RESIDENCE AND SOURCE
Understanding The Foundation Concepts

POWERING INTO THE FUTURE
Disruptive Innovation That Will Change Financial Services

A MEANINGFUL JOURNEY IN HEALTHCARE
KKH CFO & ISCA Member Grace Lim
Disruptive Innovation, Progressing with the Times

Dear members,

Some of you may remember that in the 1980s, the concept of an “information superhighway” – a digital communications system and Internet telecommunications network that would “connect” people and transfer information – was considered novel and revolutionary. Barely three decades later, the same concept has been enhanced many times over in sophistication, function and reach, spawning such innovative models and disruptive technologies that they have transformed the way we do business.

The economic landscape has become more complex and as finance professionals, it is important for us to keep up with the world around us, and progress with the times. Amid sweeping regulatory change, today’s financial services institutions must grapple with capital management, business risks and global growth – simultaneously meeting greater demands for transparency. For a year, Deloitte had worked with the World Economic Forum to conduct an extensive study about the future of financial services. The aim was to understand how disruptive innovations are reshaping the business of financial services as it exists today. The cover story identifies the clusters of innovation that are affecting business in five areas of financial services – primary accounts, payments, capital markets, investment management and insurance – and their impact on the region.

Governments and organisations across Southeast Asia are adapting the relevant disruptive innovations to suit their needs. In fact, Singapore’s iN2015 Smart Nation initiative is progressing in visible ways, with 2015 being the year of prototypes, such as driverless vehicles, and localised trials, which include the use of sensors and other
technologies for crowd management, automated business services, and energy and waste management. In work, financial technologies are making the impossible possible, and also enhancing efficiency. Data analytics, for example, can create value by making sense of massive amounts of information, thus enabling strategic decision-making. Disruptive innovation is here to stay, and I urge members to keep up with its development in order to stay ahead of the game.

Given the prevalence of disruptive innovation, it will be a key topic at this year’s Singapore Accountancy Convention on November 12. Bringing together thought leaders and industry veterans who will share their perspectives on the leading issues facing the profession, participants can discover the opportunities brought on by the digital economy, and prepare themselves to take on an expanded role as a change agent and strategic adviser.

This issue’s Member Profile casts the spotlight on Grace Lim, a change leader and strategic adviser, who credits her accountancy background for bringing her “endless possibilities”. When asked about her success factors, the Chief Financial Officer (CFO) of KK Women’s & Children’s Hospital, and concurrently Deputy Group CFO (Service Transformation and Education) of SingHealth, says that as an accountant, the fundamental principles of integrity, humility, courage and passion are of utmost importance. What she says would strike a chord with members as integrity and moral courage (to do the right thing) are integral to our profession.

Integrity and courage are also alluded to in an exclusive interview with Dr Stavros Thomadakis, the independent chairman of the International Ethics Standards Board for Accountants (IESBA). One of his primary goals is to lead IESBA to produce the Code of Ethics for Professional Accountants, and further its adoption and implementation globally. The Code takes into account issues of corporate culture and integrity, as well as the accountants’ responsibilities when faced with non-compliance with laws and regulations (NOCLAR). It definitely takes integrity and courage to whistleblow or deter NOCLAR, and to remediate its consequences.

The recent conclusion of the Trans-Pacific Partnership (TPP) is exciting news that is five years in the making. Clearly, there are benefits for businesses, and it is timely for our members to know more about this free trade pact and its likely impact. The TPP article and other relevant updates are within these pages, bringing you the information that adds value to your work.

Have a good read, and I look forward to meeting many of you at the Singapore Accountancy Convention.

Gerard Ee
FCA (Singapore)
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As cyber attacks continue to escalate in frequency, severity and impact, prevention, detection methods and cyber security innovation are also on the rise, thanks to forward-leaning business leaders. This is according to the “Global State of Information Security® Survey 2016”, a worldwide survey by CIO, CSO and PwC.

The survey, which examines how executives are looking towards new innovations and frameworks to improve security and mitigate enterprise risk, reveals that as cyber risks become increasingly prominent concerns in the C-suite and boardroom, business leaders are increasingly rethinking cyber security practices, focusing on a nexus of innovative technologies that can reduce enterprise risks and improve performance.

The vast majority of organisations (91%) have adopted a security framework, or more often, an amalgam of frameworks. These technologies are yielding considerable opportunities to improve cyber security and produce holistic, integrated safeguards.
against cyber attacks. “We are seeing more of what we once saw as a risk, being turned into possible solutions,” said David Burg, Global and US Advisory Cyber Security Leader, PwC. “For example, many organisations are embracing advanced authentication as a cloud service in place of solely password-based authentication.”

The adapting of traditional cyber security measures to an increasingly cloud-based world is an example of this effort, with considerable investments being made to develop new network infrastructure capabilities that enable improved intelligence gathering, threat modelling, defence against attacks and incident response. According to the report, 69% of respondents said they use cloud-based security services to help protect sensitive data and ensure privacy and the protection of consumer information.

Connected to the emergence of cloud-based systems, big data and the Internet of Things are each ascendant technologies that present a host of cyber challenges and opportunities. In the case of big data, often considered a cyber liability, 59% of respondents are leveraging data-powered analytics to enhance security by shifting security away from perimeter-based defences and enabling organisations to put real-time information to use in ways that create real value.

As the number of Internet-connected devices continues to surge, the Internet of Things will inevitably increase the stakes for securing cloud-based networks. Investment intended to address these issues doubled in 2015, but at this point, only 36% of survey respondents have a strategy specifically addressing the Internet of Things. “There is no one-size-fits-all model for effective cyber security; it’s a journey toward a future state that starts with the right mix of technologies, processes, and people skills,” added Mr Burg. “With those components in place, cyber security potentially serves as an indispensable ongoing business enabler.”

Over the past three years, the number of organisations that have embraced external collaboration has steadily increased. Sixty-five per cent of respondents report they are collaborating with others to improve security. As more businesses share more data with an expanding roster of partners and customers, they would likely also swap intelligence on cyber security threats and responses.
New Audit Quality Indicators Disclosure Framework to Help Raise Audit Quality

To further raise the quality of audits on financial statements in Singapore, the Accounting and Corporate Regulatory Authority (ACRA) has introduced an Audit Quality Indicators (AQIs) Disclosure Framework. The first such initiative in the region, the voluntary Framework will see the Big Four firms provide data according to a set of eight comparable indicators to help audit committees better evaluate and select the right auditors. These quality markers correlate closely with audit quality based on ACRA’s observations from inspecting auditors over the past decade. To help audit committees with the practical application of the AQIs, a guidebook on the AQIs Framework will be disseminated to all audit committees.

8 Audit Quality Indicators

1. Time spent by senior audit team members
2. Years of audit experience and industry specialisation
3. Average training hours and industry specific training
4. Results of external and internal inspections
5. Compliance with independence requirements
6. Headcount in quality control functions
7. Staff per partner/manager ratio
8. Degree of personnel losses
The Director and CFO Forum: Strengthening Financial Governance

(From left) David Smith, Head of Corporate Governance, Aberdeen Asset Management Asia; Chng Lay Chew, CFO, SGX, and Chairman, Singapore CFO Institute Advisory Council; Moderator Shariq Barmaky, Chairman, ISCA Auditing and Assurance Standards Committee, and Partner, Deloitte & Touche; Julia Tay, Deputy Chief Executive, ACRA; Adrian Chan, First Vice-Chairman, SID, and Head of Corporate, Lee & Lee, and Ong Pang Thye, Deputy Managing Partner, KPMG
As the driving force of corporations, directors and Chief Financial Officers (CFOs) play a pivotal role in ensuring that their corporations have the necessary capability and capacity to establish and maintain strong financial governance. With this in mind, ISCA, in collaboration with the Accounting and Corporate Regulatory Authority (ACRA), Singapore Institute of Directors (SID), The Singapore CFO Institute (SCFOI) and Singapore Exchange Limited (SGX) held a Forum on strengthening financial governance on October 1 at the SGX Auditorium.

The Forum focused on three key aspects of financial governance – regulations, audit quality and financial reporting.

On regulations, an area of much interest to the directors is ACRA’s Financial Reporting Surveillance Programme (FRSP), an initiative to raise the bar on financial reporting in Singapore through the review of financial statements. Ms Bong Yap Kim, Director, Financial Reporting Surveillance Department of ACRA, presented key regulatory outcomes from the inaugural FRSP report, sharing observations and common pitfalls in areas such as construction contracts, consolidation and mixed-use property.

One of the initiatives to enhance audit quality is the enhanced auditor reporting project, which represents a landmark development in global auditor communication. Mr Hans Koopmans, Deputy Chairman of ISCA Auditing and Assurance Standards Committee and Partner, PricewaterhouseCoopers Singapore, shared the key changes to the auditor’s report and the related successful implementation story in the United
Kingdom. The ensuing panel discussed the encouraging poll results from the participants on their level of awareness and reactions to the enhanced reporting regime and also engaged in interesting debates on areas such as impact on audit fees and expectations of the changes.

For financial reporting, the new Revenue standard will change how businesses have been reporting their revenue. Mr Reinhard Klemmer, Deputy Chairman of ISCA Financial Reporting Committee and Partner, KPMG Singapore, explained the new five-step model to revenue recognition and highlighted implementation considerations and business implications. He emphasised the need to prepare early and urged companies to start assessing the impact on their businesses.
New Friendships Forged at ISCA New Members’ Night

“The event gave us a very good chance to meet other new Chartered Accountants of Singapore” – this was the feedback given by Saravanakumar Lakshmi Priya, herself a newly-minted CA (Singapore), at the New Members’ Night event on September 29.

This quarterly event has been gaining traction among new members, with many sharing that they look forward to attending the event after learning about the member-centric activities conducted at previous sessions. The regular segments include the certificate-presentation ceremony and taking of the ISCA Oath. “I am proud to receive my CA (Singapore) certificate,” said Ms Priya.

Indeed, the new ISCA members have a lot to be proud of. In his welcome address, ISCA CEO Lee Fook Chiew spoke to the members about the importance of capitalising on their elevated professional status as CAs (Singapore) to differentiate themselves in today’s competitive world of finance and business. As ISCA is now part of the globally-
recognised Chartered Accountants Worldwide, members can also expect greater professional recognition and enhanced employability not just locally, but also internationally.

International recognition is definitely important for ISCA members, who hail from around the world and are also based worldwide. This was reflected at the event, where at least five different nationalities were represented, providing attendees with the chance to connect with fellow CAs (Singapore) from different roles, industries and countries.

To further encourage interaction, the Photo Contest was introduced this year, with an emphasis on originality, innovation and the adoption of digital technology. The activity resonated well with the sporting new members who displayed full enthusiasm for the contest. Some teams even headed outside ISCA House, where the event was held, to capture photos under different lighting and against various backdrops.

While all the photo entries clearly showed the members having an enjoyable time taking team photos and self-portraits (selfies) using their mobile phone cameras, the winning team – International Team – was applauded for its creative flair in designing a photo collage using a mobile phone app. Their meaningful photo caption also caught the judges’ attention – New Friends on New Members’ Night, with 5 Different Nationalities. This conveyed the spirit of the event, which was to welcome our new members and provide a platform for members to connect with like-minded professionals.

More pictures of the New Members’ Night, and photos from the Photo Contest, can be found on our Facebook page.
Newly-minted members posing for a selfie with their CA (Singapore) certificates
New members meeting for the first time and engaging in lively discussions

The winning team with the best photo: New Friends on New Members’ Night, with 5 Different Nationalities
“The Chartered Accountant title is widely recognised in the Finance industry. It is a testimony to his/her professional standard in the area of accounting.”

LOO HOCK LEONG, Chief Financial Officer, Parkway Trust Management Ltd

“The CA (Singapore) designation value-adds to my career and professional development.”

LIM JIN CHEONG, EDMUND, Banyan Tree Corporate, Senior Group Internal Auditor

“As a member of ISCA, it is an opportunity to be recognised as a Singapore accountancy professional and to receive support in my professional and career development.”

CHIN CHEE KIT, BRYAN, Group Internal Auditor, Sembcorp Marine
Today's business environment is more challenging and complex than ever before. Organisations are faced with multifaceted challenges such as rising costs, a tight labour market and an ever-changing business environment. Small and medium-sized enterprises (SMEs) and small and medium-sized practices (SMPs) are no exception to the rule. To succeed in these times, SMEs must innovate to improve their business operations. Technology, in this case, plays a key role in empowering them by automating their processes and improving workflow.

Following the success of the ISCA Productivity Seminar last year, ISCA organised another seminar around the same theme, Achieving Productivity Gains through Integration of Technology, on October 15. The session attracted participants who were keen to learn how technological solutions can improve their overall business productivity. Four speakers, namely from Axxis Consulting, DP Technology, Singtel and SPRING Singapore, provided a range of ideas on how such productivity gains could be achieved.
In this fast-paced data-driven world, huge volumes of transactions are made and delivered in seconds. Harnessing the strengths of an ERP system is a technological solution which helps SMEs meet internal and external demands. Harald Weinbrecht, Founder of Axxis Consulting, started the seminar by sharing the importance and benefits of a well-implemented ERP system. Apart from achieving greater efficiency, an ERP system helps to generate consistency and accuracy across all the business processes, which leads to huge cost savings.

Chew Kim Poh, CEO of DP Technology, highlighted the importance of implementing solutions that enhance data consolidation to help companies make timely decisions based on accurate data. The concept of cloud solutions was also reinforced by Raul Docuyanan from Singtel, accompanied by examples and stories of companies which have successfully migrated their data to the cloud. With benefits like streamlined operations and lower operational costs, the adoption of cloud computing is a great proposition for SMEs to capitalise on.

SPRING Singapore rounded off the day's proceedings by sharing about the availability of various government schemes designed to assist SMEs on their journey to adopt technology for productivity gains. The event was well received by participants and many thought that the exhibition booths provided something beyond what the speakers shared.
The exhibition showcased different technological solutions.

Exhibitors and participants discussing the products available.
ISCA will continue to organise more of such events in future. Please feel free to send us your topics of interest to weiling.tan@isca.org.sg.
Research and development (R&D) and innovation have been the lynchpins in steering businesses towards greater success. The Singapore Institute of Accredited Tax Professionals has, over the course of 2015, equipped the tax profession with game-changing knowledge to harness the benefits of R&D through a deeper understanding of the myriad of tax implications.

From the 2015 kick-off sell-out event which shed light on the then-newly updated e-Tax Guide on “Research and Development Tax Measures” by the Inland Revenue Authority of Singapore, to the lively session by Accredited Tax Advisor (Income Tax) Tan Ching Ne, Partner at PwC Singapore, on the tax implications and opportunities in regional R&D, the accredited grasped important pointers on the application of R&D incentives and other issues.

Moreover, SIATP members also enjoyed privileged access to the Global Forum on
Intellectual Property, where they gained yet more insights and networking opportunities with the region’s thought leaders.

Visit SIATP to find out how to move ahead in tax and stand out with accreditation.
Members learnt to be better fraud busters from Ardent Associates Executive Chairman Sarjit Singh.

It was a highly interactive ISCA Breakfast Talk entitled “Stolen Money, Pretty Lies” on September 9, where over 80 members learnt what it means to be a “fraud buster”!

Helming the session was Sarjit Singh, Executive Chairman, Ardent Associates. He shared that with the rise in the number of cases of financial misreporting and outright criminal activities, the pressure on corporations for more transparency in the management of their fraud exposures was mounting. He added that today, organisations are required to have in place measures which would help reduce the incidence of criminal behaviour. Mr Singh questioned how ready corporations were for such checks if they were to be conducted. He further questioned if organisations were doing enough to maximise their staff’s potential in reducing fraud and error at their work place.

Participants found the session both useful and relevant as Mr Singh delivered the key messages in a captivating way – sharing inspiring stories, real-life experiences, and
getting members involved in quizzes based on fraud case studies. “Sarjit is an energetic and engaging speaker. I look forward to attending his seminars,” said ISCA member and participant Erny Rusly.
FOCUS

POWERING INTO THE FUTURE

Powering into the Future

BY
ROB GALASKI AND MOHIT MEHROTRA

DISRUPTIVE INNOVATION THAT WILL CHANGE FINANCIAL SERVICES
Steady yourselves, financial services players. Disruption is well underway. From crypto currencies and mobile payment systems to online crowdfunding and the emergence of the sharing economy, it's just beginning. In fact, the prevailing view that disruption is a big bang, one-time event, simply isn’t true. The pressure for financial services institutions to innovate will be unrelenting.

And while this is a message that the entire financial services world needs to hear, we believe it's particularly urgent one for the insurance sector. A big storm of change is coming and it will utterly transform the insurance industry, and it will do so quickly – especially the life insurance part of the business, driven by the rise of wearables, increasing connectivity (the “Internet of Things”) and innovative new platforms for aggregating data.

Indeed, Deloitte firmly believes disruptive innovation is here to stay, creating clear threats to the traditional structure of the financial world, but also opportunities for positive change and growth. The challenge: the financial services industry is struggling to understand which innovations will be the most relevant, as well as figuring out the evolutionary path of emerging innovations and the specific implications of those evolutions on existing institutions.

Disruption is not a one-time event. It is not bound by the fiscal year. It is a continuous pressure to innovate that will shape customer behaviours, business models and the long-term structure of the financial services industry.

We spent a year working as a project advisor on the World Economic Forum’s new report, an extensive piece of research that examines the impact of innovation on multiple aspects of financial services. As part of that study, we conducted over 100 C-suite interviews and a global series of workshops as well as consulted with a broad swath of established institutions, financial services startups, academic scholars and industry observers. Entitled “The Future of Financial Services”, the report looks at everything from payments, deposits and lending to investment management, market provisions and insurance. What follows is our perspective on the report findings.

ALMOST EVERY SERVICE IS BEING DISRUPTED

Innovation is reshaping nearly every aspect of financial services. The technologies bringing us the connected lifestyle are leading to intense personalisation in insurance, making the customer’s “walk-away cost” higher than ever before. Robo-advisors and social trading platforms are democratising investment management, eroding the mass affluent market while signalling a return to white-glove advisory services.

In banking and securities, alternative providers are poised to take over the customer relationship. Cash and (quite possibly) credit cards are giving way to digital alternatives that will cost financial institutions at least some influence over the transaction.
that will cost financial institutions at least some influence over the transaction experience. Distributed capital-raising platforms are opening up the capital markets, forcing traditional intermediaries to develop new value propositions in order to compete.

... the financial services industry is struggling to understand which innovations will be the most relevant, as well as figuring out the evolutionary path of emerging innovations and the specific implications of those evolutions on existing institutions.

**SOUTHEAST ASIA HIGHLIGHTS**

In Southeast Asia, we are also witnessing several disruptions across the financial services spectrum. The disruption is more pronounced in “payments” and within the “credit intermediary” space. In comparison, there are relatively fewer financial technologies (FinTechs) in capital markets and wealth management.

Disruption in payments is interesting as there are FinTechs challenging the incumbents across retail and SME banking. In retail, there are FinTechs that are making a push in social payments and remittances. On the other hand, in SME banking, FinTechs are targeting the payables and receivables flows through nimbler and technology-based offerings.

**YOU CAN SEE THE INNOVATORS COMING**

In financial services, innovation is occurring in clusters. But the clusters are forming around potentially profitable customer segments that are well known to be underserved in some way. In other words, innovators are addressing the same opportunities that incumbent institutions have identified. The next wave of change is deliberate and predictable.

What’s more, successful innovators are more alike than not. Many are marketplace platforms rather than new institutions. They don't require a great deal of capital and they make significant use of data collection, sharing and analytics. Because of this business model, innovators are at least as likely to be customers or partners of traditional financial institutions as they are competitors of them.

**SOUTHEAST ASIA HIGHLIGHTS**

FinTech development in Southeast Asia is still in the early stage as compared to the West. Globally, it is estimated that there are 12,000 FinTechs operating today. Currently, Southeast Asia has a low proportion of this pie but we expect this to change as countries put in place the supporting environment for FinTechs to grow.

Incumbent financial institutions in the region are already exploring the opportunity to
collaborate and partner with FinTechs. This is especially true in certain niche areas where the incumbent is of the view that working with a FinTech could significantly enhance its competitive advantage or help it target certain customer segments better.

SOME ARE ALREADY FEELING THE IMPACT

Retail banking is the first to have been hit with disruptive innovation. In the payments arena, mobile applications free users from their wallets and the checkout line. Integrated and streamlined technologies make it easier to settle accounts. Geotagging, biometrics and tokens protect all parties to a transaction from fraud.

Insurance will experience the most disruption within the financial services industry.

Meanwhile, the lending business is becoming increasingly virtual. Thanks to improved technology, direct banks – ones with no brick-and-mortar branches, only ATMs – can compete on more than just price. Other non-traditional players are offering mobile users conveniences such as peer-to-peer money transfer, photo bill payment and voice recognition.

Insurance will experience the most disruption within the financial services industry. Today, cars have operating systems, run user-installed apps, and connect to the Internet. People manage their health through wearable devices that communicate potential issues to healthcare professionals. Devices monitor the home and pick up risk factors requiring preventive action. The old ways of measuring customer risk are quickly becoming irrelevant.

SOUTHEAST ASIA HIGHLIGHTS

Unlike countries like China, the impact has not been felt at-scale in Southeast Asia yet due to the early stage of development. Most of the innovations today are in niche areas where innovators are still in the nascent growth stage with prototypes and some multi-industry pilots dominating the landscape.

A significant factor that will determine the course here will be how regulators and governments view the FinTech sector: do they want to encourage and incentivise startups to challenge the incumbent financial players and nudge them towards greater innovation or do they want to ring-fence and protect the incumbent financial system from new potential risks or choose some sort of a middle ground?
THE DISRUPTION WILL LAST LONGER THAN ANYONE THINKS

Disruption is not a one-time event. It is not bound by the fiscal year. It is a continuous pressure to innovate that will shape customer behaviours, business models and the long-term structure of the financial services industry.

Any one of the innovation clusters has major implications, not just for incumbents and their customers but for the overall financial services ecosystem as well. Benefits of scale will erode. The universal banking model will become unbundled. New sources of capital will appear.

Together, they form a long-term trend from which incumbent institutions will emerge as aggressive, adaptable innovators, snapping up the best ideas of the startup ecosystem and bringing them to fruition. The result will be a sea change in the way financial services operate.

SOUTHEAST ASIA HIGHLIGHTS

With governments across Southeast Asia taking steps and initiatives to foster the innovation climate in financial services, it is expected that this wave of disruption will not be a one-off. Singapore wants to cultivate a smart financial centre aligned to its Smart Nation aspiration, while countries like Thailand and Indonesia are providing
encouragement in areas like payments and financial inclusion.

In summary, though there is a growing and strong view that the FinTech play is here to stay, we will need to wait and watch as to how this new wave in financial services develops in this region. This is especially true given every market in Southeast Asia has its own unique set of challenges and gaps that will need to be addressed by the financial services sector. This therefore necessitates continuous innovation across varied focus areas.

There's much more in the World Economic Forum study about how disruptive innovations are reshaping the way financial services are structured, provisioned and consumed. You will not learn where to place your bets, necessarily. But you might learn where to start your due diligence.

A copy of the full report “Cleared for Takeoff: Five megatrends that will change financial services” is available for download.

Rob Galaski leads the Banking & Securities practice and the Future of FSI project at Deloitte Canada, and Mohit Mehrotra is Strategy Consulting Leader at Deloitte Southeast Asia.
When Grace Lim was a teenager, her father, a strong role model, had shared with her the bright career prospects of an accountant. She took his advice and graduated with a Bachelor of Accountancy degree from the National University of Singapore (NUS). Today, she is Chief Financial Officer of KK Women’s & Children’s Hospital (KKH).
Ms Lim enthused, “An accountancy background has brought me endless possibilities. With the government’s 2020 vision to transform Singapore into a leading global accountancy hub, there are even more career opportunities. Employees with a strong accountancy background definitely form a very dynamic talent pipeline for employers of all industries.”

The robust curriculum in the NUS Accountancy course laid a strong foundation for her career. Besides technical core competency, she picked up management skills and was given ample opportunity for industrial orientation during vacation. She chose to pursue auditing, and the exposure in audit work helped to broaden her perspective on various career possibilities, giving her greater depth of understanding about enterprise risks and control in the diverse industries that she was attached to.

Ms Lim is grateful for the many opportunities that came her way throughout her career. “When I started my first job in the Public Utilities Board (PUB), my director rotated me every year to the various sections of the Finance Department to help me gain greater work exposure and establish a wider network. While there were lots of challenges with job rotation, I had a well-rounded understanding of the public utilities business during my five years in PUB.”

When she moved to DBS Bank in 1989 to broaden her experience, she was attached to Foreign Exchange Settlements which had a totally different business and work environment. “I had to adapt quickly to work with highly-stressed dealers.” To help her acclimatise, her boss shared with her the “6 or 9” perspective which helped her to see the situation from another person’s point of view. “It is enlightening to put ourselves in another person’s position – while we may see the number “6”, other people may see it as “9”. By proactively putting myself into the shoes of the other party, I was able to deliver a more holistic solution, incorporating their perspective into the decision-making process, thus striking a win-win solution.”

EMBRACING A CAREER IN HEALTHCARE

In early 1991, Ms Lim became part of the finance team at one of the restructured healthcare institutions – Singapore General Hospital (SGH). That marked the start of her career in healthcare which has since spanned more than 20 years. “At SGH, I was given a lot of opportunities to learn about both finance and hospital operations. Although the workload was heavy and we worked long hours because the restructuring process was rapid, I enjoyed working in the public healthcare segment.”

The job satisfaction of working in a restructured hospital then drew Ms Lim to the Singapore National Eye Centre (SNEC) in 1996, where she worked under the leadership of four eminent leaders – the late Founding Director, Emeritus Professor Arthur Lim, Dr Vivian Balakrishnan (now Minister of Foreign Affairs), Professor Ang Chong Lye (now Chief Executive Officer, SGH and Deputy Group Chief Executive Officer, SingHealth), and Professor Donald Tan (Senior Advisor of SNEC, Chairman of the Singapore Eye Research Institute and a global leader in the field of cornea and...
refractive surgery).

At SNEC, Ms Lim was given an expanded role and job enhancement, helping with strategic planning for eyecare operations and information technology (IT). In addition to heading the Finance Department, she was put in charge of the Information Technology & Systems Department and the Medical Records Office. She explained that ophthalmology is a specialised surgical discipline, and the ophthalmic leaders were very forward-looking and passionate about harnessing IT and data analytics.

When opportunity knocked, Ms Lim was ever-ready to accept new challenges. In July 2011, she was appointed CFO of KKH, a subsidiary of SingHealth, Singapore’s largest healthcare group. The multifaceted functions that she juggles include overseeing the Admissions Office, Business Office, Academic Medicine (Finance), Financial Planning & Analysis and Finance.

“I am currently into my fourth year at KKH. Even after 20 years in healthcare, I still find hospital work fulfilling. As KKH is an academic healthcare institution, my role is to facilitate a seamless academic medicine journey. My team and I work very closely with multidisciplinary teams of medical and non-medical staff to continually improve the care we deliver to patients, such as in the area of clinical service, education and research projects.”

In April 2014, Ms Lim was appointed Deputy Group CFO (Service Transformation and Education) of SingHealth, a cluster-wide leadership appointment on top of her current role as CFO, KKH. This key role provides management oversight of the “one campus” finance operations, and the implementation of a robust finance framework for the education pillar, so as to improve access to quality care for patients across hospitals and institutions at SingHealth.

“When there are improvements, we must express our appreciation and give credit to those who have contributed. It is good to recognise that teamwork makes our journey at work smoother and more impactful. In healthcare, we are usually multidisciplinary and we cannot afford to work in silos.”

SUCCESS FACTORS

When asked about her success factors, Ms Lim shared that as an accountant, the fundamental principles of integrity, humility, courage and passion are of utmost importance. “This is because we are dealing with dollars and cents. While we want to achieve success, it must not be at the expense of going down the slippery slope of unethical behaviour. When things are wrong, you must have the courage to speak up.”

Learning is a lifelong journey and Ms Lim returned to academic life in 2014, when she
read the one-year Executive MBA programme at Singapore Management University. According to her, it is through the continual exchange of views and best practices that accounting professionals are able to improve and widen their perspective of the world. “As a member of ISCA, I have access to Continuing Professional Education courses. Employers are assured of the good standards of learning activities that help ISCA members to perform competently within their professional environment.”

Ms Lim realised early in her career that many a time, accountants have to deal with an audience that does not possess training in accountancy. Thus, a good accountant must be able to weave numbers and trends into a story, providing a layman’s view on financial, economic and other perspectives succinctly. She remembered sharing a quote by the late American journalist Sydney Harris with a colleague, “The two words ‘information’ and ‘communication’ are often used interchangeably, but they signify quite different things. Information is giving out; communication is getting through.”

When asked about her success factors, Ms Lim shared that as an accountant, the fundamental principles of integrity, humility, courage and passion are of utmost importance.

Ms Lim advises her fellow counterparts and aspiring accountants to never be afraid of hard work and to do things differently. “I am a change leader and I do not give up easily because I believe the organisation and patients will gain in the end if we can streamline processes and cut down waste. To best serve patients’ and healthcare professionals’ needs, a good accountant needs to prioritise and maintain a firm
balance to ensure healthcare continues to be affordable,” she said.

Ms Lim is also a firm believer of teamwork and giving credit where credit is due. “When there are improvements, we must express our appreciation and give credit to those who have contributed. It is good to recognise that teamwork makes our journey at work smoother and more impactful. In healthcare, we are usually multidisciplinary and we cannot afford to work in silos.”

Although her work is meaningful and rewarding, Ms Lim places great importance on family and children. When she is not working, Ms Lim spends time with her family by going on holidays with her children. “My two older children are accountants – one in public practice and the other in the oil industry. My youngest daughter has just graduated with a Bachelor of Science in Nursing (Honours) and will work in healthcare, so you can say that my children have all followed in my footsteps!”

Ms Lim’s advice to fellow and aspiring accountants: The 3 Es

1. **Excellence** (in character, soft skills, core competencies and knowledge)
   + Integrity and courage to speak up
   + Be collaborative and work as a team
   + Learn as much as you can

2. **Exposure**
   + Gain exposure of business operations
   + Get senior management’s views – these provide broader organisational insight
   + Never be afraid of hard work

3. **Experience**
   + Drive change/new initiatives – be a frontline shaper
   + Be open to cross-functional experiences – do not specialise too early if you want to hold a wide finance and operational portfolio
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<th>Year</th>
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<td>1984</td>
<td>Finance Assistant, Public Utilities Board</td>
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<td>1988</td>
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<td>1989</td>
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<td>Financial Controller, Gleneagles Hospital</td>
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Pauline Chee is Manager, Communications, ISCA.
Conclusion of the Trans-Pacific Partnership

BY
SHUBHENDU MISRA AND TAN JUAN FOOK

IMPLICATIONS AND POSSIBILITIES

After more than five years since the first round of negotiations in March 2010, the Trans-Pacific Partnership (TPP) negotiation has finally been concluded.

The TPP will set new and high standards for trade and investment on both the Asia-Pacific and global fronts. To put matters in perspective, TPP includes 30 chapters that cover trade in goods, textiles and apparels, rules of origin, customs and trade
facilitation, e-commerce, services, government procurement, investment, intellectual property, small and medium-sized enterprises and state-owned enterprises, among other areas.

In relation to cross-border trade, the TPP countries aim to eliminate and reduce tariffs and non-tariff barriers on industrial goods, and to eliminate and reduce tariff and other restrictive policies on agricultural goods. Tariff elimination on most industrial goods would be effective immediately upon entry into force of the agreement, although tariffs on agricultural goods would be eliminated over longer timeframes. As the text of the TPP agreement has not been released to the public, there are no further details on the duty concession offered by TPP countries.

In relation to cross-border trade, the TPP countries aim to eliminate and reduce tariffs and non-tariff barriers on industrial goods, and to eliminate and reduce tariff and other restrictive policies on agricultural goods.

POTENTIAL ADVANTAGE FOR SOUTHEAST ASIA

An advantage of the TPP is the sheer size of the grouping. It provides an expansive area for regional sourcing as it allows cumulation, where raw materials and inputs sourced from the TPP countries could be treated as “local” materials, thus helping the manufacturer meet the rules of origin for the finished products. Clearly, there are benefits for businesses which might be encouraged to establish their manufacturing footprint in this region to take full advantage of the agreement. We share two examples.

Textiles and apparel have special mention in this agreement with regard to rules of origin and enforcement commitments. This is mainly due to domestic sensitivity of countries. As an illustration, for the year 2014, it was reported that US companies imported textiles and apparel worth a staggering USD121.7 billion from the rest of the world.

In order to ensure that tariff benefits are accorded to deserving textiles and apparel products, all the TPP countries agreed to rules of origin for selected products to require use of yarns and fabrics from TPP region. There is a short supply list mechanism that allows use of certain yarns and fabrics not widely available in the TPP countries.

The thriving apparel industry in Vietnam is well-poised to maximise the tariff benefits offered by the US and other TPP countries once the agreement enters into force. This may also require the apparel companies to relook at their current sourcing patterns. In some cases, the apparel companies may need to change their sourcing pattern by purchasing yarns and fabrics from TPP countries so that their finished products can
The TPP will contain a specific chapter for small and medium-sized enterprises where TPP countries are committed to create user-friendly websites targeted at such users to provide easily accessible information and organise capacity-building activities to support them.

It was also reported that the last-minute agreement on the rules of origin for automotive products during the last negotiation round in Atlanta, USA, contributed to the successful conclusion of the TPP.

From what we can gather, TPP countries agreed to a more liberal set of rules of origin proposed by one of the parties. It remains to be seen how “liberal” the agreed rules of origin are. This might spark a change in manufacturing and global sourcing patterns as auto companies may find it feasible to set up new manufacturing plants or invest in more manufacturing activities in existing plants in this region to meet the rules of origin. This may provide a boost to the automotive sector in Malaysia, which in the past has been eclipsed by the robust auto ecosystem in Thailand and the large domestic market in Indonesia.

Rules of origin is a complex topic and many small businesses and exporters struggle to understand how their products can meet the origin criteria. The TPP will contain a specific chapter for small and medium-sized enterprises where TPP countries are committed to create user-friendly websites targeted at such users to provide easily accessible information and organise capacity-building activities to support them.

The TPP will add to the mix of free trade agreements (FTAs) that already exist between partner countries. For instance, with the TPP, New Zealand and Singapore will have four FTAs in common (bilateral FTA, “Pacific 4” Partnership Agreement and the ASEAN-Australia-New Zealand FTA).

It appears that Canada will stand to gain substantially as the TPP will provide it with preferential market access into seven countries in the Asia-Pacific region. Countries such as Chile and Singapore may appear to not gain much as they are essentially negotiating with one or two new FTA partners. However, the coverage of benefits under the TPP might be better than those available in the existing FTAs. Also, in the area of rules of origin, the expansive regional sourcing will assist manufacturers in meeting the origin criteria compared to other bilateral agreements which limit choices for sourcing of materials.

Accordingly, businesses will need to make an informed decision on which FTA is most beneficial, since the rules of origin, tariff concessions and procedural requirements differ among the respective FTAs.
Unlike other TPP countries, Singapore has a liberal trading regime with customs duty being levied on only four alcoholic products, namely, beer, stout, samsu and medicated samsu. Presumably, these items will be zero-rated under TPP. Hence, there will only be a negligible or mild impact on government revenue when TPP enters into force.

As Singapore already has FTAs with nine of the other 11 countries (Table 1), TPP will help establish its first preferential trade agreement with Canada and Mexico. According to the Singapore Ministry of Trade and Industry, upon entry into force of TPP, Canada and Mexico will eliminate import tariffs on 99% and 96% of Singapore’s exports respectively. This includes exports of pharmaceutical products to Mexico where current import tariffs range from 10% to 15%, as well as Singapore’s exports of organic chemicals, which are currently subject to import tariffs of up to 6.5%.

Singapore can also benefit from the TPP by being able to strengthen its role in regional production and supply chains as a result of TPP countries lowering import tariffs for goods that are produced in stages across multiple TPP countries.

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- **Table 1** FTA matrix of TPP countries

  - **No existing FTAs between the two countries**
  - **Existing FTAs between the two countries**
The next phase after the conclusion of agreement is equally crucial. Each of the TPP countries will need to undertake domestic ratification procedures. In this regard, domestic politics and the upcoming US presidential elections would be crucial elements. Separately, the approval process in Canada would depend on the dynamics on account of the change in government after the recent elections.

An implementation date or entry into force date has yet to be determined by the TPP countries. Realistically, the agreement could enter into force in year 2017.

The contents of the TPP agreement will be widely watched. So far, much has been said about how importers would enjoy the tariff savings in cross-border trade but less has been said about the cost of compliance faced by traders.

Shubhendu Misra is Partner, and Tan Juan Fook is Senior Manager, Indirect Tax–Global Trade, EY in Singapore. The views reflected in this article are the views of the writers and do not necessarily reflect the views of the global EY organisation or its member firms.
An Interview with Dr Stavros Thomadakis

By Alexandra Waibel

Dr Stavros Thomadakis was appointed independent chair of the International Ethics Standards Board for Accountants® (IESBA®) for a three-year term beginning 1 January 2015. He is the emeritus professor of financial economics at the University of Athens. For many years, he directed the university’s graduate programme on applied accounting and auditing, in cooperation with the Hellenic Institute of Chartered Accountants.

In this exclusive interview with IS Chartered Accountant journal, Dr Thomadakis
provides his views on the recent hot topics surrounding ethics, and shares his vision for the development of ethics in the near term.

1. **What is your vision for the IESBA? What impact do you hope to make during your tenure as its Chairman?**

My primary goals are to lead the IESBA to produce high-quality ethics standards for the global accountancy profession in the form of the Code of Ethics for Professional Accountants (the Code), to further its adoption and effective implementation globally, and to enhance the IESBA’s reputation as an independent, global standard-setter, all while ensuring that our strong commitment to the public interest remains centrestage.

At an operational level, my aim is to steer the Board’s efforts in two important areas: (a) more intense and project-based outreach to stakeholders, and (b) a more research-based approach to our projects.

There are no easy issues nowadays and realities on the ground are complex. It is only through engaging with our diverse stakeholders and establishing a sound knowledge basis for setting standards that the Board can hope to gain global recognition and acceptance of the Code.

2. **In late July this year, corporate Japan was rocked by news that Toshiba had engaged in a company-wide effort to inflate its profits by approximately US$1 billion over a seven-year period. The Financial Times reported that Toshiba’s fundamental problem was “a corporate culture that did not allow employees to go against the will of their superiors”. Accountants face such ethical dilemmas day to day, including the real prospect of losing one’s livelihood. Do you have any thoughts on this? What can realistically be done when such a culture is so deeply rooted?**

I believe that tone at the top is enormously important to shaping corporate culture. We live in a highly-competitive world where pressures to achieve financial targets or meet market expectations can be intense. Unfortunately, as we have seen in the Toshiba scandal and more recently around Volkswagen’s emissions scandal, the corporate culture in some companies may sometimes not fully recognise and address the ethical dangers from such pressures. One of the aims of our current project, which deals with that part of the Code which applies to professional accountants in business (PAIBs) (Part C), is precisely to address the ethical implications of these very pressures that PAIBs may face from, or impose on, others.

Of course, corporate culture is but one component of defence against corporate malfeasance. Corporate leaders need to put in place the right governance and control frameworks that will establish an appropriate check-and-balance mechanism and reinforce a culture of accountability and ethical conduct. This includes prioritising the development, communication, and enforcement of a clear code of conduct to which management and all employees – not just accountants – must adhere.
The Code plays an important role in providing an ethical compass for PAIBs, setting the expectations for ethical conduct in all their professional activities. Importantly, it emphasises the critical role PAIBs in management positions can play in encouraging an ethics-based culture throughout their organisations.

3. A keenly-watched area is IESBA’s revised proposals on non-compliance with laws and regulations (NOCLAR). The original proposals were met with significant opposition. Many claimed, rightly or wrongly, that IESBA succumbed to pressure from certain stakeholders and had not been objective in listening to others. What are your thoughts, and were there lessons for IESBA?

Consultation is and has always been a key part of the IESBA standard-setting process. The Board believed that its 2012 proposals represented a robust response to what professional accountants’ (PAs’) responsibilities should be when they encounter actual or suspected NOCLAR. Our stakeholders’ feedback made it clear that there were significant concerns regarding the global applicability of the proposals and the potential for unintended negative consequences. However, as we know, hindsight is a wonderful thing. What this first consultation achieved was that it enabled the Board to elicit comprehensive and thoughtful stakeholder feedback on an issue that is complex and, in some respects, divisive. We therefore conducted a series of three global roundtables. These not only enabled substantial additional feedback, but also enabled different stakeholder groups to hear firsthand each other’s perspectives.

Importantly, the aim is not only to increase reporting where mandated by law or regulation, but also to deter NOCLAR or to rectify, remediate or mitigate its consequences. We believe the revised proposals are fit for global use and will clearly raise the bar for jurisdictions that do not mandate such reporting.

We issued a second Exposure Draft, Responding to Non-compliance with Laws and Regulations, in May this year. The revised proposals are not focused on mere mechanical “whistleblowing”. Rather, they make a duty of careful consideration of the appropriate courses of action, including whether to report the matter to an external authority, based on a structured process well founded on evidence and the exercise of objective professional judgement in the public interest. Importantly, the aim is not only to increase reporting where mandated by law or regulation, but also to deter NOCLAR or to rectify, remediate or mitigate its consequences. We believe the revised proposals are fit for global use and will clearly raise the bar for jurisdictions that do not mandate such reporting.

The consultation period has now closed and the Board will conduct a full review of the feedback this December. We hope to finalise the proposals by the first quarter of 2016.
4. Facilitation payment – depending where one comes from – may not be tolerated at all, or could be a way of life that is necessary or even forced upon because of broken governments and systems. IESBA is looking into ethical standards on facilitation payments. What challenges do you foresee in developing such standards? Advanced countries may already have standards of their own, while others should have them but are unlikely to enforce them. Is it worth pursuing an ideal that is inoperable in an imperfect world?

The world is indeed imperfect and presents many challenges. However, putting our heads in the sand is not the answer. The real test of our success is whether we can set principles that disrupt the status quo in areas where ethical practice needs to be elevated, particularly in those parts of the world where the rule of law is not robust. And one of those areas is facilitation payments, which we are addressing through Phase II of our Part C project.

Let’s be clear – corruption and bribery are a global problem that affect both developed and developing economies. This is one area where the Code can make a significant impact in the public interest. By virtue of their obligation to comply with the Code, PAIBs can play an important role in facing up to corruption and bribery. The Code can assist by not only setting out clear expectations for ethical conduct and delineating more clearly the boundaries of what is acceptable, but also providing them with helpful, practical guidance in dealing with these issues when they arise. We must remember, however, that the IESBA alone cannot solve the global problem of corruption and bribery. Legislatures, policymakers, inter-governmental organisations and enforcement bodies, among others, must play their roles to eliminate these blights.

Let’s be clear – corruption and bribery are a global problem that affect both developed and developing economies. This is one area where the Code can make a significant impact in the public interest.

5. A lot has been written about integrity and transparency in public financing and accountability. In your view, what are the ethical lessons that can be gleaned from your experience of the Greek debt crisis?

Politics must be compatible with ethics if democracies are to survive. In Greece, we have an example of how populism can lead to excessive borrowing and fiscal derailment without any self-control mechanisms. Two pillars are required – a robust basis for public sector accounting that supports transparency, responsible politics, and proper management of public finances; and a political Code of Ethics that underpins responsible behaviour, decision-making, and accountability.

Financial transparency and accountability in the public sector are just as important as
in the private sector. Elected officials and public servants need to be held to account for the way they spend taxpayers’ money. Importantly, they should also be held to at least the same high levels of ethics and accountability as those in the private sector. I believe the accountancy profession, living by the Code, can be a robust role model in this regard.

I personally am very supportive of IFAC’s Accountability.Now project, which represents a coalition of organisations that believe good financial management is essential when it comes to government spending on services and infrastructure to serve a nation’s citizens. It is especially important that jurisdictions that have experienced major fiscal crises, such as Greece, overhaul their financial reporting regime and implement the international standards for public sector financial reporting, the International Public Sector Accounting Standards™ (IPSAS™), developed by the International Public Sector Accountants Standards Board®. This would be a good first step toward regaining citizens’ trust and rebuilding economic confidence.

Alexandra Waibel is Manager–Communications, Marketing, and Brand at IFAC.
The Mindset of Internationally Successful Companies

BY DENNIS LEE AND BENJAMIN KESSLER

ESSENTIAL ATTRIBUTES TO KEEP AHEAD

Back in 2013, US-based retailer Target had what many thought was a brilliant strategy for its first international expansion. By purchasing the leases of failing Canadian discount chain Zellers, it could open more than 100 stores in the country within a matter of months. The expansion plan seemed straightforward but it didn't take long...
for things to unravel. The inherited urban locations turned out to be an awkward fit for Target's middle-class brand positioning, while the company's hasty expansion left key supply chain issues unsolved, causing too many shelves to sit empty. By the time Target pulled out of Canada two years later, the venture had incurred approximately $2 billion in net losses and left nearly 18,000 people unemployed.

Cross-border deals are an increasingly popular choice for growth-seeking companies, but failure rates remain high and the fallout can be catastrophic. As the Target example illustrates, even the most successful firms are not immune – just ask eBay, Starbucks, and UK supermarket giant Tesco. Poor preparation, inflexible mindsets and over-reliance on historical tried-and-proven formulas all too often thwart internationalisation efforts.

The risk management aspects of going global was the theme of a recent panel discussion co-sponsored by RSM Chio Lim LLP (the Singapore arm of accounting network RSM International), and the INSEAD Risk Management Breakfast Series, in which panellists drew on their experiences overseeing successful (and not so successful) cross-border expansions. The following are their takeaways.

**DOES THE OPPORTUNITY FIT THE STRATEGY?**

Rationalising the business proposition should begin well before any contract is signed. Managers must first answer the question, “Why are we going there?”

Dominique Lecossois, Distinguished Fellow at INSEAD's Emerging Markets Institute, insists that companies should only proceed if and when the answer is both compelling and in alignment with their larger strategy. If the strategic objectives don't add up, they should be prepared to turn down the proposal, no matter how alluring.

Robert Coles, co-founder and chair of the Centre for Alternative Leadership & Management, agrees. “Most companies internationalise on the back of opportunity rather than strategy... But if your objectives aren't clear, one thing will happen, you’ll achieve the wrong objectives.” This is a fundamental error that many multinationals make. From time to time, businesses need reminders that the alignment of expansion plans with strategy and objectives has to take centrestage. Building and strengthening brand presence, pursuing sustainable growth and profits, and improving market share need to remain top of mind.

**HOW WELL DO YOU UNDERSTAND YOUR NEW MARKET?**
Once management decides the opportunity and time are right, the next step is to become better acquainted with the culture concerned. According to Lecossois, even when working with a local partner, internationalising companies need to actively engage if they are to avoid bringing inapplicable assumptions into the new market. Moderator Gilles Hilary observed that in reality, there are very few truly “international” companies; most MNCs have a particular culture that reflects the place they came from. This can be either a strength or a weakness when entering new markets, depending on how self-aware managers are, and how flexible they are willing to be while refusing to compromise on the essentials.

Being a cultural expert isn’t required. The most important thing is to cultivate an open, empathetic attitude. Moderator Tay Woon Teck, a partner at RSM Chio Lim LLP, notes that this is a goal some Asian companies would do well to work towards. “In this region, things are seen to be either black or white, good or bad, right or wrong. With international business, you need to understand the grey, and that is very challenging.”

A certain amount of touristic zeal and wanderlust can also help bridge cultural gaps. “You have to develop affection for the country you engage in,” Lecossois insists, adding, “You can’t go to China or Indonesia if, in your mind, you already dislike the country, food, and people.”

**DOES THE LOCAL TEAM UNDERSTAND YOUR COMPANY?**

With cultural due diligence done, it’s time to scrutinise every aspect of the deal. Taking a highly detailed approach to structure and governance is essential to the risk management process. When companies lack the vision or the patience to hammer out a workable deal, failures can occur, as Lecossois illustrated when describing a company he worked for which rushed into a 50/50 joint venture with a Taiwanese firm. “No one had control, and it became very ugly. We eventually had to withdraw from the country, it was a failure.”

Another pertinent risk management concern is that internationalising will cause a company to lose control of its essential identity. This is where leadership is truly put to the test. According to Coles, “It’s not a full-time job to go around waving a mission statement.” Leaders must enter into close collaboration with overseas managers and partners to ensure core values and identity attributes are upheld. At the same time they must not give in to the temptation to become a long-distance micromanager. “You need (your partners) to be entrepreneurial about establishing the what, how and why of your business, not defining it,” Coles said.

One danger of an internationalised workforce is the formation of cliques based on cultural identity. Left to their own devices, employees may come to identify more with their cultural clan than with the organisation as a whole. Managers must take the time to ensure that there is cross-border cohesion among the workforce, and that employees are working productively in teams that cut across cultural lines. Again, there is no substitute for a highly detail-oriented approach.
BE PREPARED FOR UNCERTAINTY

The need to internationalise successfully has become even more urgent with the onset of the digital revolution. Before the Internet, a young company's stumbles were hardly visible outside its local environment. Today, the moment your website goes live, you are a global business in a very real sense, although you may not feel it until you get that first perplexing email or phone call in a foreign language, and by that point, it may be too late. Before you press “play”, make sure the current face of your business is the very best one you can present to the world.

In the end, the inexperience of today's digital startups may be their greatest advantage from a global perspective. With no historical successes to make them complacent, they're forced to become comfortable with uncertainty and ambiguity from Day One. That's a mindset Coles identifies as central to any successful cross-border expansion. “You never know everything you need to know, but you have to make decisions anyway. Until you can do that, it’s unwise to go into an environment you don't understand,” he says.

... before jumping on the (internationalisation) bandwagon, know what you are there for, be flexible and understand the new market and its people, and finally, accept the notion of having a flexible mindset towards change.

CONCLUSION

The rapid pace of change in the global economy, compounded by the impact of disruptive technologies, makes it imperative for any serious business to undertake some form of internationalisation. However, before jumping on the bandwagon, know what you are there for, be flexible and understand the new market and its people, and finally, accept the notion of having a flexible mindset towards change. To draw from a famous quote from George Bernard Shaw, “Progress is impossible without change, and those who cannot change their minds cannot change anything.”

Dennis Lee is Director, RSM Chio Lim, and Benjamin Kessler is Web Editor, INSEAD. This article is published courtesy of INSEAD Knowledge. Copyright © INSEAD 2015.
Residence and Source

BY FELIX WONG

UNDERSTANDING THE FOUNDATION CONCEPTS

Tax residency determines, among other things, the tax rates and tax treatments applicable to an individual or company. For example, a resident and a non-resident individual are subject to different tax rates in Singapore. Importantly, Singapore's extensive tax treaty network only offers treaty benefits to Singapore tax resident individuals and companies.
Accredited Tax Advisor (Income Tax) Matthew Marcarian, Principal, CST Tax Advisors

“Residence and source are foundation concepts in Singapore. If not handled appropriately, they may lead to problems not only in Singapore but also in the countries from which the foreign employer or entrepreneur hails,” highlighted Accredited Tax Advisor (Income Tax) Matthew Marcarian, Principal, CST Tax Advisors, at a recent Tax Excellence Decoded session organised by the Singapore Institute of Accredited Tax Professionals (SIATP), where he dissected the relevant sections in the Singapore Income Tax Act (ITA) and discussed key principles established in case laws.

It is important for individuals, foreign and local companies to be aware of the tax rules and their implications in Singapore which may be different from their home countries, and where possible, plan ahead to ensure that the facts of their case support their positions on residency and source.

RESIDENCY OF AN INDIVIDUAL

A resident individual in Singapore is defined in Section 2 of ITA as “a person who, in the year preceding the year of assessment, resides in Singapore except for such temporary absences therefrom as may be reasonable and not inconsistent with a claim by such person to be resident in Singapore, and includes a person who is physically present or who exercises an employment (other than as a director of a company) in Singapore for 183 days or more during the year preceding the year of assessment”.

In reality, whether a person is physically present or exercises an employment in Singapore for 183 days or more is easily determined. However, whether a person resides in Singapore may be subject to varying interpretation. How then should one determine whether an individual has resided in Singapore? The following two English cases provide guidance on the word “reside”.

In Levene v Inland Revenue Commissioners [1928] AC 217, it was established that the word “reside” should take its ordinary meaning for the purpose of interpreting the Income Tax Act and Schedules. Separately, it was held in Inland Revenue Commissioners v Lysaght [1928] AC 234 that the question of whether a person is “resident” was not a question of law and hence the Commissioners’ finding of facts should not be disturbed.

Taking reference from the English cases, it would appear that the word “reside” should take on an ordinary meaning¹, and that the finding of whether an individual resides in Singapore should be performed through a review of the underlying circumstances. Practically, this may depend on factors such as the amount of time the individual spends in Singapore, and the types of connections that the individual has in Singapore (in terms of family, financial, business, employment or social connections). Based on the facts of the case, an individual’s tax residency may be determined.

RESIDENCY OF A COMPANY

Section 2 of ITA defines a resident company in Singapore to be “a company or body of persons the control and management of whose business is exercised in Singapore”.

The location of the company’s Board of Directors meetings, during which strategic decisions are made, is often seen as a key factor in determining where the control and management is exercised. Control and management is viewed by the Inland Revenue Authority of Singapore (IRAS) as the function of strategic decision-making, such as those on company policy and strategy. The location where the control and management of a company is exercised is a question of fact.

As the world shifts towards substance over form, it is increasingly important for companies to ensure that strategic decisions are indeed made at the Board of Directors meetings (and not made prior to the Board of Directors meetings only to be “rubber-stamped” at the meetings).

Foreign-owned companies

Foreign-owned investment holding companies with purely passive sources of income or receiving only foreign-sourced income are generally regarded by IRAS as non-residents (on the basis that such companies usually act on the instructions of their foreign shareholders).

As residency is dependent on the facts of the case, it would be helpful for a foreign-owned company looking to set up operations in Singapore (and to rely on Singapore’s treaty network) to plan ahead in ensuring that the fact pattern will support its claim to be a Singapore resident.

The facts of the case must be able to convince IRAS that the company’s control and management is in Singapore and the company has valid reasons for setting up an
office in Singapore. If there is convincing evidence, among other things, that the Singapore office possesses real economic substance, has employees based in Singapore, and makes strategic decisions in Singapore, it is possible for IRAS to regard the foreign-owned company to be a resident in Singapore.

TIE-BREAKER TESTS ON RESIDENCY

It should be noted that certain Singapore tax treaties provide for tie-breaker tests on residency of individuals or companies where the facts of the case do not point to a unanimous location.

The tie-breaker rule on corporate residency is typically the place of effective management (where the key management and commercial decisions that are necessary for the conduct of the company's business as a whole are made).

Common tie-breaker rules on individual residency include the availability of permanent home, personal and economic relations, habitual abode and nationality of the individual.

SOURCE OF INCOME

The source of income is crucial in determining the taxability of the income in Singapore.

Section 10(1) of ITA states, “Income tax shall, subject to the provision of this Act, be payable at the rate or rates specified hereinafter for each year of assessment upon the income of any person accruing in or derived from Singapore or received in Singapore from outside Singapore”.

It is clear from Section 10(1) that Singapore has a quasi-territorial tax system where there are two basis of tax. Under the territorial basis, income is liable to Singapore tax if the source of the income is in Singapore. Under the remittance basis, income having a source outside Singapore is liable to Singapore tax only if it is received in Singapore. How then should one interpret this section to determine the source of income?

In Comptroller of Income Tax v HY [2006] 2 SLR 405; [2006] SGCA 7, CJ Yong Pung How mentioned that “in deciding whether income was derived from or accruing in Singapore, one had to look to the originating source of those gains or profits. This was essentially a question of fact to be determined based on a scrutiny of the circumstances in each individual case... The broad guiding principle was to focus on what the taxpayer had done which earned him the gains or profits in question, and then to identify the location where those activities that he had engaged in or the work he had done took place”.

Going by these principles established by CJ Yong, the determination of the source of income should be based on the facts of the case. While conflicting facts are bound to
complicate the determination of the source of income, one should focus on what the taxpayer had done to earn the income and identify the location where these activities took place.

**Deeming provisions**

It should be noted that certain deeming provisions exist in the ITA which may subject an income to tax in Singapore even though it does not have a common law source in Singapore or is not received in Singapore. For example, Section 12(4) of ITA provides that “the gains or profits from any employment exercised in Singapore shall be deemed to be derived from Singapore whether the gains or profits from such employment are received in Singapore or not”.

Based on Section 12(4), the employment income earned by the individual will be deemed to be derived from Singapore (and hence subject to tax in Singapore) notwithstanding that such income may not have been received in Singapore.

**Use of tax treaties for reliefs**

In situations where the source of income is unclear, resulting in both IRAS and the other tax authority laying claim on the same income, Singapore tax residents could turn to the country’s extensive tax treaty network for possible reliefs (assuming there is a tax treaty between Singapore and the other country Accredited Tax Advisor (Income Tax) Matthew Marcian, Principal, CST Tax Advisors.).

**CONCLUSION**

Ultimately, the residency of an individual or a company and the source of income are determined by the actual circumstances of the case. It is important for individuals, foreign and local companies to be aware of the tax rules and their implications in Singapore which may be different from their home countries, and where possible, plan ahead to ensure that the facts of their case support their positions on residency and source. If in doubt, always ask a friendly accredited tax professional.

Felix Wong is Tax Manager, SIATP. This article is based on SIATP’s Tax Excellence Decoded session facilitated by Accredited Tax Advisor (Income Tax) Matthew Marcian, Principal, CST Tax Advisors. For more tax insights, please visit SIATP.

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1 Based on Levene v Inland Revenue Commissioners [1928] AC 217, the word “reside” is defined in the Oxford English Dictionary as meaning “to dwell permanently or for a considerable time, to have one’s settled or usual abode, to live in or at a particular place”. 


Critical Success Factors for Tomorrow’s Business Leaders

FROM THE REPORT ON “CRITICAL SUCCESS FACTORS FOR TOMORROW’S BUSINESS LEADERS” SUMMIT IN LONDON

PERSPECTIVES FROM THE UK

Business thrives on stability, but the reality is much more complex. Today’s business leaders have to navigate an uncertain global environment marked by geopolitical tensions and economic fluctuations, all while keeping abreast of technological advances and shifts in public opinion.

These key issues are covered in a recent Chartered Accountants Worldwide report, “Critical Success Factors for Tomorrow’s Business Leaders: Perspectives from the UK”. It follows a Critical Success Factors summit organised by the global body in London in May 2015. A group of senior Chartered Accountants – Chief Executive Officers, Chief Financial Officers and executives from major national and international organisations across the United Kingdom (UK) – gathered at the summit to discuss the future role of
finance professionals in the new business climate.

Rather than view tax as a business burden, they (Chartered Accountants) could advise companies to think of it as a business benefit. Paying taxes, even if they are not strictly due, could enhance the image of companies as good corporate citizens.

GROWTH IN A NEW EUROPE

With the UK set to hold a referendum on its membership of the European Union (EU) by the end of 2017, the possibility of Britain’s exit from the EU – or “Brexit” – is arguably the biggest concern facing UK businesses. An overwhelming majority of summit delegates believe it is in the UK’s best economic interests to stay in the EU. Leaving the powerful trading bloc would potentially harm its investment prospects, among other risks.

“The notion that we would not participate in a broad, accessible, single market is economically inconceivable,” said one CEO. That said, many delegates want to see the EU pass reforms to cut bureaucracy and shift some decision-making authority back to national governments.

Elsewhere on the world stage, the fall in the oil price has resulted in cheaper commodities, but it may discourage investment in future oil exploration. Regional unrest in areas like Ukraine, parts of the Middle East and the South China Sea is hindering European companies’ efforts to penetrate those markets and ensure sustainable growth. There is also the problem of skill shortages in the accountancy profession and the wider labour market, coupled with upward pressure on wages, leading to misalignment between employees’ skills and salaries.

As is the case with other business disciplines, the accountancy profession must adopt a long-term horizon on skills planning to compete in such an environment (Figure 1). “The chief constraint on growth is getting talented people when businesses are too short term in their thinking to train in the volume that the business actually requires”, the report quotes a participant. Instead of simply poaching talent, companies should focus on employee retention and training to build a sizeable pool of Chartered Accountants with extensive experience and value-adding skills.
TAXES VERSUS INCENTIVES

In general, delegates welcomed the UK coalition government’s efforts to make its tax regime simpler and more business-friendly. Both large and small companies are now subject to the same corporation tax rate of 20%, down from 28% for the former and 21% for the latter. But there is some concern that this move will hurt small companies, as they no longer have a tax advantage to compensate for their lack of scale. The challenge for Chartered Accountants, then, is to find ways to work with business and government to create the conditions for small firms to scale up and fuel job creation.

Participants at the summit agreed that the overly-complex tax system should be simplified, but this has to be balanced against the government’s need to maintain its tax take so as to fund public services and pay down its deficit. That is, any future tax cuts should be made with the least damage to public-sector services.
They also addressed public perceptions over the equitableness of the current tax system. The public sometimes misinterprets legitimate tax breaks or deferral measures – business-incentive policies – as aggressive tax avoidance, detrimentally impacting a company’s reputation. As one Chartered Accountant said, “I think one person’s tax avoidance is another person’s sound business investment.”

“Reputational economics” has clearly become an important issue on boardroom agendas, and Chartered Accountants play a crucial role in influencing and clarifying this debate. Rather than view tax as a business burden, they could advise companies to think of it as a business benefit. Paying taxes, even if they are not strictly due, could enhance the image of firms as good corporate citizens.

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LEADERSHIP IN THE DIGITAL AGE

The need to manage corporate reputation is more urgent than ever, due to the increased social media scrutiny in today’s digital age. “People do business with brands they trust and this is ever more true with the younger generation – the “millennials” – who are going to be both our customers and our employees,” said one Chartered Accountant.

How can finance professionals manage this link between ethics and value creation? The key is to go beyond simple reliance upon regulation, and to make decisions based on professional judgements of what is true and fair (Figure 2). “Our businesses are not sustainable if we’re depending on regulation to make us ethical,” said a summit participant. “Ethics is about the soul of an organisation. It’s not a matter of compliance and it starts at the top in the boardroom.” Moreover, this culture must be embedded throughout the organisation, with training for Chartered Accountants and other employees to develop moral courage.
Pat Costello, Chairman of Chartered Accountants Worldwide, said, “The digital age means that everyone is under scrutiny, all of the time, and issues can escalate through social media like wildfire. The right decisions need to be taken in real time – it's no longer enough to rely on the traditional hierarchies. This means we need to foster a culture where people are trained to know what the right thing to do is when a challenge presents itself. A culture of ethics certainly starts in the boardroom, but it can't stop there.”

Another feature of the digital age is the shift in advanced economies like the UK from an industrial to an information economy (Figure 3). “The single biggest-valued good that will be shipped around our economy for the next 20 years will be data,” said the Executive Director of Education for an accountancy body. It is thus imperative that business leaders articulate the need for governments and organisations to provide the requisite digital infrastructure and skills, as well as fearlessly embrace new technologies.
Regardless of which issue is tackled – the Brexit conundrum, the reputational economics dilemma or the transition to an information economy – the minimum task for business leaders is to prevent their organisations from falling behind. And because finance teams are at the heart of all these challenges, Chartered Accountants need to demonstrate leadership qualities – on top of their core numeracy skills – to drive progress.
Survey Sample

The report includes data from an online market research survey administered by the Institute of Chartered Accountants in England and Wales, a founding member of Chartered Accountants Worldwide. A total of 89 Chartered Accountants across the UK responded to the survey. Their responses were received between 22 April and 19 June 2015.

> >50% of respondents are confident their organisations will grow substantially in the next 10 years, while <50% think their organisations’ corporate growth plans will be negatively affected by global political uncertainty.

> >40% of respondents believe business leaders will focus on creating long-term value rather than short-term growth, but almost as many think the opposite. Nevertheless, close to 80% agree that Chartered Accountants should take on a business-leadership role and adopt a longer-term strategic perspective.

> 85% of respondents believe values and ethics will be a major determinant of business success over the next decade. About 70% see Chartered Accountants playing a key role in maintaining ethical standards within their organisations.

> >90% of respondents agree that technology will continue to be a critical driving force in business. Approximately 80% believe this presents an opportunity rather than a threat to the accountancy profession.

> 69% of respondents think globalisation will be good for business; >50% also see the role of Chartered Accountants rising in prominence because of globalisation, and one-third are unsure.

This article is adapted from “Critical Success Factors for Tomorrow's Business Leaders: Perspectives from the UK” report by Chartered Accountants Worldwide. © Chartered Accountants Worldwide, August 2015. A “Critical Success Factors” summit will be held in Singapore in November 2015.
Moving beyond Geographic Boundaries

By Felix Wong

Managing Tax Implications of Cross-Border Staff Movements

For many businesses in Singapore, international expansion is a critical component of their overall growth strategy. The ability to field a mobile workforce is becoming ever more vital in today’s competitive environment. As such, there is an increasing need for businesses to understand the tax implications of cross-border staff movements.
At a sell-out Tax Excellence Decoded session organised by the Singapore Institute of Accredited Tax Professionals (SIATP), Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Executive Director, Crowe Horwath First Trust Tax, generously shared practical tax tips on the topic.

**TAXATION OF SERVICE INCOME**

Most jurisdictions have some form of mechanism to impose tax on income from services derived by foreign businesses from their jurisdiction. Therefore, a Singapore company providing services to a customer in a foreign jurisdiction may be subject to tax on either its gross or net service income under the domestic tax laws of that jurisdiction. This service income may also be subject to tax in Singapore unless it qualifies for income tax exemption.

Cross-border staff movements, while seemingly benign, may in fact expose businesses to tax risks.

Subject to certain conditions¹, section 13(8) of the Singapore Income Tax Act (ITA) provides for income tax exemption for certain foreign-sourced income, including service income, received in Singapore. In order for service income to be regarded as foreign-sourced, the services must be performed through a fixed place of operation outside of Singapore.²

Where the conditions under section 13(8) cannot be met (for example, the services are not performed through a fixed place of operation outside of Singapore), the Singapore company's service income may suffer double taxation. If there is a Double Tax Avoidance Agreement (DTA) between Singapore and the foreign jurisdiction and
the Singapore company is a tax resident of Singapore, the double taxation can be eliminated by:

- The service income being exempted in the foreign jurisdiction under the DTA (for example, the level of the Singapore company's activities in the foreign jurisdiction does not trigger a tax under the DTA's allocation rules), or
- The Singapore company claiming a tax credit for the foreign tax suffered on the service income against the Singapore tax payable on that same income in cases where the DTA gives the foreign jurisdiction the right to tax the income.

While the tax credit mechanism under a relevant DTA can effectively eliminate double taxation, there is a case for businesses to plan to eliminate the foreign tax, where possible under the DTA, due to several reasons, such as when the effective tax rate in the foreign jurisdiction is higher than the effective tax rate in Singapore.

**The Business Profits Article**

Let’s take a case of Company X, a Singapore tax resident, providing services to a customer in Country A that has a DTA with Singapore.

The first thing to determine is whether Country A will impose tax on the service income derived by Company X under its domestic tax laws. If so, Company X could look to the DTA for possible relief.

Under the Business Profits Article, business profits of Company X shall only be taxed in the country of residence (that is, Singapore) unless it is attributable to a permanent establishment (PE) in the source country (example, Country A). This means that if Company X does not have a PE in the source country, its business profits should be exempted from tax in the source country.

Whether the Business Profits Article can be used in the context of service fee income will depend on factors such as:

- Whether the service fee income is covered under a separate article that overrides the Business Profits Article, and
- Whether the nature of the service fee income is excluded from the definition of business profits.

**PERMANENT ESTABLISHMENT**

To take this discussion further, let’s assume that the DTA between Singapore and Country A requires the existence of a PE in Country A in order for the service income in question to be taxable in Country A. In this regard, it becomes important for Company X to understand what actually gives rise to a PE in Country A.

Singapore’s DTAs are generally modelled after the United Nations Model Double Taxation Convention (UN Model Convention) or the Organisation for Economic
Cooperation and Development (OECD) Model Tax Convention on Income and Capital (OECD Model Convention). In some cases, they are a hybrid of both. To avoid the complexity of making references to specific DTAs, we shall refer to the OECD and UN Model Conventions in the ensuing discussion.

Based on Article 5(1) of the OECD Model Convention, PE means a fixed place of business through which the business of an enterprise is wholly or partly carried on. The term “fixed place” connotes the existence of a distinct geographical place with a certain degree of permanence.

The Article also provides examples of fixed place of business (such as an office, branch and factory) and provisions for certain activities to constitute a PE even if there is arguably no fixed place of business (example, the presence of a dependent agent who habitually exercises the authority to conclude contracts).

In addition, DTAs modelled after the UN Model Convention generally have deeming provisions relating to the furnishing of services. Under Article 5(3)(b) of the UN Model Convention, furnishing of services by an enterprise through its employees or other personnel engaged by the enterprise for a period or periods aggregating more than 183 days in any 12-month period commencing or ending in the fiscal year concerned shall give rise to a PE. This is generally referred to as “service PE”.

Therefore, even if there is no fixed place of business that constitutes a PE under Article 5(1), a PE could arise under the service PE clause, if there is one in the DTA.

**MANAGING SERVICE PE EXPOSURE**

Where there is a service PE in the DTA, businesses, in planning the overseas travel, assignments, etc, may want to take note of the following:

- The stipulated time threshold period for service PE relates to the same or connected project. For example, if a Singapore company has five projects in a foreign jurisdiction, it should account for the duration of activities for the five projects separately unless the five projects are connected. However, it should be noted that in certain DTAs (such as the Singapore-Indonesia DTA) the requirement for the time threshold to apply to connected projects is not explicitly stated.

- When computing the number of days for the purpose of determining service PE, the general view is that the duration of activities should be considered instead of the mere presence of its employees. For example, if Company X’s employee travels to a foreign jurisdiction for a project and extends his stay for a holiday, the holiday period when the employee is not working need not be included in the aggregated number of days.

- Where more than one employee is overseas and working on the same project, the day is still counted as one and not multiplied by the number of employees assigned to the project. It is therefore possible to manage service PE exposure by deploying a bigger team overseas to work concurrently on various phases of the project and ensuring that the project is completed before a service PE is established.
Only services rendered within the foreign country should be taken into account when computing the number of days for the purpose of determining service PE. Therefore, upfront planning can be done to determine what services can be performed in Singapore vis-a-vis onsite in the foreign country.

As service PE requires the company to furnish services through employees or other personnel engaged by the company in another jurisdiction, it is possible to manage service PE exposure through secondments. In structuring secondment arrangements, companies should ensure that the substance of the secondment follows its legal form, or the PE risk cannot be mitigated.

In structuring secondment arrangements, companies should ensure that the substance of the secondment follows its legal form, or the PE risk cannot be mitigated.

CONCLUSION

Cross-border staff movements, while seemingly benign, may in fact expose businesses to tax risks. As cross-border staff movements are set to increase, it may be time for businesses to develop a good understanding of DTAs and plan ahead to manage tax risks.

Felix Wong is Tax Manager, SIATP. This article is based on SIATP’s Tax Excellence Decoded session facilitated by Accredited Tax Advisor (Income Tax) Sivakumar Saravan, Executive Director, Crowe Horwath First Trust Tax Pte Ltd. For more tax insights, please visit SIATP.

1 Specified under section 13(9) of the ITA
4 Commentary on Article 5 of the OECD Model Tax Convention
5 Commentary on Article 5 of the UN Model Tax Convention
Don’s Column: Embedding a Risk-aware Culture

The Essential Elements

A company’s Board is ultimately responsible for ensuring an appropriate tone from the top and embedding a risk-aware culture within an organisation.

Risk culture influences the norms of behaviour and how risks are viewed and managed within an organisation. It shapes how employees take risks, both when
being monitored and, more importantly, when unsupervised. A risk-aware culture is an enabler of decisive and appropriate response to risks, particularly in a crisis where time is of the essence.

Implementing an enterprise risk management programme without ensuring a risk-aware culture is not only futile, it is outright dangerous, as it will provide a false sense of confidence on its risk-handling capabilities.

So, what are the essential elements for an organisation to build a strong risk-aware culture? Apart from laying the basic foundation of setting appropriate objectives, systems and processes to identify, assess and respond to risks, to embed a risk-aware culture, an organisation needs to pay careful attention to several elements, which have been outlined below.

STRATEGIES GROUNDED ON RIGHT PRIORITIES

A risk-aware culture needs to be strategically grounded on sound vision, mission and corporate objectives that meet broader interests beyond shareholders’ and the organisation’s interests to include those of its employees, customers, the wider communities and future generations. Adopting a business approach that not only does not harm stakeholders, but fosters a win-win relationship, will minimise risks and enable the firm to create value in a sustainable manner.

If organisations get their priorities right, these seemingly competing objectives could actually be complementary. For example, by fulfilling both customers’ and employees’ needs, profits to shareholders will likely materialise as such a strategy will likely not only retain but enlarge the organisation’s customer base, and increase employee motivation and productivity levels. On the other hand, prioritising financial objectives first and making quick returns by doing anything to get results with little regard to customers’ interests and employee needs can reap quick, short-term results, but they will likely backfire in the long run.

Pursuing financial objectives in silos without meeting other equally, if not more, important objectives, will increase the company's social risk (example, customer and employee complaints, turnover and boycott), regulatory risk (example, breaches, warnings and sanctions) and sustainability risk (example, depletion of input materials). A good example of this is Johnson & Johnson. It was the company’s commitment to customers that enabled it to not only survive a major crisis more than three decades ago, in which its best-selling Tylenol caused deaths from poisoning, but to make a quick comeback to achieve even better performance. In contrast, in the aftermaths of mis-selling and prevalence of a greed culture in the financial industry, the UK Financial Conduct Authority had to intervene and require industry players to put in place a strong and responsible culture.
vision, mission and corporate objectives that meet broader interests beyond shareholders’ and the organisation’s interests to include those of its employees, customers, the wider communities

REVEAL, NOT HIDE, RISKS

A risk-aware culture promotes and rewards risk identification and practice. In practice, however, the response employees often get when they try to highlight issues to higher management include “don’t tell me the problems without giving me the solutions”. While the underlying intent for such a response – to promote problem-solving skills and the ability to provide constructive criticism – might be good, asking for solutions when reporting a problem will reduce the likelihood of employees reporting a risk.

Another challenge faced by organisations in identifying risks is the inherent conflict of interest faced by risk owners not to share operational weaknesses or problems with higher management so as not to give a bad impression of incompetence and to avoid a poor performance review. This is a particularly risky situation as problems not addressed early can grow into a much bigger problem later.

ROOM TO LEARN FROM MISTAKES

Instead of losing external stakeholders’ (such as customers) confidence, an organisation could instead bolster their confidence in the firm by being sincere, and promptly admitting and accepting responsibility for the mistakes it makes. What is crucial here is the lesson an organisation could take away from the mistake to ensure that it will not repeat it in the future. Takata, one of the world’s leading suppliers of car airbags, could have averted a major loss of confidence crisis, penalties and lawsuits if it had accepted its responsibilities of its defective products when they were first identified more than a decade ago. Instead, it was in denial, even as car drivers were killed by exploding airbags and carmakers globally recalled millions of cars equipped with its products.

A risk-aware organisation is a learning organisation that tolerates mistakes up to a threshold. A strict zero tolerance for mistakes, regardless of their nature, might backfire as mistakes go unreported and their root causes are not examined and addressed. Reporting of “near misses”, for example, is crucial to learn from such incidents on things that went wrong and how processes could be tweaked so as to improve system effectiveness and efficiency.

Repeated mistakes and any misbehaviour will need to be dealt with accordingly, including warning, remedial actions such as counselling, re-training and close monitoring, and for severe breaches, termination. Appropriate actions are essential to send a strong message that wilful breaches and misbehaviour are not tolerated.
A risk-aware organisation is a learning organisation that tolerates mistakes up to a threshold. A strict zero tolerance for mistakes, regardless of their nature, might backfire as mistakes go unreported and their root causes are not examined and addressed.

BREAKING SILOS

Promoting internal competition could increase productivity and enhance efforts to achieve better performance. At the extreme, however, it might erode teamwork and information sharing, essential to building strong teams and team effectiveness.

Organisational performance evaluation and incentive schemes thus need to take teamwork into account to avoid managers minding their own turfs without caring for increased risks downstream. Operating in silos is detrimental to an organisation as it does not capitalise on scale economies, natural risk offsets, or worse, it could build concentration of risks.

Risks need to be discussed, shared and assessed organisation-wide, for example, in town hall risk workshops. As far as is possible, risk assessments should be supported with evidence, trend analysis and performance indicators, and not based solely on hunches or instincts.

GLOBAL, INTERCONNECTED RISKS

In today’s globally-connected economy, risk awareness extends to stakeholders outside the organisation, including suppliers and suppliers’ suppliers. Apart from screening and qualifying suppliers, organisations will need to ensure that suppliers’ objectives and practices are aligned with their own goals and risk management practices.

While organisations assess risks based on past trends and historical data, they should understand that past assumptions and risk patterns might no longer hold in the future as conditions change. An organisation’s leaders therefore need to watch for emerging risks and trends that could be disruptive to their existing strategies. Such risks include technological obsolescence, new competition and sustainability risks due to depleting supplies of production inputs and trade items, and tightening legislation on energy consumption, carbon emission and pollution controls.

INCENTIVE SCHEMES THAT PROMOTE RESPONSIBLE RISK-TAKING
To reward behaviour that fosters a culture of responsible risk-taking, organisations could implement bonus bank scheme and clawback clauses. In June 2015, UK regulators proposed that bonuses of the most senior management of banks to be clawed back for as long as a decade. The Financial Times quoted a Treasury spokesperson as saying that “the new rules will reinforce the link between pay and performance, and ensure bankers are left in no doubt that their bonuses are at risk should any misbehaviour occur”.

LEAD BY EXAMPLE IN STAYING TRUE TO VALUES AND GOALS

A risk-aware culture demands sincerity and authenticity from the top management and cascading all the way down to frontline staff. Authenticity must be seen and felt, and not just heard, from those who exhort it. For example, the general manager of the Taj Mahal Palace Hotel sets aside time to greet guests at the hotel entrance daily, sending a strong message on the importance of personal customer service and everyone’s role in it through this small but significant gesture.

My experience in Japan also provided a simple yet powerful illustration of how a boutique hotel manages its risk culture. Apart from the usual pleasantries and head bowing as I was departing, I was surprised by the hotel founder and his team of staff lining up to wave goodbye. It was a simple gesture that demonstrated to customers and employees a commitment to personal attention.

CONCLUDING THOUGHTS

Will embedding a risk-aware culture in an organisation make it more risk averse? On the contrary, a strong risk-aware culture will enable the organisation to calibrate risks more precisely, paving the way for it to take more risks to achieve higher targets and returns where its strategies and risk appetite require it to do so. Apart from ensuring appropriate risk responses, an embedded risk-aware culture will shift employees’ mindset to see risks in a dynamic, forward-looking, holistic and interconnected perspective instead of in silos, all the necessary ingredients to achieve sustainable performance.
El'fred Boo Hian Yong is Associate Professor, Division of Accounting, Nanyang Technological University. This article was first published in *StrategicRISK*, the leading risk management publication in Asia and Europe. Reproduced with permission.
IASB CONFIRMS DEFERRAL OF EFFECTIVE DATE TO THE REVENUE STANDARD
IASB has issued an amendment to the revenue Standard, IFRS 15 Revenue from Contracts with Customers, formalising the deferral of the Effective Date by one year to 2018. Companies applying IFRS continue to have the option to apply the Standard early.

THE PUBLIC AT LARGE BENEFITS FROM STRONG ACCOUNTING STANDARDS
Hans Hoogervorst, Chairman of the IASB, and Michel Prada, Chairman of the IFRS Foundation Trustees, set out in a publication how acting in the public interest is at the core of the standard-setters’ activities. The publication, “Working in the public interest: the IFRS Foundation and the IASB”, explains how IFRSs are created to bring transparency, accountability and efficiency to financial markets around the world.
**IMPAIRMENT ELEMENT OF IFRS 9 WILL RESULT IN FUNDAMENTAL CHANGE TO CURRENT PRACTICE**

Hans Hoogervorst said, at the ICAEW-IFRS Foundation Conference, London, UK, for financial services institutions, that the forward-looking expected loss model in the new financial instruments Standard should provide investors with better insights on loan loss risks.

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**AUDITING AND ASSURANCE**

**ISCA COMMENTS ON IAASB ED ON PROPOSED AMENDMENTS TO IAASB STANDARDS**

ISCA agrees with all the amendments to the Standards proposed by IAASB which were made in response to IESBA ED on responding to non-compliance with laws and regulations. ISCA further suggests that IAASB work with IESBA to look into developing guidance for group audit scenarios where signs of non-compliance with laws and regulations are evident, especially in cases where the components are operating in jurisdictions that have not adopted the IESBA Code.

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**URGENT QUESTIONS CONCERNING REGULATION’S IMPACT ON GROWTH, INNOVATION: IFAC GLOBAL STUDY**

Regulation has become immensely complex and is impacting organisations’ opportunities to grow and innovate, according to the “Global Regulation Survey”, a study of accounting, finance and business professionals conducted by IFAC.

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**ETHICS**

**ISCA COMMENTS ON IESBA ED ON RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR)**

ISCA agrees with all the suggestions proposed by IESBA. ISCA has also raised the following for IESBA’s consideration:

- Professional accountants in business (PAIBs) who are not directors, officers or senior employees should make an attempt to understand the potential consequences of suspected NOCLAR to obtain a more holistic understanding of the issue, notwithstanding that they may have a limited sphere of influence;
- IESBA should provide more guidance on the factors that a “reasonable and informed third party” needs to consider before reaching a conclusion on whether the professional accountant has acted appropriately in the public interest.
There has been a lot of debate in recent years about the quality and quantity of disclosures in financial statements. The term “disclosure overload” has entered the lexicon of many accountants struggling to cope with not only increases in the volume of disclosures, but also a perceived reduction in their quality and usefulness. But because many preparers, auditors, regulators and other users of IFRS financial
statements have different perspectives on what is and isn’t useful, solving this conundrum is easier said than done. However, that is exactly what the IASB’s Disclosure Initiative aims to do.

THE DISCLOSURE PROBLEM

The primary objective of financial statements is to communicate information that is useful in making investment decisions. However, some critics complain that financial statements are overloaded with unnecessary disclosures, making it difficult to identify what is really important. Meanwhile, others think that important information is missing or that what is included is not communicated in a way that makes it easy to understand.

The task of delivering financial statements that communicate useful information clearly and concisely is challenging in today’s dynamic business environment. The way in which IFRS disclosure requirements are written and interpreted is part of the problem, with concerns raised about the requirements being either too restrictive or too excessive. But standard-setters are not entirely to blame, because other challenges to good reporting arise from the way those in the financial reporting chain behave, with the focus being too often on checklists and compliance, rather than communication.

A shift in behaviour is therefore just as important as additional guidance in delivering effective disclosures, as demonstrated by companies that have already achieved great results by taking proactive measures to streamline their financial statements.

FROM COMPLIANCE TO COMMUNICATION

The IASB’s Disclosure Initiative is looking at ways by which the Standards can be improved in response to the disclosure challenge. It is hoped that it will result in improvements to IFRS that also help to influence the behaviours of those involved in financial reporting, that is, preparers, regulators and the accounting profession. In particular, we hope to shift the view of financial statements from a compliance document to a form of communication.

OVERVIEW OF THE DISCLOSURE INITIATIVE

The Disclosure Initiative originated on the back of the IASB’s agenda consultation in 2011, when many of our stakeholders suggested that this was an area in need of
attention. It builds on work previously done by others, including national standard-setters, and was further informed by a major discussion forum held in London in January 2013.

The initiative is grouped into several projects, ranging from longer-term research projects to some projects that have already been completed, as illustrated in Figure 1.

**Figure 1** Disclosure initiative - Overview

![Disclosure Initiative](image)

**PRESENTATION OF FINANCIAL STATEMENTS**

In December 2014, the IASB finalised narrow-scope amendments to IAS 1 *Presentation of Financial Statements* to clarify existing guidance about materiality, the order of the notes, subtotals, accounting policies and disaggregation. These amendments seek to remove perceived barriers to the exercise of judgement. The amendments are effective from 1 January 2016 but early adoption is permitted.

**DEBT RECONCILIATION**

At the same time, the IASB published an Exposure Draft of proposed amendments to IAS 7 *Statement of Cash Flows*, with the objective of improving disclosures about an entity’s debt and liquidity. The proposed amendments respond to investors’ calls for more information about changes in an entity’s debt. The proposals include a requirement to reconcile the movement in “debt” from one period to another. The
Exposure Draft also includes proposals for additional disclosures about restrictions that may affect an entity’s decisions about the use of cash and cash equivalents balances. The IASB has commenced re-deliberations and aims to issue a final revised Standard towards the end of 2015.

DIGITAL REPORTING

The IASB sets its Standards on the basis that entities are required to prepare and present a general purpose financial report whether that report is printed or in an electronic format. As a result, the IASB’s IFRS Taxonomy© activities are being more closely integrated into the process of setting Standards, specifically as part of the Disclosure Initiative. The IFRS Taxonomy provides the digital representation of IFRS in a structured format, allowing financial information to be searched and analysed electronically.

MATERIALITY

Some suggest that one of the reasons for financial statements being both “overloaded” and missing useful information is the way in which the concept of materiality is applied. They suggest that IFRS does not provide sufficient guidance to help entities determine what should be included or excluded from financial statements.

In response to this concern, the IASB has – as a first step – developed draft practical guidance on how to think about materiality.

It is proposed that this guidance will be non-authoritative and will take the form of a practice statement. An Exposure Draft on this topic was published in October 2015. As a second step, the IASB will also consider how the concept of materiality is described in IFRS. Whether and how the definition of materiality in IFRS and any related explanatory guidance should be revised will form part of the Principles of Disclosure project, which is discussed below.

PRINCIPLES OF DISCLOSURE PROJECT

The objective of the Principles of Disclosure project is to identify and develop a set of principles for disclosure in IFRS that guide entities in making decisions about the basic structure and content of their financial statements. The project aims to revise the disclosure requirements in IAS 1, and may affect the review of disclosure requirements and guidance in other IFRSs. The IASB is planning to publish a Discussion Paper in early 2016, which will include – but which will not be limited to – the topics of communication principles, non-IFRS information/alternative performance measures, cross-referencing and disclosure of accounting policies.
The objective of the Principles of Disclosure project is to identify and develop a set of principles for disclosure in IFRS that guide entities in making decisions about the basic structure and content of their financial statements.

**REVIEW OF EXISTING STANDARDS**

In addition to improving the disclosure requirements in existing Standards, work is underway to establish a drafting guide for use by the IASB when it develops disclosure requirements in new Standards. This guide would ultimately form the basis of any reviews of the disclosure requirements in existing Standards.

**NEXT STEPS**

The following illustration (Figure 2) highlights the planned next steps for the Disclosure Initiative.
We look forward to receiving broad input to the various forthcoming proposals and consultations under the Disclosure Initiative banner. While the challenges to effective disclosure are not something the IASB can overcome alone, we have a key role to play, and look forward to continued work with our stakeholders to tackle the disclosure challenge. To read more about the project, visit Disclosure Initiative.

Kristy Robinson is a Technical Participant at IASB. Reproduced with the permission of ICAEW, this article was first published in the ICAEW publication “By All Accounts” (July 2015 issue, pp. 10-11). “By All Accounts” is a publication of the ICAEW Financial Reporting Faculty. © ICAEW 2015.
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BOOK QUIZ

Stand to win the book of your choice! Simply email your answers to the quiz questions to comms@isca.org.sg by 24 November 2015. Please provide your full name, NRIC number, mailing address, contact number and the book you’re interested in.
1. In “Moving beyond Geographic Boundaries”, in structuring secondment arrangements, companies should ensure that the substance of the secondment follows its legal form, or the Permanent Establishment risk cannot be mitigated.
   A True
   B Maybe
   C False

2. In “Embedding a Risk-aware Culture”, it is important to ensure that a risk-aware culture is strategically grounded on sound vision, mission and corporate objectives that meet broader interests beyond shareholders' and the organisation's interests to include those of its employees, customers, the wider communities and future generations.
   A True
   B Maybe
   C False

3. In “Financial Statement Disclosures”, all critics are unanimous in thinking that financial statements are overloaded with unnecessary disclosures, making it difficult to identify what is really important.
   A True
   B Maybe
   C False

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Sxxxx722-B

Answers for October quiz: (1) C, (2) A, (3) C
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