever to pull off a "perfect" M&A transaction.

In particular, at a time when tax authorities around the world are stepping up their audits, buyers must be especially mindful of potential tax exposures when assessing their target companies. Tax warranties or tax deeds can be used where appropriate to mitigate their tax risks.

REALITY CHECKS

In a typical M&A deal, much of the focus is on bringing two entities together. However, as in any contract, it cannot be said enough that consideration should also be given to possible exits in the future.

Given the level of risks involved in an M&A deal, it would be sensible for companies to think through their exit strategies even before undertaking the deal. Material demerger issues should be considered prior to the M&A deal in the event that the merger does not work out.

Demerger agreements should generally state each party's responsibilities in handling tax and legal matters following the demerger (for example, tax audits or legacy legal suits).

What can go wrong

Lack of understanding

An M&A is effectively a marriage between two companies and, like a marriage, the two parties must be compatible and have a good understanding of each other for the union to work. In an M&A deal, if the buyer acquires a target company without sufficient understanding of the latter's business (including the business model, product reach and marketing strategy), the target company may turn out to be a poor strategic fit for the buyer. Consequently, the buyer would not be able to achieve its business objective from the deal.

Disagreements in business direction

Post-merger disagreements between the two parties should be handled sensibly as they can derail the newly merged company following an otherwise successful M&A transaction. Both parties must put in every effort to work out their differences over the business direction to take, the business strategies to adopt or even the general management style, or risk crippling the company with these post-merger integration issues.

THE M&A JOURNEY

There are three key players in every M&A deal – the buyer, the target and the broker. Generally, the M&A journey begins with the buyer developing an acquisition strategy and defining its objectives for purchasing another company.

Upon defining its strategy and objective, the buyer would then search for potential target companies and conduct feasibility studies to ascertain whether a deal is commercially viable. Once the target company is identified, the buyer would perform due diligence on the target company and decide if it wishes to proceed with the deal.

Due diligence

Unlike a feasibility study which determines commercial viability, due diligence is conducted for the purpose of eliciting comprehensive information about the target company, so as to assist the buyer in determining the purchase price. The information obtained from due diligence will influence the decision to negotiate, proceed or withdraw from the deal.

In an M&A deal, due diligence typically covers the tax, legal, commercial and financial aspects of the deal, among others.

Tax

Tax due diligence seeks to verify that the target company is compliant with the relevant tax legislations. Any potential tax liabilities (whether arising from non-compliance or ongoing disputes with the tax authorities) from open tax years should be quantified, and the buyer may then determine whether there is a need for tax warranties or tax deeds to mitigate its tax risks.

Tax due diligence is essential in determining the ideal financing model for the M&A deal. To decide on the level of debt to be used for the M&A deal, it is vital for the buyer to consider issues such as the tax treatment of loan instruments, restriction on interest deduction and existence of thin capitalisation rules in the country.

Tax structuring issues are also covered in tax due diligence. Red flags

At a time when tax authorities around the world are stepping up their audits, buyers must be especially mindful of potential tax exposures when assessing their target companies.

PHOTO SHUTTERSTOCK

will be raised if the target's holding structure is unduly complex or channels profits to tax haven countries. Separately, the buyer should also take note if the target company's existing tax incentives are expiring and consider renewal possibilities.

Other areas typically covered in a tax due diligence include intellectual properties, management fees, technical services, withholding taxes, transfer pricing, repatriation of profits, indirect tax positions, as well as substantial change of shareholding (for the utilisation of unutilised tax losses).

Tax warranties are essentially statements indicated by the seller in the sale and purchase agreement covering tax issues. It serves to provide assurance to the buyer and provides remedy of compensation if the tax warranties are incorrect. The recovery of damages from tax warranties requires the buyer to prove loss. The buyer is also expected to take steps to mitigate its loss.

Unlike tax warranties, tax deeds generally cover unexpected tax liabilities. While the buyer does not need to prove loss or mitigate loss in the case of tax deeds, it is usually subject to certain exclusions and limits.

Legal

Legal due diligence involves identifying and analysing potential legal risks associated with the target company. Typically, the buyer would examine the target company's legal compliance record with regulations, the legal ownership of the assets, any legal claims made against the target company, any unsettled employment disputes, as well as any other existing lawsuits.

Commercial

Commercial due diligence deals with various business issues such as identifying the type of deal (whether it should be share deal or asset deal), understanding the business model, determining the timing of the transaction, and deciding on the pricing.

Financial

Financial due diligence entails the analysis of the target company's financials, including the financial statements, performance forecasts, debtors and creditors, and any financial risks (such as foreign exchange risks).

THE CHANGING M&A LANDSCAPE IN THE BEPS ERA

The OECD's BEPS project has driven significant changes to the international tax landscape.

In a nutshell, BEPS is about the concern over the erosion of a country's tax base by shifting of profits causing the deprivation of tax revenue. To tackle BEPS, tax authorities have implemented a plethora of new tax rules in their respective countries. Increased transparency through exchange of information and greater scrutiny by tax authorities is now the name of the game.

BEPS has numerous impacts on M&A transactions, such as in the areas of permanent establishment and transfer pricing.

Permanent establishment

The BEPS recommendations seek to prevent the artificial avoidance of permanent establishment status through commissionaire arrangements and specific activity exemptions (such as the fragmentation of activities and artificial splitting up of contracts to avoid falling within the permanent establishment rules).

In assessing a potential M&A deal, buyers must carefully consider the target company's operating model (for example, whether the target company uses commissionaire arrangements), and assess the risk of the target company unintentionally creating permanent establishments (and accordingly, taxable presence) in different tax jurisdictions under the new permanent establishment rules.

Transfer pricing

In line with the BEPS recommendations which seek to align transfer pricing outcomes with value creation, companies must ensure that their operational profits are aligned with the economic activities which generate them and that inter-company transactions are conducted at arm's length.

Transfer pricing adjustments can have serious financial impact. It is therefore essential for any tax due diligence to evaluate the target company's transfer pricing positions (especially in contentious areas like intangible assets) and ensure that contemporaneous transfer pricing documentation is available.

In the BEPS era, companies must be mindful of the tax exposures and risks when going on an M&A journey. While tax cannot be the sole driving factor for an M&A deal, it must always be carefully managed to ensure a successful M&A. The issues of permanent establishment, transfer pricing, legal ownership of assets and outstanding legal matters that may impact the merged entity are just some of the key matters to have a good grasp of, over and beyond the obvious financial and commercial issues, and not forgetting about the exit strategy (demerger) too. ISCA

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INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Elevating global recognition of the ISCA membership

With our presence in global accountancy networks, and reciprocal membership agreements with leading chartered accountancy bodies, we empower our members to achieve their aspirations by enhancing their international career mobility.

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