ISCA Chartered Accountant JOURNAL

AUGUST 2023

At The Inflection Point Of Sustainability Reporting

Where Are We Headed Next?

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TOGETHER, WE CAN MAKE A DIFFERENCE

Tan Kuang Hui
FCA (Singapore)
ISCA Council Member

Dear members,

AS I AM WRITING THIS MESSAGE, there is a warning that Earth has moved beyond an era of global warming to "global boiling", with July on track to be the hottest month in recorded history. As well as around the world, Singapore is experiencing the effects of climate change. Clearly, sustainability is an issue that requires urgent and drastic action.

Recent years have seen a slew of important developments that are driven by the demand for decision-useful information from stakeholders who support climate action or other sustainability causes. Just this June, the International Sustainability Standards Board (ISSB) had issued the much-anticipated IFRS S1 and IFRS S2 Sustainability Disclosure Standards, delivering a global baseline for sustainability-related financial disclosures. In July, the Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) launched a public consultation on the recommendations of the Sustainability Reporting Advisory Committee (SRAC) to advance climate reporting in Singapore. Overall, the recommendations offer a glimpse into the regulators' longer-term intent, and align with Singapore's aspiration to be a leading centre for green finance and carbon services in Asia, by taking the lead in promoting comparable and credible sustainability-related information. Read about the pertinent developments and their implications in the cover story, "At The Inflection Point Of Sustainability Reporting".

On our part, the Institute is equipping members with sustainability knowhow through a myriad of ways. ISCA's repository of resources, courses and events, for example, offer relevant, up-to-date information. The Climate Disclosure Guide series provides guidance on implementing the requirements of the TCFD recommendations, while research projects uncover pertinent trends so that we can future-prepare members. To raise sustainability standards, the Institute is currently developing qualification programmes for sustainability professionals and sustainability assurance professionals.

The signs are all there, that sustainability reporting is on the cusp of being part of mainstream reporting. As accountants, we are in the position to do more. Let's step up and do our part. Together, we can make a difference.

ABOUT TAN KUANG HUI

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

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

Teo Ser Luck
FCA (Singapore)
ISCA President

THOUGHTS

In the world of business, accounting plays a pivotal role in helping people understand the health and performance of organisations. If management is the *science* of business, accounting is the *facts* of business. With knowledge of what the facts mean – for now, and how they might turn out in the future – the application (of accounting skills) truly extends far and wide.

In our frequent interactions with accounting graduates and accountants from diverse sectors, we have witnessed the vast array of opportunities that an accounting degree opens up. Contrary to the stereotype of mundane number-crunching, a career in accounting is far from boring and offers exciting prospects in many industries from technology to retail, manufacturing and even marketing.

Due to such demand, accountants enjoy handsome remuneration and are paid exceptionally well, making it a financially rewarding career choice.

Recognising the significance of this profession and the need for comprehensive information, especially for the younger generation contemplating their career options, ISCA has established a Salary Review and Career Progression Committee. The committee's objective is to conduct thorough research and analyse the compensation and career growth of accountants in different sectors, including public and non-public accounting. The findings will be invaluable to aspiring accountants, providing them with a glimpse of the potential career trajectory they will enjoy.

AUGUST 2023

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More Needs To Be Done To Address Whistleblowing

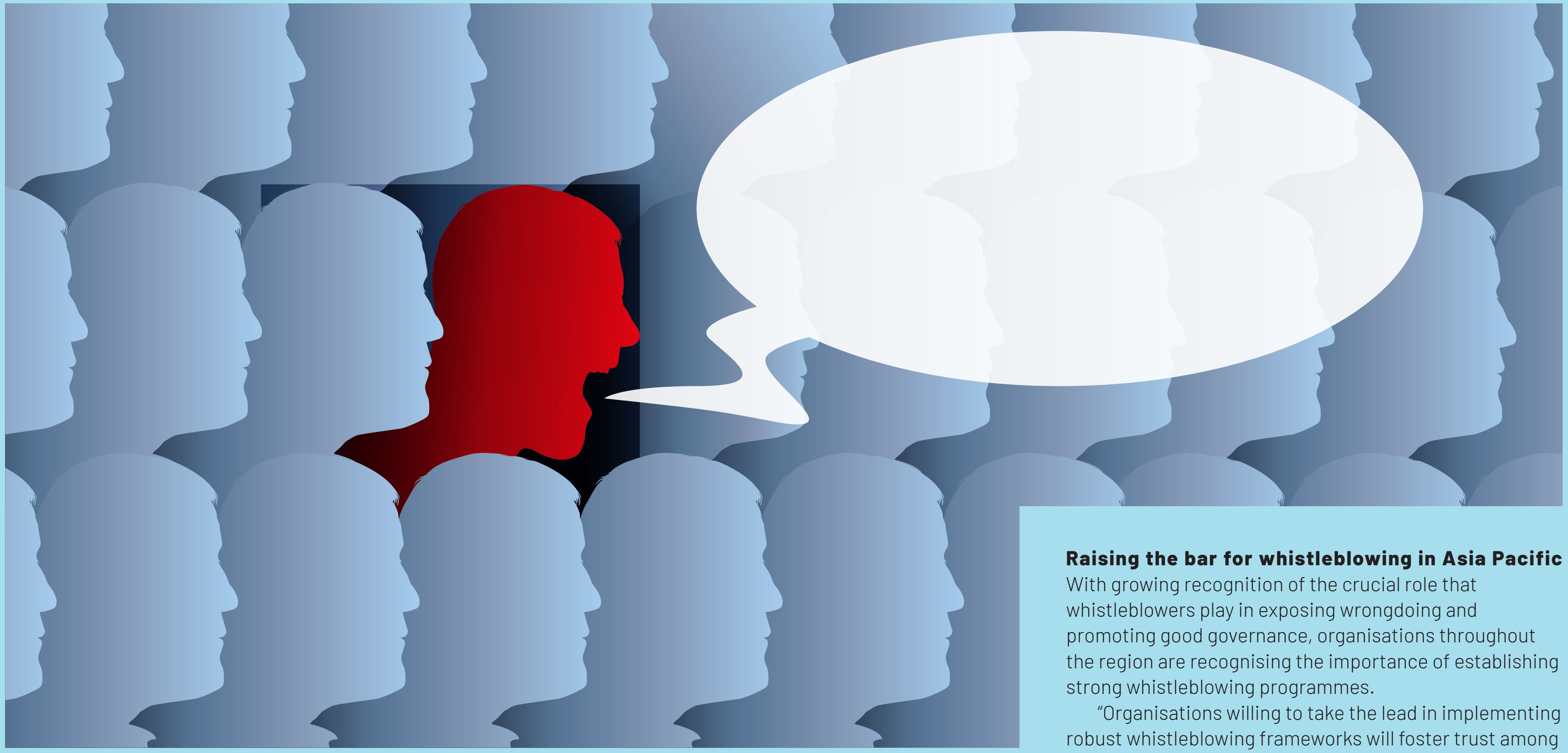


PHOTO SHUTTERSTOCK

IN CONJUNCTION WITH WORLD WHISTLEBLOWERS' DAY ON JUNE 23, Deloitte released the findings of its inaugural *Asia Pacific Conduct Watch Survey*[1]. The report reveals how whistleblowing now goes beyond traditional fraud and misconduct detection to also drive better corporate culture and foster a positive work environment. In response to this evolution, organisations need to align their priorities with their stakeholders', address employee concerns, and implement appropriate metrics to measure the success of their whistleblowing strategies and ensure the effectiveness of their whistleblowing frameworks.

The report, based on survey findings from across Asia Pacific, offers insights into the attitudes and capabilities of organisations towards whistleblowing, in the context of the rapid changes at the workplace, remote working trends, increasing financial pressures, and rising expectations from regulators and society.

Key report findings

The scope of whistleblowing continues to evolve and expand, reflecting the changing dynamics of the corporate landscape. Changing work practices and cultural norms have impacted the purpose and use of whistleblowing. Some 70% of respondents see whistleblowing as a means to improve an organisation's culture of ethics and integrity; 66% see it as a way to detect fraud and other misconduct, and close to 60% see it as a strategy to foster a positive and transparent working environment.

While fraud and conflicts of interest still represent a significant proportion of disclosures, whistleblowing channels are increasingly being used to report concerns related to people matters. This emphasises the evolving role that whistleblowing plays in addressing broader issues at the workplace.

Aligning priorities between an organisation and its stakeholders and fostering accountability are crucial for successful whistleblowing programmes. While 58% of respondents indicated that whistleblowing is a high priority within their organisation, fewer than half of these respondents felt that the overall responsibility for whistleblowing rests at the board level. This indicates a gap between the importance of whistleblowing and the level of responsibility attributed to it.

The overall responsibility for whistleblowing should be attributed to the board, due to the board's crucial role in promoting a culture of integrity, transparency, and accountability. The board also has the responsibility to set the tone for ethical conduct and establish an organisation's values and expectations.

Employees' mindsets and level of awareness pose major challenges for the implementation of whistleblowing programmes. Sixty percent of employees are concerned with the independence of reporting processes; 58% lack awareness of whistleblowing programmes, and 42% fear retaliation against them.

Thus, establishing an independent whistleblowing process with well-communicated policies and procedures is critical in building trust among employees and is key to an effective whistleblowing programme.

Organisations need to employ the right metrics to measure the effectiveness of their whistleblowing programmes. A third of respondents indicated that they do not measure the effectiveness of their whistleblowing programmes, although close to 40% of them highly prioritise whistleblowing. Among the 70% that evaluated the effectiveness of their programmes, 30% relied solely on the number of disclosures received to do so. Report volume is often used to measure the overall willingness of employees to report wrongdoing. However, the number of reports does not provide an accurate picture of the effectiveness of whistleblowing programmes as it does not show the reasons behind reports of wrongdoing, or lack thereof.

Hence, selecting the appropriate metrics to measure the success of whistleblowing programmes is vital. Such metrics may include awareness of whistleblowing policies, accessibility to reporting channels, whether stakeholders trust that they will be protected, and whether disclosures are investigated on a timely basis.

Raising the bar for whistleblowing in Asia Pacific

With growing recognition of the crucial role that whistleblowers play in exposing wrongdoing and promoting good governance, organisations throughout the region are recognising the importance of establishing strong whistleblowing programmes.

"Organisations willing to take the lead in implementing robust whistleblowing frameworks will foster trust among their stakeholders, and detect and address potential risks and misconduct that may affect their reputation," said Oo Yang Ping, Deloitte Asia Pacific Conduct Watch Leader. "However, organisations that do not prioritise whistleblowing may find it increasingly difficult to differentiate themselves amid the competitive business landscape. It is critical for organisations to enact robust whistleblowing policies that ensure corporate governance while cultivating accountability, transparency, and ethical behaviour," he added.

The survey, conducted this year between March 31 and May 1, received responses from over 500 organisations throughout the Asia-Pacific region, including China, Japan, Korea and Southeast Asia. Survey respondents spanned over 10 different industries and ranged from organisations with fewer than 1,000 employees to those with over 50,000 employees. The report covers four key areas, namely Strategy and Culture, Policies and Procedures, Implementation and Execution, and Reporting and Monitoring.

[1] https://www2.deloitte.com/sg/en/pages/financial-advisory/articles/2023-ap-conduct-watch-report.html

Team ISCA met with Team IAI at their office

Team ISCA called on IAPI

ISCA established ties with the Finance Professions Supervisory Centre of the MOF

Team ISCA played host at a networking dinner for ISCA members and friends in Jakarta, Indonesia

Internationalisation Trip To Jakarta, Indonesia

TEAM ISCA WAS IN JAKARTA FROM JULY 3 TO 5, with the focus to establish new ISCA networks in Indonesia, as part of our internationalisation plan. We were represented by ISCA President Teo Ser Luck, CEO Fann Kor and Divisional Director (Members and Stakeholders Engagement) Fua Qiu Lin.

It was a meaningful outing as we interacted with our counterparts from Ikatan Akuntan Indonesia (IAI) and Institut Akuntan Publik Indonesia (IAPI). During the meeting with each institute, ISCA shared our initiatives to support members in championing sustainability, and to enhance the attractiveness of the accountancy profession. We also discussed how we could tap on each other's strengths to better align with global accounting, auditing and quality management standards by sharing our knowledge and resources.

We also visited the Finance Professions Supervisory Centre of the Ministry of Finance (MOF), the independent audit oversight authority in Indonesia. Both parties exchanged knowledge about the regulatory landscape for accounting, auditing and corporate governance in Indonesia and Singapore. We hope this would pave the way for future collaboration opportunities with Indonesia's MOF, particularly in terms of knowledge exchange and sharing of best practices.

Team ISCA hosted members and friends of ISCA to a networking dinner. This served as a platform for like-minded accountancy professionals to connect and widen their network in Indonesia. We shared about ISCA's plans to expand overseas, and invited our existing and aspiring members to visit us at ISCA House in Singapore. We look forward to strengthening the relationship with our industry partners in Indonesia and organising joint events there, to bring more opportunities to our members.

As ISCA continues to set up overseas chapters and establishing local support networks in key markets of interest, we hope to have your support for our overseas events, be they physical or virtual. Find out more at https://isca.org.sg/member-support/isca-overseas-chapters or register your interest to participate in ISCA's overseas events (physical/virtual) at https://forms.office.com/r/MKu6cUvadq.

Team ISCA met HKICPA President Loretta Fong and her team at HKICPA's office

Internationalisation Trip To Hong Kong

AS PART OF ISCA'S INTERNATIONALISATION PUSH, Team ISCA was in Hong Kong from June 18 to 21. Flying the ISCA flag high were ISCA President Teo Ser Luck, CEO Fann Kor and Head of Marketing and Communications Julian Sng.

During the trip, we met the Hong Kong Institute of Certified Public Accountants (HKICPA) and Society of Chinese Accountants and Auditors (SCAA) to learn about the accountancy landscape in Hong Kong. We also shared about ISCA's initiatives and experiences from our perspective as Singapore's national accountancy body. These interactions led to discussions on the potential areas for collaboration, such as membership recognition pathways and development of training contents for our members.

Apart from meeting the local professional accountancy bodies in Hong Kong, we scheduled visits to the Accounting and Financial Reporting Council (AFRC) and Independent Commission Against Corruption (ICAC). We learned about AFRC's responsibilities as the regulator of the accounting profession in Hong Kong and engaged in a valuable exchange regarding the regulatory framework in accounting and auditing.

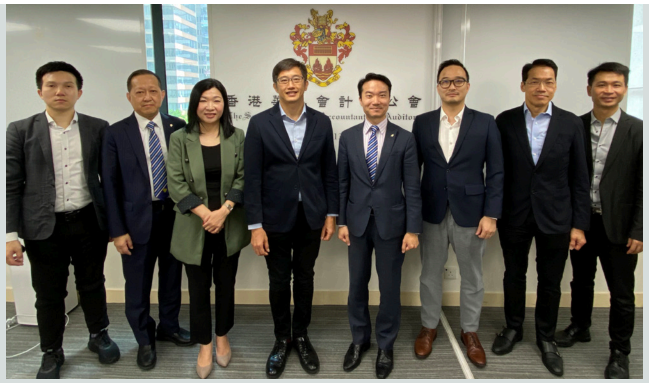
We had first touched base with ICAC in 2017 when we invited them to speak at our inaugural Financial Forensic Conference that year. During the most recent June meeting, we picked up the financial forensic theme by sharing more about the ISCA Financial Forensic Accounting Qualification as well as our ISCA Financial Forensic Professional (FFP) credential. This visit established the groundwork for future collaboration with ICAC on accelerated pathways for ICAC officers to achieve the ISCA FFP credential.

We met up with the Financial Intelligence and Investigations Bureau (FIIB) of the Hong Kong Police Force (HKPF). Following ISCA's virtual Memorandum of Understanding (MOU) signing with FIIB in April this year, this was our first in-person catchup with FIIB. The MOU was significant as it marked ISCA's first MOU with an overseas law enforcement agency; the MOU seeks to advance the development of financial forensics and widen the talent pool of qualified financial forensic professionals in Hong Kong. Under the MOU, ISCA will also provide remote examinations for the ISCA Financial Forensic Accounting Qualification (FFAQ) in Hong Kong for the HKPF officers.

At a meeting with EY Hong Kong, we learned more about the business landscape for accountancy firms providing consulting services in Hong Kong. And, as at all our overseas visits, an important item on the agenda was the members' networking event. The Institute hosted a networking dinner for ISCA members and business contacts based in Hong Kong, to share about the Institute's initiatives to engage overseas members and support their professional development abroad.

With the conclusion of the trip, we are pleased to share that we have appointed Tan Ee Sin as the Chairperson of the ISCA Hong Kong Chapter. Mr Tan has over 15 years of experience in providing sustainability advisory and financial accounting advisory services to listed companies and multinational clients in various sectors. Apart from being a CA (Singapore), he is a practising CPA of HKICPA and also serves as a member of HKICPA's Sustainability Committee.

Stay tuned to our website (https://isca.org.sg/member-support/isca-overseas-chapters/hong-kong-chapter) for more information and updates about ISCA Hong Kong.



We met with SCAA President Parco Wu and his team at SCAA's office

Lunch with our MOU partner, FIIB Chief Superintendent Lam Man Han and her team

The meeting with ICAC helped establish the groundwork for future collaborations

Networking dinner with our ISCA members and contacts in Hong Kong

Mark Wilfred, Director Solutions Consulting at SAP Concur, with a few event participants

isca breakfast talk

Business Travel Is Back: Support Sustainable Travel With The Right Tools

BUSINESS TRAVEL IN ASIA PACIFIC IS EXPECTED TO REBOUND STRONGLY IN 2023. According to the Global Business Travel Association, the global average airline ticket price is expected to increase by 8.4% while the average room rate will increase by 8.2% in 2023. In the local context, the average cost per day for a business traveller visiting Singapore is US$515, which is 10% higher than last year, according to ECA International.

With the strong rebound in corporate travel, the ISCA Breakfast Talk session on June 7 focused on how to develop a scalable travel and expense management programme, at a time when organisations are struggling with both their travel and carbon budgets. Helming the in-person event at ISCA House, Mark Wilfred, Director Solutions Consulting at SAP Concur, highlighted that emissions from air travel have started to show an upward trend after the pandemic era, and organisations need to take concrete steps to proactively manage them. Yet, 85% of global companies from the Transport & Environment 2023 survey[1] said they did not have credible plans to reduce corporate flying emissions.

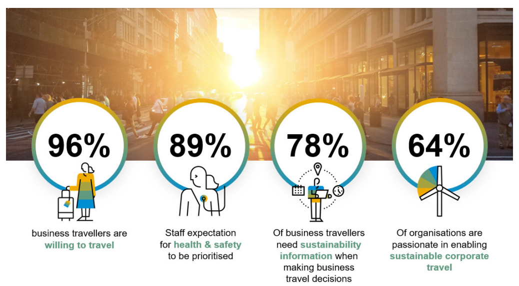
Flights account for about 90% of business travel emissions, so it is critical to provide business travellers with sustainability information to guide their travel decisions, as part of the booking process. Additionally, organisations need to start measuring their emissions (Scope 3[2]) from corporate travel in order to establish a baseline for them to develop a programme to manage their emissions. For example, they might want to think about reducing corporate travel or the intensity of the trips through longer trips (multi-destination); opt for lower classes of airfare (economy versus business), or choose other ground transportation alternatives where applicable.

Given the inflationary environment, uncertain economic outlook and climate change challenges, finance leaders need to equip their employees with an integrated travel and expense solution. In this regard, technology can be used to support sustainable travel and ensure that employees are prudent and compliant to the organisation's travel and expense policy, said Mr Wilfred. Additionally, organisations could adopt a managed travel programme, provided by a reputable travel management company, to manage their emissions. Working with a dedicated external agency with the right expertise is useful as it is difficult to control and measure emissions from corporate travel if employees have the flexibility to make purchases through various channels of their choice.

GLGLOBAL COMPANIES' PLANS TO REDUCE CORPORATE FLYING EMISSIONS

Source: Transport & Environment 2023 survey

BURNING QUESTIONS: A GREEN WAY TO FLY



Source: Temasek, April 2023[3]

[1] https://www.transportenvironment.org/discover/85-of-global-companies-dont-have-credible-plans-to-reduce-corporate-flying-emissions/
[2] https://www.weforum.org/agenda/2022/09/scope-emissions-climate-greenhouse-business/
[3] https://www.temasek.com.sg/en/news-and-resources/stories/sustainability/burning-questions/sustainability-a-green-way-to-fly#:~:text=Left%20unchecked%2C%20aviation's%20contribution%20to,solutions%20for%20sustainable%20air%20travel

FOCUS

TEXT BY

Terence Lam

Donaphan Boey

At The Inflection Point Of Sustainability Reporting

Where Are We Headed Next?

PHOTO SHUTTERSTOCK

TAKE AWAYS

- Within the past three years alone, we have witnessed a slew of important developments that are driven by the demand for decision-useful information from stakeholders who support climate action or other sustainability causes. We are at the cusp of sustainability reporting being part of mainstream reporting.
- Just as adapting to the climate crisis is an existential priority, making available credible sustainability-related disclosures is fast becoming the licence to operate.
- Accountants should equip themselves with the requisite sustainability-related knowledge to drive progress within their companies.

THE NEED FOR IMMEDIATE AND DRASTIC CLIMATE ACTION GROWS EVER MORE URGENT. As a grim reminder of what is at stake, the month of July 2023 saw a spate of deadly heatwaves and wildfires across Europe, which are among other extreme weather events that experts have attributed to climate change.

The Paris Agreement was adopted by 196 Parties in December 2015 to tackle climate change and its negative impacts. It marked the beginning of a race against time to mitigate climate change. In recent years, we have witnessed a slew of important developments that are driven by the demand for decision-useful information from stakeholders who support climate action or other sustainability causes.

In September 2020, a public consultation confirmed widespread global support for the IFRS Foundation to assume the role of developing comprehensive global baseline standards for sustainability reporting. Thereafter, the International Sustainability Standards Board (ISSB) was formed in November 2021 alongside the International Accounting Standards Board (IASB). A mere 20 months later, in June 2023, ISSB issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* to great anticipation.

Almost around the same time in July 2023, the Accounting and Corporate Regulatory Authority (ACRA) and Singapore Exchange Regulation (SGX RegCo) launched a public consultation on the recommendations by the Sustainability Reporting Advisory Committee (SRAC), which was just set up in June 2022, to advance climate reporting in Singapore. One recommendation is for listed entities and non-listed entities with annual revenue of at least $1 billion to provide climate-related disclosure in accordance with the IFRS Sustainability Disclosure Standards. The SRAC recommendations offer a glimpse into the regulators' plans for the future.

Under current rules and regulations, only entities listed on the Singapore Exchange (SGX) are required to issue sustainability reports. Listed entities in five identified industries have to go one step further and make climate-related disclosures based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) from financial years commencing in 2023 or 2024, as applicable. The climate reporting requirements were introduced by SGX RegCo in December 2021, following its public consultation titled "Climate and Diversity: The Way Forward" in August 2021.

Before these developments, there was considerable uncertainty over how to go about sustainability reporting, resulting in significant inertia against its adoption. Today, global stakeholders are rallying around the initiative by the IFRS Foundation to develop comprehensive baseline standards for the disclosure of sustainability-related information.

It is unlikely for the existing challenges in sustainability reporting to go away immediately or entirely. Notwithstanding this, all signs point to us being at the final stages of mapping the best way forward, as we stand at the cusp of sustainability reporting being part of mainstream reporting. The pieces are quickly falling into place, and we can

ISCA is developing qualification programmes for sustainability professionals and sustainability assurance professionals

> ISSB is already consulting on its agenda priorities for its two-year work plan, which could potentially include projects for standard setting on biodiversity, ecosystems and ecosystem services, human capital and human rights.

PHOTO SHUTTERSTOCK

expect the adoption of sustainability reporting to accelerate in the near future.

POINTING THE WAY FORWARD

As a financial hub with aspirations to be a leading centre for green finance and carbon services in Asia, Singapore can be expected to take the lead in promoting comparable and credible sustainability-related information. Consequently, the corporate reporting landscape in Singapore is set to change profoundly. How might it look for Singapore businesses and accountants?

Firstly, the recommendations by SRAC propose requirements for climate-related disclosures only for now, and the requirement to disclose other sustainability-related matters in accordance with the IFRS Sustainability Disclosure Standards will be reviewed a few years later. This is in line with concerted global efforts to address climate change as a foremost priority, and it should not be taken as a lack of importance of other sustainability-related issues.

Indeed, ISSB is already consulting on its agenda priorities for its two-year work plan, which could potentially include projects for standard setting on biodiversity, ecosystems and ecosystem services, human capital and human rights. In particular, biodiversity is an emerging topic that is prominent enough to have its own standard-setting body in the form of the Taskforce on Nature-related Financial Disclosures, which was launched in June 2021. It is only a matter of time before ISSB and regulators move on from climate topics to other issues.

Secondly, the recommendations by SRAC build on synergies between financial reporting and sustainability reporting. The recommendations include non-listed companies for mandatory reporting if they meet certain thresholds for revenue, which is a financial metric seen as consistently prepared under the requirements of the financial reporting standards as well as a good proxy for emissions. Beyond this, the recommendations also leverage established processes for financial reporting, for example, the requirements for the filing of the financial statements and legal responsibilities for financial reporting.

The potential to capitalise on such synergies was a key reason behind the support for the IFRS Foundation to establish ISSB. It was intended for ISSB to work closely with IASB to develop the connectivity between financial reporting and sustainability reporting in the course of their respective standard-setting activities. Already, both the IFRS Accounting Standards and IFRS Sustainability Disclosure Standards are beginning to share common concepts, such as the definition of materiality. The complementary relationship between financial reporting and sustainability reporting will only grow as advanced reporters seek to quantify the impacts of sustainability-related risks and opportunities, fulfilling SGX's vision for the combined financial and sustainability reports to enable a better assessment of the issuer's financial prospects and quality of management when taken together.

Under current rules and regulations, only entities listed on the Singapore Exchange are required to issue sustainability reports

Thirdly, external assurance over sustainability reporting is poised to take on a bigger role. The recommendations by SRAC propose for a minimal scope of limited assurance on Scope 1 and Scope 2 greenhouse gas emissions at this juncture but explicitly specify that reasonable assurance over the whole report will be the eventual goal as industry capabilities develop over time.

Unsurprisingly, as sustainability reporting gains traction, so too will attention turn to sustainability assurance. To prepare for that inevitability, the International Auditing and Assurance Standards Board (IAASB) is developing a profession-agnostic standard for sustainability assurance, designated as the International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*. The exposure draft for ISSA 5000 was published earlier in August, and final approval is targeted for September 2024. The International Ethics Standards Board for Accountants (IESBA) will follow suit with ethics and independence standards for sustainability assurance and sustainability reporting by December 2024.

If the recommendations by SRAC follow through, ACRA-registered audit firms retain a slight competitive advantage in providing

sustainability assurance services as they would be automatically included as climate auditors without the need for application, in recognition of the robust registration regime for audit firms. Testing, Inspection, Certification (TIC) firms will need to meet requirements as robust as this registration regime to qualify as climate auditors, in order to maintain a high level of credibility in the assurance provided, and to safeguard public interests. Through the efforts of SRAC, IAASB and IESBA, a level playing field will be created between audit firms and TIC firms in the provision of sustainability assurance services.

IMPLICATIONS

As the consultation paper by ACRA and SGX RegCo also pointed out, Singapore is not the only jurisdiction looking into mandating sustainability reporting for non-listed companies.

Notably, the European Union (EU)'s Corporate Sustainability Reporting Directive (CSRD), which entered into force in January 2023, introduced mandatory sustainability reporting for both EU and non-EU companies that meet certain criteria. Singapore companies that fall under the criteria will need to disclose sustainability-related information in accordance with the prescribed standards for financial years beginning in 2028 in order to continue operating in EU. Even if they do not hit the relevant thresholds, they might be asked to provide more pertinent information to large customers or vendors in EU which need to meet the CSRD requirements for disclosure on environmental, social and human rights, and governance topics.

With increasing awareness of sustainability issues, more jurisdictions and stakeholders are demanding sustainability-related information from companies. Just as adapting to the climate crisis is an existential priority, making available credible sustainability-related disclosures is fast becoming the licence to operate. The message is not new – it is imperative to get started on sustainability reporting now or risk being left behind. Are you one of them?

PHOTO SHUTTERSTOCK

The complementary relationship between financial reporting and sustainability reporting will only grow as advanced reporters seek to quantify the impacts of sustainability-related risks and opportunities, fulfilling SGX's vision for the combined financial and sustainability reports to enable a better assessment of the issuer's financial prospects and quality of management when taken together.

For companies which need to start the process now, it is critical for their leaders to set the right tone at the top. The importance of leading by example cannot be overstated. It is vital for leaders to demonstrate awareness and support for all sustainability-related initiatives including those related to reporting, and maintain a clear direction to drive the sustainability mission throughout the company.

Inevitably, there would be companies placing sustainability-related issues on the backburner, but it is really a matter of time that these issues would be moved to the top of the agenda. Hence, accountants should equip themselves with the requisite knowledge to drive progress within their companies. In this regard, there is a wealth of relevant resources in the public domain for accountants to get started.

Global bodies such as the International Federation of Accountants and Accounting for Sustainability publish thought leadership articles and practical guidance that can be accessed for free. ISCA strives to pull its weight as well, by contributing to this pool of resources. For example, with the support of its Sustainability and Climate Change Committee, ISCA has developed the Climate Disclosure Guide series[1], which currently comprises two volumes of guidance, to help users implement the various requirements of the TCFD recommendations. ISCA has also carried out relevant research projects and issued research publications, including a study[2] in August 2022 on the skills that accountancy and finance professionals would need in order to perform new and emerging sustainability roles. ISCA will also release its latest research report on sustainability transformation in the manufacturing sector, at the upcoming ISCA Conference on November 29[3]. By reading widely, accountants will be able to gain an appreciation of how to get started in order to assume a bigger role in the sustainability-related initiatives of their companies.

To go one step further, accountants should also be interested in the various training options available to them. For example, ISCA is developing qualification programmes for sustainability professionals and sustainability assurance professionals. These programmes will address the different learning needs of accountants with different levels of experience and knowledge. Through this way, candidates can benefit from a tailored approach to level up their sustainability skills.

CONCLUSION

The approaches by both ISSB and SRAC appear to share a common philosophy. They aim to set a high standard of reporting for preparers to aspire to, but also acknowledge that not everyone is ready to reach that ideal standard just yet. We are optimistic that the important changes to climate reporting regulations will further boost positive climate action and kickstart a more robust sustainability reporting ecosystem in Singapore. As accountants, it is yet another invaluable opportunity for us to grow more involved in Singapore's sustainability landscape. ISCA

Terence Lam is Head, Professional Standards, ISCA; Donaphan Boey is Associate Director, Professional Standards, ISCA.

[1] https://isca.org.sg/standards-guidance/sustainability-and-climate-change/thought-leadership/isca-green-sustainable-finance-guide-for-smes
[2] https://isca.org.sg/resource-library/sustainability/sustainability-jobs-and-skills
[3] https://isca.org.sg/member-support/corporate-events/isca-conference-2023

Be Curious: Ask Many Questions

Emersius Lau, CA (Singapore), Senior Financial Accountant, Netflix

TAKE AWAYS

- Given Singapore's position as one of the world's top financial hubs, accountants here are well-placed to serve a diverse range of countries and industries, from local startups to multinational corporations that have set up operations here.
- As an advocate of continuous upskilling, his advice to fresh graduates is to be curious and to ask questions constantly, to open themselves up to new information, perspectives and insights.

SUCCESSFULLY LANDING A JOB with a global name in entertainment earns a young person serious bragging rights, and one owner of such bragging rights is Emersius Lau, 30, a Senior Financial Accountant at everybody's favourite streaming service, Netflix.

Working at Netflix is everything one probably imagines, including an office most people can only dream about. "I had a culture shock when I first joined," Mr Lau admits. "It was a huge change going from a local Big Four firm to a multinational corporation. I have international colleagues from all over the world, and I found I had to adapt my communication style to become more effective." The wide spectrum of cultural exposure continues to excite him. "We have diverse teams working on very exciting stuff, so being here has been intellectually stimulating for me," he adds. Of course, coming to work in an office beautifully decorated with artworks of Netflix shows, plus a cafeteria that is stocked with a wide array of snacks and drinks, are the proverbial icing on the cake.

"It's a myth that you need to be good in maths", to be an accountant

Hearing Mr Lau enthuse about his role at Netflix, it was surprising to learn that accountancy was a distant third choice when he was choosing a course of study at the university. He had applied to medical school but was not successful. He then applied to law school, and went as far as the interview. "Eventually, I came to a point where I had to decide between chemical engineering and accountancy. Well, eventually, I was won over by accountancy's three-year direct honours programme offered by Nanyang Technological University (NTU)," he states.

THE PERFECT MATCH

When he began studying accountancy, Mr Lau discovered that the discipline complemented his learning style well. "By nature, I'm a bit of a perfectionist," he explains. "I'm meticulous and have good organisational skills, and these are arguably some of the more important skills to thrive in accountancy. Also, it's a myth that you need to be good in maths, which was not my strongest subject back in school. We are fortunate to be able to use calculators and Microsoft Excel extensively in our work today, and concepts like algebra and trigonometry are certainly not necessary." He immersed himself fully into accounting in university, joining the Nanyang Business School's Tax Advisory Club as well as NBS Audit and Assurance Team; he also participated in the UOB-NUS Case Competition in 2015. In 2016, he took part in an exchange programme offered by the Accounting and Business department of National Sun Yat-Sen University in Kaohsiung, Taiwan. During his time in school, Mr Lau had done internships across finance, accounting and audit roles at various organisations, including CIMB Singapore, Rely Engineering and Nexia TS (now CLA Global TS). And, since joining the workforce as a full-fledged accountant, Mr Lau has not looked back. "I've come to realise that this is a career that really suits my personality and my strengths," he says. "Being able to hone my skills, I was able to progress and unlock new opportunities in my career. It has only been about six years, but this time has proven tremendously exciting and rewarding, and has really offered me a multitude of opportunities and very diverse career pathways."

After graduating with a Second Upper Honours degree in accounting, Mr Lau joined the General Assurance department of PwC Singapore, where he moved from Audit Associate to Assistant Manager in four years. "Those were very important formative years for me, and I consider them some of the best days of my career to date," he says. "The highlight for me at PwC was the highly collaborative and young environment – there were so many fellow fresh graduates it almost felt like university all over again! I also met a lot of people from all walks of life, and I fostered strong and often lasting relationships with my colleagues and clients. We were strongly united by a common goal – to close the audit!"

At PwC, Mr Lau went from being in a team to leading a team, mainly auditing clients in the technology and media sector. "When the opportunity came up in my first year, I joined the audit team of a large local media conglomerate," he says, adding that he was fortunate enough to visit the client's hip office and sometimes spot celebrities, while deepening his knowledge about the media business and relating this to the many television shows he watched growing up. This sparked in him an interest in joining a media company. "After four years of auditing and analysis from an outsider's point of view, I wanted a role where I could be more active and immersed in this industry," he says. It was in LinkedIn that he stumbled upon a job opening for accounting at Netflix. "I was really excited when I saw this opening and decided to try for it," he recalls. "Six rounds of interviews later, I was offered the job."

For fresh graduates entering the profession, he advises, "Be more curious, and challenge yourself to ask questions constantly .... by asking questions,you open yourself up to new information, perspectives and insights."

What's most exciting is the continuous learning and growth that he gets from the scope of work and projects he works on

Mr Lau believes in being intentional when it comes to making time for his personal life; he and his wife met when they were both working at PwC

ON WITH THE SHOW

Now, almost two years into his role at Netflix, Mr Lau is enjoying his work on the other side of the fence. He currently manages financial reporting, statutory audits and other compliance matters for the company's operations in the Asia-Pacific region as part of a lean finance team, which has been made possible by marrying technological innovations with accounting to optimise efficiency. "Now that I'm on the client side of auditing, I provide support to our auditors and ensure that we are able to meet compliance deadlines," he elaborates. "Additionally, I work with cross-functional and even cross-regional colleagues on various projects, which has helped to sharpen my global acumen and exposure."

To him, what's most exciting is the continuous learning and growth that he gets from the scope of work and projects he works on. "There's so much to learn about the business and about the different processes in the company; there are also many projects which I can embark on, so I am really empowered," he adds. "We have a culture of transparency, so information is shared freely and it is up to me how much effort I want to put into learning. Of course, it also helps that the company's services are something that I'm familiar with – as a consumer. That makes it all the more interesting because as an accountant, I am also working 'behind the scenes', as it were."

The biggest hurdle Mr Lau faces is managing the multiple deadlines of the numerous concurrent projects that come under his team's purview. "It can be challenging to juggle different responsibilities," he admits. "Any failure to meet deadlines will have consequences, so I need to be very vigilant about prioritisation – knowing which the most important priority is at any time, and moving on sequentially."

Mr Lau finds it most rewarding, as an accountant in the tech-media industry, to innovate and leverage on technology. "It is always satisfying to discover new ways to do things, such as automating parts of the financial statement preparation process, that help the team to save time, effort and money. Here at Netflix, we are always encouraged and given the space to experiment with different ways of doing things – even if they do not work out eventually."

As a living example of how being an accountant is far more than sitting in front of a computer screen crunching numbers, Mr Lau hopes to encourage more young people to enter the field. His message to them is this: given Singapore's position as one of the world's top financial hubs, accountants here are very fortunate and well-placed to serve a diverse range of industries. They are able to use their unique skill sets to contribute to the financial success of companies based locally, ranging from homegrown startups all the way to multinational corporations that have set up operations here. Additionally, the strategic position of Singapore allows accountants here to develop their global acumen through the multitude of opportunities for exposure to various countries within and even outside of the region, which could be useful for overseas working opportunities and professional growth.

For fresh graduates entering the profession, his most important piece of advice is, "Be more curious, and challenge yourself to ask questions constantly. Curiosity drives a thirst for knowledge and a desire to understand how things work. And by asking questions, you open yourself up to new information, perspectives and insights. This continuous learning process will enhance your skills and expertise, and help you grow personally and professionally."

Finally, Mr Lau encourages those who are embarking on their career to consider joining professional services. "My initial years as an auditor provided me with a strong foundation for my accountancy career as it gave me a broad and deep exposure into different industries and processes, which I would never have been able to get elsewhere," he highlights. "There's so much we can learn from the dynamic nature of the work and the people we meet. So be like a sponge and keep absorbing, reflecting and learning." Being an ISCA member is also highly recommended. "The networking, collaboration and mentorship opportunities are excellent, and I enjoy catching up with my friends and former colleagues at ISCA events. Additionally, the workshops and courses offered by ISCA are particularly useful, especially for those like me who have left public accounting."

His job keeps him busy but Mr Lau believes in being intentional when it comes to making time for his personal life. The newlywed, who met his wife when they both worked at PwC, says that setting boundaries is essential. "We only have 24 hours a day, and what we choose to do with our time is up to us. So when I am at work, I try to make sure I finish all I set out to do, and when I get home, I spend time with my wife." He shares that besides pigging out, singing is one of their favourite things to do at home and at the karaoke studios. "I have taught her to sing JJ Lin songs with me, and we even performed a love song at our wedding last November!" ISCA

TEXT BY


David Yeong


Keith Tan

PHOTO SHUTTERSTOCKS

Strategic Planning And Balance Scorecard Part 2

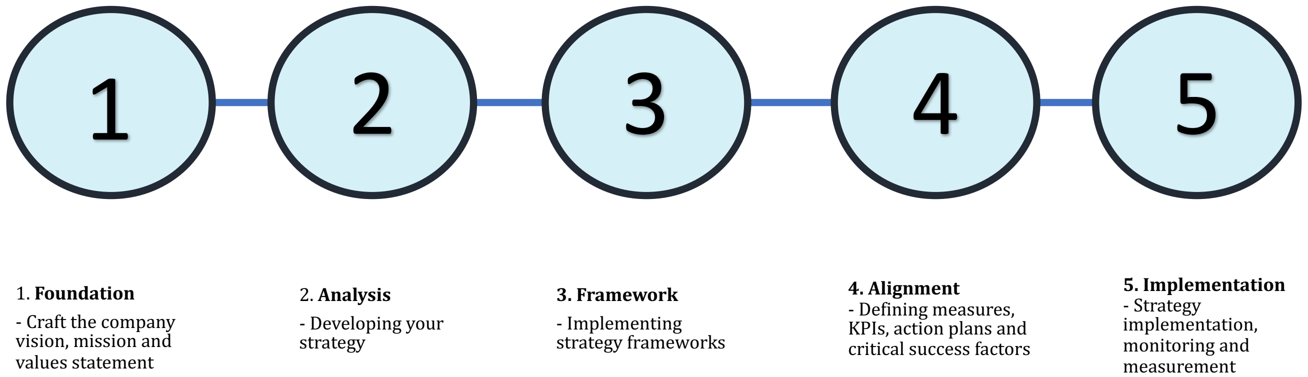
Tips For Successful Implementation

TAKE AWAYS

- Strategic planning, when done right, enables businesses to analyse their current position, set achievable objectives, and develop a roadmap for growth and long-term success.
- In this article, we have highlighted a 5-step implementation process that would be helpful for SMEs and startups after their completion of the strategic planning stage.

THE FIRST ARTICLE OF THE SERIES, published in the June issue of this journal, discussed what strategic planning is and introduced the Balance Scorecard (BSC) for small and medium-sized enterprises (SMEs) and startups. In this second article, we discuss how companies can implement a BSC and share some tips for the successful implementation of strategies from Chief Executive Officers (CEOs) and business leaders.

FIGURE 1 5-STEP STRATEGY IMPLEMENTATION PROCESS



1) FOUNDATION

Craft the company vision, mission and values statement

- **Vision** The vision statement is a forward statement of the company's future state. For SMEs and startups, the vision statement should not be overly lofty, as in, "To be the top sustainable meat producer". Instead, it should set the right vision with purpose to define the company's goals and provide motivation to all employees. An example could be, "To be the market leader of sustainable consumer brands in the SEA region".
- **Mission** The mission statement clearly expresses what your brand does, and your reasons and intentions behind it. It should also address what your product or service does or aims to provide, and for whom.
- **Values** The company should put in place the desired core values to guide the employee in supporting and achieving the company mission and vision statements.

2) ANALYSIS

Developing your strategy

The development of a company strategy includes developing the consumers' value proposition, and should consider breaking down the high-level strategic direction into three to four strategic themes (or goals).

In determining the three to four strategic themes, the company should understand its opportunities and risks, and the possible ways to address them. It can tap on common management tools including the SWOT (strengths, weaknesses, opportunities, threats) analysis, PESTEL (political, economic, sociocultural, technological, environmental and legislative) analysis,

PHOTO SHUTTERSTOCKS

and ERM (enterprise risk management) tools. These tools will address key questions such as:

- What are the key risks/opportunities that we face?
- Why do we face them?
- What might help to solve these problems or take advantage of these opportunities?

3) FRAMEWORK

Implementing strategy framework

There are many management tools available, but we believe that for SMEs and startups, a good place to start is the BSC framework as it covers four perspectives rather than solely focus on the financial perspective. By doing so, a well-rounded approach is ensured, and management can establish their critical success factors in a structured manner. In the first article, we showed an example of how we can integrate the triple-bottom-line concept with the BSC framework.

4) ALIGNMENT

Defining measures, key performance indicators (KPIs), action plans and critical success factors

At this stage, using two-way feedback (that is, a top-down and bottom-up approach) would be useful in understanding the on-the-ground context and setting of SMART (specific, measurable, achievable, realistic, timely) targets. To do this, workshops can be conducted by the head of department or by an independent facilitator. These workshops, if conducted effectively, will help identify the department's critical success factors (CSFs) and relevant KPIs to enable success of the company's goals. A good question to kickstart the thinking process of CSFs, KPIs and action plans (with reference to the BSC framework) would be, "To fulfil the company's vision, what should be the objectives in terms of learning & growth; internal process; stakeholders, and financial perspective?" (Figure 1).

FIGURE 2 DEPARTMENT'S CSF/KPI SETTING (FOR FY202X)

What is my company's vision/ mission/ values?	**Vision:** To be one of the market leaders of consumer brands in the SEA region **Mission:** To make a wide variety of delicious food products with quality assured Integrity ▪ Quality Assured ▪ People Orientation ▪ Innovation			
To fulfil the company's vision, what should be the objectives for the 4 perspectives?	**A) Company's human capacity** Learning & growth perspective	**B) Company's internal processes** Internal perspective	**C) Company's stakeholders** Stakeholder perspective	**D) Company's financials** Financial perspective
	▪ Increased technical competence ▪ Increased engagement level	▪ Improved operational efficiency	▪ Increased customer following ▪ Increased partnership options	▪ Increased revenue ▪ Increased profit
What are the CSFs?	▪ Achieve targeted training hours and cross-training for departments ▪ Improve employee satisfaction and engagement	▪ Improve operating efficiency by lowering manufacturing downtime by X hours for each maintenance service ▪ Score of above X% level for each maintenance service	▪ Increase customer satisfaction with above X% scoring for all products ▪ Improve branding sentiments with feedback analytics	▪ Sustainable innovation and research development ▪ Increase lines of sales locally and overseas
What are the KPIs?	**KPI 1**: Each department has fulfilled its targeted training hours for each employee and has performed cross-training. **KPI 2**: Employee engagement score - Measurement of the level of employee engagement from commitment, motivation, and willingness.	**KPI 1**: Process cycle time - Average time taken to complete a process from start to finish. **KPI 2**: Productivity ratio - Output or value created per unit of input or resource utilised.	**KPI 1**: Customer satisfaction score - X% of customers rating their satisfaction level as "satisfied" or "very satisfied" in post-purchase surveys. **KPI 2**: Net promoter score - Measurement of customer loyalty and likelihood to recommend the product/service to others.	**KPI 1**: Determine sustainable R&D investment ratio - Percentage of revenue allocated to R&D activities. **KPI 2**: To establish new sales relationship with new vendors (locally and overseas).

Notes:

Feedback:

Before we carry on, it would be beneficial to understand the difference between KPIs and CSFs (Figure 3). For one, the main difference between a KPI and a CSF is that KPIs reflect the level of success, while CSFs point out the cause of success. The table below further elaborates on their definitions and characteristics, with examples.

CSFs and KPIs, if executed properly, would help close the gaps in the firm's performance to hit targets and long-term goals. It would also be beneficial to the company to consider the dependencies of departments and their processes to link all the CSFs together as this would identify the order of the CSFs to be completed, to meet the company's objectives.

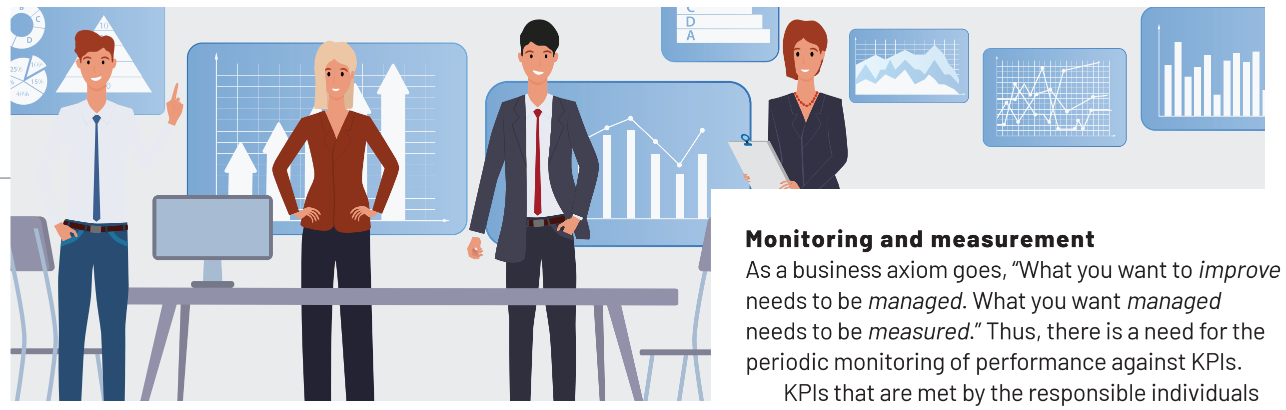


PHOTO SHUTTERSTOCKS

5) IMPLEMENTATION

Strategy implementation

Integrate steps 1 to 4 into an info sheet (which we recommend to keep within a single-page document) to be shared and used to set KPI expectations with your employees. The goal of this process is to create a holistic culture for employees and management to start thinking more strategically, taking into account the interconnection of the CSFs and KPIs.

FIGURE 3 CSFS AND KPIS: DEFINITIONS, CHARACTERISTICS AND DIFFERENCES

Critical success factor (CSF) Definition & characteristics	**Key performance indicator (KPI)** Definition & characteristics	Difference between CSF and KPI
Definition: CSFs are the essential factors for the success of a firm in achieving its mission and objectives. **Characteristics:** ■ CSFs are limited in number and are specific to the firm and its strategic goals. ■ CSFs are normally identified by the top management or key stakeholders. ■ CSFs are qualitative in nature and may not be easily quantifiable, thus, the SMART* criteria may not apply to them. ■ CSFs need not be evaluated or monitored as regularly as KPIs.	**Definition:** KPIs, which are specific and quantifiable in nature, are used to track the firm's performance. KPIs are normally derived from CSFs and provide a quantifiable way for the company to measure progress in achieving those CSFs. **Characteristics:** ■ KPIs are normally used to track the performance of a firm or a particular aspect of its operations. ■ KPIs can be identified or assigned by department heads to drive CSFs or the firm's objectives. ■ KPIs would benefit in setting SMART* targets. ■ KPIs are normally evaluated by the top management in a timely manner.	■ In terms of characteristics, CSFs are normally qualitative while KPIs are quantitative ■ Top management should evaluate KPIs regularly, as they are derived from CSFs or business objectives. ■ Setting SMART* targets would be more applicable to KPIs as they are more quantitative in nature. ■ KPIs are commonly used for monitoring performance to make data-driven decisions, versus CSFs which are more qualitative in nature. ■ CSFs can be similar universally, while KPIs may vary between companies depending on their business situations.
CSFs examples: **Increase revenue:** To achieve a certain % increase in its overall revenue within a specific time frame **Expand market share:** To capture a larger share of the target market by attracting new customers or outperforming competitors	**KPIs examples:** **Revenue growth rate:** Measures % increase in revenue over a specific period (example, monthly, quarterly or annually). Revenue growth rate = [(Current rev – Previous rev)/ Previous rev]x100 **Market share percentage:** This KPI measures the company's share of the total market in which it operates, expressed as a %. Market share % = (Company's sales/Total market sales) x100	

*SMART: specific, measurable, achievable, realistic

Monitoring and measurement

As a business axiom goes, "What you want to *improve* needs to be *managed*. What you want *managed* needs to be *measured*." Thus, there is a need for the periodic monitoring of performance against KPIs.

KPIs that are met by the responsible individuals or teams should be acknowledged with explicit recognition and/or rewards. If the company uses the BSC framework, we would recommend incorporating the BSC report with the personnel or team's performance evaluation and incentives.

SUCCESSFUL STRATEGY IMPLEMENTATION: TIPS FROM CEOS/LEADERS

We interviewed five CEOs/leaders across five distinct industries (namely accounting, technology, consultancy, investment banking, real estate) to gather their best advice on effectively implementing a strategic plan. Specifically, they were all asked to answer a simple question, "What is the one takeaway for a successful strategy implementation in your company?"

"Strategy planning should take a 'future-back' approach which entails envisioning a future state and breakthrough imperatives to drive growth, followed by implementing initiatives to bring the strategy to life. The strategic plan must be inspiring, clear, bought-in and fully actionable."

Max Loh

Former Managing Partner for EY in ASEAN and Singapore

"Change management is the long tail that turns strategic plans into reality. It takes time to build up change management competencies at all levels. Start investing in change management skills and processes early."

Daryl Neo

Founding Director & CEO of Handshake
(a Singapore datatech company)

"Having the right strategy leading to corporate goals requires indepth knowledge of the industry and the wider economic outlook. The implementation of the various strategic goals requires the buy-in and commitment of all top and middle management."

Ong Hwee Li

CEO & Founder of SAC Capital Private Limited
(a Singapore investment banking firm)

"The insatiable Australian resources industry has enabled us to achieve significant levels of growth, where we've feasted on short-term opportunities without having to worry about strategy planning.

As we've matured as business owners, we've begun to realise the importance of sound strategy planning in order to build a business with sustainable value. The current market may not last, so we must continue to invest in a clear vision for the future with strategic growth in business units and relationships that are capable of handling what the future brings."

Jonathan Vuong

Director of Aspect Engineering Solutions
(an Australian engineering consultancy)

"A strategy should be inspiring and not fluffy. To ensure successful implementation, it should be clearly communicated and bought-in throughout the organisation. There should be focus on execution, with clear short-term and long-term targets for respective business units to achieve the overall organisation's end goal. Top management should also ensure consistency in direction and provide the right structure and support for execution. Allow checkpoints for review and refinement of the strategy along the way."

Joanna Gok

CFO, Far East Orchard Limited
(a Singapore real estate company)

CONCLUSION

Regardless of whether the company chooses the widely used BSC framework or other frameworks, SMEs and startups would face different challenges compared to multinational companies and listed companies. Some of these common challenges for SMEs and startups include (1) professionalising the business, (2) establishing the appropriate governance structure, and (3) planning for succession.

SMEs and startups should evaluate whether these challenges pose potential risks to their operations in the short, medium, or long term. And if so, they should consider taking appropriate measures including defining KPIs, designing action plans, and identifying CSFs, which were discussed in this article. ISCA

David Yeong is Partner of Consulting, SAC Capital Private Ltd; and Keith Tan is Director of Business Consulting, RSM Risk Advisory Pte Ltd.

This is the second of a three-part series on strategy planning and implementation for SMEs and startups. Look out for Part 3, which will focus on the three common challenges they might face.

VIEWPOINT

TEXT BY


Tan Shew Heng


Lee Kai Siang


Jillian Yeo

Implementing Sustainability For The Healthcare Sector

Take Action For Climate Change Now

TAKE AWAYS

- Although healthcare products and services benefit people, the provision of healthcare services inevitably emits greenhouse gases.
- There are various ways for the healthcare sector to decarbonise: actively reduce emissions from own operations; use electricity from clean sources; influence and work with own value chain to reduce their emissions, which in turn reduce own emissions.
- There are different types of sustainable financing instruments to support companies in the healthcare sector on their green journey.

THERE IS A PARADOX THAT HEALTHCARE PRODUCTS AND SERVICES BENEFIT PEOPLE, yet the provision of healthcare services inevitably emits greenhouse gases (GHG). The delivery of healthcare services directly and indirectly contributes to GHG emissions through energy consumption as well as value chain activities from product manufacturing to transportation and distribution, water usage and end-of-life disposal of healthcare waste.

Rising GHG emissions could lead to extreme weather events like floods, heat waves or droughts, poor air quality and risk of climate-sensitive diseases. Therefore, it is imperative to start building a climate-resilient and environmentally sustainable healthcare sector by increasing climate awareness, building capacity and strengthening the case for investment in climate mitigation as a form of investment in health protection.

ENVIRONMENT IS READY TO ADDRESS CLIMATE CHANGE IN THE HEALTHCARE SECTOR

Countries have significantly increased health considerations in their net-zero target setting. Findings from the *2021 World Health Organization (WHO) Health And Climate Change Global Survey* report[1] show that almost all (94%) of the 142 new or updated nationally determined contributions published in 2020–2021 mentioned health, compared to 70% of 184 contributions in 2019. There are three key takeaways from the 2021 WHO report (Figure 1).

With the COVID-19 pandemic under control and relaxation of border restrictions, a sense of normality has returned. It is timely for the healthcare sector to start addressing the urgency of climate change as part of its overall roadmap.

HEALTHCARE'S CARBON FOOTPRINT IS LINKED TO HEALTHCARE SPENDING

Rising healthcare spending

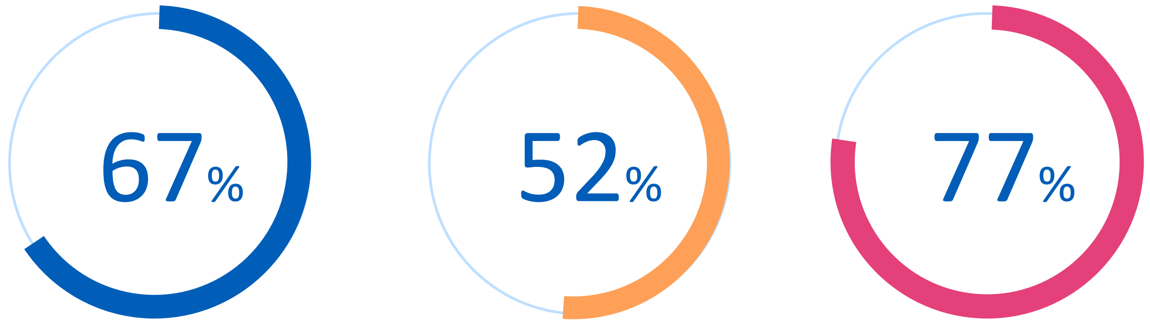
Asia Pacific faces wide disparities on per capita healthcare spending. There are countries where highly sophisticated healthcare delivery systems exist, supported by a rich ecosystem of suppliers, manufacturers and distributors, and there are countries which are less well-resourced. Nevertheless, all countries are confronted by the common challenges of an ageing population, the rise in chronic diseases, and continually investing in a system with preparedness to deal with the next infectious disease. Like the rest of the world, Asia Pacific is trending towards spending a higher portion of its gross domestic product on the healthcare sector going forward (Figure 2).

Carbon emissions will follow rising healthcare spend unless we make active interventions

Carbon emission on a per capita basis follows the same ranking as countries' healthcare spend. This suggests that each additional dollar spent on healthcare could lead to higher carbon emissions. Continual carbon emissions are not good for the environment and individuals' health. The healthcare sector needs to make active interventions to build a climate-resilient and environmentally sustainable healthcare sector.

[1] https://www.who.int/publications/i/item/9789240038509

FIGURE 1 THREE KEY TAKEAWAYS ABOUT HEALTH AND CLIMATE CHANGE



Awareness of the nexus between climate change and health:

Two-third (67%) of the countries surveyed have conducted a climate change and health vulnerability and adaptation assessment or are currently undertaking one.

COVID-19 pandemic distracted resources from addressing climate change:

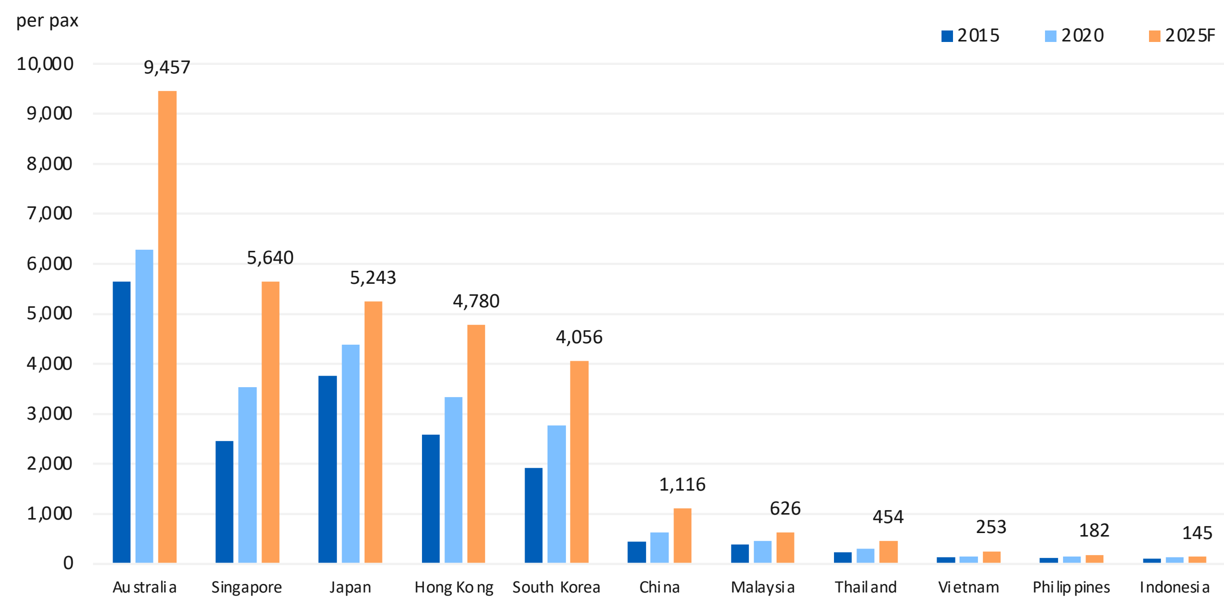
About half (52%) of the countries surveyed reported that the COVID-19 pandemic significantly slowed down the implementation of protective measures to combat climate change, healthcare personnel and resources were diverted to controlling the pandemic.

Implementation of climate change plans are impeded by insufficient funding and other resource constraints:

Over three-quarters (77%) of surveyed countries have developed or are currently developing national health and climate change plans or strategies. However, implementation is impeded by insufficient financing, manpower, and limited research, evidence, technologies and tools.

Source: *2021 World Health Organization (WHO) Health And Climate Change Global Survey report*

FIGURE 2 KEY ASIA-PACIFIC COUNTRIES' HEALTHCARE SPEND PER CAPITA



Source: Fitch Solutions estimates, based on historical data from WHO and Department of Health (Hong Kong), UOB analysis

VIEWPOINT

> Asia Pacific is responsible for around 30% of the carbon emissions from the healthcare sector. It is timely for Asian healthcare companies to consider how they can do their part to contribute to a greener healthcare sector.

FIGURE 3 CARBON FOOTPRINT OF KEY ASIA-PACIFIC COUNTRIES

Over 1.0 Ton of carbon-equivalent per capita	Between 0.5 and 1.0 Ton of carbon-equivalent per capita	Less than 0.28 Ton of carbon-equivalent per capita
Australia Singapore	Japan South Korea	China Indonesia Malaysia Philippines Thailand Vietnam

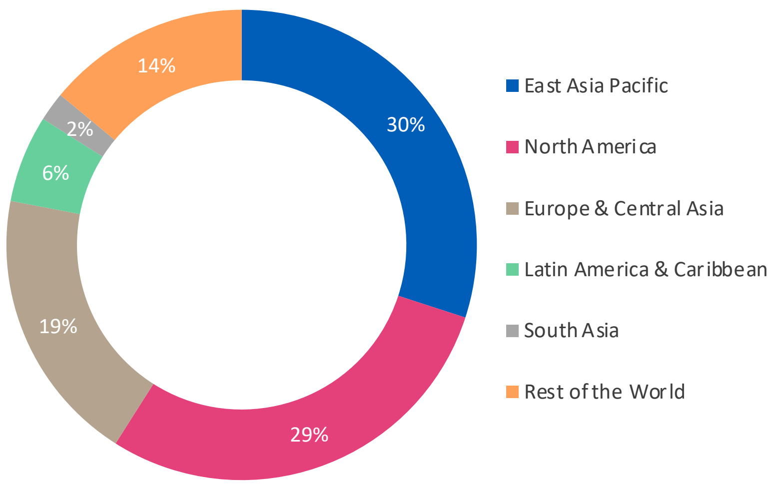
Source: *Global Roadmap For Healthcare Decarbonisation 2021* by Healthcare without Harm, in collaboration with Arup; based on the study, the average emission from countries is between 0.28 and 0.50 ton of carbon-equivalent per capita

East Asia-Pacific countries hold the biggest share of gross emissions

According to the *Healthcare's Climate Footprint* 2019 report, the healthcare sector in East Asia Pacific accounts for circa 30% of the gross carbon emissions, which was the biggest contributor of carbon emissions globally (Figure 4). Unlike Europe or North America, the region typically does not lead in sustainability. However, the era of sustainability in the healthcare sector is dawning as governments made their net-zero commitments during COP 26 in 2021, and will continually refine their nationally determined contributions to meet these targets. All sectors in each country will have to play their part for governments to achieve their committed reductions.

[2] According to Greenhouse Gas Protocol Corporate Standard, GHG emissions are classified into the following three "scopes":
Scope 1 emissions are direct emissions that occur from sources that are owned or controlled by the company.
Scope 2 emissions are indirect emissions associated with the purchase of electricity, steam, heat or cooling.
Scope 3 emissions are all indirect emissions as a consequence of the company's activities, but occurring from sources not owned or controlled by the company.

FIGURE 4 CARBON EMISSIONS BY REGION



Source: *Healthcare's Climate Footprint 2019* by Healthcare without Harm, in collaboration with Arup, UOB analysis

SOURCES OF CARBON EMISSIONS IN THE HEALTHCARE SECTOR

Healthcare sector's carbon footprint came out as #5 largest emitter, if ranked by country

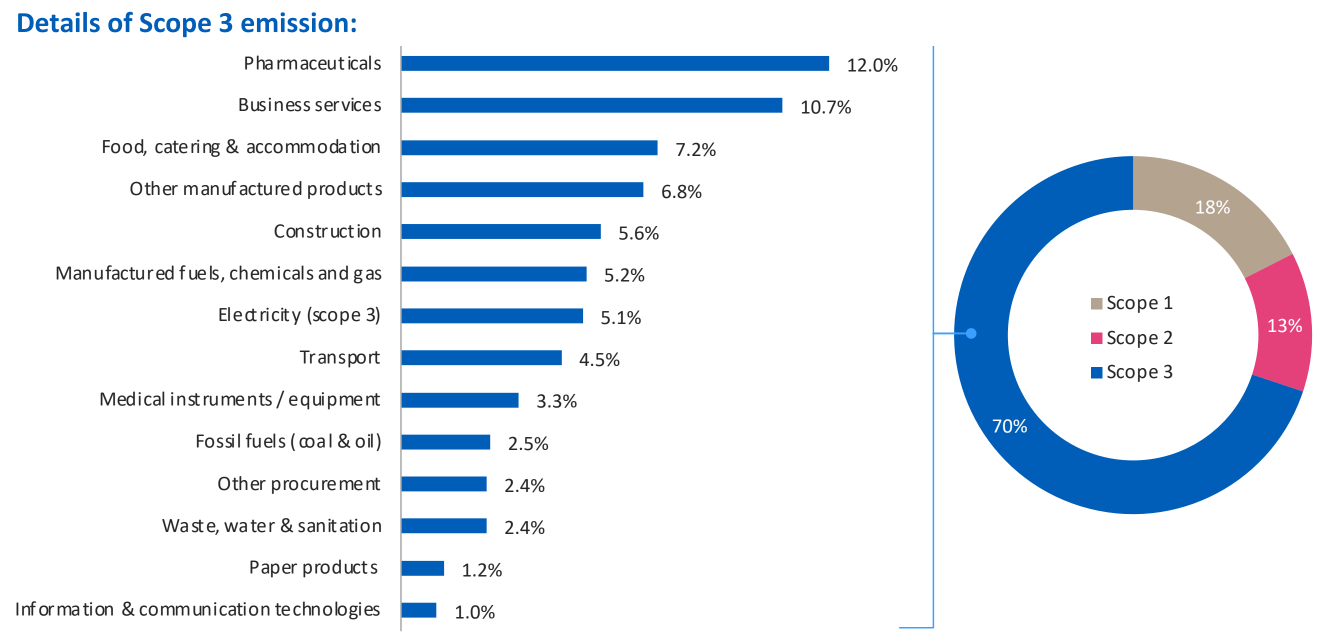
Globally the healthcare sector's total carbon footprint was reported to be 2.0G ton of carbon-equivalent or 4.4% of global emissions, according to the tracking and estimates made by non-governmental organisation (NGO) Healthcare without Harm and Arup, in the *Healthcare's Climate Footprint* 2019 study. More than half of the sector's footprint can be attributed to energy use, from operating a healthcare facility (Scope 1 emissions), emissions from its source of electricity (Scope 2 emissions[2]) and emissions arising from its supply chain (Scope 3 emissions[2]) (Figure 5).

ENVIRONMENTAL COMMITMENTS MADE BY HEALTHCARE SECTOR

Bold commitments by industry leaders suggest that the healthcare sector could move ahead of other sectors to reach net zero

Just like many other sectors, the players working actively to reduce their carbon footprint in the healthcare sector are mainly led by multinational companies (MNCs) from Europe, United States and other western countries. Their environmental commitment announcements suggest that with determination, it is possible for the healthcare sector to reach net zero by 2050 to be aligned with the Paris Agreement. In fact, some of the sustainability leaders in the healthcare sector have made commitments to reach net zero earlier than 2050 (Figure 6).

FIGURE 5 CATEGORIES OF CARBON EMISSION FROM A HEALTHCARE FACILITY'S PERSPECTIVE



Source: *Global Roadmap For Healthcare Decarbonisation 2021* by Healthcare without Harm, in collaboration with Arup, UOB analysis

FIGURE 6 EXAMPLES OF ENVIRONMENTAL TARGETS SET BY VARIOUS PLAYERS IN KEY SEGMENTS OF THE HEALTHCARE VALUE CHAIN

Companies	Country	Healthcare segment	Carbon neutrality* target	Net-zero** target
1. Ramsey Healthcare	Australia	Operator	-	2040
2. Mediclinic	United Kingdom/ South Africa	Operator	2030	-
3. GSK	United Kingdom	Pharmaceutical manufacturer	-	2030
4. Pfizer	United States	Pharmaceutical manufacturer	-	2040
5. Medtronic	United States	Medical devices manufacturer	-	2045
6. Smith & Nephew	United Kingdom	Medical devices manufacturer & pharmaceutical distributor	-	Scopes 1 & 2 net zero by 2040 Scope 3 net zero by 2045

*Carbon neutrality generally refers to compensation of an entity's annual emissions through a policy of voluntary carbon credits.
**Net-zero target generally refers to achieving long-term emissions reduction to residual emissions in line with climate science and neutralise residual emissions thereafter.

Source: Various company commitments

Scan the QR code for a full copy of the report, *Implementing Sustainability For The Healthcare Sector*, or access it online (https://www.uobgroup.com/industry-insights/healthcare/implementing-sustainability-for-the-healthcare-sector.page).

FIGURE 7 AREAS OF ENVIRONMENTAL IMPROVEMENTS IN KEY SEGMENTS OF THE HEALTHCARE VALUE CHAIN

1

Green buildings
Based on green building certification standards for hospital, manufacturing, warehousing facilities, commercial offices; for example, LEED-New Construction certified manufacturing facility

- *Reduce Scopes 1, 2 and 3 emissions*

2

Energy efficiency
For energy-efficiency projects covering LED lighting solutions, chiller, air-conditioning, façade, elevator, improved energy efficiency and power management systems

- *Reduce Scopes 1 & 2 emissions*

3

Solar panels
For installation of solar photovoltaic systems with facilities to supplement or replace electricity flowing from the grid which are fuelled by fossil fuels

- *Reduce Scope 2 emissions*

4

Electric vehicles
For addition to or replacement of existing internal combustion engine fleet of company vehicles ranging from company cars for C-suite, light-duty vehicles for distribution to ambulances to a more environmental fleet

- *Reduce Scope 1 emissions*

5

Circular economy (Recycling)
To reduce single-use supplies to the extent possible and within hygiene considerations, to encourage recycling of materials. If necessary, the support of transportation of goods back to suppliers for recycling (reverse logistics)

- *Reduce Scopes 1 & 3 emissions*

6

Circular design & production projects
To assist with product design improvements so that new products have less carbon footprint; for example, use of sustainable packaging, redesign of metered-dose inhaler to reduce the use of propellants that have adverse environmental impact

- *Reduce Scopes 1 & 3 emissions*

7

Green trade
To facilitate trade between healthcare companies and suppliers or distributors for products or services that are certified to be sustainably sourced; for example, International Sustainability and Carbon Certificate for the Circular Economy and Bioeconomy (ISCC-PLUS) or aligned to an eligible green activity/project

- *Reduce Scopes 1 & 3 emissions*

8

Carbon credits
To support purchase of or origination of voluntary carbon credits to offset any residual emissions that cannot be reduced operationally

- *To offset Scopes 1, 2 & 3 emissions*

9

Green deposit
To provide an opportunity to direct term deposits or current account with the bank to finance sustainable projects

- *Credible sustainable finance practice which can be added to your list of sustainable practices*

10

Waste & water management
For addition or replacement of water or waste management facilities to conserve precious natural resource or disposal of waste that reduce impact to the environment

- *Credible environmental practices which can be added to your list of sustainable practices*

FIGURE 8 KEY TYPES OF SUSTAINABLE FINANCING INSTRUMENTS TO SUPPORT COMPANIES IN THE HEALTHCARE SECTOR

Green Bilateral Loans/Bonds (GBL/GB)	• Between financial institution and borrower • Lending is focused on the use of proceeds that directly have a positive impact on climate or environment
Green Syndicated or Club Loans (GSCL)	• Between several financial institutions and borrower • Lending is focused on the use of proceeds that directly have a positive impact to climate or environment
Sustainability-linked Loans/ Bonds (SLL/SLB)	• Between financial institution and borrower for SLL • Lending could be used for general corporate purpose or used for proceeds that directly have a positive impact on climate/environment, social and or governance • Peg interest rates to achievement of agreed-upon sustainable performance targets
Green/ Sustainability-linked Trade	• Between financial institution and borrower for green/ sustainability-linked trade • Lending is focused on supporting trade of products or services that are certified to be sustainably sourced or aligned to an eligible green activity/project

POTENTIAL AREAS OF ENVIRONMENTAL IMPROVEMENTS FOR THE HEALTHCARE SECTOR

Figure 7 shows the potential areas of environmental improvements in key segments of the healthcare value chain. While there is urgency and importance to address climate change issues within the healthcare sector, companies may face financial challenges to forward their climate change plans. But, as climate awareness grows, more financial institutions are now stepping forward with sustainable financial solutions to support companies in their green journey. Figure 8 shows the key types of sustainable financing instruments available to companies in the healthcare sector looking to finance the various parts of the healthcare value chain.

Even though Asia has yet to feature at the forefront of sustainability, there is a gradual trend of moving towards greater environmental awareness as various Asian governments have stepped forward at COP 26 in 2021 to make net-zero commitments. As seen in Figure 4: Carbon emissions by region, Asia Pacific is responsible for around 30% of the carbon emissions from the healthcare sector. It is timely for Asian healthcare companies to consider how they can do their part to contribute to a greener healthcare sector. ISCA

Tan Shew Heng is from Business Insights (Healthcare and Energy & Chemicals) – Sector Solutions Group; Lee Kai Siang and Jillian Yeo are from Centre of Excellence – Sector Solutions Group, United Overseas Bank Limited.

VIEWPOINT

TEXT BY
Xero Singapore

Expanding Into Advisory Services

Singapore Practices Leveraging Technology

TAKE AWAYS

- Nearly six out of 10 practices plan to invest more resources into advisory services.
- Top priorities include improving client retention, support for loans or government assistance, and cutting costs.
- Advisory services are being used by accounting firms to drive value added offerings

THE ROLE OF ACCOUNTING PROFESSIONALS HAS EVOLVED IN RECENT YEARS DUE TO ONGOING ADVANCES IN TECHNOLOGY. Many routine tasks such as data entry, reconciling bank statements, and preparing financial statements can now be automated, thanks to artificial intelligence (AI) automation tools and cloud accounting software. As these tools become more advanced every day, the role of accountants is becoming less about crunching numbers and more about providing opinions and making judgements that only a human can do, while letting software handle the more repetitive, rules-based work. In Singapore, nine out of 10 small businesses feel confident about embracing new technology, while eight out of 10 are excited about implementing digital solutions, according to the Xero *One Step*[1] study.

Meanwhile, accountants and bookkeepers play an increasingly important role in the success of small and medium-sized enterprises (SMEs), as demand for their services continues to grow. According to Research and Markets[2], the accounting services global market value was US$544.06 billion in 2020 and is expected to reach US$735.94 billion in 2025 – providing plenty of incentive to try and gain a technological edge.

Xero's latest *State of the Industry* report[3] reveals that six out of 10 (58%) practices in Singapore are looking to spend more time and resources providing advisory services this year (Figure 1). Of those which will be investing more, nine out of 10 (89%) say they are doing so to increase revenue. This was reflected in the survey results, which show that advisory services yielded the most revenue, contributing S$75,681 per year on average.

Three-quarters (73%) of practices which intend to invest more into providing advisory services say they are doing so to differentiate themselves from other practices. Advisory services are increasingly being used by firms to strengthen and diversify their offerings – helping them to move up the value chain – as they can cover a wider breadth of value-added services.

Harvest Accounting is one example[4] of a firm leveraging digital tools to gain a strategic advantage and set themselves apart. A pre-approved Productivity Solutions Grant (PSG) vendor which works closely with SMEs, it helps clients to digitalise their accounting operations, implement the right digital tools and improve business efficiencies. Co-Founders Bryan Zhao and Matthew Phua shared how they helped local social media agency Duo get their invoices paid within 21 to 30 days – down from 90 to 120 days – improving the company's cash flow and freeing up valuable time.

Looking at areas that accounting practices are prioritising for the coming year (Figure 2), Xero's survey shows that improving client retention and supporting clients with their applications for loans or government funding came up tops, with three quarters (76%) of practices selecting this as their top priority. Other priorities include cutting costs (75%), implementing business tools/technology (71%) and introducing new service lines, such as financial advisory or app implementation (70%).

[1] https://www.xero.com/sg/media-releases/singaporean-smes-lead-the-us-and-uk-in-tech-adoption/
[2] https://www.globenewswire.com/fr/news-release/2021/03/15/2192795/28124/en/Outlook-on-the-Accounting-Services-Global-Market-to-2030-Identify-Growth-Segments-for-Investment.html
[3] https://www.xero.com/sg/campaign/accounting-industry-report/
[4] https://www.businesstimes.com.sg/startups-tech/technology/cloud-based-accounting-firm-helping-smes-plant-seeds-better-financial

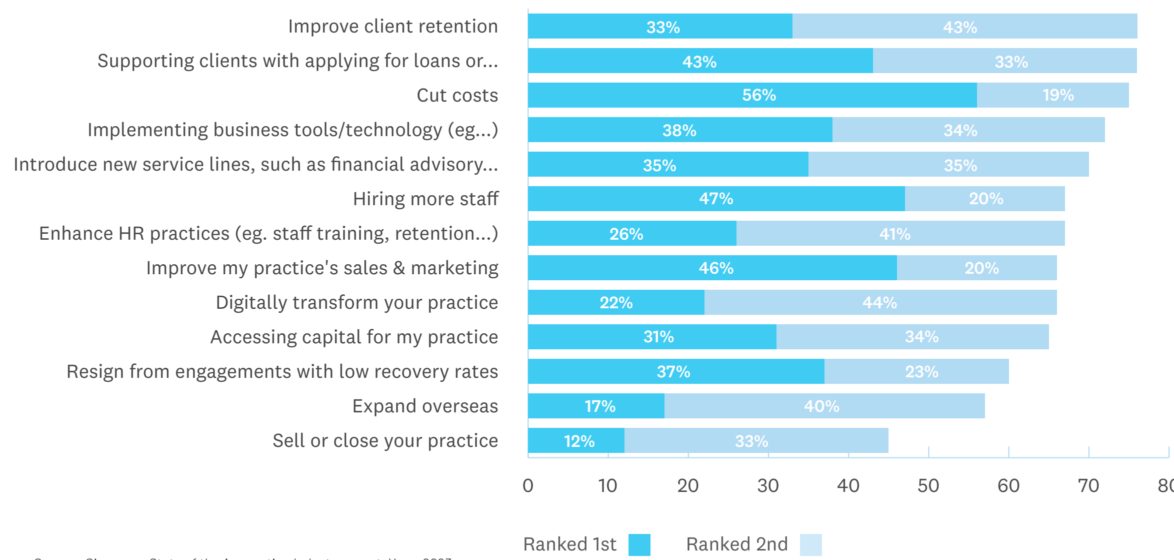
PHOTO SHUTTERSTOCK

FIGURE 1 INVESTMENT IN ADVISORY SERVICES

Investment of time and resources on advisory services	All Practices	Smaller Practices	Larger Practices
Significantly more time and resources	13%	10%	15%
A little more time and resources	45%	35%	51%
No more or less time and resources	31%	42%	25%
A little less time and resources	6%	3%	8%
Significantly less time and resources	5%	10%	2%

Source: *Singapore State of the Accounting Industry* report, Xero, 2023

FIGURE 2 PRIORITIES OVER THE NEXT YEAR



Source: *Singapore State of the Accounting Industry* report, Xero, 2023

VIEWPOINT

Among key insights from our survey of over 330 accounting, bookkeeping and research professionals across Singapore, we found a shift in priorities for the coming year, including tech adoption and a shift towards advisory services.

Accounting and bookkeeping practices overall have withstood the challenges of COVID-19 relatively well (Figure 3), with almost three-quarters of practices reporting that revenue has stayed the same (30%) or even increased (44%).

This is perhaps due to the nature of the services offered, in that clients which have stayed in business still need their accounting or bookkeeping services as an essential part of running their business, while new customers are turning to the industry to assist with digitalising their accounts and/or adopting new ways of working remotely.

Practices which have experienced revenue growth in the past 12 months are earning more from the following service lines:

- Virtual/Outsourced CFO services
- For-fee implementations of accounting software for businesses that are unlikely to become long-term clients of their practice
- HR advisory: Assistance setting up employee compensation, planning to add or reduce employees, and other people-centric services
- Valuation services

WHERE ARE PRACTICES GETTING NEW BUSINESS?

Not surprisingly, the biggest pool of new clients (32%) are new businesses and startups. Just over one-quarter of these switched from doing their own books, while 24% switched from another practice.

According to statistics from the Accounting and Corporate Regulatory Authority (ACRA), the formation of new business entities in Singapore has held steady since June 2020, signalling positive bouncebacks by those whose jobs have been impacted by the COVID-19 pandemic.

A digital-first approach has become essential to gaining new business in the post-COVID era. Tech-enabled practices are in the best position to gain market share among startups in particular, as they are more likely to be digital natives ready to embrace new ways of working, without the burden of legacy systems and processes.

This points to an opportunity for practices to position themselves as startup-friendly and SME-friendly, and to reach out to these communities while catering to their unique needs.

When it came to marketing and lead generation (Figure 4), the biggest source of new clients was online marketing (34%). Smaller practices relied even more heavily on online marketing (73% ranked it first or second), compared to larger practices (65% ranked it first or second).

Practices which increased their revenue in the last 12 months sourced a greater proportion of their clients through online marketing (19%) compared to practices which reported a decline in revenue (10%).

Interestingly, practices with a greater proportion of clients using cloud accounting software spent fewer marketing dollars on average – S$7,540 – compared to S$9,631 spent by those with fewer clients using cloud accounting software.

Practices with a greater proportion of cloud accounting software clients tended to rely more on word-of-mouth and referrals (57% vs 36%), and also spent less on traditional marketing (4% vs 14%) and events/webinars (6% vs 12%). This is consistent with the Xero research in the United Kingdom, where small businesses which are serviced using cloud accounting software are more likely to be satisfied with their accountants, and hence more likely to recommend them to others.

FIGURE 3 CHANGE IN REVENUE IN THE LAST 12 MONTHS

Revenue change in the last 12 months	All Practices	Cloud Delayers	Cloud Adopters
Decreased over 20%	7%	18%	4%
Decreased 3-19%	19%	18%	19%
Stayed about the same	30%	38%	27%
Increased 3-19%	38%	21%	44%
Increased over 20%	6%	4%	7%

Source: *Singapore State of the Accounting Industry* report, Xero, 2023

FIGURE 4 SOURCES OF SUCCESS ATTRACTING NEW CLIENTS

Smaller Practices relied even more heavily on online marketing (73% ranked 1st or 2nd) vs Larger Practices (65% ranked 1st or 2nd).

Sources of Success in Attracting New Clients	1 + 2	Smaller Practices	Larger Practices
Online marketing (e g SEM/O, social media, email marketing, blogging, website)	67%	73%	65%
Events/webinars (including self-hosted events and sponsorships)	44%	45%	43%
Partnerships (e g working with startup/SME associations and communities and/or other partners)	40%	39%	41%
Traditional marketing (e g snail mail, flyers)	37%	43%	36%
Word-of-mouth/referrals	34%	41%	31%

Source: *Singapore State of the Accounting Industry* report, Xero, 2023

THE IMPACT OF TECHNOLOGY ADOPTION

An overwhelming 80% said that technology has made a positive change to their practice, with the top cited reasons being:

1. We've saved time: 60%
2. It's been easier and more efficient to collaborate: 45%
3. We've been able to increase the services we offer: 44%
4. We've been able to expand our customer base and reach: 34%
5. We can be available at times that suit clients, beyond normal business hours: 32%

Now more than ever, it is vital for finance functions to present themselves as profit generators, rather than just cost-saving centres. Moving up the value chain is critical in an era of AI and automation, where more and more routine tasks and calculations are being handled by software alone. While some may view these emerging technologies as a threat, others are employing them to create new opportunities – not just for increased efficiency and the ability to serve more clients, but also for upskilling and enhancing the value of their advisory services.

Firms that embrace technology and allow it to augment their capacity for human-focused work will undoubtedly be the winners in a new tech-enabled landscape. ISCA

This article was written by Xero Singapore.

Want to know where you stand? Benchmark your practice against others in the industry by checking out Xero's *Singapore State of the Accounting Industry* report 2023 (https://www.xero.com/sg/campaign/accounting-industry-report/).

TEXT BY

Simon Poh

don's column

A "Limited Inheritance Tax" For Singapore?

Pros And Cons Of Wealth Tax

TAKE AWAYS

- With no inheritance tax – on top of its other value propositions such as the rule of law, security and stability – Singapore is attractive to wealthy individuals from all over Asia and the region looking for a place to move their assets.
- In principle, inheritance tax targets the wealthy, so it potentially plays a critical role in addressing wealth disparity, leading to a more inclusive and progressive society. But tax planning can help circumvent inheritance tax.
- Re-introducing a blanket inheritance tax could lead to an exodus of capital flight.
- Perhaps it's time to think about a limited inheritance tax, with conditions clearly spelt out.

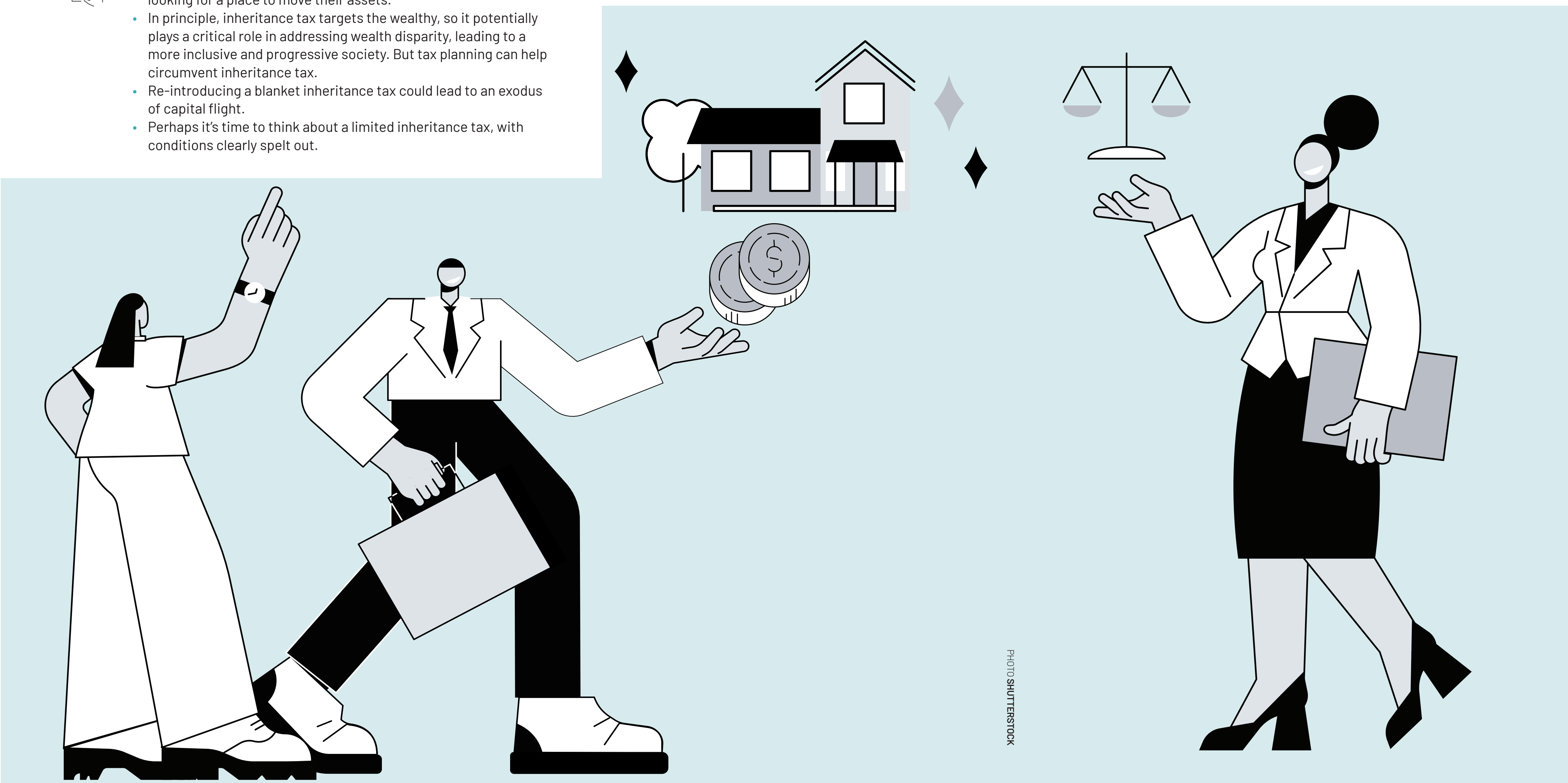


PHOTO SHUTTERSTOCK

SINGAPORE SEEMS TO BE DOUBLING DOWN ON WEALTH TAXES, with a new round of property cooling measures that apply from 27 April 2023, arguably a form of indirect wealth tax even if they are intended as an anti-speculative measure.

Additional buyer's stamp duty will be increased from 30% to 60% for foreigners buying any residential property; from 17% to 20% for Singaporeans buying a second residential property, and from 25% to 30% for Singaporeans buying their third and subsequent residential property.

During the debate earlier in April on the President's Address[1], which laid out key priorities for the remainder of the current term of parliament, Nominated Member of Parliament Raj Joshua Thomas also mooted the idea of a "limited inheritance tax"[2] for inherited properties that have a value of S$5 million (US$3.7 million) and more. This came two months after Deputy Prime Minister and Finance Minister Lawrence Wong announced an increase in buyer's stamp duty for higher-value properties and vehicle taxes for luxury cars.

But Budget 2023 was surprisingly silent on whether estate duty or inheritance tax will be introduced, given the intense discussion leading up to it and the government's previous statement that it will continue to study how it can expand the current wealth tax system.

To set the record straight, the Singapore government has always been collecting some form of wealth taxes to complement taxes on income and consumption. On the basis of efficiency and simplicity, the government has so far opted for low-hanging fruit like property tax and stamp duty.

[1] https://www.channelnewsasia.com/singapore/parliament-second-session-president-halimah-yacob-social-divide-3408526

[2] https://wwwchannelnewsasia.com/singapore/debate-presidents-address-mps-propose-poverty-line-wealth-taxes-unemployment-support-3423366

MERITS AND SHORTCOMINGS

Why is it so difficult to make a decisive statement on the fate of inheritance tax?

Proponents of inheritance tax have alluded to its many merits. It has been described as "the most moral of taxes" and is in line with our beliefs in a meritocratic society. It prevents wealth from being accumulated among fewer people over time and rebalances opportunities to demonstrate skill and effort with each new generation, and not just entrench a great head start in life.

In principle, inheritance tax targets the wealthy. So importantly, it potentially plays a critical role in addressing wealth disparity, leading to a more inclusive and progressive society. But inheritance tax has its shortcomings, which led to Singapore removing it in 2008, following the footsteps of places like Hong Kong and Malaysia.

Removing the inheritance tax paves the way for wealthy individuals from all over Asia and the region to move their assets to Singapore, contributing to vibrant and high growth in our wealth management industry. This would not have been possible if we were to retain the inheritance tax when our close competitors like Hong Kong had chosen to abolish it.

In practice, an inheritance tax can end up a cat-and-mouse game. The ultra-rich can easily avoid inheritance tax through tax planning, for example, by gifting properties to the next generation during their lifetime. As a result, the eventual annual tax collected from estate

VIEWPOINT

The idea of a "limited inheritance tax" on multi-million-dollar inherited property with some rules to prevent abuse could be worth considering, 15 years after Singapore removed it.

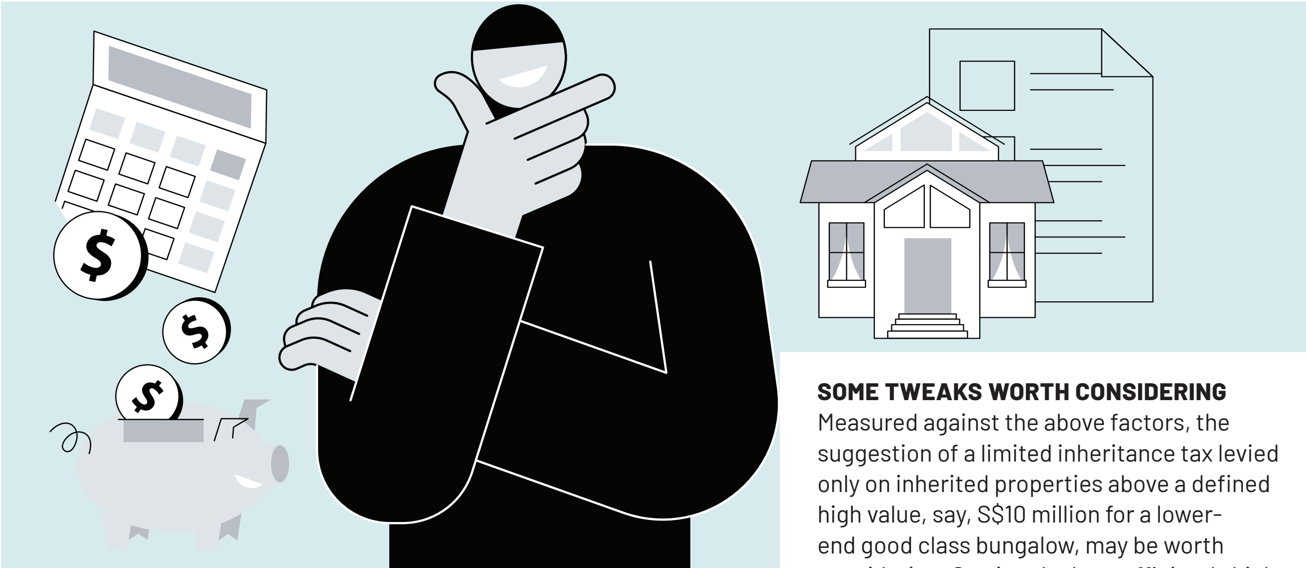


PHOTO SHUTTERSTOCK

duty was only about S$75 million on average, according to the 2008 Budget statement. This makes it an unsustainable source of tax revenue for the government to rely on, when compared to the resources that must be mobilised to collect this tax.

THREAT OF CAPITAL FLIGHT

The factors favouring the removal of inheritance tax are still valid today. Our entrenched position as a wealth management hub in the region will be seriously threatened if the inheritance tax is re-introduced. The likelihood of the exodus of funds and assets out of Singapore to other countries with no inheritance tax is high. Worse still, some of our wealthy residents may be enticed to relocate if that can save them from such a high tax burden. Consequently, more tax revenue could potentially be lost if we take into account the Goods and Services Tax (GST) on the big-ticket items they may otherwise have purchased or the income tax payable by their family members who derive employment or trading income.

Such capital flight means tax collection will continue to be low unless the taxes are tweaked to make them more progressive, with much higher tax rates and lower exemption values at the risk of diluting our attractiveness as a wealth management hub.

If Singapore re-introduces an inheritance tax, the likelihood of an exodus of funds and assets out of Singapore to other countries with no inheritance tax is high

SOME TWEAKS WORTH CONSIDERING

Measured against the above factors, the suggestion of a limited inheritance tax levied only on inherited properties above a defined high value, say, S$10 million for a lower-end good class bungalow, may be worth considering. Setting the bar sufficiently high can target the ultra-rich, well clear of the middle-class segment or those who may inherit property from asset-rich cash-poor parents.

It is also possible to make it harder to cross the thin line between tax planning and tax avoidance by installing certain anti-abuse rules. For example, previous rules allowing the making of gifts to circumvent the collection of inheritance tax could be tweaked to nullify such actions.

Of course, previous unrealistic low exemption limits for non-residential assets as well as unrealistic high exemption limits for residential properties will have to be re-looked and revised to make the system less favourable to ultra-rich individuals as compared to upper- and middle-income individuals.

It may well be that the tax revenue collected from this limited inheritance can still be on the low side, compared to that generated by property stamp duties, including additional buyer's stamp duties, for residential properties.

But it would have the added benefit of taking Singapore a step closer to a meritocratic and inclusive society that seeks to tackle inequality. ISCA

Simon Poh is Associate Professor (Practice), Department of Accounting, NUS Business School. An edited version of this article was first published in *CNA online* on 29 April 2023.

Technical Highlights

AUDITING AND ASSURANCE

ISCA Issues Updated Auditing And Assurance Pronouncements And Guidance Arising From SFRS(I) 1-1 And FRS 1

ISCA's Auditing and Assurance Pronouncements and Guidance have been updated to align with the terminology used in the updated financial reporting standards. The updates are effective for audits of financial statements for periods beginning on or after 1 January 2023.

For more information, please visit https://isca.org.sg/content-item?id=a952bd8e-f9cd-43b5-a3fa-7eebda44324d

IFAC Releases Second Instalment In Implementation Support Series For Small Firms On IAASB's Quality Management Standards

IFAC released the second instalment of a three-part series to help small and medium-sized practices implement the quality management standards. The second instalment provides a step approach to identifying a firm's quality objectives; completing the quality risk assessment process; identifying existing, or creating new, responses to those quality risks; and implementing, documenting, and communicating the system of quality management.

For more information, please visit https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/quality-management-series-small-firm-implementation-installment-two

ETHICS

ISCA Comments On IESBA's Proposed Strategy And Work Plan 2024-2027

ISCA supports IESBA's proposed strategy and work plan, especially on projects relating to sustainability, use of experts and technology.

However, we urge IESBA to give the profession a longer transition time on the adoption of revised standards with a tight timeframe between approval and effective dates, such as the projects on sustainability and use of experts, given that these standards will similarly apply to non-accountants.

For more information, please visit: https://isca.org.sg/docs/default-source/ep-100/cps-and-cls/isca's-comment-letter---iesba-strategy-work-plan.pdf

FINANCIAL REPORTING

ISCA Comments On IASB's ED On Amendments To The Classification And Measurement Of Financial Instruments

ISCA generally supports the proposals by IASB. However, we find the proposals relating to the derecognition of financial liabilities through electronic transfer to be excessive. Electronic payment is not dissimilar to traditional settlement methods such as cheques, and typical bank reconciliation procedures should suffice in addressing the concern of whether a financial liability is settled.

For more information, please visit https://isca.org.sg/docs/default-source/fr-eds-and-comment-letters/isca's-comment-letter---ifrs-9-(for-submission).pdf

AS Committee Issues Amendments On International Tax Reform – Pillar Two Model Rules And Supplier Finance Arrangements

The Accounting Standards Committee (AS Committee) has issued:

- Amendments to SFRS(I) 1-12: International Tax Reform – Pillar Two Model Rules and Amendments to FRS 12: International Tax Reform – Pillar Two Model Rules. The amendments are effective either immediately with retrospective application or for annual reporting periods beginning on 1 January 2023.
- Amendments to SFRS(I) 1-7 and SFRS(I) 7: Supplier Finance Arrangements and Amendments to FRS 7 and FRS 107: Supplier Finance Arrangements. The amendments are effective for annual reporting periods beginning on or after 1 January 2024.

For more information, please visit https://www.acra.gov.sg/accountancy/accounting-standards/accounting-standards-news/local-news

June 2023 IFRIC Update Available

This Update is a summary of discussions by the IFRS Interpretations Committee (IFRIC). Topics discussed include tentative agenda decisions on Merger between a Parent and Its Subsidiary in Separate Financial Statements (IAS 27), and other matters such as Application of the 'Own Use' Exception in the Light of Current Market and Geopolitical Questions (IFRS 9) and Climate-related Risks in the Financial Statements.

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

June 2023 IASB Update And Podcast Available

The topics discussed in this podcast include IASB's preliminary decisions on various IASB projects including application questions within the scope of the Equity Method project, proposals in its Exposure Draft *General Presentation and Disclosures* in relation to the Primary Financial Statements project and feedback received on its Exposure Draft *Third Edition of the IFRS for SMEs Accounting Standard*. The IASB work plan has also been updated.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/06/june-2023-iasb-podcast-now-available/

IASB Increases Transparency Of Companies' Supplier Finance

IASB has issued disclosure requirements to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The amendments to IAS 7 and IFRS 7 are effective for annual reporting periods beginning on or after 1 January 2024.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/05/iasb-increases-transparency-of-companies-supplier-finance/

June 2023 Agenda And Meeting Papers Of Due Process Oversight Committee Available

For the Due Process Oversight Committee meeting held from 13 to 15 June 2023, topics discussed include IASB Technical Activities: Key Issues and Update, and Update on ISSB activities.

For more information, please visit https://www.ifrs.org/news-and-events/calendar/2023/june/trustees-of-the-ifrs-foundation/

SUSTAINABILITY & CLIMATE CHANGE

SRAC Recommendations

ACRA and SGX RegCo have launched a public consultation on the recommendations by the Sustainability Reporting Advisory Committee (SRAC) to advance climate reporting in Singapore. ISCA organised a focus group session on 1 August 2023 to solicit feedback on SRAC's recommendations.

For more information, please visit https://www.reach.gov.sg/Participate/Public-Consultation/Accounting-and-Corporate-Regulatory-Authority/public-consultation-on-turning-climate-ambition-into-action-in-singapore—recommendations-by-the-sustainability-reporting-advisory-committee

ISSB Webcast On Consultation On Next Two-Year Work Plan

ISSB has issued a new webcast on the consultation on its next two-year work plan. The webcast aims to engage stakeholders and seek feedback on four potential projects.

For more information, please visit https://www.ifrs.org/projects/work-plan/issb-consultation-on-agenda-priorities/webcast-request-for-information-overview/

Inaugural Global Sustainability Disclosure Standards Issued

The ISSB has issued IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. The standards are a massive step towards comprehensive, comparable and consistent sustainability disclosures.

For more information, please visit https://www.ifrs.org/news-and-events/news/2023/06/issb-issues-ifrs-s1-ifrs-s2/

PHOTO SHUTTERSTOCK

TECHNICAL EXCELLENCE

TEXT BY

Wang Zhumei

Terence Lam

PHOTO SHUTTERSTOCK

Upholding Public Interest And Safeguarding Stakeholders' Trust

Keeping Auditing And Assurance Standards Fit-For-Purpose

TAKE AWAYS

- When auditing and assurance standards are not robust, or are insufficiently current to keep pace with the changing demands of stakeholders, their value and relevance diminish.
- Auditors should keep abreast of the developments on the auditing and assurance standards; here are the key developments of relevance: SSA 600 (Revised); exposure drafts ISA 570 (Revised), ISA 500 (Revised), ISA for Audits of Less Complex Entities, and ISSA 5000.

There was a time when public accountants could lay claim to the ability to remember every paragraph of the auditing and assurance standards. However, with the latest edition of the International Auditing and Assurance Standards Board (IAASB)'s Handbook[1] running at more than 1,300 pages long, probably few could make such claims today.

A common joke is that standard-setters continuously amend the standards to keep auditors employed. In reality, when the standards are not robust or current enough to keep pace with the changing demands of stakeholders, the value and relevance of audit and assurance is diminished.

External audit and assurance remain integral pillars of the financial reporting ecosystem. High-quality audit and assurance reports continue to play a pivotal role in enhancing trust in the capital markets and instilling confidence in the decision making of stakeholders.

Macroeconomic and geopolitical developments, as well as evolving business and audit environments, necessitate the need for the constant review of existing auditing and assurance standards to ensure that they remain fit-for-purpose. Here, we share some key developments on the auditing and assurance standards.

[1] AASB's 2021 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements; https://www.iaasb.org/publications/2021-handbook-international-quality-control-auditing-review-other-assurance-and-related-services

PHOTO SHUTTERSTOCK

ISCA takes a leading role in advocating the views and proposals of the audit community in Singapore, and actively undertakes public consultation with its members and stakeholders.

1. SSA 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*[2]

Singapore Standard on Auditing (SSA) 600 (Revised), issued in March 2023, deals with special considerations that apply to a group audit, including in those circumstances when component auditors are involved. The revised standard is effective for audits of group financial statements for periods beginning on or after 15 December 2023.

SSA 600 (Revised) seeks to achieve the following outcomes:

• A new risk-based approach for greater focus on addressing risks

A well-informed risk assessment and the corresponding design of audit procedures to address identified risks are critical to audit quality, especially in light of the increasing complexities of group business environments.

In extant SSA 600, the group auditor identifies "significant components"[3] of the group and performs an audit of the financial information of these components. In the revised standard, the concept of "significant component" is removed. Instead, the revised standard introduces a new approach for planning and performing a group audit engagement, referred to as the risk-based approach.

The risk-based approach emphasises the need for the group auditor to think about **what**, **how** and **by whom and where** of the work that is to be performed.

- **What:** determining significant classes of transactions, account balances or disclosures in the group financial statements when identifying and assessing risks of material misstatement of the group financial statements at the assertion level;
- **How:** determining the most appropriate audit strategy (for example, centralised or decentralised testing, or a combination) and the nature, timing and extent of further audit procedures to address the assessed risks of material misstatement of the group financial statements; and
- **By whom and where:** determining whether the group auditor or component auditors will obtain audit evidence in response to the assessed risks of material misstatement of the group financial statements, and the components at which audit work will be performed.

This new approach helps the group auditor to "re-think" the group audit strategy to allow for a greater focus on how the assessed risks of material misstatement of the group financial statements are addressed, instead of just defaulting to "an audit" of the component financial information.

• Encouraging proactive management of quality

SSA 600 (Revised) encourages the proactive management of quality in group audits through:

- **Managing and achieving quality in a group audit:** clarifying how the requirements in SSA 220 (Revised)[4] apply to manage and achieve audit quality in a group audit, including sufficient and appropriate resources to perform the engagement, and the direction and supervision of the engagement team and the review of its work;
- **Restrictions on access to information or people:** clarifying the various types of restrictions that may exist, such as restrictions on access to people and information, and component auditor audit documentation. Guidance is also provided on ways to overcome such restrictions;
- **Materiality considerations:** clarifying how the concepts of materiality and aggregation risk[5] apply in a group audit.

• Reinforcing the need for robust communication and interactions during the audit

Recognising that robust communication and interactions between the group auditor and component auditor(s) are critical for the effective execution of group audits, the revised standard strengthened and clarified:

- The importance of two-way communication between the group auditor and component auditors;
- Various aspects of the group auditor's interaction with component auditors, including communicating relevant ethical requirements, determining competence and capabilities of the component auditor, and determining the appropriate nature, timing and extent of involvement by the group auditor in the work of the component auditor.

• Independence considerations in group audits

Are you auditing a subsidiary of a public interest entity (PIE) and reporting to a group auditor? If yes, you may be impacted by the upcoming revisions to the ethics code (expected effective date of 15 December 2023).

[2] With reference to IAASB's Basis for Conclusions on International Standard on Auditing (ISA) 600 (Revised); https://www.iaasb.org/publications/international-standard-auditing-600-revised-special-considerations-audits-group-financial-statements
[3] As defined by paragraph 9(m) of SSA 600, a significant component is a component identified by the group engagement team (i) that is of individual financial significance to the group, or (ii) that, due to its specific nature or circumstances, is likely to include significant risks of material misstatement of the group financial statements
[4] SSA 220 (Revised) *Quality Management for an Audit of Financial Statements*
[5] Aggregation risk (new definition) – the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole

Where the group audit client is a PIE, independence provisions applicable to PIEs would **also apply** to the component auditors reporting to the group auditor firm for purposes of the group audit. As such, PIE independence requirements such as those relevant to key audit partners and partner rotation and the permissibility of a non-assurance service to an audit client, would also apply to non-PIE component auditors who are outside of the group auditor firm's network.

2. Exposure Draft on ISA 570 (Revised 202X) *Going Concern*[6]

Corporate failures across the globe in recent years have brought the topic of going concern to the forefront and led to stakeholder demands for enhanced transparency on going concern. Macroeconomic and geopolitical developments have also led to heightened risks, drawing attention to the challenges and issues pertaining to the auditor's responsibilities and work related to management's assessment of an entity's ability to continue as a going concern.

ISA 570 (Revised) *Going Concern*[7] deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. In response to these developments, IAASB is proposing revisions to ISA 570 (Revised) in its exposure draft to strengthen the auditor's evaluation of management's assessment of going concern, and bolstering communications and reporting requirements in relation to going concern.

ISCA has commenced outreach activities to solicit feedback from members and stakeholders on the proposed revisions. Stay tuned to the ISCA website in August[8] for our response to the exposure draft.

3. Exposure Draft on ISA 500 (Revised) *Audit Evidence*[9]

ISA 500 explains what constitutes audit evidence in an audit of financial statements, and deals with the auditor's responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.

The proposed revisions in the exposure draft recognise the changes in information used by auditors and the evolution of technology in businesses and audits, including the usage of automation tools and techniques. They also emphasise the importance of applying professional scepticism when making judgements about information to be used as audit evidence, among others.

ISCA has responded to the exposure draft. While ISCA is supportive of the enhancements to modernise the standard, we proposed further elaboration on the use of data analytics to support and facilitate its adoption. Practical implementation challenges that auditors contend with when applying data analytics include the extent of testing of the underlying data used, assessment of audit evidence obtained from data analytics procedures and dealing with exceptions. Addressing these practical issues in the standard will help provide the impetus to drive the adoption of data analytics.

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The finalised standard is expected to be issued by IAASB in the second half of 2024.

4. ISA for Audits of Less Complex Entities (ISA for LCE)[10]

Observing that auditing standards have become longer and more complex over time, IAASB is developing a separate standalone standard for the audit of less complex entities. Two exposure drafts were issued on the proposed ISA for LCE in July 2021 and January 2023[11].

In Singapore, mixed views were received on the proposed standard. On the one hand, some practitioners welcomed the more concise standard designed with easier application for audits of less complex entities, which could potentially lead to more efficient audits. On the other hand, other practitioners do not see a need for a separate standard since the current ISAs are supposed to be principles-based and scalable. There were also concerns raised on training audit staff on two different sets of standards and whether users of financial statements would perceive an audit conducted using ISA for LCE to be of lower quality and, correspondingly, view the audit opinion issued as "second tier".

To address the concerns raised, IAASB is looking into proportionate revisions to ISA for LCE to be more tailored to less complex entities, in order to further distinguish between ISA for LCE and the current ISAs. The finalised standard is expected to be issued by IAASB in December 2023. Thereafter, ISCA would undertake outreach activities with stakeholders to decide if it would be adopted in Singapore.

5. Exposure Draft on ISSA 5000 – Overarching Standard for Assurance on Sustainability Reporting

As investors, regulators, and a broad range of stakeholders seek reliable and comparable reporting on companies' performance on non-financial sustainability measures, the demand for assurance engagements that enhance the degree of confidence of the intended users of sustainability reporting information is rapidly growing.

To address this demand, IAASB is developing a new overarching standard for sustainability assurance engagements – the proposed International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*, which is intended to apply to the assurance of sustainability information across multiple topics and reporting frameworks. The public consultation on the exposure draft of ISSA 5000 is expected to open in Q3 2023.

CONCLUSION

Staying at the forefront of developments in the auditing and assurance arena will equip auditors with the necessary expertise to excel in their role. Members can do so through ISCA's Practitioners' Bulletin as well as our guidances and bulletins. Look out for our upcoming guidance on the significant changes and implementation challenges relating to SSA 600 (Revised) in the second half of this year. ISCA

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[6] With reference to the IAASB's exposure draft on ISA 570 (Revised 202X); https://isca.org.sg/content-item?id=0f7f3597-c381-4c66-a1cb-387a74610c68

[7] ISA 570 (Revised) *Going Concern*. The SSA equivalent of this standard is SSA 570 (Revised) *Going Concern*.

[8] https://isca.org.sg/standards-guidance/audit-assurance/open-for-comment/isca-comment-letters

[9] With reference to IAASB's exposure draft on ISA 500 (Revised) *Audit Evidence*; https://www.iaasb.org/publications/proposed-international-standard-auditing-500-revised-audit-evidence-and-proposed-conforming-and. You can read the full response submitted by ISCA to IAASB; https://isca.org.sg/docs/default-source/audit-assurance/cps-cls/comment-letter-on-ed—-isa-500-(revised)(final)(for-submission).pdf

[10] With reference to IAASB's exposure drafts on Proposed ISA for LCE (https://www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities); and Proposed Part 10, *Audits of Group Financial Statements* of the Proposed ISA for LCE (https://www.iaasb.org/publications/proposed-part-10-audits-group-financial-statements-proposed-isa-audits-financial-statements-less)

[11] You can read the responses submitted by ISCA to IAASB on exposure drafts on Proposed ISA for LCE (https://isca.org.sg/docs/default-source/audit-assurance/cps-cls/isca-comment-on-ed-isa-for-less-complex-entities.pdf); and Proposed Part 10, *Audits of Group Financial Statements* of the Proposed ISA for LCE (https://isca.org.sg/docs/default-source/audit-assurance/cps-cls/comment-letter-on-ed—-proposed-part-10-audits-of-group-fs-(isa-for-lce)-(for-submission).pdf)

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Please look out for our latest consultations (https://isca.org.sg/standards-guidance/audit-assurance/open-for-comment/public-consultation) and write to us at professionalstandards@isca.org.sg to share your feedback.

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TEXT BY


Felix Wong


Joseph Tan

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Foreign-Sourced Income Exemption In Singapore And Hong Kong

Comparing The FSIE Regimes Amid Recent Changes

TAKE AWAYS

- Singapore may introduce an "economic substance" concept through the proposed Section 10L to impose tax on gains from the sale of foreign assets received in Singapore.
- Singapore's FSIE regime covers foreign-sourced dividend, branch profits and service income, while Hong Kong's FSIE regime covers dividend, interest, disposal gains on equity interests and IP income.

WHILE SINGAPORE AND HONG KONG'S TAX REGIMES ARE BOTH ATTRACTIVE TO INVESTORS, there are fundamental differences between the two regimes, such as how foreign-sourced income is treated for tax purposes. Unlike Singapore which generally imposes income tax on all foreign-sourced income received in Singapore unless specifically exempt, Hong Kong has historically adopted a territorial basis of taxation where offshore profits are generally not subject to tax.

(From left) Accredited Tax Advisor (Income Tax) Loh Eng Kiat, Tax Partner and Sports Business Tax Leader, Deloitte Singapore; and Chung Yiu Hong, Tax Director, Deloitte China, compared Singapore and Hong Kong's FSIE regimes and shared insights on their unique characteristics and recent changes

This changed following a review in 2021, when Hong Kong was placed in the European Union (EU)'s "watchlist" of non-cooperative jurisdictions for tax purposes. Hong Kong has since implemented its foreign-sourced income exemption (FSIE) regime on 1 January 2023, but the buzz continued as a new consultation paper was issued shortly after, on proposed refinement to expand the scope of disposal gain.

Diving into and dissecting all that was happening in Hong Kong, comparing the new FSIE regime in Hong Kong with Singapore's very own, and analysing what all these mean for businesses were what Accredited Tax Advisor (Income Tax) Loh Eng Kiat, Tax Partner and Sports Business Tax Leader, Deloitte Singapore, and Chung Yiu Hong, Tax Director, Deloitte China, did at a recent Singapore Chartered Tax Professionals webinar.

BACKGROUND

Singapore

Under Singapore's FSIE regime, specified classes of foreign-sourced income (including dividend, branch profits and service income) received in Singapore by a Singapore tax resident company can be exempt from tax if certain conditions are met.

Late in 2022, the EU's Code of Conduct Group issued updated guidance on FSIE to require all types of passive income (including capital gains) to be subject to the economic substance requirement as a prerequisite for non-taxation. To align Singapore's tax regime with EU's guidance, the Ministry of Finance has proposed to introduce a new Section 10L into the Income Tax Act 1947 (ITA) to impose tax on gains from the sale of foreign assets that are received in Singapore by businesses without economic substance in Singapore. If passed, the legislative effect would take place on or after 1 January 2024.

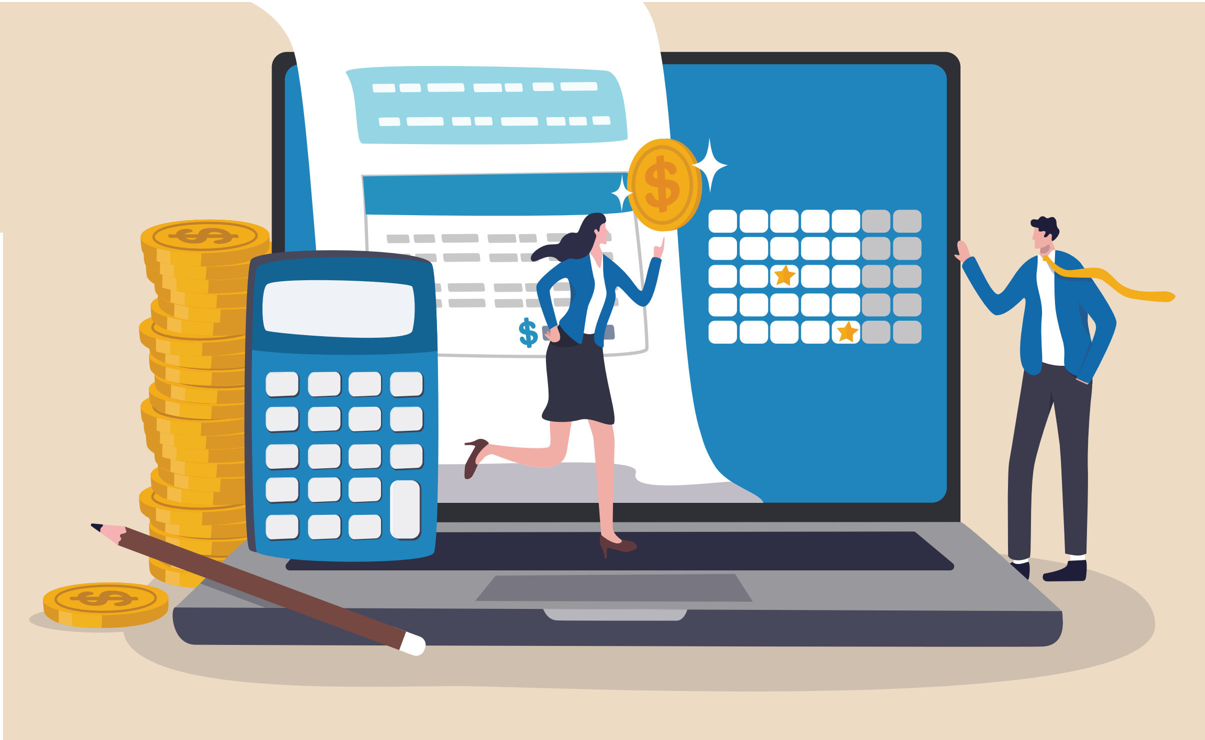
"Introducing an economic substance concept into the ITA for Section 10L purposes may bring about uncertainty to taxpayers since 'substance' may be in the eye of the beholder. It would be interesting to see if the Inland Revenue Authority of Singapore (IRAS) proactively embraces 'economic substance' advance rulings for taxpayers keen to seek certainty for future transactions, like their counterparts in Hong Kong," said Mr Loh.

Hong Kong

Unlike Singapore, offshore profits are generally not subject to tax under Hong Kong's territorial basis of taxation.

In October 2021, the EU added Hong Kong to its watchlist of non-cooperative jurisdictions for tax purposes following its period review of FSIE regimes.

In its effort to be taken off EU's watchlist, Hong Kong introduced its FSIE regime on 1 January 2023. Despite its efforts, Hong Kong has remained on EU's watchlist. Further amendments to the FSIE regime, in particular, to expand the scope of disposal gain, are expected to address the specific issues raised by the EU.



While the concept of keeping foreign-sourced income "offshore" is not necessarily new to some Singapore companies, it is something that Hong Kong companies did not have to think about previously, given Hong Kong's territorial basis of taxation.

AN ANALYSIS OF THE TWO FSIE REGIMES

Scope of FSIE Regime

Singapore

Singapore tax resident companies may enjoy tax exemption on foreign-sourced dividends, branch profits and service income under Section 13(8) of the ITA, subject to Section 13(9) conditions (such as whether the foreign income has been subject to tax, the foreign headline tax rate concerned is more than 15%, and if the tax exemption is beneficial to the Singapore tax resident).

Certain foreign-sourced income which do not meet the conditions for tax exemption under Section 13(8) of the ITA may be granted tax exemption under Section 13(12) of the ITA under specified scenarios, subject to conditions.

Hong Kong

One unique aspect of Hong Kong's new FSIE regime is that it only applies to multinational enterprise (MNE) entities. Under Hong Kong's regime, certain foreign-sourced income (including dividend, interest, disposal gains on equity interests, and intellectual property (IP) income) accrued to an MNE entity carrying on a trade, profession or business in Hong Kong, will be deemed to be sourced from Hong Kong and chargeable to profits tax when it is received in Hong Kong.

These specified foreign-sourced income, however, will continue to be exempt from profits tax if the economic substance requirement, participation requirement or nexus requirement (as the case may be) is satisfied in the year of assessment in which the income accrues to the MNE entity. If the MNE entity fails all exceptions, the foreign-sourced income will be subject to profits tax in the year of assessment in which such income is received by the MNE entity in Hong Kong.

Exceptions from the Deeming Provision in Hong Kong

a. **Economic substance requirement (for interest, dividend and disposal gain)**
   Foreign-sourced interest, dividend or disposal gain received in Hong Kong by an MNE entity would be exempted from profits tax if the economic substance requirement is met for the year of assessment in which the income accrues.

   There are no minimum thresholds to determine whether the adequacy tests are satisfied for the purpose of the economic substance requirement. Instead, several relevant factors, such as the adequacy of qualified employees in Hong Kong and the adequacy of operating expenditures in Hong Kong in relation to the specified economic activities, are taken into account to ascertain whether the economic substance requirement is met.

b. **Participation requirement (for dividend and disposal gain)**
   The participation requirement provides an alternative pathway for an MNE entity which receives foreign-sourced dividend or disposal gain in Hong Kong to claim tax exemption.

   An MNE entity may qualify for participation exemption if it has continuously held not less than 5% of equity interests in the investee entity for a period of not less than 12 months immediately before the foreign-sourced dividend or disposal gain accrues, subject to specific anti-abuse rules.

c. **Nexus requirement (for IP income)**
   A nexus requirement is in place to determine the extent of foreign-sourced IP income to be exempt from profits tax. Essentially, only income from a qualifying IP asset can qualify for preferential tax treatment. This is based on a nexus ratio which is the qualifying expenditures as a proportion of the overall expenditures that have been incurred by a taxpayer to develop an IP asset.

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Double Taxation Relief

Hong Kong

Hong Kong resident persons who fail to meet the exemptions conditions but have paid taxes in a foreign jurisdiction in respect of the specified foreign-sourced income may obtain double taxation relief through a tax credit mechanism. The amount of tax credit is capped at the lower of foreign tax paid and the profits tax that would have been payable on the same income.

In the case of foreign-sourced dividend, tax credits may be allowed in respect of not only the foreign tax paid on the dividend but also the foreign tax paid on the investee entity's underlying profits out of which the dividend is paid, provided that the MNE entity has held at least 10% equity interests in the investee entity when the dividend is distributed.

Singapore

Similar to Hong Kong, corporate resident taxpayers in Singapore who are taxed on the same foreign-sourced income in foreign countries may have flexibility to claim tax credits locally in lieu of Singapore's FSIE regime to relieve themselves from double taxation.

Singapore generally imposes income tax on all foreign-sourced income received in Singapore unless specifically exempt

TAX PLANNING AND CONSIDERATIONS

Keeping Foreign-Sourced Income "Offshore"

While the concept of keeping foreign-sourced income "offshore" is not necessarily new to some Singapore companies, it is something that Hong Kong companies did not have to think about previously, given Hong Kong's territorial basis of taxation.

Following the introduction of the FSIE regime in Hong Kong, certain foreign-sourced income would now be deemed to be sourced from Hong Kong and chargeable to profits tax when it is "received in Hong Kong". It is therefore timely for MNE entities operating in Hong Kong to evaluate whether they are affected by the new FSIE rules and if so, consider the necessary adjustments to be made in relation to their foreign-sourced income. Some relevant questions to ask include:

- Whether there is a need for the MNE entity to set up a dedicated overseas bank account to receive foreign-sourced income to avoid being "received in Hong Kong";
- Whether the MNE entity's existing systems and processes are adequate in tracking its foreign-sourced income for compliance purposes;
- How the MNE entity may redeploy its foreign-sourced income in the longer term without such income being regarded as "received in Hong Kong".

Foreign Tax Credit Pooling

Singapore tax residents may in some situations elect for the foreign tax credit pooling system when claiming foreign tax credit on income for which they paid foreign tax, giving them more flexibility and reducing their Singapore tax payable on remitted foreign-sourced income. There is currently no equivalent foreign tax credit pooling concept in Hong Kong. ISCA

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FRS 117 *Insurance Contracts* Vs MAS' Risk-Based Capital 2 Part 6

Guidance From ISCA's IFRS 17 Working Group

TEXT BY

Alvin Chua

Poon Kai Hong

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PHOTO SHUTTERSTOCK

TAKEAWAYS

- Should an insurer be eligible for the premium allocation approach (PAA) under FRS 117, there are measurement differences under FRS 117 and RBC 2.
- Some alignment between FRS 117 and RBC 2 can be achieved, such as in the premium earnings pattern, and significant financing component.
- In other areas, alignment may be challenging, such as for liabilities denominated in foreign currency, and directly attributable acquisition costs.

THE FIFTH ARTICLE OF THE SERIES BY THE IFRS 17 WORKING GROUP, published in the June 2023 issue of this journal, addressed measurement issues of an entity applying the premium allocation approach (PAA) under FRS 117 *Insurance Contracts* (FRS 117). Should an insurer be eligible for the PAA, this article further explores the measurement differences under Risk-Based Capital 2 (RBC 2) and FRS 117.

1. Premium earning pattern

The premium earning pattern under FRS 117 is on the basis of passage of time unless the expected pattern of release of risk during the coverage period differs significantly from the passage of time. In such a scenario, the entity is required to earn the premiums on the basis of expected timing of incurred insurance service expense. Under RBC 2, for the purposes of determining the unearned premium reserve (net of reinsurance), premiums are generally earned on a basis of passage of time (applying a method not less accurate than the 1/24th method by default) with specific simplifications allowed for direct cargo policies and marine and aviation reinsurance policies. Hence, some alignment between FRS 117 and RBC 2 is possible except for products with non-uniform risk release patterns such as flood cover, aviation satellite or engineering risks, which may not be straight-line in their risk release patterns. For direct cargo policies and marine and aviation reinsurance policies, insurers will need to assess if the RBC 2 simplifications would produce an earning pattern similar to passage of time allowed for under FRS 117 based on the coverage periods of their marine and aviation policies and reinsurance policies.

FRS 117 requires revenue earned during the period to be adjusted based on expected premium receipts. In other words, the entity would recognise revenue after adjusting for any expected bad debts or expected premium adjustments. RBC 2 would account for bad debt as a separate expense and provision on the profit and loss and balance sheet. In line with this principle, for products with minimum premium deposit features (such as fleet motor cover) where premium adjustments are allowed based on actual volume, insurers will have to recognise revenue based on its estimated premium income (EPI) under FRS 117. This may deviate from RBC 2 depending on the insurer's current accounting practices.

A contract applying the PAA may include an investment component[1] which, if non-distinct, is not required to be separated from the contract to be measured under a different accounting standard. However, FRS 117 requires that the revenue earned and insurance service expenses incurred during the period to exclude the non-distinct investment component (NDIC). RBC 2 does not have the concept of investment component nor NDIC; insurers will need to consider the impact of NDIC when determining the revenue to be earned under FRS 117.

> The PAA provides a simplified option for entities when compared against the general measurement model, and general insurers will find the approach similar to the current approach for unearned premium reserve and claim liabilities. However, general insurers will need to consider the differences between the RBC 2 basis and FRS 117 before leveraging on the RBC 2 reporting processes for FRS 117 reporting.

2. Significant financing component

FRS 117 introduces an adjustment to the liability for remaining coverage (LFRC) calculations if a significant financing component exists within the group of contracts. The revenue recognised in the profit and loss, together with the LFRC, is adjusted to reflect the time value of money for premiums if, at initial recognition, the entity expects that the time between providing each part of the services and the related premium due date is no more than a year. Some alignment can be achieved as

[1] An investment component exists when an insurer is required to repay an amount to the policyholder in all circumstances, regardless of whether an insured event occurs. Examples of product features that may create an NDIC are: no claim bonuses, experience refunds and profit commissions.

under RBC 2, insurance liabilities are allowed to be undiscounted so long as the impact of discounting is immaterial or if the duration of the contract is one year or less.

3. Liabilities denominated in foreign currency

FRS 117 also clarifies that the insurance liabilities should be treated as a monetary item where liabilities denominated in foreign currency should be revalued, with its impact presented in insurance finance income/expense. Under RBC 2, the impact of foreign currency revaluation of policy liabilities is presented within the movement in the policy liabilities line, in profit and loss instead.

4. Directly attributable acquisition costs

RBC 2 only allows for the deferral of commissions as part of acquisition costs. On the other hand, FRS 117 defines acquisition costs as costs of selling, underwriting and starting a group of insurance contracts. As such, when determining the deferral of acquisition costs for FRS 117 purposes, the insurer will need to consider other costs and overheads related to the selling and underwriting activities. This is expected to be more than the commission deferred under RBC 2.

5. Loss component

Under FRS 117, where facts and circumstances indicate that a group of contracts is onerous, the entity is required to recognise a loss component determined by calculating the difference between the fulfilment cash flows related to the unexpired risks and the LFRC determined as described in Part 5 of our article.

For the purposes of determining the loss component under FRS 117, insurers could leverage on the methods applied for RBC 2 purposes, which define the premium liability as the higher of the unearned premium reserve (UPR) or the unexpired risk reserves (URR). As the URR is effectively a measure of all future liabilities required for the unexpired risk, the excess of URR against UPR would principally be similar to the FRS 117 loss component, barring some adjustments articulated below.

The URR methodology determined under RBC 2 can be adjusted to apply the same fulfilment cash flows required under FRS 117. Some adjustments may include an adjustment to risk adjustment, applying discounting and adjusting the expense loading[2] to align them with FRS 117 principles. As FRS 117 requires the loss component to be calculated at the group of contracts level, general insurers will have to consider whether the level of granularity the URR is determined for RBC 2 purposes is sufficient for FRS 117. Furthermore, the URR will need to be adjusted to factor in the contract boundary of the contracts as defined under FRS 117, which may not be the same as RBC 2.

The PAA provides a simplified option for entities when compared against the general measurement model (GMM), and general insurers will find the approach similar to the current approach for UPR and claim liabilities. However, general insurers will need to consider the differences between the RBC 2 basis and FRS 117 before leveraging on the RBC 2 reporting processes for FRS 117 reporting. ISCA

Alvin Chua is Chairman of the IFRS 17 Working Group (WG) and Director, KPMG Services Pte Ltd; Poon Kai Hong is a WG member and Senior Manager, PricewaterhouseCoopers Risk Services Pte Ltd; and Adrian Chua is a WG member and Chief Financial Officer, Cigna Singapore.

[2] FRS 117 requires that only expense directly attributable to the fulfilment of insurance contracts should be included in the fulfilment cash flows. Expense not directly attributable to the fulfilment of insurance contracts should be excluded from the liability calculations. Under RBC 2, the unexpired risk reserves include any expense expected to be incurred in administering the policies and settling claims against those policies.

This is Part 6 of a series of articles from the IFRS 17 Working Group (set up under the ambit of the ISCA Insurance Committee) to help insurers in Singapore navigate through the differences between FRS 117 and RBC 2.

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