IS Chartered Accountant Journal
JUNE 2021

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focus

DEEPLY COMMITTED, FULLY ENGAGED

ISCA Annual General Meeting 2020/2021

ISCA INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

Deeply Committed, Fully Engaged; Resilience In A Time Of Disruption

Dear members,

AS I WRITE THIS MESSAGE, Singapore had further tightened measures and restrictions under Phase 2 (Heightened Alert) to minimise transmission of the Covid-19 virus. While there will be some disruption to work and life, I am confident that our members, having experienced the "circuit breaker" last year, will continue to perform their professional roles at the highest standards synonymous with the CA (Singapore) designation.

ISCA is deeply committed and fully engaged in helping members achieve their professional aspirations. To this end, the Institute offers in excess of 500 webinars and over 300 courses in our eLearning Space, and more than 50 free webinars. While on-site events will resume when circumstances allow, it will be some time yet. Meanwhile, continue to build your resilience by developing your capabilities so that you can stand out from the crowd.

In recent years, the Institute has introduced specialist pathways and professional development programmes to enable members to upskill in areas that are in demand, thereby enhancing their employability. For example, the Institute has launched the second run of the Accountancy Future Leaders Programme. This six-month programme aims to gear up future accountancy sector leaders with leadership capabilities, market insights and business growth strategies. A new programme which the Institute will be launching this August is the Audit Committee Programme. This Programme hopes to reinforce knowledge of evolving financial reporting requirements and issues to strengthen the quality of financial reporting disclosures. It will also provide updates on best practices in corporate governance and risk management. Find out more in the article, "Institute Launches ISCA Audit Committee Programme". And, recognising the shift towards an increasingly digital world, ISCA now issues Professional Accomplishment digital badges that members can use on their online profiles and resumes. These badges highlight members' professional competencies and accomplishments, which will inspire confidence in their expertise.

In addition, we launched the ISCA Support Fund, worth $8 million, to help members and SMPs make strategic shifts to seize opportunities in the new normal. The Fund has three thrusts to take care of members' various needs – support businesses, sustain livelihoods of accountancy professionals, and safeguard professional credentials. The Covid- 19-associated schemes, as well as our upcoming plans to enhance member experience, were shared at the virtual ISCA AGM on April 24. We bring you a summary of the AGM proceedings in the cover story, "Deeply Committed, Fully Engaged". CA (Singapore) Jonathan Yong is one person who is deeply committed to self-improvement. Featured in the Member Profile column this month, the Deputy Director in the public service received the Financial Forensics Professional credential after completing the Financial Forensics Accounting Qualification in 2019 and fulfilling the necessary requirements. This is just one of the 35-year-old's certifications. Outside the professional sphere, he has also earned credentials as a coffee enthusiast and a whisky ambassador. It is clear that he is willing to work hard and be fully engaged as he explores new frontiers both at work and outside of it. As he explains it, the work-life balance averts burnout, builds resilience and ensures career sustainability. Let him tell you more in the article, "The Passionate Pursuit Of Knowledge".

Lifelong learning and an enduring commitment to excellence are deep-steeped among our newly-minted Fellow Chartered Accountant of Singapore members. The FCA (Singapore), the highest level of membership conferred by the Institute, is a mark of distinction that signifies the epitome of professional achievement for accountancy professionals. To the 24 members who recently ascended to this honour, let me extend my heartiest congratulations! Be inspired by these members whose names can be found in "FCA (Singapore): A Mark Of Distinction".

Elsewhere, the journal is filled with resources that will add value to your work. Have an engaging read!

Kon Yin Tong
FCA (Singapore)
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Hybrid Work Trends For The Post-Covid-19 Era

THE COVID-19 PANDEMIC HAS DISPELLED THE MINDSET THAT BEING IN THE OFFICE FULL TIME IS AN ACTUAL BUSINESS IMPERATIVE. As millions of working-from-home workers and their organisations realise, a more flexible or hybrid human resource (HR) arrangement, supported by effective technologies, can get the job done just as effectively or better.

In a McKinsey study, 80% of respondents say they enjoy working from home, 41% say they are more productive than before, and 28% say they are as productive.[1] Freed from the time and tedium of long commutes, they have found more productive ways to spend their time, enjoyed greater flexibility in balancing their professional and personal lives, and decided they prefer to work from home rather than the office. A WeWork survey found that employees value flexibility so highly that they are willing to give up some of their benefits and perks, if their organisations are willing to support them and adopt hybrid strategies.[2] About 64% of them are even willing to personally pay for access to an office space in a location of their choice. Organisations, in recent years, have also been more accepting of the emerging definition of the "new" workplace, as seen by the growing popularity of co-working spaces in major cities around the world.

According to Microsoft Corp's inaugural annual Work Trend Index report[3], there are still some business leaders who believe that post-pandemic, it will be business as usual. But because the pandemic has fundamentally changed the nature of work, there is a need to rethink long-held assumptions. "The choices you make today will impact your organisation for years to come. It's a moment that requires clear vision and a growth mindset," advises Jared Spataro, Corporate Vice President, Microsoft 365. "These decisions will impact everything from how you shape culture to how you attract and retain talent, and how you can better foster collaboration and innovation."

The report identifies seven hybrid work trends that every business leader must know, to prepare for the post-pandemic era. They are:

1) Flexible work is here to stay.
2) Leaders are out of touch with employees and need a wake-up call.
3) High productivity is masking an exhausted workforce.
4) Gen Z is at risk and will need to be re-energised.
5) Shrinking networks are endangering innovation.
6) Authenticity will spur productivity and well-being.
7) Talent is everywhere in a hybrid work world.

[1] "Reimaging The Office And Work Life After Covid-19". 8 June 2020. McKinsey & Company.

[2] "Study: Nearly Two-Thirds Of Employees Are Willing To Pay For Access To Office Space To Support Hybrid Work". 13 April 2021. WeWork Ideas.

[3] The 2021 Work Trend Index. "The Next Great Disruptions Is Hybrid Work – Are We Ready?". Microsoft Worklab.

PHOTOS SHUTTERSTOCK

Singapore Financial Institutions Value ESG Performance In Financing

FINANCIAL INSTITUTIONS (FIS) IN SINGAPORE PLACE SIGNIFICANT IMPORTANCE ON ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE, with a heavy focus on climate considerations. The majority of FIs surveyed said they evaluate clients' sustainability disclosures, especially in the environmental factors of energy, water, waste and effluents, as part of their decision-making process. This is among the findings in the report "Perspectives Of Financial Institutions On Sustainability Disclosures", a joint study by Singapore Exchange Regulation (SGX RegCo), National University of Singapore Business School's Centre for Governance and Sustainability (NUS-CGS), and KPMG in Singapore.

PHOTOS SHUTTERSTOCK

The FI respondents said the motivation for greater emphasis on clients' sustainability reporting stemmed from rising stakeholder expectations particularly from investors and regulators, increased government and tax incentives, the regulatory framework and Singapore's sustainable business-friendly environment.[1] All the FIs said they are evolving their processes to fully integrate sustainability into their investment strategy by 2030, in recognition of the critical role they play in moving the sustainability agenda through their allocation of capital. This includes the importance placed on the governance of sustainability, such as their boards having oversight on sustainability-related matters in their organisations. Almost all of the FIs also evaluate and monitor non-financial risks.

FIs wanted the current quality and quantity of ESG disclosures to be strengthened, with consistency across and within industries for easy comparison. In particular, they highlighted the need for capacity building, recommending that corporates and FIs deepen their understanding and disclosures of climate-related risks and opportunities.

The study also suggested that governments and regulators could facilitate better disclosures, including providing guidance on the right kind of data to report, as well as providing capacity-building support on top of financial incentives.

"This study is important in shaping the work plan for SGX RegCo as our listed companies become more accustomed to sustainability reporting. We see our role as guiding the distillation of key information so that challenges in ESG reporting – namely, quantification, comparability and harmonisation – can be addressed," says Tan Boon Gin, CEO of SGX RegCo. "Our next step will be to review how companies are doing on the sustainability reporting front three years since it was mandated. We intend thereafter to enhance our sustainability reporting rules to help listed companies better address increasing and more immediate interest around climate-related information."

According to Associate Professor Lawrence Loh, Director of NUS-CGS, "financial institutions are the vanguards in moving the entire business ecosystem" and the report is "a precursor for the Singapore Green Plan 2030, particularly the Green Economy pillar". Listed companies, in disclosing their ESG aspects, need to emphasise capacity building at the company level, including improving systems and structure, as well as capability development at the professional level, such as honing skills and mindsets.

Connecting ESG data points with financial information can provide "unexpectedly powerful insights into the current state of an organisation, while challenging us to ask hard questions of its future state", says Cherine Fok, Director of Sustainability Services and KPMG Impact, KPMG in Singapore. "The study validates that financial institutions in Singapore are using ESG indicators as proxies to assess credit worthiness and determine asset value. Corporates should capitalise on this, prioritising the need to build internal capabilities and working with advisors where apt, to drive deeper sustainability agendas that can position themselves strategically for growth." She adds that reporting efforts should be aimed at building trust and credibility, hold up well against SGX's guidelines, global standards and industry best practices, and align with the expectations of stakeholders.

[1] Rising stakeholder expectations (92.9%), government and tax incentives (78.6%), regulatory framework (64.3%) and sustainable business-friendly ecosystem (64.3%).

[2] SGX website, Regulator's Column, 22 Apr 2020

[3] SGX website, Regulator's Column, 6 Jul 2020

Sustainability Reporting In Singapore

All SGX-listed issuers must prepare a sustainability report yearly, beginning with financial year ending on, or after, 31 December 2017.

The production of an annual sustainability report is a requirement. Where the issuer cannot report on any primary component, the issuer must state so and explain what it does instead and the reasons for doing so ("comply or explain" basis).

With the massive disruptions to business caused by the pandemic, SGX RegCo provided guidance on disclosures during Covid-19.[2] As businesses gradually found their footing, a responsible board would have conducted a fundamental review of the company's business and its business strategies against the operating environment, and explored the various scenarios that might play out in the future. The annual reporting apparatus, in the form of business, financial, corporate governance and sustainability reports, is a convenient medium and an opportunity for the board to demonstrate its considered analysis and lay out its plans and strategies to bring the company forward.

Of particular interest during this time is the impact of the pandemic on the "people" element of business. The outbreak has laid bare the importance of managing material social risks and opportunities among key stakeholder groups, such as employees, customers, suppliers and the community. The company's response in relation to these matters should therefore be included in, and may even form the basis of, the social aspect of sustainability reporting.[3]

FCA (Singapore): A Mark Of Distinction

The Fellow Chartered Accountant of Singapore or FCA (Singapore) designation is a recognition accorded to long-standing senior CA (Singapore) members. A mark of distinction that signifies the epitome of professional achievement for accountancy professionals, it is the highest level of membership conferred by the Institute.

This prestigious designation is awarded to CA (Singapore) members who have achieved 10 years of membership and five years of senior management experience.

From the last quarter of 2020 to the first quarter of 2021, 24 members were conferred the FCA (Singapore) status. They are established leaders with extensive experience across various industries in the accountancy profession.

Heartiest congratulations on attaining this prestigious title!

Ang Pei Fen
Chia Wee Chiang Joseph
Chiang Yi Shin
Foong Seong Khong
Gilbert Tiong
Gwee Sze Chuan
Cindy S H Ho
Khoo Xiangjun, Beverley
Francis Lai Kum Wai
Kevin Matthaios Lee
Lim Li Ling (Lynn)
Lim Poh San
Liu Phaik Swee
Lo Wei Pin
Ng Mun Fai
Pan Shan Chi Gary
Seah Yuen Sern
Desiree See
Lisa Seow
Sim Chee Wah
Tan Shu Teng
Teo Choo Yang Christopher
Yeo Theong Wei
Yong Mew Peng Victoria

> "I am grateful to have attained FCA (Singapore) as this fellowship serves as an important recognition for my contribution to the accounting profession through teaching and research. Thank you – it certainly means a lot to me."
>
> **Pan Shan Chi Gary**

> "The ISCA Fellowship recognises the achievements of our fellow professionals in doing their consistent best to uphold the highest standards of the accountancy profession. It also reminds us to contribute and give back to the profession and society by helping and mentoring the new, younger accountants so that they can go on to realise their aspirations."
>
> **Francis Lai Kum Wai**

MARK YOUR CALENDAR

17 JUN

Enable Strategic Business Decisions via Scientific Business Analytics and Data Visualization (Live Webinar)

This programme provides an introductory 101 understanding on how scientific use of data analysis and data visualization could lead to improved decision making and problem solving.

Effective decisions can be derived based on data analysis to provide opportunities for innovative business models, streamlining of cost and performance management. In turn, user-friendly visualization tools and techniques can help management focus on their most important key performance indicators (KPIs).

18 JUN

NEW!

Investment Properties: Accounting Considerations and Disclosure (Live Webinar)

This workshop aims to guide accountants in applying fair value, transitioning from different measurement methods and asset impairment on investment properties, from initial recognition till de-recognition.

Get solutions from this comprehensive and practical workshop expediently.

19 JUN

NEW!

Root Causes Analysis (Live Webinar)

Course attendee will be able to understand the common tools and techniques of root cause analysis, know how and when to apply each of them, discuss the pitfalls of root cause analysis and how to practically overcome them.

22 JUN

The World of Big Data at your Fingertips (Live Webinar)

Learn about managing humungous data sets and complexities with respect to various forms of data – Structured, Unstructured or Semi-structured.

Learn to understand how the data can be streamlined and used in a meaningful manner to derive further insights and decision making for the growth of both Small and Medium Enterprises (SMEs) and Large Enterprises.

23 JUN

ISCA Breakfast Talk – Responding to Covid-19: Risks and Opportunities in Real Estate (Live Webinar)

The rapid onset of Covid-19 took the world by surprise. Lockdowns across the world resulted in immediate drop-offs of footfall in malls and offices.

Join us in this talk as our speakers examine the risks specific to the real estate sector, how these risks were mitigated and possible opportunities that underlie the current situations.

Have you considered investing in cryptocurrencies? What are some practical considerations of a work-from-anywhere policy?

Be inspired by digital transformation success stories. Join us online at this popular second half of monthly talk series to hear experts share their insights on the latest business issues. Enrol for the full series that takes place from Jul to Dec 2021 at only $270 for Members or $330 for Non-Members. Register now!

Visit: **https://isca.org.sg/learn-connect/cpe-courses/monthly-talks-(july-to-dec-2021)**

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

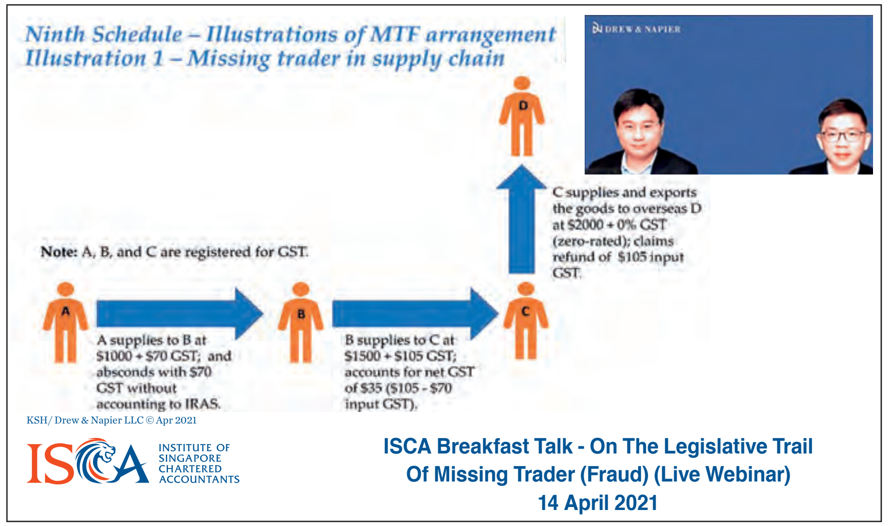
isca breakfast talk

On The Legislative Trail Of Missing Trader Fraud

MISSING TRADER FRAUD (MTF) is one of the most damaging types of cross-border value-added tax fraud in Europe. In Singapore, as of end-2019, more than 300 GST-registered businesses were under investigation by the Inland Revenue Authority of Singapore (IRAS) for suspected MTF, with a total tax amount of S$450 million at stake. To combat this tax leakage, new legislative provisions came into effect on 1 January 2021, and these were the topic of the recent Breakfast Talk webinar organised jointly with the Singapore Chartered Tax Professionals.

The session, attended by more than 300 participants, was presented by Accredited Tax Advisor (GST) Koh Soo How, Executive Director of Koh SH & Associates Pte Ltd, together with Yang Shi Yong, Director of Drew and Napier LLC, and Accredited Tax Practitioner (Income Tax) Charles Li, then-Associate Director (now Director) of Drew and Napier LLC.

In an MTF arrangement, the seller (missing trader) does not account for or pay GST (that is, the output tax) charged on the goods sold to the intermediary or "buffer" business. The GST that is charged is claimed as input tax by the businesses in the supply chain. These goods are then exported by the last supplier in the supply chain to an overseas customer, with no GST charged as the supply is zero-rated. The exporter then claims GST, (that is, the input tax) from IRAS, which it paid upon the purchase of the goods. Due to the failure of the "missing trader" in accounting for or paying the output tax, IRAS suffers a tax loss if it pays the exporter the input tax claimed.

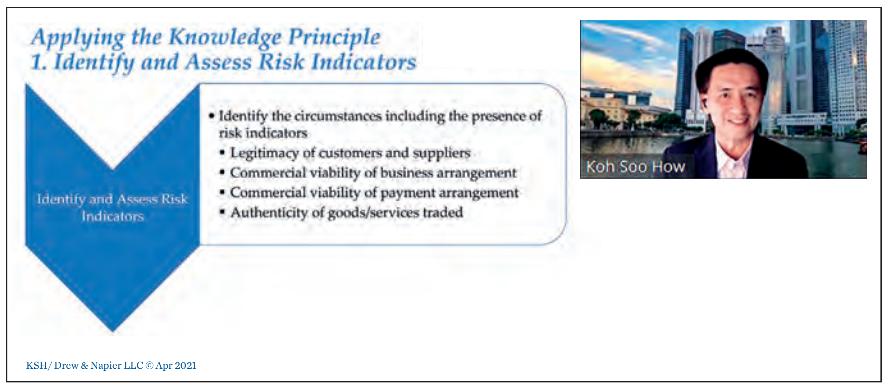


(From left) Accredited Tax Practitioner (Income Tax) Charles Li, then-Associate Director (now Director) of Drew and Napier, and Yang Shi Yong, Director of Drew and Napier LLC, explained the Ninth Schedule of the GST Act

Mr Yang explained the five different scenarios in the Ninth Schedule of the GST Act, on what constitutes an MTF arrangement to cause loss of public revenue, and the consequences of being involved in an MTF arrangement. Among the various consequences, a GST-registered company will be denied the input tax claims on supplies if it "knew" or "should have known" the transactions were part of an MTF arrangement. In addition, goods which are suspected to have been used or intended to be used to commit a GST offence may be seized and a 10% surcharge may also be imposed on top of the input tax claim that would be denied.

The hour-long webinar also had Mr Koh sharing practical insights into the implementation of the Knowledge Principle prescribed in the e-Tax guide. These include knowing the various red flags such as, when there is a ready supplier to the taxable person and a ready buyer from the taxable person for the same goods or services where the need for the taxable person as an intervening supplier seems unnecessary. Putting in place the appropriate due diligence checks and proper training for staff to be aware of a potential MTF arrangement are also key.

The session ended with a robust Q&A segment where the participants gained greater clarity on the new legislation and business implications of the guidance by the tax authority. These include knowing the possible tell-tale signs; how businesses should identify and assess risk indicators, perform due diligence checks and respond to the risks, and being wary of deals that are too good to be true.



Accredited Tax Advisor (GST) Koh Soo How, Executive Director of Koh SH & Associates Pte Ltd, elaborated on the Knowledge Principle prescribed in the e-Tax guide

Mobility Amidst Adversity

AS THE WORLD CONTINUES TO GRAPPLE WITH THE IMPACT OF THE COVID-19 PANDEMIC, 2021 is proving to be a challenging yet optimistic year to date. Despite the recent spate of setbacks on the Covid-19 front, there have been signs of economic recovery both globally and locally. It is without a doubt that international mobility, collaboration, and cooperation play key roles towards economic development and recovery.

Taking another step towards international recognition and mobility of our members, ISCA signed a Reciprocal Recognition Agreement with Chartered Accountants Australia and New Zealand (CA ANZ) on 7 May 2021. The hybrid signing event was held at ISCA House, with signatories and witnesses dialling in from Australia and New Zealand. Esteemed guests from the Australian and New Zealand High Commission, Singapore Accountancy Commission and Singapore Overseas Regional Council CA ANZ also graced the event.

This is the fourth reciprocal agreement that ISCA has concluded with a leading professional accountancy body. Previous agreements were signed in 2017 with Chartered Accountants Ireland (CAI), Institute of Chartered Accountants in England and Wales (ICAEW) and Institute of Charted Accountants of Scotland (ICAS).

Under the Reciprocal Recognition Agreement, eligible ISCA members can pursue CA ANZ's Chartered Accountant (CA) designation without having to fulfil additional professional or educational requirements. To be eligible, the ISCA member must be a Chartered Accountant of Singapore or CA (Singapore), and has completed the Singapore CA Qualification.

Mr Kon delivering his opening address at the signing ceremony

Signatories and witnesses of the Reciprocal Recognition Agreement: (from left) Kon Yin Tong, President, ISCA; Dr Nives Botica-Redmayne, President, CA ANZ; Anslie van Onselen, Chief Executive Officer, CA ANZ, and Lee Fook Chiew, Chief Executive Officer, ISCA

This means that CA (Singapore) members who have completed the Singapore CA Qualification are recognised to be on par with CA ANZ members. Similarly, Chartered Accountants from CA ANZ can apply for full membership with ISCA, and attain the CA (Singapore) designation – a recognised mark of excellence in business locally.

We look forward to more collaboration opportunities and a fruitful partnership with CA ANZ.

Find out how the Institute is elevating the ISCA membership and members' recognition worldwide through its reciprocal agreements at https://isca.org.sg/membership/become-a-member/chartered-accountant-pathway/ca-(singapore)-via-reciprocity-agreement.

"The reciprocal agreement not only benefits the Chartered Accountants from both bodies, it also underscores the value of the Chartered Accountant professional credential globally. Chartered Accountants have the breadth of skills, commitment to ethics and global expertise to help businesses in every part of the world thrive. Especially in these volatile and uncertain times, Chartered Accountants are uniquely equipped to make a difference to the businesses and communities they work and live in."

KON YIN TONG, ISCA President

Institute Launches ISCA Audit Committee Programme

THE INSTITUTE WILL BE LAUNCHING A NEW ISCA AUDIT COMMITTEE (AC) PROGRAMME THIS AUGUST. The ISCA AC Programme aims to reinforce participants' knowledge of evolving financial reporting requirements and issues to strengthen the quality of financial reporting disclosures. It will also provide updates on best practices in corporate governance and risk management.

Impact of evolving business environment on the role of an AC

The AC is a sub-committee established by the Board of Directors to ensure the integrity of the financial reports, review the internal controls and risk management of the organisation, appoint and set external auditors' fees and oversee the internal audit function, as laid out in the Singapore Code of Corporate Governance 2018.

With changing business demands and heightened macroeconomic complexities, there is greater emphasis on the effectiveness of the role that AC members play in the governance and oversight of companies. There is also an increasing need for the AC to keep up with trends and to establish comfort in the use of the work of other specialists and professionals.

Here are four major shifts that will have a bearing on the work of AC members:

(1) Digitalisation

The Covid-19 pandemic has accelerated the adoption of technology in many companies. While technology helps to expedite and streamline many business processes, it also increases the cyber threats landscape.

The human factor is the main source of cybersecurity threats. Remote working practices have drastically changed many business activities and practices. Existing controls have to be reviewed and the business risks need to be reassessed.

ISCA AUDIT COMMITTEE PROGRAMME INFORMATION

The ISCA AC Programme is curated for individuals who are supporting or are in the role of an AC member, to help them keep pace with the evolving business environment.

Be equipped
Equip participants with essential financial reporting requirements to strengthen the overall quality of financial reporting disclosures.

Reinforce
Reinforce participants' knowledge on evolving financial reporting requirements and issues to improve financial statements disclosures.

Strengthen
Strengthen best practices in corporate governance and risk management.

The three main segments of the ISCA AC Programme are:

- Evolution of Risk Management (AC001a)
- Strengthening Corporate Governance in a New World (AC001b)
- Financial Reporting Challenges and Hot Button Issues (AC001c)

Key features include:

- Programme delivery by **industry subject matter experts**, including industry leaders from the Big Four accountancy firms and ISCA Financial Statements Review Committee members.
- **Free access to ISCA Digital Library** resources. These resources focus on the latest business trends and topics, including but not limited to cybersecurity, blockchain and business issues arising from the new normal.
- Upon completion of the Programme, **20 CPE hours** and an **ISCA AC Programme Certificate** will be issued.

For more information, please visit the ISCA website (https://isca.org.sg/learn-connect/cpe-courses/certification-programmes/audit-committee-programme) or scan the QR code.

(2) Evolving business ecosystem

The Covid-19 pandemic has caused unpredictability in the business ecosystem. The disruptions to supply chains have called for more emphasis on business continuity planning (BCP). BCP aims to resume, recover and restore business operations. The frequency to review the effectiveness of the plan should also be considered.

The risks arising from the lack of BCP include:

- Labour and supplies limitation;
- Fluctuating inventory turnover;
- Uncertain revenue forecast;
- Potential bad debts.

[1] Y.K. Ho, L.H. Yeap and M.K. Chu. "Audit Committee Landscape In Singapore (Part 2)". March 2021. IS Chartered Accountant Journal

(3) Accounting issues due to unpredictability

In a review of data collected from the 2019 annual reports of 650 Singapore-listed companies, it was found that the top three key audit matters were[1]:

- Valuation matters;
- Credit loss on receivables;
- Revenue recognition.

The accounting assumptions and estimates need to be critically reviewed in accordance with Financial Reporting Standards (FRS). Besides relevant industry knowledge and business experience, this may require a certain level of professional judgement and financial knowledge.

(4) Increasing focus on environmental, social and governance (ESG) matters

The future of ESG matters appears to be less remote. This is evident in the initiatives announced in the 2021 Budget and Singapore Green Plan 2030, which signal a whole-of-government effort. Significantly, Ministry of the Environment and Water Resources has been renamed Ministry of Sustainability and the Environment, reflecting the government's new focus.

There will be increased expectations and pressure from stakeholders for companies to account for and report the information relating to ESG considerations.

DEEPLY COMMITTED, FULLY ENGAGED

ISCA Annual General Meeting 2020/2021

ISCA HELD ITS ANNUAL GENERAL MEETING (AGM) 2020/2021 ON APRIL 24 AT ISCA HOUSE. Similar to last year, this year's AGM was held virtually to comply with safe management measures. In total, 181 ISCA members attended the AGM online to keep up to date with the Institute's latest developments and offerings.

At the AGM, ISCA President Kon Yin Tong gave an overview of some of ISCA's key initiatives over the past year as well as the ISCA Support Fund. Worth $8 million, the ISCA Support Fund aims to help members tide over the pandemic and emerge stronger from it. The Support Fund comprises various initiatives to help upskill the accountancy profession, assist small and medium-sized practices (SMPs) with business continuity, and catalyse digital transformation. He also shared various upcoming initiatives to enhance member experience and boost member engagement.

To gain new skills and sustain their livelihoods, members can learn from more than 500 webinars and over 300 courses in our eLearning Space. In addition, we have more than 50 free webinars for members.

The AGM also saw the re-election of seven current members and the election of one new member to the ISCA Council. The seven re-elected members are:

- Yvonne Chan Mei Chuen, Director (Finance, Procurement & Administration), Enterprise Singapore
- Tan Kuang Hui, Chief Executive and Managing Partner, Crowe Singapore
- Darren Tan Siew Peng, Chief Financial Officer, OCBC Bank
- Kelvin Tan Wee Peng, Adjunct Associate Professor, NUS Business School, National University of Singapore
- Roger Tay Puay Cheng, Co-Head of Advisory, KPMG LLP
- Don Wee Boon Hong, Member of Parliament; Senior Vice President, United Overseas Bank Ltd
- Christopher Wong Mun Yick, Head of Assurance and Audit Partner, Ernst & Young LLP

The newly elected Council member is Judy Ng May Lian, Chief Financial Officer, Institutional Banking Group, DBS Bank.

At a Council meeting following the conclusion of the AGM, the Council re-elected Roger Tay Puay Cheng as the Treasurer of ISCA.

Two motions were tabled at the AGM, namely:

1) To form a Practice Monitoring Programme (PMP) working committee to engage the Accounting and Corporate Regulatory Authority (ACRA) to relook at the PMP methodology and sentencing framework, and
2) To form a panel of experienced Public Accountants (whether voluntary or remunerative) to assist members to manage their risks during the PMP review.

As both motions received less than 50% of the total votes from members present at the AGM, the motions were not passed. Nevertheless, the Institute will continue to engage ACRA on these issues, as well as the public accountants who filed the motions to see how else we can assist them.

For members who could not join us that day, here is Mr Kon's AGM address.

RECAP OF 2020/2021

"It has been more than a year since the "circuit breaker". This year, we continue to hold the AGM virtually, in compliance with social distancing measures to minimise the spread of Covid-19.

CAREER SUPPORT, VIRTUAL LEARNING, RESOURCES & TECHNICAL GUIDANCE

When the pandemic happened, the Institute responded quickly to help members tide through it. Last year, we rolled out a Support Package worth up to $3.6 million as well as initiatives to provide career support, virtual learning support, resources and technical guidance.

We made the Singapore Accountancy and Audit Convention series fully virtual and included topics that addressed Covid-19's impact on our profession. We produced publications, technical guidance and articles to help members meet the challenges.

Our online Covid-19 resource centre carried regularly updated content, including the latest news and Frequently Asked Questions on auditing and accounting issues arising from Covid-19.

In addition to technical resources, ISCA also collaborated with the Lee Kuan Yew Centre for Innovative Cities at the Singapore University of Technology and Design, and EY on a research report titled "Redefining the Finance Function with Job Redesign". This publication provided insights on the imminent impact of technological changes on finance professionals. It was especially salient amid the accelerated pace of digital transformation.

To help our members showcase their credentials in an increasingly digital world, we issued Professional Accomplishment digital badges to members who completed Professional Qualification programmes and CPE certification courses.

We also introduced professional development programmes such as the ISCA PDPA Compliance Certificate, to enable members to upskill in areas that are in demand, thereby enhancing their employability.

ISCA President Kon Yin Tong providing an overview of some of ISCA's key initiatives over the past year as well as the ISCA Support Fund

The AGM was held virtually for the second consecutive year

ISCA Support Fund

As the Covid-19 situation persisted, small and medium-sized enterprises, including the SMPs, were among the most adversely impacted. This year, to help members and the SMPs build resilience and emerge stronger from the pandemic, we launched the ISCA Support Fund, worth $8 million, in February.

Aimed at helping members and SMPs make strategic shifts to seize opportunities in the new normal, the Fund has three strategic thrusts – support businesses, sustain livelihoods of accountancy professionals, and safeguard professional credentials.

With support from Enterprise Singapore's SG Together Enhancing Enterprise Resilience (STEER) programme, $3 million will go towards accelerating the digital transformation and upskilling efforts of SMPs and providing working capital to SMPs financially affected by the pandemic. Through the STEER programme, ESG will match $1 for every $2 contributed by ISCA to help strengthen and transform businesses.

Another $3 million will go towards reskilling and upskilling ISCA members, and $2 million will go towards supporting members in financial hardship by offsetting their membership and training fees.

Support businesses

Under the "support businesses" strategic thrust, the ISCA Support Fund will support SMPs in the three pillars of business growth, capability upgrading and business sustenance.

To accelerate their **business growth**, SMPs can apply for funding to train their staff in high-growth areas, such as business compliance and advisory. To address the skills gap, the Institute is curating CPD programmes and rolling out certification courses in high-growth areas. For instance, we introduced the ISCA Information Systems Risk Management Certificate this year. The programme equips participants with skills in information systems risk management and prepares them for the internationally recognised ISACA Certified in Risk and Information Systems Control Certification.

To accelerate their business growth, SMPs can apply for funding to train their staff in high-growth areas, such as business compliance and advisory.

As part of **capability upgrading**, SMPs can apply for funding to offset the cost of digital solutions. To find out more, practitioners can join our complimentary virtual Tech Fair on April 29, where they can interact virtually with vendors and view demo videos on the digital solutions. They can also approach our online SMP Centre for assistance.

Eligible SMPs can receive up to $10,000 each to fund their business growth and capability upgrading initiatives.

For **business sustenance**, SMPs with cashflow issues affected by the pandemic can apply for a working capital grant of $5,000.

Applications for the Support Fund are now open. I encourage SMPs to apply and make full use of the funding support.

Sustain livelihoods of accountancy professionals

Last year, we gave members $100 each in Continuous Professional Education (CPE) vouchers to offset their training costs. This year, we have set aside another $3 million to reskill and upskill members. Each member will receive another $100 in CPE vouchers.

To gain new skills and sustain their livelihoods, members can learn from more than 500 webinars and over 300 courses in our eLearning Space. In addition, we have more than 50 free webinars for members.

We continue to expand our offerings, especially those in emerging skills such as financial forensics, infrastructure and project finance, as well as data analytics and visualisation.

Besides emerging skills, we also continue to develop programmes for skills that are in demand. For instance, we will launch the ISCA Audit Committee Programme in August this year. With changing business demands and more risks arising from the rapid advancement of technologies, there is greater emphasis on the role of audit committee members in the governance and oversight of companies. The ISCA Audit Committee Programme will reinforce participants' knowledge of evolving financial reporting requirements and issues. It will also provide updates on best practices in corporate governance and risk management.

Safeguard professional credentials

In these difficult times, some members may face job losses. To support them, ISCA has set aside $2 million for membership fee waivers. Each member in financial hardship will also receive 20 complimentary CPE hours, enabling them to acquire new skills that enhance their employability.

ISCA has also relaxed our eligibility criteria for membership fee waivers. This is to enable members to retain their internationally recognised professional credential, which is important in maintaining their employability in a competitive job market.

Initiatives to Enhance Member Experience

Even as we develop programmes to support members in adapting to the current business landscape, as a membership body, it is important that we continue to enhance existing initiatives and roll out new ones to boost member engagement.

ISCA website, learning management system and mobile app

In a digital world, digital interfaces are vital in providing an enhanced member experience. I am pleased to share that we have revamped the ISCA website. The website content can now be customised according to user profile, and a mega menu helps members obtain information faster. The site also features real-time display of CPD courses and events, and a training calendar that enables members to easily view which courses are available.

We are also working on enhancing the learning management system and producing a mobile app for members. With the mobile app, members can enjoy e-services such as receiving notifications based on their interests, registering for courses and tracking their learning activities. The mobile app is likely to be ready in the first quarter of next year.

Senior members' programme

We are also working on a programme for members aged 55 and above. These senior members will be given a special rate for curated CPD courses as well as complimentary webinars. There are also plans to provide networking events and volunteering opportunities for our senior members. More details will be unveiled in the second half of this year.

CONCLUSION

It has been a challenging period for many of us. While there are budding shoots of economic recovery in Singapore, we cannot expect to go back to "business as usual". Covid-19 did not help our engagements with various stakeholders in Singapore and in the region.

More than 180 members attended the AGM on April 24

Although the path ahead is uncertain, we know for sure that as accountancy professionals, we have the mindset, attributes and skills to make a difference to the world, especially in these challenging times. We must develop the resilience to navigate whatever future challenges which may arise. Take heart that ISCA will be with you through the highs and the lows.

Before I end, I would like to thank all our members for your continued support. We would not have been able to deliver the various initiatives if not for your unwavering commitment to the Institute. I also thank my fellow Council members and the team at ISCA for working with me to support our members and our profession through these dynamic times.

Let us press on, and meet the future with determination, agility and optimism." ISCA

... as accountancy professionals, we have the mindset, attributes and skills to make a difference to the world, especially in these challenging times. We must develop the resilience to navigate whatever future challenges which may arise.

NEW COUNCIL MEMBER

JUDY NG MAY LIAN
CA (Singapore)
Chief Financial Officer,
Institutional Banking Group,
DBS Bank

RE-ELECTED ISCA TREASURER AND COUNCIL MEMBER

ROGER TAY PUAY CHENG
FCA (Singapore)
Co-Head of Advisory,
KPMG LLP

OTHER RE-ELECTED COUNCIL MEMBERS

YVONNE CHAN MEI CHUEN
FCA (Singapore)
Director
(Finance, Procurement & Administration),
Enterprise Singapore

TAN KUANG HUI
CA (Singapore)
Chief Executive and Managing Partner,
Crowe Singapore

DARREN TAN SIEW PENG
FCA (Singapore)
Chief Financial Officer,
OCBC Bank

KELVIN TAN WEE PENG
FCA (Singapore)
Adjunct Associate Professor,
NUS Business School,
National University of Singapore

DON WEE BOON HONG
CA (Singapore)
Member of Parliament
Senior Vice President,
United Overseas Bank Ltd

CHRISTOPHER WONG MUN YICK
FCA (Singapore)
Head of Assurance and Audit Partner,
Ernst & Young LLP

Biographies of the ISCA Council members are available at the ISCA website (https://isca.org.sg/content-item?id=c722b2da-c9df-4d45-9e84-60a2344b1299).

THE PASSIONATE PURSUIT OF KNOWLEDGE

A DETERMINED SELF-MOTIVATOR, JONATHAN YONG IS ALWAYS LOOKING FOR WAYS TO IMPROVE HIMSELF BOTH PROFESSIONALLY AND PERSONALLY.

As recently as 2020, he was conferred the Financial Forensics Professional (FFP) credential, after having completed the Financial Forensics Accounting (FFA) Qualification in 2019 and fulfilling the necessary requirements. But it's hardly a case of all work and no play for the Deputy Director in the public service. Outside the professional sphere, he has also earned credentials both as a coffee enthusiast and a whisky ambassador, and volunteered with MINDS (Movement for the Intellectually Disabled of Singapore). Part of what has brought him so far in his career and personal life are "setting both short- and long-term goals and having an action plan that will allow me to achieve them," he reveals. "Also, I believe in keeping an open mind to new experiences."

Mr Yong's interest in accountancy was birthed from a young age, when he would experience a great sense of achievement whenever he successfully solved mathematics problems. Possessing a knack for details, he was also greatly inspired by his father, who worked in the finance sector.

"I eventually developed an interest in finance," he says. "I was keen to acquire the analytical skills that would allow me to prepare and interpret complex company financial reports. This led me to pursue a Bachelor of Accountancy degree at Nanyang Technological University (NTU), and subsequently, a career as a professional accountant."

While studying at NTU, Mr Yong interned at then-Foo Kon Tan Grant Thornton LLP, and joined PricewaterhouseCoopers Singapore (PwC) upon graduation. In his four years at PwC, he went from being an associate in general assurance to assistant manager in risk assurance, where he was seconded to a large Swiss bank and provided advice on risk-related matters and compliance. Having built a strong foundation in audit at PwC, Mr Yong then joined the public service, putting into practice his understanding of external and internal audit, as well as the compliance function of financial institutions that he had picked up at PwC. "The ability to apply my knowledge in a role that contributes to the well-being of the society is really what attracted me to move to the public sector," he explains.

> "Financial forensics is a field of work that involves criminal investigation using a combination of analytical, legal, technological skill sets as well as accounting and finance knowledge, to identify criminal financial activity coming from within or outside of an organisation."

HONING AN INVESTIGATIVE MINDSET

Given Mr Yong's enthusiasm for learning new skills, it is hardly surprising that he would decide to pursue qualifications in the specialist field of financial forensics in the form of the FFP credential. "Financial forensics is a field of work that involves criminal investigation using a combination of analytical, legal, technological skill sets as well as accounting and finance knowledge, to identify criminal financial activity coming from within or outside of an organisation," he explains. "As part of my work revolves around the conduct of inspections, this knowledge enables me to apply a forensics lens in the course of my work."

Being a Chartered Accountant comes with great responsibility, which Mr Yong takes seriously. "I believe it is crucial that we maintain our utmost professionalism in our work, considering the recent challenges in the audit sector around the world that have resulted in scrutiny on the overall quality of the audit sector," he asserts. "Chartered Accountants will need to be discerning and have the courage

Jonathan Yong, CA (Singapore), Deputy Director in the public sector

to challenge and address potential issues that they spot, such as conflicts of interest." Therefore, being skilled in financial forensics is something Mr Yong believes will become crucial in the finance field, particularly in this technological, data-driven age. "With emerging trends to utilise data and sophisticated technology, it is becoming harder to detect fraud and spot unusual transactions from the information provided by the financial institutions without the application of data analytics," he notes. "Adopting an investigative mindset will become increasingly important, for example, when we are reviewing transaction listings of banks."

NEVER STOP LEARNING

Mr Yong encourages fellow accountancy and finance professionals to consider the ISCA FFA Qualification. "Go into the course with an open mind and be ready to ask questions and share your experiences in order to have a fruitful learning journey," he urges. "From my own experience, I had to first unlearn what I knew previously – for example, assumptions I may have had about the breadth of information and areas that need to be reviewed – in order to relearn." Cultivating such an eager-to-learn attitude is what will help an accountancy and finance professional stand out from the crowd – not just among their peers in Singapore but globally. As Albert Einstein once said, "Once you stop learning, you start dying."

CAREER HIGHLIGHTS

2011 to 2013
Associate, General Assurance, PwC Singapore

2013 to 2015
Assistant Manager, Risk Assurance, PwC Singapore

2015 to 2021
Assistant Director, public service

2021 to Present
Deputy Director, public service

> **"It is extremely important to have the mindset to adapt and improve oneself in this digital era, either through professional or on-the-job training. Do not be afraid to get your hands dirty to pick up on something new such as data analytics. Also, be willing to work with and learn from your counterparts from around the world in order to broaden your mindset and understanding of the world of finance globally."**

Likewise, Mr Yong is a firm believer in continuous learning. "It is extremely important to have the mindset to adapt and improve oneself in this digital era, either through professional or on-the-job training. Do not be afraid to get your hands dirty to pick up on something new, such as data analytics. Also, be willing to work with and learn from your counterparts from around the world in order to broaden your mindset and understanding of the world of finance globally."

Being an ISCA member offers such opportunities for peer learning, says Mr Yong. "The ISCA membership has given me the opportunity to interact, pick up new ideas and learn from a network of like-minded people, including those from financial institutions and professional accountants in business across a range of sectors."

JOY AT WORK

The accountancy and finance industry can be stressful and filled with tight deadlines but for Mr Yong, finding a good balance is key to his sustainability at the workplace and averting "burnout"; it is also why he looks forward to going to work. "Apart from being able to meet and work with my fantastic colleagues, what motivates me every day is the ability to deliver impact at work in a tangible way – to different people including my colleagues, the organisation and the broader society," he declares. "In the last two years, I have been given the opportunity to lead transformation projects to improve the efficiency of internal work processes. It has been hugely motivating, and satisfying, to be driving change for positive transformation at my organisation."

While work satisfaction is key to longevity in an organisation, how the individual manages stress can make or break his career. As a person who believes in planning ahead, Mr Yong shares his strategy to battle pressure. "When there is an urgent deadline or when something unexpected crops up at work, I find myself going over all the possible consequences in my mind to pre-empt and develop potential action plans to address these issues," he shares. "Nevertheless, I believe that it is important to get proper rest. In order to minimise the times that I am kept awake at night, I do my best to plan ahead, consider all the scenarios in all aspects of my work and manage the timelines." He starts his work day with this healthy attitude and a good cup of coffee but "no decaf, please". As Thomas Edison said, "Good fortune is what happens when opportunity meets with planning."

FINDING BALANCE... AND HOLDING ON TO IT

Success looks different to every individual. For Mr Yong, success at the workplace means "being able to meet both individual and team goals set by my supervisors together with my fellow colleagues", while success in his personal life is having time to pick up new skills and develop himself."I make full use of my available time to do my best to achieve the work and personal goals I set for myself," he says.

Balance is the key, as they say, but achieving this is easier said than done for many. Mr Yong shares that he takes a "fluid approach to work-life integration". As he puts it, "there will be times when I must put in the extra hours for work, like when there is a tight deadline. However, I will still set aside quality time for my personal life where I focus on things such as attending church, spending time with family, keeping healthy by swimming, and honing my guitar and barista skills over the weekend".

As someone who takes his personal development as seriously as his professional growth, Mr Yong has a particular fondness for food and drink. "I'm a foodie at heart," he admits. "In my free time, I like to pick up new skills and gain knowledge in order to better appreciate what I consume." To that end, he completed his Barista Skills Foundation – a specialty coffee preparation course accredited by the Specialty Coffee Association (SCA). He is also a certified BIIAB Whisky Ambassador accredited by the British Institute of Innkeeping Awarding Body (BIIAB), after having completed a Scotch whisky appreciation course. Neither are skills that many accountancy and finance professionals possess.

To those who wonder how he manages to squeeze everything into the finite time available, the 35-year-old shares, "The key is to strike a balance – set your priorities, have proper time management and recharge your batteries with adequate rest." ISCA


PHOTO SHUTTERSTOCK

BY MARK HUMPHERY-JENNER

BITCOIN RISK, RETURNS AND DIVERSIFICATION

Three Useful Things To Know

INVESTORS ARE INCREASINGLY CONSIDERING INCLUDING BITCOIN IN THEIR PORTFOLIOS. Kevin O'Leary – of Shark Tank fame – has indicated Bitcoin could constitute up to 5% of his portfolio. In Australia, Mark Carnegie has indicated he would launch an unlisted crypto fund and that investors should consider allocating 1 to 2% of their net worth to cryptocurrencies.

The cryptocurrency investment thesis rests on several assumptions: crypto must either (a) offer additional diversification benefits, and/or (b) perform at least as well as other asset classes on a risk-adjusted basis. Let's examine this in more detail.

We will start by analysing Bitcoin's risk and return characteristics. We will then discuss the arguments surrounding adding Bitcoin to a diversified portfolio. Naturally, this is moot if you believe that Bitcoin is overpriced and is destined to yield negative returns over the long term.

1) BITCOIN (AND CRYPTOCURRENCY) RETURN AND RISK

Let us start by looking at the basics of Bitcoin's risk and return. Two main types of risk are relevant: (1) The risk inherent in Bitcoin's returns per se, and (2) the risk of measurement error when estimating those risks.

Tautologically, we can only look at historical data. Past performance and risk are informative. But, future performance and risk can differ. This is especially a concern with Bitcoin, which has experienced both significant volatility in both the level and variance of its daily returns. This means that model risk is important.

Bitcoin's price can oscillate wildly. Within April 2021, it has swung by between US$63,000 and US$50,000. The annualised standard deviation of daily returns is 67%. But, this fluctuates over time. Figure 1 shows that the 250-day average return fluctuates significantly over time. This suggests significant volatility in Bitcoin's average performance. However, for significant periods, Bitcoin has earned a higher average return than has the market.

Figure 1 Rolling 250-day average daily return for Bitcoin

Bitcoin has a number of risk and return characteristics, and investors need to factor in a number of important considerations when adding Bitcoin to a diversified portfolio.

Figure 2 Standard deviation of Bitcoin against the market

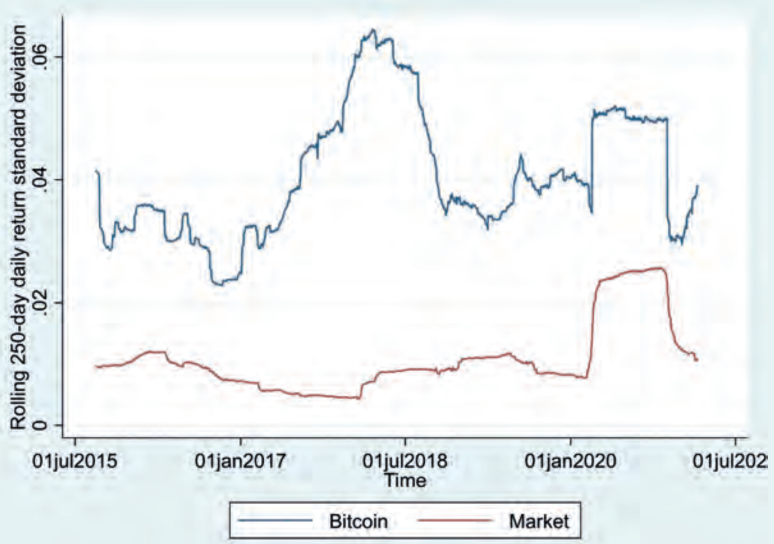


Figure 3 Bitcoin's coefficient of variation

Bitcoin's volatility is itself volatile. We can capture this by analysing Bitcoin's standard deviation of daily returns. Analysing the rolling 250-day standard deviation of daily log returns again shows that the standard deviation fluctuates significantly over time. This makes it difficult to predict how risky (or not) Bitcoin is. The standard deviation of returns is only one of many risk measures. However, it does indicate the significant risk inherent in Bitcoin. In all periods, Bitcoin has a higher standard deviation than does the market index.

We can capture the return per unit of risk by looking at the coefficient of variation. This is also volatile. Bitcoin's coefficient of variation is higher than that of the market, on average. It has had a higher coefficient of variation than has the market. However, this is not always the case. Figure 3 plots that coefficient of variation. It indicates that Bitcoin's coefficient of variation has a similar pattern to that of the market, and is not always above that of the market.

When we put this information together, we see that Bitcoin is risky. The returns are volatile. The average return – which could smooth that volatility – is also volatile. The estimates of volatility are volatile. Thus, Bitcoin is riskier than the broader market, both in terms of its historical performance and in terms of our ability to predict future risk and returns.

2) COULD BITCOIN STILL PROVIDE DIVERSIFICATION BENEFITS?

How to assess diversification benefits

The next issue when considering adding cryptocurrency to a portfolio is whether it conveys a diversification benefit. Diversification enables investors to earn a higher return per unit of risk. This arises because assets have two main types of risk: systematic risk and idiosyncratic risk.

Idiosyncratic risk connotes the random movements that are inherent to the asset's own characteristics. For example, for a firm, an idiosyncratic risk is the risk of a factory randomly burning down, or the CEO suddenly having a heart attack.

Systematic risk connotes risk associated with the asset's correlation with other market-wide factors. For example, interest rate changes impact the whole market. The asset's systematic risk is then the asset's sensitivity to this impact. It

PHOTO SHUTTERSTOCK

is usually measured by the asset's "beta" with respect to the market index. The beta reflects the sensitivity and responsiveness of the asset's returns to returns on the market index.

Systematic risk can be further analysed through factor models. Factor models posit that there are multiple systematic factors that can impact returns. These factors have a risk premium associated with them. For example, small firms sometimes perform better (or worse) than large firms. Similarly ex-ante highly valued firms, or positive momentum firms. If the asset's returns merely reflect the returns to those factors, it would suggest the asset could simply be replicated with a properly constructed portfolio.

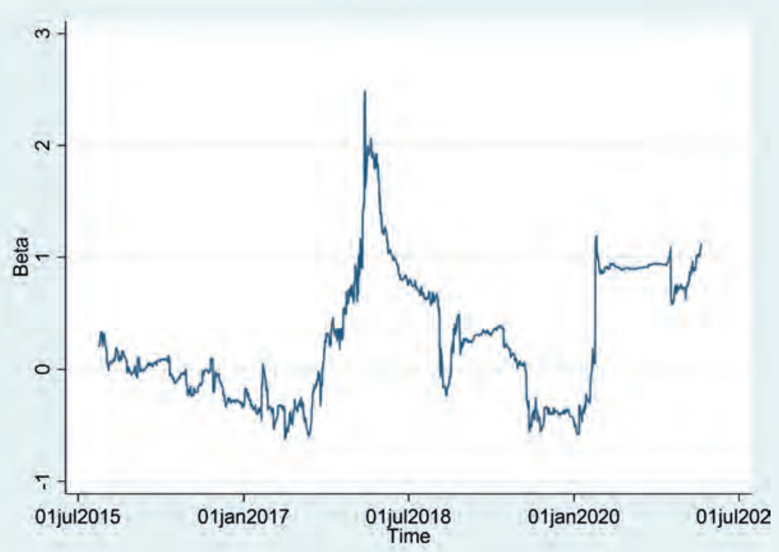
Bitcoin's diversification benefits

Let us start by looking at the most straightforward measure of Bitcoin's diversification benefits, or lack thereof: its beta (β), alpha (α) and the R-squared from the model estimating the alpha and beta.

In technical terms, one obtains the beta by estimating the regression model $r(btc,t) = \alpha + \beta r(mkt,t) + \varepsilon$, where $r(btc,t)$ is the return that Bitcoin earns on day t and $r(mkt,t)$ is the market index return on day t. The terms α and β are the regression intercept and slope coefficient, respectively, and ε represents the residual.

We can start with the β term. It tells us how sensitive and responsive Bitcoin's movements are to movements on the market index. If $\beta = 2$, then a 1% increase in the market index will manifest in a 2% increase in Bitcoin on average. To analyse β, it is useful to run the aforementioned regression for a rolling 250-day period. That is, we estimate the regression using

Figure 4 Bitcoin's beta over time



250 days of stock returns, and update the regression every day. This gives us a time series of β coefficients.

Bitcoin's β fluctuates significantly over time. Until 2020, Bitcoin sometimes had a negative β and sometimes had a positive β. The average beta over the whole time series is 0.26 and the standard deviation is 0.56, suggesting significant volatility in the β. However, this appears to change significantly in 2020 around March 2020, whereafter the β hovered near 1. Thus, from March 2020 onwards, Bitcoin's diversification benefits significantly fell. The diversification benefits were not entirely eliminated, but they significantly reduced. Indeed, unless we expect either (a) Bitcoin to continue to offer supernormal returns and/or (b) Bitcoin's beta to fall, Bitcoin's diversification benefits could be in doubt.

The beta does not tell us the full story, however. If Bitcoin has a significant, then it would significantly outperform the market. However, the α must be treated with some caution as a significant α can also arise because the market index is too blunt a measure to capture Bitcoin's risk exposure. Further, if the regression model has low explanatory power, it would also indicate that variation in Bitcoin's returns is poorly explained by variation in the market returns.

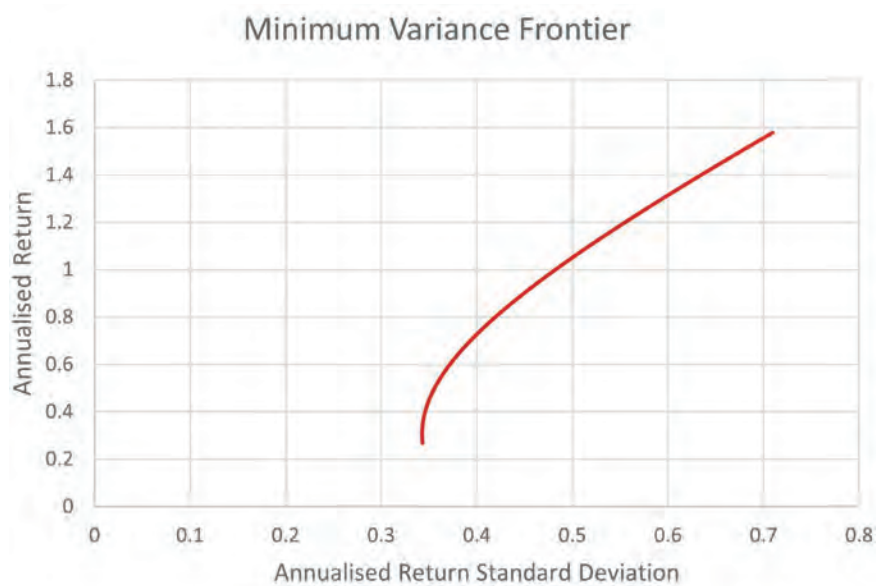
Bitcoin's alpha fluctuates significantly over time. Bitcoin's alpha is generally positive. Its statistical significance also varies over time. This suggests that for *some*, but not for all periods, Bitcoin outperforms the broader market.

The market explains a relatively small amount of Bitcoin's price movements. The regression R-squared measures the proportion of the variation in Bitcoin's price that is explained by market movements. Before 2018, the R-squared of the 250-day regression was low. Depending on the precise variables used, the R-squared was below 10%. However, it increased to above 15% in 2020. By contrast, the R-squared for a similar regression of Berkshire Hathaway in 2020 has an R-squared over 70%.

The problem with Bitcoin is that its returns are extremely volatile. And, this creates model risk: it is very likely that any forward-looking estimates of Bitcoin's returns or its risk will be incorrect. Both change significantly over time.

Figure 5 Bitcoin's alpha over time

Figure 6 Minimum variance frontier combining the market with Bitcoin



The diversification benefits appear to be tangible, but difficult to quantify. The problem with Bitcoin is that its returns are extremely volatile. And, this creates model risk: it is very likely that any forward-looking estimates of Bitcoin's returns or its risk will be incorrect. Both change significantly over time. Thus, past returns, and past asset allocations, are not necessarily representative of prospective returns and allocations.

Historical data shows that Bitcoin could have given diversification benefits. *If* one had constructed a portfolio with both Bitcoin and the market index, then one could have achieved a better return per unit of risk than having merely one or the other. But, this is based on past data. This is *not* a good way to form a future-looking portfolio. Rather, one *must* base it on expected return, risk, and correlation.

The optimal portfolio composition is unstable. The below minimum variance frontier plots the set of portfolios with the minimum variance for every level of return based on Bitcoin's and the market's return, risk, and correlation in 2020. It suggests diversification benefits. But, as indicated, these are unstable.

The investment frontier has significant limitations. The aforementioned frontier is based on past data. But all inputs – return, risk, and correlation – are unstable. If Bitcoin started to generate negative returns, there would be no diversification benefit – including Bitcoin would reduce portfolio returns. If Bitcoin's correlation increased, there would be less diversification benefit.

All asset allocation must be based on prospective inputs. As indicated, the aforementioned graph is based on *historical* data from 2020. For asset allocation, investors must use *forward-looking* inputs based on expected risk, return, and asset correlations. But, *if* one had perfect foresight, then diversification could have improved portfolio returns.

3) WHAT DOES ALL THIS MEAN FOR INVESTMENT?

The foregoing discussion indicates that Bitcoin might convey some diversification benefits. But, the extent of the benefit likely changes over time. Further, if one believes that Bitcoin's expected return is negative, it might convey little benefit.

This implies that investors should do the following: First, investors must estimate Bitcoin's expected risk, return, and its correlation with the market index. Second, if the expected return is positive, they must determine the appropriate amount of Bitcoin to add to a diversified portfolio. This amount could change over time and investors should continually monitor their asset allocation. ISCA

Mark Humphery-Jenner is Associate Professor in School of Banking & Finance, UNSW Business School. This article was first published in Business Think. Reproduced with permission.

BY PIER VITTORIO MANNUCCI

UNLOCK CREATIVITY WHEREVER YOU ARE

Pulling The Most Appropriate Levers

WHEN WE HEAR THE WORD "CREATIVITY", we tend to associate it with something artistic. At a push, we might think of companies like Apple that routinely come up with something so innovative or game-changing that they effectively reconfigure the playing field. But creativity is common to every successful firm or organisation. It is the dynamic that enables us to devise new ideas – new ideas to sell, or to make our processes more efficient. The trick is harnessing it.

Back in 1988, Teresa Amabile, now a professor and director of research at Harvard Business School, published a paper that changed the way we think about creativity. She identified three critical dimensions or levers that drive creative thinking, processes and outcomes. These are: domain expertise or technical ability; the capacity to think divergently and try new approaches or ideas, and motivation – feeling intrinsically driven to approach a task or solve a problem.

Three levers driving creativity

1) technical skills
2) divergent thinking
3) motivation

In today's globalised and hyperconnected business context, does this model, which was conceived in the US, hold true for different countries and cultures?

A great deal of past research has explored multicultural creativity. Much of it looks at differences between small samples of countries – maybe two or three – with a focus on how different countries define creativity.

We were interested in looking at something bigger. Together with colleagues from HEC Paris and the Singapore Institute of Management, we wanted to understand what stimulates creativity on a global scale.

PULLING DIFFERENT LEVERS

Just because two countries look similar, does it follow that the creative dynamics will be the same in both? Will pulling certain levers have the same result in Canada, say, as in the US?

To investigate this, we pulled together all the existing research we could find on creativity in organisations – 70 years worth of studies covering insights into creative practices and outcomes across a total of 40 countries.

Using meta-analytical statistical tools, we were able to ascertain the real effect of each component of Amabile's model to see whether the three-lever concept still holds water. We find that it does, and not

... creativity is common to every successful firm or organisation. It is the dynamic that enables us to devise new ideas – new ideas to sell, or to make our processes more efficient. The trick is harnessing it.

PHOTO SHUTTERSTOCK

only that. Looking at all of the countries in our sample, we find that the three levers (technical skills, divergent thinking and motivation) are relevant to them all. But when you compare each country, different findings emerge.

Amabile's levers matter for every country, but how you should pull them in each one is a whole different ball game.

THE AMABILE MODEL: THE THREE LEVERS THAT DRIVE CREATIVITY

1) Domain-relevant skills

These include the knowledge, expertise, technical skills, intelligence and talent in the particular domain where the problem-solver is working, such as product design or electrical engineering. These skills comprise the raw materials on which the individual can draw throughout the creative process – the elements that can combine to create possible responses, and the expertise which the individual will use to judge the viability of those responses.

2) Creativity-relevant skills

These include a cognitive style and personality characteristics that are conducive to independence, risk taking and being open to new perspectives on problems, as well as a disciplined work style and skills in generating ideas. These cognitive processes include the ability to use wide, flexible categories for synthesising information and the ability to break out of perceptual and performance "scripts". The personality processes include self-discipline and a tolerance of ambiguity.

3) Task motivation

This is the motivation to undertake a task or solve a problem because it is interesting, involving, personally challenging or satisfying, rather than undertaking it out of the extrinsic motivation arising from expected rewards, surveillance, competition, evaluation or requirements to do something in a certain way. A central tenet of the componential theory is the intrinsic motivation principle of creativity – people are most creative when they feel motivated primarily by the interest, enjoyment, satisfaction and challenge of the work itself, and not by extrinsic motivators.

The intrinsic motivation principle of creativity:

- People are most creative when they feel motivated primarily by the interest, enjoyment, satisfaction and challenge of the work itself, and not by extrinsic motivators

PHOTO SHUTTERSTOCK

Our research shows that it's the set of all the cultural dimensions of a country that determines which lever – expertise, divergent thinking or passion – will have the strongest or weakest impact in driving creativity there.

CREATIVITY AND THE CULTURAL BUNDLE

When Walt Disney subsidiary Pixar opened a studio in Vancouver, the idea was to produce a range of short films that would leverage the company's popular and successful feature-film characters. But things didn't go as planned. Within three years, the Canadian studio had closed down, leaving more than 100 film-makers out of work. So what went wrong?

On the surface, you'd be forgiven for thinking that the US and neighbouring Canada are culturally very similar. However, there are nuanced differences between them that have a profound effect on the ways that creativity is best stimulated and nurtured in each.

There are nuanced differences between US and neighbouring Canada

Our research shows that it's the set of all the cultural dimensions of a country that determines which lever – expertise, divergent thinking or passion – will have the strongest or weakest impact in driving creativity there.

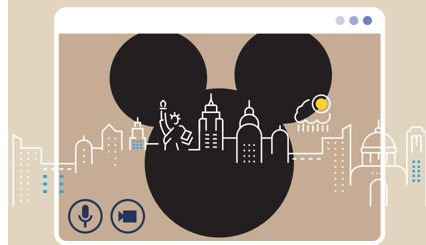
Let's break that down a bit. Typically, there is a bundle or set of core cultural values that defines a country. These are:

- **Individualism versus collectivism:** whether people work better individually or in teams;
- **Power distance:** how much we accept or are governed by power hierarchies;
- **So-called masculine-versus-feminine dimensions**: very antiquated terms that denote, for example, how work-life balance and competitiveness are prioritised by the culture;
- **Uncertainty avoidance:** how comfortable we are in dealing with uncertainty and risk.

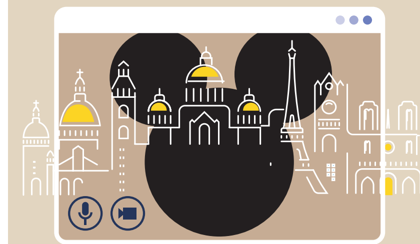
There's another key cultural dimension here, known as "cultural tightness". This is not values but the extent to which values are enforced – the degree to which individuals are expected to conform to societal norms (or not). When we dug into the data, we found that the bundle of these core defining cultural values and the degree of cultural tightness or societal conformism inherent in a country play a very significant role in determining how creativity is best stimulated there. When you look at countries through the lens of these bundles, the findings are surprising.

Take two classically western countries – the US and France – for instance. Both are individualistic as opposed to collectivist societies.

At first blush, you might expect the dynamics of creativity to be similar. But, as Disney discovered to its cost when it opened Disneyland Paris, culturally the two countries are quite diverse – so unlocking creativity in each requires different approaches.



Countries are culturally diverse, so unlocking creativity requires different approaches



Good managers will therefore avoid making assumptions based on stereotypes or an obvious cultural difference between countries, such as individualism versus collectivism. It's the entire cultural bundle – the configuration of all the cultural dimensions – that matters.

When you consider the whole bundle of cultural dimensions for France and the US, you see that they are as different as France and China. Little wonder that Disneyland Paris ran into so many problems. From the "smile" policy that didn't go down well with French trade unions to longer-than-anticipated time spent queuing for attractions (pre-Covid-19, French norms involved people grouping closer together than in the US), the issues started to pile up.

Critically, because of the significant differences in their cultural bundles, the US parent company was unsuccessful at unlocking the kind of creativity in its French subsidiary that would have helped Disneyland Paris overcome its difficulties.

We also find that cultural tightness has a key effect on how the drivers of creativity work. In tight or more socially compliant cultures such as Japan, the most effective levers you can pull to unlock creativity are those that are promoted and enforced by local cultural values. However, the opposite is true in other more permissive countries such as the UK. Here, the most effective levers are those components that are not emphasised or that are even actively discouraged by local cultural values... being different pays off.

This makes sense because of the "rule" dynamic at play. If expertise development is the best lever for creativity in Japan, building skills will have a much stronger effect than other paths because, in a sense, that's the rule or the norm. In the UK, on the other hand, where the rule book is less strictly enforced, your creativity levers will also be a bit looser. In the UK, there's a competitive advantage in being different, so it's in your interest, creatively, to do what the culture is telling you not to do.

Now, this is all very interesting and relevant from a research perspective. But are there concrete insights and takeaways for managers, especially those managing multicultural operations?

STEPS TO DRIVING CREATIVITY WHEREVER YOU ARE

A good starting point is to understand this simple fact – the world is more different than you think. There is no global blueprint for creativity. Stimulating creativity in Italy is not the same as in France. The same goes for Canada and the US, Japan and China.

Facts:

- The world is more different than you think.
- There is no global blueprint for creativity.

Good managers will therefore avoid making assumptions based on stereotypes or an obvious cultural difference between countries, such as individualism versus collectivism. It's the entire cultural bundle – the configuration of all the cultural dimensions – that matters. Following these four steps can help you make better decisions about how to unlock creativity wherever you are:

1) **Determine how tight or loose the culture is.** Is this a strict and compliant society, or more relaxed and permissive? This helps you determine how strong the effects of each lever will be.

2) **Map this culture** in every dimension we discuss, not just collectivism versus individualism. Explore how power hierarchies work, the extent to which traits such as competitiveness dominate, and how comfortable people are with risk and uncertainty. Understanding the cultural bundle of a country will give you insight into what's going to work as a creativity lever.

3) **Map your own country.** If you are responsible for a different market, you need to be able to see the differences clearly. And there will be differences.

PHOTO SHUTTERSTOCK

4) **Experiment.** Look at which levers work best. Is it domain-relevant skills or expertise and knowledge? Is it ok to be exploratory and look for new things and new ways of doing things? And is it important how motivated your people feel to do the job? Track what works.

THE MODERATING EFFECT OF CULTURAL BUNDLES ON CREATIVITY: SOME EXAMPLES

We were able to uncover some interesting findings in our research.

- **The US and Canada.** In the US, we found that two levers worked better in unlocking creativity: encouraging divergent thinking and building motivation. Focusing on technical skills and expertise wasn't as effective. Conversely, in neighbouring Canada, fostering strong skills and expertise worked well.
- **Spain and Italy.** While apparently quite similar in culture, we find that building up skills and expertise works well in Italy; whereas in Spain, the number one lever was encouraging motivation and passion.
- **France and the Netherlands.** In France, like Italy, developing strong technical expertise predicts strong results. But just a few hours to the north, in the Netherlands, the best way to drive creativity is to empower experimentation and divergent thinking.

None of this means that all three levers are not important in every country. It's simply the case that emphasising one approach over another will have more or less effective results. There are different paths to creativity and they differ across countries. Knowing this will arm you as a manager to think more scientifically about how you foster and harness creative thinking and processes.

We've done some of the legwork in our research, using in-depth statistical analysis. Managers can adopt a similar approach or, alternatively, reverse-engineer the process: How does this country or region emphasise the acquisition of knowledge? Does it prioritise experimentation? Do people respond better when they are motivated? How permissive or strict is this society? This will help you draw robust conclusions concerning which path or strategy to focus on to drive creativity, wherever you are. ISCA

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This article first appeared in Think at London Business School

BY CHINA BUSINESS KNOWLEDGE@CUHK

FINANCIAL TECHNOLOGY

Friend Or Foe To Financial Stability?

THE RAPID DEVELOPMENT OF FINANCIAL TECHNOLOGY, also known as fintech, in recent years has transformed how people use financial services. On the one hand, the increasing use of automation in banking services has brought with it greater convenience for consumers. On the flip side, the advent of new technological developments such as cryptocurrency, high frequency and algorithmic trading, the rise of the digital wallet or peer-to-peer (P2P) lending, are all examples of fintech that have brought new challenges to traditional financial service providers to some extent. Given the disruptive influence of fintech, it was only natural that a group of researchers sought to closely examine its effects on the stability of traditional financial institutions. What they found was that the result very much depended on the market.

The stability of financial institutions usually refers to the ability of these institutions, such as banks, brokerage firms or credit unions, in performing their roles in financial transactions or other intermediation functions without assistance from external forces such as the government. The promise behind fintech is that it would help financial institutions to enhance transparency, efficiency and make its services more convenient for users. For example, mobile banking has allowed consumers to conduct their daily financial activities, such as transferring funds or paying bills, without the need to talk to a teller or visit a bank branch.

The promise of fintech:
Helps financial institutions enhance transparency, efficiency; makes their services more convenient for users

Downside of fintech:
Amplifies volatility in financial markets; makes financial system more vulnerable

... the positive and negative effects of these fintech sandboxes on financial stability tended to offset each other after discounting for the characteristics of individual firms or markets, or macroeconomic and other bank-specific factors.

PHOTO SHUTTERSTOCK

On the downside, fintech could amplify volatility in financial markets and make the financial system more vulnerable. For instance, the speed and ease of moving cash between banks in response to financial market performance enabled by fintech can increase volatility. The heavy reliance on third-party service providers for the fintech activities could also pose a systemic risk to financial institutions. Finally, online lending platforms often fail to conduct effective credit checks on borrowers, which can lead to higher default risk.

For example, China's P2P lending industry, once the world's biggest, has completely collapsed in just a few years. Many Chinese P2P lending platforms were plagued by fraud, defaults and even alleged Ponzi schemes, which eventually led to a government crackdown. The Deputy Governor at People's Bank of China Chen Yulu announced in January that it had eliminated all P2P lending platforms in the country; however, more than 800 billion Chinese yuan in debt is still left unpaid, state media Xinhua News reported.

More recently, two of China's homegrown fintech champions, Ant Group and Tencent, are coming under intense regulatory scrutiny by domestic regulators over business models that some worry will lead to a dangerous accumulation of systemic financial risk.

YIN VERSUS YANG

"Where there is light, there must also be shadow," says Jason Yeh, Associate Professor in the Department of Finance at The Chinese University of Hong Kong (CUHK) Business School, and one of the authors of a recent study. "Given the disruptive nature of technology, the rise of fintech is bound to have an impact on traditional financial institutions. So it's kind of fitting that we find that the bright and dark sides of fintech seem to offset each other and the promotion of fintech doesn't necessarily make financial institutions more vulnerable."

Titled "Friend Or Foe: The Divergent Effects Of Fintech On Financial Stability", the study was co-conducted by Prof Yeh with Professors Derrick Fung, Wing Yan Lee and Fei Lung Yuen at The Hang Seng University of Hong Kong.

Sample size of the study:
1,375 banks from 84 countries

"Regulators should give up on the idea of a one-size-fits-all regulation for fintech. What they need is to come up with a tailor-made framework that matches the characteristics of their own financial markets."

To examine the impact of the rise of fintech on the stability of financial institutions, the researchers looked at the introduction of fintech regulatory sandboxes. A fintech regulatory sandbox is a way for a financial regulator to allow companies to try out new business models, products or services (under a controlled and supervised environment) that are not covered or permitted by existing legislation. The first such sandbox was introduced in the UK in 2016. Since then, 73 similar initiatives have been set up in 57 countries around the world, according to the World Bank.

The team sampled all listed banks worldwide that were active on the Thomson Reuters Datastream platform between 2010 and 2017. Their final sample included 1,375 banks from 84 countries. Using a common measurement of bank stability, the research team found that the introduction of sandboxes did not have a statistically significant impact on the financial stability of the institutions in the same jurisdiction.

They found that the positive and negative effects of these fintech sandboxes on financial stability tended to offset each other after discounting for the characteristics of individual firms or markets, or macroeconomic and other bank-specific factors. In general, they also found that fintech increases the stability of financial institutions in emerging financial markets and decreases it in developed financial markets.

Fintech sandboxes on financial stability

Positive effects **VS** Negative effects

BOOSTING STABILITY AND PROFITS

Looking at specific market characteristics, the study also found that the promotion of fintech through the setting up of regulatory financial sandboxes can, at the very least, enhance the stability of financial institutions if the market has low financial inclusion, with:

- A bank branch ratio of less than 11.7 per 100,000 adults;
- A central bank assets to GDP ratio of less than 1.6%;
- An industry-wide bank net interest margin of less than 2.4%, or
- A provisions to nonperforming loans ratio of less than 44.2%.

On the other hand, the launch of financial sandboxes in markets with high financial inclusion can undermine financial stability, the study found.

Moreover, Prof Yeh says that fintech can also improve the stability of financial institutions by boosting profitability. According to the study, when a country has fewer bank branches than 11.4 branches per 100,000 people, a central bank assets to GDP ratio of less than 1.7%, bank net interest margin of less than 2.2%, or a provisions to nonperforming loans ratio of less than 45.6%, promoting fintech by setting up regulatory sandboxes can increase the profitability of financial institutions.

But why does fintech enhance the profitability of financial institutions in emerging financial markets? The authors speculated this may be due to three reasons:

(1) First of all, fintech has been widely adopted in emerging financial markets and has greatly increased the profitability of the banks that invested in these fintech startups.

(2) Second, the operational efficiency of the banks in emerging financial markets improved as a result of collaboration with technology companies.

(3) Third, the products provided by fintech companies are often complementary to the existing services provided by banks. These banks gain more customers as a result, and the complementary effect is greater in emerging financial markets.

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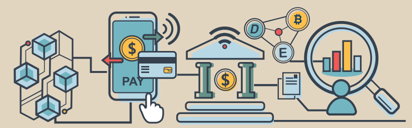
"Fintech is disruptive but it is also a force for emancipation. Not only has it democratised the access to financial services for the masses in emerging markets, it also plays a pivotal role on the road to greater financial inclusion," Prof Yeh says.

POLICY IMPLICATIONS

As the fintech industry continues to grow, policymakers and financial institutions are seeking ways to reap the benefits of technology further. Prof Yeh and his co-authors think that their research findings can help policymakers and regulators to better utilise fintech in different markets.

Developed financial markets
Focus on implementing measures that address instability

Emerging financial markets
Design specific measures to promote fintech innovations



For developed financial markets, the researchers advise regulators to focus on implementing measures that can address the instability caused by fintech. In contrast, regulators in emerging financial markets should consider designing specific measures to promote fintech innovations.

"Regulators should give up on the idea of a one-size-fits-all regulation for fintech," Prof Yeh comments. "What they need is to come up with a tailor-made framework that matches the characteristics of their own financial markets." ISCA

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TECHNICAL HIGHLIGHTS

PHOTO SHUTTERSTOCK

ETHICS

ISCA COMMENTS ON IESBA'S PROPOSED REVISIONS TO THE DEFINITIONS OF LISTED ENTITY AND PUBLIC INTEREST ENTITY ("PIE") IN THE CODE

ISCA supports the key proposals relating to definitions of listed entity and PIE. However, we have concerns regarding the requirement for firms to determine if additional entities should be treated as PIEs for independence purposes. We believe that this will cause inconsistency and confusion as different firms may apply different criteria to determine what a PIE is.

Accordingly, we proposed for IESBA to consider requiring firms to:

- Communicate to management and those charged with governance ("TCWG") that they have the right to request for their entity to be treated as a PIE, and
- Obtain concurrence of management and TCWG on whether an entity should be treated as a PIE and to provide recourse in the event of a disagreement.

For more information, please visit:
https://isca.org.sg/docs/default-source/ep-100/cps-and-cls/isca's-comment-letter---definitions-of-listed-entity-pie-(submission).pdf

FINANCIAL REPORTING

ASC ISSUES AMENDMENTS TO SFRS(I) 16 AND FRS 116 ON COVID-19-RELATED RENT CONCESSIONS

The amendments to SFRS(I) 16 and FRS 116 provide an extension of the application period of the practical expedient by one year to help lessees account for Covid-19-related rent concessions. These amendments are effective for annual reporting periods beginning on or after 1 April 2021.

For more information, please visit
https://www.asc.gov.sg/current-news

IASB EXTENDS SUPPORT FOR LESSEES ACCOUNTING FOR COVID-19-RELATED RENT CONCESSIONS

IASB extends the application period of the practical expedient in IFRS 16 *Leases* by one year to help lessees account for Covid-19-related rent concessions. The amendment is effective for annual periods beginning on or after 1 April 2021.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2021/03/iasb-extends-support-covid-19-related-rent-concessions/

IASB PROPOSES AMENDMENTS SETTING OUT ACCOUNTING WHEN NO FOREIGN EXCHANGE RATE EXISTS

The proposed amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* aim to help companies determine whether a currency can be exchanged into another currency, and what accounting to apply if the currency cannot be exchanged. The deadline for comments is 1 September 2021.

For more information, please visit
https://www.ifrs.org/news-and-events/news/2021/04/iasb-ed-on-accounting-for-when-no-foreign-exchange-rate-exists/

IASB WEBCAST ON HOW TO ACCOUNT FOR M&AS BETWEEN COMPANIES UNDER COMMON CONTROL – RECORDING AVAILABLE

The webcast summarises the Board's consultation on reporting mergers and acquisitions (M&As) between companies under common control (transfers of businesses from one company to another within a group). The recording of the webcast can be found on both the IASB website and IASB YouTube Channel.

For more information, please visit
https://www.ifrs.org/news-and-events/2021/03/recording-now-available-the-iasb-seeks-investor-views/

BY FELIX WONG

GET IN ON THE ACT ON SINGAPORE TAX CASES

Dissecting 2020 Tax Cases

2020 MARKED ANOTHER YEAR OF LEGAL DEVELOPMENTS IN THE TAX SPHERE, where numerous appeals relating to various areas of tax were brought before the courts. To help tax professionals keep up-to-date with the latest decisions augmenting the ever-growing body of tax case law, Accredited Tax Practitioner (Income Tax & GST) Allen Tan, Principal, and Jeremiah Soh, Senior Associate, Baker & McKenzie.Wong & Leow, shared novel insights into the legal issues of several 2020 tax cases at a webinar organised by the Singapore Chartered Tax Professionals.

Accredited Tax Practitioner (Income Tax & GST) Allen Tan, Principal, and Jeremiah Soh, Senior Associate, Baker & McKenzie.Wong & Leow, shared interesting insights into the legal issues of several 2020 tax cases

TAX AVOIDANCE – *WEE TENG YAU V COMPTROLLER OF INCOME TAX* [2020] SGHC 236

The taxpayer was a dentist employed by an orthodontic clinic, ACOC. He incorporated a private limited company, SPL, of which he was the sole director and shareholder. On the same day, the taxpayer left the employ of ACOC. The taxpayer, ACOC and SPL agreed that:

(a) The taxpayer would provide the same dental services to ACOC's patients, but ACOC would pay for the taxpayer's services to SPL;
(b) SPL would pay the taxpayer a reduced salary and a director's fee. Tax-exempt dividends were also declared by SPL and paid to the taxpayer using the remaining profits in SPL, and
(c) During the material time, the only patients that the taxpayer had were ACOC's patients.

IRAS invoked Section 33 of the Income Tax Act (ITA) to re-characterise the transaction and treat the service income received by SPL as the taxpayer's employment income. The issues were whether the new arrangement fell within Section 33 of the ITA and whether the personal exertion principle applied such that the income should be attributed to the taxpayer.

Income Tax Board of Review (ITBR)'s Decision

The ITBR found that there were two arrangements: the setting up of SPL to receive the income from providing dental services at ACOC, and the setting of the level of remuneration paid to the taxpayer by SPL such that there remained profits in SPL to be taxed and thereafter paid to the taxpayer as tax-exempt (one-tier)

PHOTO: SHUTTERSTOCK

Supreme Court, Singapore

dividends. The reasonableness of the overt acts should be considered when determining whether the arrangements fell within Section 33. Here, the artificially low remuneration paid to the taxpayer fell within Section 33(1)(a) or (c) as there was a stark and significant difference in the level of remuneration paid to him by SPL compared to the remuneration he received as an employee. The ITBR also held that the personal exertion principle should not apply in Singapore.

High Court (HC) Decision

The HC held that there was one arrangement in two parts (that is, the incorporation of SPL and the remuneration of the taxpayer). The taxpayer received the same amount of pay from ACOC, but avoided the tax that he used to pay, since SPL could be used to extract tax benefits previously unobtainable by the taxpayer himself. As such, the taxpayer had derived a tax advantage, and fallen within the alternative threshold limbs of Section 33(1) (specifically, Sections 33(1)(a) and (c)).

Section 33(3)(b) must be read conjunctively with Section 33(1). To be exempted from Section 33(1), the arrangement must be for bona fide commercial reasons and not have as one of its main purposes the avoidance of tax. The inescapable conclusion was that the purpose of the new arrangement was to reduce the taxpayer's personal tax.

The HC held that the "personal exertion principle" is not a common law exception that allows the Comptroller to levy tax that the ITA has not provided for.

TAXABILITY OF SEVERANCE PAYMENTS – *CIT V FORSYTH, JOHN RUSSELL* [2020] SGHC 258

The taxpayer was employed as Managing Director of Rising Tide Asia Pte Ltd under an Employment Agreement. He was abruptly informed by the company that his appointment would cease. The taxpayer and the company signed a Separation Agreement, which extinguished the taxpayer's rights under his original Employment Agreement.

The taxpayer was paid $2,475,000 under the Separation Agreement. The CIT bifurcated the lump sum severance payment into two components:

(a) $1,350,000 as taxable employment income (ex-gratia payment pursuant to the terms of the Employment Agreement), and
(b) $1,125,000 as non-taxable capital receipt (compensation for loss of office).

PHOTO SHUTTERSTOCK

For the lump sum payment to be taxable, it must fall strictly within the definition of any of the nine categories of payments under Section 10(2)(a) of the ITA. Redundancy payments or compensation for loss of office do not fall within the ambit of this section.

The key issues were whether the CIT was right in bifurcating the lump sum severance payment, and whether the entire lump sum payment under the Separation Agreement related to compensation for loss of office and was therefore not taxable.

ITBR's Decision

Whether the sum could be bifurcated

The ITBR found that as the lump sum included all entitlements under the Employment Agreement, it was likely that the ex-gratia payment under clause 9 of the Employment Agreement was a component of the lump sum.

Whether the sum was taxable

For the lump sum payment to be taxable, it must fall strictly within the definition of any of the nine categories of payments under Section 10(2)(a) of the ITA. Redundancy payments or compensation for loss of office do not fall within the ambit of this section. Furthermore, the payment to the taxpayer was not in the character of wages or salaries under Section 10(2)(a) as it did not relate to past, present or future services rendered or that is obligated to be rendered by the taxpayer. In any case, the lump sum payment was capital in nature as it was partly compensation for loss of office and partly for a restrictive covenant.

HC's Decision

Whether the sum could be bifurcated

The HC held that the ITBR had erred in holding that the sum of $1,350,000 could be bifurcated from the severance payment of $2,475,000. If the severance payment had expressly included payment of income, then it could be bifurcated as that portion would be taxable. However, since clause 9 of the Employment Agreement was never triggered, the ex-gratia payment could not have formed a part of the severance payment.

Whether the sum was taxable

The HC agreed with the ITBR that whether an income is taxable must be determined based on the strict wording of Section 10(2)(a). The payment was compensation for loss of employment because clause 9 of the Employment Agreement, which provides that an ex-gratia payment would be made to the taxpayer (provided that he executed a deed of release) in the event of termination of employment by the company in accordance with clause 15, was never triggered. While clause 15 of the Employment Agreement provided that either party can terminate the employment by giving notice, the taxpayer was terminated without notice. Thus, the payment was not made in accordance with the Employment Agreement.

In addition, the ex-gratia payment under clause 9 of the Employment Agreement was expressed as a sum that was immediately due and payable, unlike the severance payment which was expressed as a conditional sum subject to clawbacks. Hence, the payment of $2,475,000 was compensation for loss of office, and not taxable.

DEDUCTIBILITY OF R&D EXPENSES INCURRED UNDER COST-SHARING AGREEMENTS – *INTEVAC ASIA PTE LTD V CIT* [2020] SGHC 218

The taxpayer is a subsidiary of Intevac US. In 2008, the taxpayer entered into an R&D Services Agreement (RDSA) with Intevac US, which provided that Intevac US would undertake R&D activities in the US for the sole benefit of the taxpayer.

In 2009, the taxpayer and Intevac US entered into a Cost-Sharing Agreement (CSA), which superseded the RDSA. Under the CSA, the taxpayer and Intevac US would each acquire the right to exploit any intellectual property and intangible property generated in the performance of the CSA within their respective sales territories, such that both parties had a direct stake in any R&D developed for the joint benefit of the parties.

Pursuant to the CSA, the taxpayer made cost-sharing payments to Intevac US and claimed deductions in its tax returns for Years of Assessment 2010 and 2011 under Section 14D(1)(d) of the ITA.

The key issues were:

(a) whether the cost-sharing payments fell within Section 14D(1)(d), that is, they were "*made... to an [R&D] organisation for undertaking on his behalf outside Singapore [R&D] related to that trade or business*", and

(b) whether the taxpayer has satisfied the requirement under Section 14D(3)(a), such that "*there is an undertaking by the person that any benefit which may arise from the conduct of the [R&D] shall accrue to the person*".

ITBR's Decision

Whether the cost-sharing payments fell within Section 14D(1)(d)

Applying the three-step approach to statutory interpretation as laid out in *Attorney-General v Ting Choon Meng* [2017] SGCA 6, the ITBR held that the phrase "for undertaking on his behalf" in Section 14D(1)(d) refers to arrangements where payments are made by the taxpayer to R&D organisations under outsourcing agreements for R&D activities to be conducted for the sole benefit of the taxpayer. For Section 19C to be read meaningfully as a regime that deals with tax relief for cost-sharing agreements and harmoniously with Section 14D(1)(d), an interpretation of Section 14D(1)(d) that potentially gives rise to alternative claims for the same type of expenditure should be avoided. Thus, since the taxpayer was not the only party that could benefit from the R&D activities by Intevac US, the payments did not fall within Section 14D(1)(d).

> Section 14D sought to benefit companies in Singapore, and was not intended to subsidise the costs of R&D efforts which would not benefit the local economy. Hence, "for undertaking on his behalf" refers to an arrangement where payments are made by the taxpayer to an organisation which has undertaken R&D outside Singapore for the exclusive benefit of the taxpayer only.

PHOTO SHUTTERSTOCK

Interpretation of Section 14D(3)(a)

The phrase "any benefit which may arise from the conduct of the research and development" in Section 14D(3)(a) refers to an undertaking by the taxpayer that all benefits from the conduct of the R&D activities must accrue to the taxpayer. Section 14D(3)(a) did not apply since the payments did not fall within Section 14D(1)(d).

HC's Decision

Whether the cost-sharing payments fell within Section 14D(1)(d)

The HC found that the legislative framework created a clear demarcation between cost-sharing arrangements where the costs and benefits of undertaking R&D are to be shared amongst two or more parties, and arrangements in which the benefits of undertaking R&D accrue solely to the taxpayer. Section 14D sought to benefit companies in Singapore, and was not intended to subsidise the costs of R&D efforts which would not benefit the local economy. Hence, "for undertaking on his behalf" refers to an arrangement where payments are made by the taxpayer to an organisation which has undertaken R&D outside Singapore for the exclusive benefit of the taxpayer only. Thus, the cost-sharing payments did not fall within Section 14D(1)(d).

Interpretation of Section 14D(3)(a)

Section 14D(3)(a) requires the taxpayer to undertake that all benefits which arise from the conduct of the R&D would accrue solely to him. In light of the statutory context and the bifurcation of Sections 14D and 19C at that time, the HC noted that the word "any" in Section 14D(3)(a) must mean "all", and the word "may" must mean that the benefit (however slight) must accrue to the taxpayer. If deduction of a share of R&D costs were allowed, this would risk "revenue leakage" where Singapore may subsidise R&D expenses without obtaining the commensurate benefits from the R&D undertaken. As the taxpayer had not made the requisite undertaking, it was disentitled to relief under Section 14D(1)(d). ISCA

Felix Wong is Head of Tax, Singapore Chartered Tax Professionals (formerly Singapore Institute of Accredited Tax Professionals).

PHOTO SHUTTERSTOCK

 

BY JIAN MING AND TAN KAI GUAN CLEMENT

DON'S COLUMN

IMPLICATION OF THE PROPOSED AMENDMENTS TO IAS 12 (2019)

An Illustration Using Leases

AS A GENERAL PRINCIPLE, IAS 12 *Incomes Taxes* requires an entity to recognise deferred tax for all temporary differences. However, the Recognition Exemption (RE) in IAS 12 prohibits entities from recognising deferred tax assets or liabilities (hereinafter referred to as DTA and DTL respectively) – both on initial recognition and subsequently – for taxable or deductible temporary differences (hereinafter referred to as TTD and DTD respectively) arising from the initial recognition of an asset or a liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

With regard to the RE in IAS 12, differing views exist as to the scope to which RE is applicable. Such differing views could reduce comparability, especially between financial statements of entities with leases and decommissioning obligations. This is more so with the implementation of IFRS 16 *Leases* which requires the recognition of a right-of-use asset (hereinafter referred to as ROU asset) and a lease liability (hereinafter referred to as LL) for many more leases applying that standard than when applying IAS 17 *Leases*.

In July 2019, the International Accounting Standards Board published the Exposure Draft *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (ED2019), which proposed to narrow the scope of RE to exclude transactions (for example, lease transactions) that give rise to equal amounts of TTD and DTD. The proposed amendments are expected to increase comparability between entities' financial statements.

In this article, we focus on the general impact of ED2019 in the books of the lessee who is required to recognise an ROU asset and an LL in accordance with IFRS 16.

TAX CLASSIFICATION OF LEASES

In most tax jurisdictions, tax deductions are allowed only when lease payments are made and not when depreciation and interest expense are recognised. Depending on the applicable tax law, an entity applies judgement to determine whether those tax deductions relate to[1]:

Situation (a): the lease asset (and interest expense), because the deductions relate to expenses arising from the lease (that is, depreciation and interest expense); or

Situation (b): the LL (and interest expense), because the deductions relate to the repayment of the LL and interest expense.

In some tax jurisdictions, leases may be classified as

(1) a finance lease (FL) treated as a sale agreement;
(2) an FL not treated as a sale agreement, or
(3) an operating lease (OL).

[1] ED2019: BC5

Table 1 Tax Lease Classifications

	Classifications	
	(1)	(2)
Is tax deduction allowed for the following items?	FL treated as a sale agreement	FL not treated as a sale agreement or OL
Contractual lease payments	No	Yes
Depreciation expense	No	
Lease interest expense	Yes	No
CA claim	Yes[2]	No
Tax deductions relate to	the lease asset → situation (a)	the LL → situation (b)

Table 1 summarises the tax treatments typically applicable to the above-mentioned tax lease classifications.

APPLYING IAS 12 TO LEASES

Under IFRS 16, a lessee is required to recognise an ROU asset representing its rights to use an underlying lease asset for the lease term and an LL representing its obligations to make lease payments unless the lessee elects to be exempted from the recognition requirement in cases where a lease is a short-term lease[3] or the underlying lease asset is of low value[4].

When tax deductions relate to the lease asset (for example, tax lease classification (1) in Table 1), the entity does not recognise deferred tax on initial recognition as there are no temporary differences[5] arising from the initial recognition of the lease asset and the LL.

When tax deductions relate to the LL (for example, tax lease classification (2) in Table 1), the tax bases of the ROU asset and LL are zero, reflecting that the entity will receive no tax deductions on recovering the carrying amount of the lease asset and receive tax deductions in respect of the LL equal to its carrying amount. Consequently, temporary differences arise on initial recognition of the lease asset and the LL.

In accordance with the existing requirements of IAS 12, RE applies in situation (b) since the temporary differences arise on initial recognition of an asset and a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Hence, the entity does not recognise deferred tax on initial recognition.

However, ED2019 narrows the scope of RE so that it would not apply to transactions that give rise to equal amounts of TTD and DTD. In situation (b), as the difference between the carrying amount and the tax base of the ROU asset and LL respectively would give rise to equal and offsetting amount of TTD and DTD, RE would no longer apply in this situation. An entity would therefore be required to recognise DTL and DTA for temporary differences arising on initial recognition of the lease and subsequently as it recovers the lease asset and settles the LL.

For the rest of this article, we illustrate how tax expense is impacted in the books of the lessee in situation (b), when accounting for deferred tax related to leases is aligned with the general principle in IAS 12.

EXAMPLE

A lessee enters into a five-year lease of a machine on 1 January 20x1 with annual lease payment of $40,000, payable at the end of each year (Table 2).

Assumptions:

(1) The implicit interest rate/lessee's incremental borrowing rate of the lease is 5%.

Table 2 Amortisation schedule

	1/1/20x1	31/12/20x1	31/12/20x2	31/12/20x3	31/12/20x4	31/12/20x5
Cash payment		40,000	40,000	40,000	40,000	40,000
Lease interest expense (5%)		8,659	7,092	5,447	3,719	1,904
Decrease in LL		31,341	32,908	34,553	36,281	38,096
Carrying amount of LL	173,179	141,838	108,930	74,377	38,096	-

... when tax deductions relate to the lease liability, the lessee is required under ED *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* to recognise deferred tax assets and deferred tax liabilities for temporary differences arising on initial recognition of a lease and subsequently as it recovers the lease asset and settles the lease liability.

(2) Revenue and other operating expenses are $80,000 and $20,000 respectively in each of the five years during the lease term.
(3) Straight-line depreciation.
(4) Lessee's applicable tax rate is 17%.
(5) There are no other differences between the tax and the accounting treatments of items in the books of the lessee other than those relating to the lease arrangement.
(6) It is probable that the lessee will have sufficient taxable profit in the future for the utilisation of any deferred tax asset.
(7) For tax purposes, the lease is classified as an OL and the lessee is allowed a tax deduction on the full contractual lease payments. However, no tax deduction is allowed for the depreciation expense and the interest expense relating to the lease asset. No capital allowance is allowed on the lease asset.

The lessee is required to recognise an ROU asset and an LL of $173,179 upon initial recognition. Both interest expense and depreciation expense would be recognised in profit or loss statement over the lease term (Table 3).

While the tax base of the ROU asset is $0[8], its carrying amount decreases over the lease term. TTD arises not only upon initial recognition but also subsequently during the lease term. Similarly, while the tax base of the LL is $0[9], its carrying amount decreases over the lease term. DTD arises not only upon initial recognition but also subsequently during the lease term.

In accordance with the existing requirements of IAS 12, RE applies to the temporary differences that arise on the initial recognition of the lease. Accordingly, the entity does not recognise deferred tax in respect of the ROU asset and the LL (either on initial recognition or subsequently throughout the lease term).

Following the proposed amendments in ED2019, RE no longer applies as the temporary differences arising upon initial recognition in this case are equal and offsetting. Hence, an entity would be required to recognise DTA and DTL for temporary differences arising on the initial recognition of the lease and subsequently as it recovers the ROU asset and settles the LL (Table 4).

Table 3 Statement of profit or loss and current tax computation

	For the year ended 31 December				
	20x1	20x2	20x3	20x4	20x5
Statement of profit or loss (before tax)					
Revenue	80,000	80,000	80,000	80,000	80,000
Other expense	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
Depreciation expense	(34,636)	(34,636)	(34,636)	(34,636)	(34,636)
Lease interest expense	(8,659)	(7,092)	(5,447)	(3,719)	(1,904)
Accounting profit before tax	**16,705**	**18,272**	**19,917**	**21,645**	**23,460**
Current tax computation					
+ Depreciation expense	34,636	34,636	34,636	34,636	34,636
+ Lease interest expense	8,659	7,092	5,447	3,719	1,904
- Contractual lease payment	(40,000)	(40,000)	(40,000)	(40,000)	(40,000)
Taxable income	20,000	20,000	20,000	20,000	20,000
Income tax payable (@17%)	(3,400)	(3,400)	(3,400)	(3,400)	(3,400)

Table 4 Deferred tax computation

	1/1/20x1	31/12/20x1	31/12/20x2	31/12/20x3	31/12/20x4	31/12/20x5
ROU						
Carrying amount	173,179	138,543	103,907	69,272	34,636	-
Tax base	-	-	-	-	-	-
TTD/ (DTD)	173,179	138,543	103,907	69,272	34,636	-
LL						
Carrying amount	(173,179)	(141,838)	(108,930)	(74,377)	(38,096)	-
Tax base	-	-	-	-	-	-
TTD/ (DTD)	(173,179)	(141,838)	(108,930)	(74,377)	(38,096)	-
Applicable when RE does not apply:						
DTL (ROU)[6]	29,440	23,552	17,664	11,776	5,888	-
DTA (LL)	(29,440)	(24,112)	(18,518)	(12,644)	(6,476)	-
Total DTL/ (DTA)	-	(560)	(854)	(868)	(588)	-
Deferred tax income (expense)	-	560	294[7]	14	(280)	(588)

[2] Subject to any requirements imposed by tax authorities
[3] Where the lease term is 12 months or less and the lease does not contain a purchase option
[4] Examples include tablet, personal computers, small items of office furniture and telephones
[5] The tax bases of both the lease asset and lease liability equal their respective carrying amounts
[6] TTD (ROU) X tax rate (17%)
[7] Due to the change in total DTA from $560 (31/12/20x1) to $854 (31/12/20x2)
[8] No capital allowance granted for the use of the lease asset
[9] Tax base of liability = Carrying amount - amount deductible for tax in future periods

When RE applies, the effective tax rate declines over time (Table 5). This is due to an increasing accounting profit before tax (due to decreasing lease interest expense) and a constant tax expense (due to deduction of fixed lease payments) over the lease term. The entity's financial statements reflect the tax effects of the lease in profit or loss as the tax deductions become available for tax purposes[10], rather than as the entity recovers the ROU asset and settles the LL. This results in a difference between the effective tax rate and the applicable tax rate for the transaction.

When RE does not apply in this situation, the effective tax rate is the same as the applicable tax rate (Table 5). The entity reflects the tax effects of the lease in profit or loss as it recovers the ROU asset and settles the LL.[11] This would be consistent with the general principle in IAS 12 and would not result in a difference between the effective tax rate and the applicable tax rate for the transaction.

Table 5 Total tax expense and effective tax rate

	For the year ended 31 December				
	20x1	20x2	20x3	20x4	20x5
Accounting profit before tax	16,705	8,272	19,917	21,645	23,460
RE applies:					
Current tax expense	(3,400)	(3,400)	(3,400)	(3,400)	(3,400)
Deferred tax income (expense)	-	-	-	-	-
Total tax expense	(3,400)	(3,400)	(3,400)	(3,400)	(3,400)
Effective tax rate	20.35%	18.61%	17.07%	15.71%	14.49%
RE does not apply:					
Current tax expense	(3,400)	(3,400)	(3,400)	(3,400)	(3,400)
Deferred tax income (expense) [12]	560	294	14	(280)	(588)
Total tax expense	(2,840)	(3,106)	(3,386)	(3,680)	(3,988)
Effective tax rate	17%	17%	17%	17%	17%

SUMMARY AND CONCLUSION

In this article, we explain that when tax deductions relate to the lease asset, ED2019 does not affect the lessee's accounting for deferred tax on leases as no temporary differences arise from the initial recognition of the lease asset and the LL.

On the other hand, when tax deductions relate to the LL, the lessee is required under ED2019 to recognise DTA and DTL for temporary differences arising on initial recognition of a lease and subsequently as it recovers the lease asset and settles the LL. Doing so would align the accounting for deferred tax related to leases with the general principle in IAS 12 and would not result in a difference between the effective tax rate and applicable tax rate for the transaction. Applying ED2019 is expected to increase comparability between entities' financial statements and to result in useful information for users of financial statements.

However, concerns have been raised that the proposed amendments in ED2019 might not be intuitive and that it might be difficult to apply them to more complex transactions in practice.[13] More work is needed to address these concerns by providing further clarifications and more examples to illustrate how to apply the proposed amendments to various circumstances. ISCA

... concerns have been raised that the proposed amendments in ED *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* might not be intuitive and that it might be difficult to apply them to more complex transactions in practice.

[10] total tax expense equals current tax expense
[11] total tax expense comprises current tax expense and deferred tax expense (income)
[12] Refer to Table 4
[13] Interested readers may refer to IFRS webpage for comment letters on ED2019 for more details

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