Think Ahead ACCA
CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

reach

Insights and opportunities for the global accountancy profession

Are we global yet?

How the accountancy profession is breaking down borders

Future of work
How to stay relevant in a fast-changing world

Blockchain
The digital disruptor and the currency revolution

Ethics in banking
Why people choose to behave badly

Contents

Introduction

This special publication marks the launch of ACCA and CA ANZ's strategic alliance. We've highlighted the common challenges that professional accountants face across the world, whatever their role. We hope you enjoy it.

Think Ahead ACCA

CHARTERED ACCOUNTANTS™
AUSTRALIA + NEW ZEALAND

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We offer business-relevant, first-choice qualifications to people of application, ability and ambition. We support our 188,000 members and 480,000 students in 178 countries, helping them develop successful careers.
accaglobal.com

Chartered Accountants Australia and New Zealand (CA ANZ) is a professional body of more than 120,000 members. We focus on the lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international capital markets.
charteredaccountantsanz.com

Employer profile

The alliance between ACCA and CA ANZ will enhance the profile of members of both bodies with employers globally across all sectors

Member value

The alliance gives members of both bodies access to a global network of 788,000 current and next generation professional accountants

Learning opportunities

Through sharing resources, CA ANZ and ACCA members will benefit from a range of new online and face-to-face courses, events and conferences

Public value

Working together will give members a stronger voice on the global stage to work to promote business ethics, understanding and prosperity

ACCA president Brian McEnery

CA ANZ president Darren Scammell

Welcome

Welcome to *Reach*, our joint publication highlighting the issues facing businesses around the world and stories from our members about their remarkable careers

We announced our strategic alliance in June 2016. It's potentially ground-breaking and one that could disrupt the international accounting profession. Imagine the year 2020 when a potential one million accounting professionals around the world are part of a unique network that creates opportunities for businesses, communities and nations.

We're at the beginning of the journey. Since we announced our alliance, we've worked hard to determine the best ways for our organisations to work together for the benefit of members. These benefits include learning opportunities, networking and other events that we've hosted in Australia, New Zealand, the UK, Malaysia, Singapore and Hong Kong.

But perhaps the biggest prize will be the ability to advocate globally to make a difference locally. A strong united voice on issues such as tax, audit and financial reporting will be a potentially powerful way to influence the world for the better.

We have already issued a joint position on International Financial Reporting Standards (see page 32), and we look forward to many more joint statements on issues that impact on businesses and people around the world.

The rationale for the alliance is that it will give both organisations critical mass to provide greater relevance and support in preparing our members for the future.

The world of accounting, like many other professions, will continue to change. Technology will continue to challenge the status quo, and increasing globalisation and connectivity will influence the way we do business. As member organisations, we offer relevant learning opportunities – and we can do this even better together, utilising the diversity of skills and experiences within our memberships. Together, they represent a huge, knowledgeable and influential professional community.

Shared values

The common interests and values of ACCA and CA ANZ mean that the alliance is a natural coming together. Both bodies are committed to the highest ethical, professional and technical standards. Both have a central focus on the professional development of members and in supporting them in their careers. Both are outward and forward-looking.

See more on how we will create value for our members in our video, at **accaglobal.com/alliance** and **charteredaccountantsanz.com/alliance**. ■

Are we global yet?

From Birmingham to Brisbane, worldwide trends are shaping the future of professional accountants in every sector, and the key is to be prepared

We live, as the saying goes, in interesting times. The past few decades have been likened to the industrial revolution, so fundamentally transformative have been the innovations and technology that have penetrated our lives.

As technology has brought us closer together, the way we work has undergone a radical shift. Every sector has adapted or is adapting to face what the future may bring. Accountancy is no exception – those who qualified in the 1960s or 70s have very different experiences from young accountants today.

Yet it seems that the global forces changing how accountants work are unifying the profession as never before. The global megatrends shaping the working life of a CFO in Brisbane have as much potential to affect an auditor in Bulawayo. In other words, what joins us together as a profession is stronger than what sets us apart.

'What joins us together as a profession is stronger than what sets us apart'

In the genes

It is in the DNA of the profession to behave globally. 'Accountancy became a global profession early on because business became global,' says Rob Ward, head of leadership and advocacy at CA ANZ. 'The first accountancy firms were set up to serve commerce, and they followed trade around the world. That created a network of firms and global businesses.' For evidence, you only have to look at how the global profession has worked to harmonise professional standards and guidelines, he adds: 'In the past 10 years we've moved from having 70 sets of accounting standards to just two – IFRS and US GAAP.'

But now the pressure for change is coming from external forces – technology and big data are changing not only how we work, but the expectations placed on professional accountants, the skills they require and their career paths.

The drivers of change

ACCA's report, *Professional accountants – the future: Drivers of change and future skills,* drew on extensive research into the views and experiences of senior finance professionals around the world to identify four drivers of change for the coming decade (see box).

An equally comprehensive study by CA ANZ, *The Future of Work: How can we adapt to survive and thrive?*, examined the megatrends shaping the economy, business environment and broader society in Australia, New Zealand and elsewhere. The report identified globalisation and digital technology as major drivers, but added two more: the influence of an older and more experienced workforce (demographic change); and the rise of the sharing (peer-to-peer) economy.

Professional bodies pay close attention to these trends because they indicate the skills and competencies required in accountants today and in the future; if we understand how the profession and the demands placed on it are changing, we can prepare. As ACCA chief executive Helen Brand said in her introduction to ACCA's report, many of the changes will be 'evolutionary, rather than revolutionary'.

The impact of these trends is already being seen, affecting the everyday working lives of accountants from Perth, Scotland to Perth, Australia. Take, for example, digital technology and intelligent automated accounting systems – 55% of those questioned for ACCA's report identified this as the most influential trend, one that is already shaping and changing the skills they need to develop. 'Knowledge of new models for business, funding, payments and services such as wider blockchain-based applications, including distributed ledger, will be vital for all professional accountants,' said the report. 'Expert use of analytics will enable more, better and closer real-time reporting, increase predictive analysis, and highlight the interconnectedness of financial and non-financial performance. Greater use of video and social media will improve collaboration, disclosure, presentation and stakeholder engagement.'

As more processes are automated, the expectations placed on professional accountants are evolving. No more are accountants purely recorders of historic transactions; they are being asked to look forward, to add value and provide insight. *Drivers of change and future skills* highlighted this clearly: 'All professional accountants will be expected to look beyond the numbers. They will »

Drivers of change

ACCA's report *Drivers of change and future skills* identified four significant drivers of change in the global profession between 2016 and 2025:

- **Increased regulation and stronger governance** – this will affect all members of the profession. Tax specialists are expected to feel the greatest impact, mainly as a result of the OECD's base erosion and profit shifting (BEPS) project.
- **Digital technology** – this is transforming the practice of accounting and the skills professional accountants need. Smart software has begun to replace easily automated tasks and processes.
- **Expectations** – professional accountants are being asked for more comprehensive and forward-looking information, and more frequent ad hoc reporting from a growing range of stakeholders.
- **Globalisation** – as harmonisation increases, so will the need for teams that are multinational and culturally diverse. Being multilingual, understanding different countries and cultures and having the interpersonal skills to work in and manage diverse teams will become as valued as technical skills.

United in embracing the future

Lee White, chief executive, CA ANZ

These are exciting times. From globalisation to regulation to the mobility of workforces, the pace of change is faster than at any time in human history.

But while the world has become increasingly complex and uncertain, the impact of digital technology has in some ways made it a smaller place. The ease, speed and collaborative power of global digital communication we now have was something that existed only in the realms of science fiction when I first started out in my career as an accountant. It brings with it huge opportunities, but also challenges. In particular, it's more vital than ever that accountants remain relevant to their clients, and in the way they operate within businesses.

We need to make sure we are supporting our members to have the right skills and insight, and be truly invaluable whatever their role. This is at the heart of our alliance with ACCA. By working together we can remain relevant to our members and help them remain relevant in the wider world.

Helen Brand OBE, chief executive, ACCA

When I was a child growing up in the UK, Australia seemed like a very long way away. In the years since, the world has fundamentally changed. And while the digital revolution, with all its innovations and advancements, may make it feel smaller, the possibilities it provides are that much greater.

This is the case with the historic alliance between ACCA and CA ANZ. Our opportunities to collaborate, share ideas and work together to advance the profession are greater than they ever have been before.

And we are not alone. Right across the world businesses and governments are growing ever more global in their outlook. No longer does your physical location dictate who you can talk to, learn from, and indeed, do business with. The global economy is open and, as a result, it is evolving at an ever-faster rate.

Through our partnership, ACCA and CA ANZ can provide a truly global voice for the profession in this time of economic change and possibility.

need to collaborate and partner with people in other parts of the business and outside the business; interpret and explain the numbers; provide insight and information; help organisations to achieve short-term goals and longer-term objectives; think and behave more strategically and become more involved in decision-making than before.'

This is equally true of both public and private-sector accountants – ACCA's most recent assessment of the effective provision of public services, *Setting high professional standards for public services around the world*, argued that public services are under an intense spotlight in many countries, which has led to a shift in the form and quantity of financial information expected by stakeholders.

Death of the old career pathway

Perhaps the most visible impact that global trends are having on the profession is in the finance career path. The old finance apprenticeship structure is rapidly becoming obsolete, partly because the profession is becoming automated but partly because of the rise of shared services.

ACCA recently began an extensive two-year research study into the challenges organisations face in attracting, training and retaining the next generation of accountants. The report *Talent Equation: First Insights* highlighted the impact of shared services on the profession.

ACCA found that finance organisations have embraced shared services and that shared services no longer focus just on rules-based finance transactions – a third are already carrying out middle-office finance processes, while a further third of respondents said their shared services and outsourcing model can handle complex finance processes.

The research suggests that staff in shared service centres are developing skills that have real value – the ability to work and manage globally, transformation capabilities and communications skills. The report argues that these skills give shared services staff a wider range of career options. But despite this, there is an abiding view that retained finance roles still provide the best ladder to the top of finance.

'Shared services is the place where you pick up skills,' says Deborah Kops, founder and managing principal of Sourcing Change, specialists in services change management. 'It's a business within a business. That's the good news. The bad news is that it is altering and bifurcating the career paths within finance.'

Kops argues that shared services can bring enormous value as a finance career path. But the real career value of working in shared services is yet to be fully appreciated. The difficulty, according to the ACCA report, is that those who enter the finance function through shared services may not find the career path they expect, and so may look for opportunities in the wider business once qualified, taking their skills with them.

It remains to be seen what the new career path for professional accountants will look like. Certainly it is possible that Generation Y, who expect a more varied career path than previous generations, may seek more than a pure finance role. But the development of new working models – short-term assignments, flexible working and the gig economy – suggests a far more fluid career path will emerge.

Whatever the future holds, professional accountants are ideally equipped to deal with what lies ahead. The accountancy qualification is global, portable and in high demand. 'Accountancy breaks down all borders. It's a great foundation for people in all forms of business,' says Ward. 'The world is your oyster if you are an accountant.'

Liz Fisher, journalist

Evolving roles

ACCA's report *Drivers of change and future skills* explained how the demands placed on accountants in various specialisms are changing:

- **Audit and assurance** – non-technical competency areas are becoming more important. Audit professionals are honing their knowledge of emerging technologies and their application in audit, and enhancing interpersonal skills.
- **Corporate reporting** – the scope and amount of corporate reporting is expanding as regulation and the requirement for disclosure and transparency increases. Integrated reporting will become mandatory, requiring accountants to communicate a comprehensive view.
- **Tax** – roles and responsibilities of tax professionals are expanding. 'Tax directors will become part of the business risk-management structure, collaborating in the design and running of control processes, partnering with other business leaders and not just providing them with information.'
- **Financial management** – here, the responsibilities of accountants and the scope of the matters they deal with will expand. 'All financial managers will need a more complete view of the business and apply a broader range of technical finance and personal communications skills.'

For more information:

Find the ACCA report *Drivers of change and future skills* at accaglobal.com/thefuture and *Talent Equation* at bit.ly/ACCA-talent

Find the CA ANZ report *The future of work* at charteredaccountantsanz.com/FoW

Windows on the world

Ivana Luketic Kostic FCCA, Microsoft UK's senior FD, talks about her her 15-year global career with the tech company, starting from Eastern Europe and landing in the UK

> 'My changes in work locations at Microsoft have really helped me not just to grow as a professional but as an individual'

Working for one of the world's most valuable and ubiquitous organisations must surely present plenty of opportunities to travel and see the world. And this is exactly what Ivana Luketic Kostic FCCA, Microsoft UK's senior finance director, has been able to do in her 15 years since joining the technology giant.

Kostic never expected to be working anywhere other than her home country of Croatia, but her career with Microsoft has taken her from Zagreb to Paris, Munich, Moscow and Belgrade before her present location at the Microsoft UK campus in Reading, UK.

'The change in locations and the change in workplaces in Microsoft have really helped me not just to grow as a professional but as an individual,' she says.

Kostic's first Microsft role covered Croatia, Macedonia and Serbia, along with a number of other countries in south-east Europe. 'It was a big change for me. It was like moving into real life, where I was closer to the action.'

In many ways, Microsoft's philosophy mirrors Kostic's approach to her role both within the company and as a finance professional with a global perspective.

'Our strategy is to empower every person and every organisation on the planet to achieve more,' Kostic says, 'through the tools and different use of technology, how people can make their lives better.

'Technology is not an inhibitor; it can help you live a better life. And in Microsoft, it is about a growth mindset. You don't need to know all the answers to be successful, but if you collaborate with each other, you can connect the dots.'

But is it possible for someone so digitially focused to ever switch off? 'I use technology so that it works for me' she says. 'I embrace the positives but I also set clear boundaries. Free time is family time.' ■

David Yu FCCA, Vice president of business at LinkedIn China

My ACCA background and experience have given me plenty of support because, as a business leader, you need to bring value to your stakeholders. LinkedIn works with a range of stakeholders from small, private companies to large, state-owned enterprises, universities and municipal governments. Talent is the centre of innovation. Companies want to use LinkedIn as a global platform to attract talent; that is why we are so popular today in China. This is a unique environment for us. ■

Vicky Westbook ACCA, FD of popcorn giant Metcalfe's Skinny in the UK

It is important to enjoy your job as you spend so much time doing it. I love food. To be able to be passionate about what you are doing definitely helps. High-growth businesses come with a lot of change. You need to be able to adapt, whether it's by reviewing systems to support a larger business, adjusting reports and analysis to cater for changing business needs, or planning cash requirements. But you also need to keep a bigger picture view of where the company's going. ■

Leong Wee Pheng FCCA, Senior FD, Nike Southeast Asia Sales & Marketing

From my perspective, the consumer is at the top. When we have the consumer in mind, when we give them what they want, it will translate into growth. It's important to understand the perspective of other functions to better support their efforts and have more of a business partnership mindset. We have to evolve from being a bean counter and think more about other functions and ask, 'what can finance do to enable their success?' ■

Scott Barwick FCCA, Finance director of NFL International in the UK

No one achieves anything without a strong team. One of my top priorities is ensuring the development of my team and the invididuals within it. At NFL International we look at our people in the same way as American football teams do – it's about teamwork, people and respect. We bring all that inhouse. I also believe it is vital to continually encourage your staff, and I operate an always-open-door policy. ■

Learning to juggle

With over 30 years' experience, **Agnes Chan CA**, EY managing partner, Hong Kong and Macau, believes flexibility and the ability to delegate are central to a successful career

Agnes Chan CA is the managing partner of EY for Hong Kong and Macau, and has provided tax and business advisory services to clients for over three decades. She has also been named one of the leading tax advisers in Hong Kong by *World Tax*, the guide to the world's leading tax advisers, every year since 2006. As one of four accountants in her family, Chan claims accountancy is in her DNA.

Flexibility would be a requisite skill for anyone wanting to step into her role for the day, she says. 'They would need to know that every day is a juggling act. Even if you have your whole day planned out, something will pop up that means you'll need to change your well-planned schedule, so you'll need to be flexible.'

And the most helpful tool for getting the job done? 'What I've learnt over more than 30 years in this profession is that proper delegation to a high-performing team is your most important tool,' she says. 'Without it you won't get your work done. Things are just too complicated to do on your own, and with proper delegation you can really get a lot done.'

Her advice for other women trying to get ahead in the profession is that they need to know they are stronger than they think. 'Sometimes your biggest challenge is yourself. Once you have self-belief, then you are able to take that next step and move out of your comfort zone. I still remember when I was asked to take up my current position as managing partner, I said "I don't think I can do it", but I took it on and handled it well. We are stronger than we think.'

When asked what sets CA ANZ members apart, Chan says: 'The designation is highly regarded in the international community, and the programme really equipped me with the ability to analyse and interpret financial and non-financial data, and to build an understanding of the dynamic issues for international organisations in the global market.'

'I'd race with the shopkeepers in the markets to calculate the change. I thought this is the way for me to go when I grow up'

It seems Chan was always destined to become an accountant. 'I always tell people that accounting is in my DNA because I came from a family of accountants. I loved arithmetic even as a child. My mother used to take me to the markets and I used to race against the shopkeepers to calculate the change. I thought this is the way for me to go when I grow up.

'I remember when I did the CA qualification. We went to lectures, workshops and discussion classes and we wrote up our reports which we got feedback on, so I think these were all very important for developing our analytical skills and looking at situations from different perspectives. The qualification has been very helpful for my career development.' ■

Tomorrow's accountant

ACCA has identified the seven key qualities professional accountants should have to ensure they are equipped to face the challenges ahead, ACCA's Helen Brand reveals

From the global fall in oil prices back in March to the months of uncertainty created by the EU referendum, 2016 has been an unpredictable year for businesses. Of course, in the modern, global economy, volatility is the new normal. The question for businesses now is how to chart a steady course when the only thing that is certain in this world is that nothing is certain.

As with most things, the answer is to be found in people. Whether you are running a large organisation or a small firm, when it comes to future-proofing, the finance team is one of the most valuable resources a business has at its disposal. This has always been the case, but what that team looks like, the skills those people possess and the role they undertake within your business, has changed beyond all recognition over the past decade.

To succeed as a professional accountant, a vastly different set of skills is required from what was necessary just 10 short years ago. And in the next decade, things are likely to change even faster and more dramatically as the global economy continues to evolve at an ever-quickening pace.

Staying ahead

ACCA is acutely aware of its responsibility in developing the future professionals the world needs. With 488,000 students around the world studying to become professional accountants, it is vital to business and to society – not to mention to the individuals themselves – that ACCA equips them with the skills they need to succeed. To do that, ACCA must continually scan the horizon and adapt to stay ahead of the fast-changing business environment.

The latest phase of this work is a major new global study, two years in the making, which has identified exactly what talents finance professionals will require to 2020 and beyond. A team of researchers travelled across the globe to collate information from thousands of chief executives, chief financial officers and other high-profile business leaders. Using that expert insight, the team has been able to paint a clear and detailed picture of what the future of finance looks like.

The results are exciting, to say the least. Professional accountants have become leaders, trusted expert counsel and key strategic advisers to organisations in every industry, sector and country in the world. As they have become more valued, they have come to face different challenges. More regulation, greater globalisation, ever-increasing risk and, of course, massive technological advancement have all played a part. The accountancy profession has to be ahead of the curve on all fronts – trained to the highest professional standards and, crucially in the future, looking beyond the numbers.

> The profession has to be ahead of the curve – trained to the highest standards and able to look beyond the numbers

The seven key qualities

ACCA's report, *Professional accountants – the future: Drivers of change and future skills*, has identified seven key qualities that come together to create the future finance professional capable of rising to these many and varied challenges. These 'magnificent seven' quotients are the skills employers are seeking today and will demand from finance professionals in the decade ahead:

- **Technical and ethical competencies** – the skills and abilities to perform activities consistently to a defined quality while maintaining the highest standards of integrity, independence and scepticism.
- **Intelligence** – the ability to acquire and use knowledge: thinking, reasoning and solving problems.
- **Creativity** – the ability to use existing knowledge in a new situation, to make connections, explore potential outcomes and generate new ideas.
- **Digital** – the awareness and application of existing and emerging digital technologies, capabilities, practices, strategies and culture.
- **Emotional intelligence** – the ability to identify your own emotions and those of others, to harness them and apply them to tasks, and to regulate and manage them.
- **Vision** – the ability to anticipate future trends accurately by extrapolating existing trends and facts, and to fill the gaps by thinking innovatively.
- **Experience** – the ability and skills to understand customer expectations, meet desired outcomes and create value.

Top of the list are the technical and ethical competencies, which remain at the core of the profession. These are the areas professional accountants have always known to be important. In so many instances businesses run into trouble because they do not possess a core technical understanding and a strong ethical compass. More than ever, society looks to accountants to provide guidance in both of these areas.

Unsurprisingly, digital skills are now essential and will only grow in importance in the coming decade. As new and upcoming technologies arrive thick and fast, a digital focus is no longer a luxury – it is a necessity.

Fifty-five per cent of respondents to ACCA's research thought the development of automated accounting systems would have the largest impact on the industry over the next decade. Notably, this impact is considered to be a positive one. As professional accountants move to more strategic roles, new technologies are perceived as a welcome enabler rather than a threat to jobs.

Alongside technical, ethical and digital expertise, the modern accountant must possess another set of skills perhaps not historically associated so closely with the profession: creativity, emotional intelligence and vision. Modern accounting requires the ability to steer a business on a steady course between risk and opportunity. This requires collaboration, strategic thinking and a real 360° understanding of the business – its environment, its people and its opportunities. Once you gain a full picture of the new and expanded role finance professionals now occupy in businesses, it is easy to see how a broader, more diverse range of skills are required.

It is safe to say that the age of accountants as back-room technocrats is over. A truly modern business demands far more from its finance team, and it is ACCA's job to continue to create future professionals who are up to the task. ■

Helen Brand OBE is chief executive of ACCA

For more information:

ACCA has created an online test to help you see how you stack up against the seven qualities. Take the test and read ACCA's report *Drivers of change and future skills* at accaglobal.com/thefuture. See also our video about professional accountants of the future at bit.ly/ACCA-vid

Get ready for the next step

With employees in Australia expecting to change jobs more often in the future, continuing to develop new skills throughout your career is vital, explains CA ANZ's Lee White

Star employees of the future no longer believe in the idea of a job for life. Instead, they expect to build a successful career with multiple moves, often between different industries. Critical for that strategy will be continual education, as the knowledge that started them on their career pathway is unlikely to sustain them through the whole of their working life.

A new report by CA ANZ suggests that employees will move around more in the future. *The Future of Work: How can we adapt to survive and thrive?* shows that employees are not just looking for new employers when they move. Of those who pursue a new job in the next 10 years, three in five are looking to change to a different industry, a different role or both.

Agility and diversity are often viewed as an ability to confront change and embrace different challenges

Analysis from the Australian Bureau of Statistics, which reviewed employees who had changed employment in the last 12 months, supported those findings. A little more than half (51%) had also changed industry, while 39% had changed their major occupation group. Interestingly, employees are twice as likely to move jobs for voluntary reasons such as pursuing new opportunities, compared with involuntary causes such as retrenchment or redundancy.

Where once working in a number of different positions was perceived as exposing a lack of loyalty to the employer or an inability to settle down in a job, more employers view them as positive attributes. Agility and diversity in a potential employee's work history are often viewed as an ability on the part of the applicant to confront change, embrace different challenges and operate in different work environments. It could also be argued that it is a response to the realities of the current large-scale shifts that are reshaping economies.

From globalisation to digital disruptions, businesses face more intense pressures to respond decisively to changing customer demands and new market entrants. However, such changes are also transforming the views of participants in the workforce and labour market. CA ANZ's study revealed that two-thirds of those with less than five years' experience expect that their job will not exist, or will change fundamentally, in the next 15 years.

Like many other advanced economies in the past few decades, Australia has been gradually moving away from lower skilled and highly labour-intensive industries towards more knowledge-based industries that require highly skilled employees. That transition resulted in a shift in the occupation mix of Australian employees. Since the mid-1980s, the share of professionals in the workforce increased from 15% to 23%, while the share of community and personal service employees increased from 6% to 11%. In contrast, the shares of employees who are labourers, technicians, tradespeople, machinery operators and drivers all declined over this period. (See also the infographics on page 16.)

Not all about job destruction

Historically, the jobs that technology has destroyed have been more than offset by the new jobs that is has created. Indeed, technological advancement is not all about job destruction. Technology can potentially create new jobs in areas that might not have been thought of in years past. Consider data analytics that uses technology to unlock the potential for leveraging big data to improve decision-making and provide a competitive edge in understanding customer trends. Advertisements for training and recruiting data analysts have proliferated in recent years for this role that did not exist 10-15 years ago.

While not exactly a zero-sum game – some employees will still lose out – this period of employment transition does not imply that redundant employees with one set of skills can miraculously walk into a new field created by the wonders of technology. Workers, particularly younger ones, are realistic about the role of their early education in getting a job. About a quarter of the working-age population possess a Bachelor's degree or higher qualification: five times the figure for the early 1980s. Nevertheless, the investment in study does not stop at the first graduation ceremony. More than half (52%) of employees with less than five years' experience already see their qualifications as not being 'very much' relevant to their work. However, that view does not imply that skills learned in higher education are too narrow in their potential application.

Although those skills might not be highly relevant in an employee's present role, they are increasingly transferable to different industries. Around 40% of university-educated employees have a degree outside of the primary and secondary study areas in their industry. For example, more than half of all employees in the professional services industry studied degrees outside the primary (commerce) and secondary (engineering) fields of study for the industry. Even in industries where skills are relatively specialised, such as mining and healthcare, between a quarter and one-third of employees studied in alternative areas.

For businesses and policymakers, the challenge will be to ensure that employees who are displaced by future technological changes have the training and development opportunities to upskill or reskill in areas that allow them to pursue other jobs and careers. In Denmark, for example, the government has extensive active labour market policies in education and training to assist employees in developing the skills required in an age of technological change and globalisation.

Many employees appreciate that skill requirements will vary greatly throughout their working life. Half the employees with less than five years' experience consider it highly likely that they will pursue more formal education in the future. While university study is attractive, a quarter of respondents expect to pursue informal routes such as online courses. They can see the growth in knowledge-intensive industries that is forecast to increase further as Australia continues to focus on areas of competitive advantage. Supporting that vision is the focus of industry policy across the country, much of it targeted towards industry development and innovation in these areas.

As more employees appreciate the effect on the future workforce, they have rejected the belief that formal training should be 'set and forget'. The qualifications gained before starting a career are just the beginning of a longer education journey that they expect will be the foundation of their success in the knowledge economy. ■

Lee White is CEO of CA ANZ

For more information:

Read *The Future of Work: How can we adapt to survive and thrive?* at bit.ly/CA_ANZFoW

The future of work

1871
23%
of UK employment is muscle power

1961
34%
of women are in the Australian workforce

1966
46%
of Australians are employed in production industries as labourers, process workers and in trades

1982
5%
of Australians have a Bachelor's degree

1986
21%
of Australians work as labourers, machinery operators or drivers, 21% as community workers and professionals

Generation Next

	16–25	26–30	31–36
Long-term career prospects	44%	42%	41%
Opportunity to develop a broad range of skills	44%	38%	36%
Ability to use skills in a broad range of roles, both in and outside finance	38%	35%	35%
Interest in the subject matter	34%	32%	31%
Prestige of the profession	28%	31%	27%

What attracted you to a career in the finance profession?
Gen Next sees entry into the profession as a great platform for skills attainment and career growth. The youngest are attracted to the profession for its long-term career prospects but also for the opportunity to develop and use a broad range of skills.

	Strongly agree	Agree
Opportunity to learn new skills	58%	31%
Career progression opportunities	59%	29%
Financial remuneration	55%	33%
Interesting work	45%	38%
Job security	47%	34%
Work-life balance	48%	32.5%
Matched to my skillsets	39%	41%
Corporate values/culture	37%	37%
Flexible working	35%	36%

Important factors for staying with an employer
Organisations that focus on providing opportunities to learn new skills and clear progression opportunities may be better able to retain finance professionals.

There are four forces that are likely to impact significantly on the future of work: globalisation, digital disruption, a more mature and experienced population, and the peer-to-peer economy. CA ANZ's report *The future of work* looks at how the employment landscape continues to evolve. See charteredaccountantsanz.com/FoW

1996

28% of Australians are employed in production industries, 72% in services

2010

25% have a Bachelor's degree

2011

59% of women are in the Australian workforce, including 22% as professionals

2015

34% of Australians are community workers and professional; 15% are labourers

2030

Future jobs

3D printing, data analyst, blockchain technologies, robotics, virtual reality

The ranks of the finance profession are increasingly being filled by 'Generation Next'. ACCA's survey of 19,000 finance professionals aged 16 to 36 from 150 countries finds this cohort is highly motivated, and under no illusion as to the skills that will be required of them in the future. See accaglobal.com/thefuture

45% Later in my career

15% Next career move

Would you like to pursue a career outside the accountancy profession?

Female

64% Later in my career

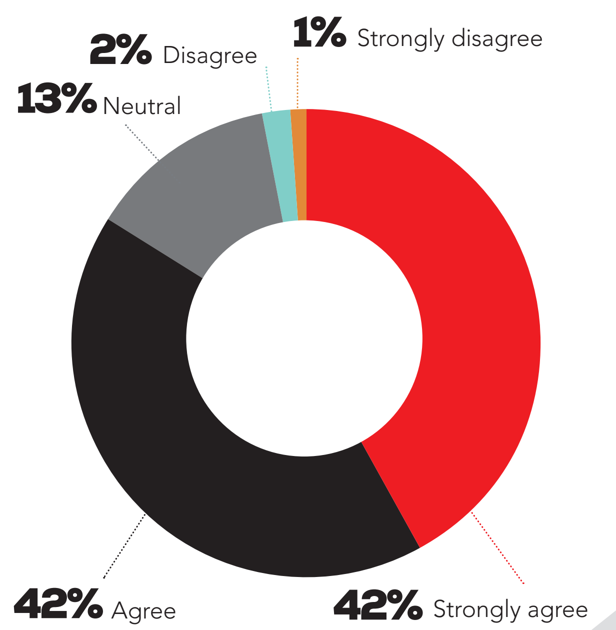
10% Next career move

Male

75% Later in my career

12% Next career move

Would you like to start your own business at some point?



Technology will enable finance professionals to focus on much higher value-added activity

Better behaved bankers

A recent study explains how a range of factors can contribute to unethical behaviour in financial services – and how these can be driven out. CA ANZ's Lee White explains

Most people in business behave ethically. Of course, there are bad apples and, because of the media, the stories of those who don't behave ethically are given oxygen, which creates a false stereotype.

But it's not always as simple as good versus evil. Research suggests that many individuals who behave badly are often unaware of the ethical implications of their behaviour. A study into ethics in banking and finance by CA ANZ looked specifically at what it is that drives unethical behaviour and what we can do about it. Who better to ask about ethics than 705 bankers and financial practitioners around the world.

We identified a range of factors that contribute to bankers behaving badly. In most instances, bad behaviour was found to be not a conscious choice, but was justified in a range of ways that allowed bankers to continue to believe in themselves as ethical people.

Bias and bonus

For example, personal bias allows decisions to be framed in a way that makes bad behaviour seem fine. This can be seen in confirmation bias, when boards apparently miss evidence that fails to back up their belief, and availability bias, in which only the easiest or most recent information is the evidence considered.

These personal biases came into play for the banker Tom Hayes, who was given an 11-year jail sentence by a UK court and ordered to pay £878,000 for manipulating the Libor interest rate on interbank loans. He justified his behaviour on the basis that 'everybody was doing it'. This is a common form of bias, used to explain away unethical behaviour.

However, it is not just bias that can lead to unethical behaviour. The big bonus culture has been cited by experts as a driver of bad behaviour in the financial services sector. More specifically, experts point to misaligned incentives.

A catalyst for unethical behaviour can be where large bonuses are awarded to individuals for certain outcomes irrespective of how those outcomes were achieved. This misalignment is reinforced when it is coupled with half-hearted censure for those who are caught doing the wrong thing.

A good example of this in Australia is the personal financial adviser. Here, advisers sell financial products to clients and receive a commission from the product provider for doing so. At what point does the client's best interest suffer? I personally believe that financial advisers should be paid to advise, and that the client should pay for these services. That makes for a clean, transparent transaction with no need for middlemen.

So what can be done to address the situation? To start with, almost everyone views themselves as behaving ethically, even when they don't. Our research highlights three factors – structural, individual and social – that can consciously or unconsciously encourage unethical behaviour. Across these three areas our survey found that greater accountability, a more diverse culture and training in decision-making processes were seen as the most effective ways to address the problem.

> Initiatives such as 'ethical moments' can help shift decision-framing to a more ethical mindset

Relevant responses

This translates into a range of responses. First, the ethical capabilities of those working in banking and finance need to be better developed. Professional accountants have an extensive focus on ethics as part of their ongoing training, and the discipline of keeping such matters front of mind through regular training supports ethical behaviour in real-life situations. This type of training is about encouraging people to place less reliance on mental shortcuts when they are making decisions, and helping to develop principled reasoning in which ethical considerations are part and parcel of cost-benefit calculations. It is also useful to encourage a clear expectation from the top that employees must always behave ethically and require them to undergo regular training that supports that expectation.

Second, the manner in which financial incentives such as bonuses are awarded needs to include ethical considerations when performance is being measured. This is particularly significant given that most incentive schemes in financial services are based exclusively on market and profit

measures. The reputational risks of unethical behaviour are now well publicised, so there is a clear cost in not addressing these factors in incentive schemes. Also, of course, a purely financial focus can misalign personal and corporate interests in other ways, including corporate culture, health and staff turnover.

Finally, the leadership of an organisation needs to address ethics with an unwavering focus to help shift a corporate culture from one of benign neglect to a clear focus. This can be encouraged by initiatives such as 'ethical moments' to help shift decision-framing to a more ethical mindset. This idea mimics the concept of 'safety moments' (a brief safety talk about a specific subject at the beginning of a meeting or shift) adopted by some companies, and encourages employees to share ethically based decisions before every meeting. Getting employees to talk about ethics has been shown to increase ethical behaviour.

Accountability

Ultimately, what has clearly emerged from our research is that an ethical culture of accountability is vital. If this becomes dominant in banking and finance, it will create a virtuous circle in which incentives and structural solutions such as regulation become far less important. It may also help to weaken some of the stereotypes that have only ever been true of a small proportion of people working in banking and finance. ■

Lee White is CEO of CA ANZ

For more information:

Read CA ANZ's report *A Question of Ethics: Navigating ethical failure in the banking and financial services industry* at charteredaccountantsanz.com/futureinc

Chain reaction

Blockchain has exploded onto the scene, threatening to make our lives easier and data more secure and reliable, says CA ANZ's Rob Ward. It's time governments cottoned on

The wider business community and most governments have yet to fully appreciate an emerging technology that could result in the demise or disruption of many transaction-based organisations. Just as when the spread of the digital world created new types of business and forced organisations to reinvent themselves, there will be casualties among those who are unprepared.

Remember Eastman Kodak? Founded in 1880, Kodak accounted for 90% of film and 85% of camera sales in the US in 1976 and, until the 1990s, was rated one of the world's five most valuable brands. Then digital photography replaced film and smartphones replaced cameras, and the former giant filed for Chapter 11 bankruptcy protection.

The latest technical breakthrough is the blockchain. This technology is a simple digital platform for recording and verifying transactions online that other people cannot erase and anyone can see.

No certified bookkeeper oversees the transactions because the blockchain is a decentralised spreadsheet that relies on the power of crowd computing and cryptography, rather than a central authority. Thousands of computers around the world verify transactions and manage a global, decentralised ledger.

The best-known use of blockchain so far is to facilitate digital currency transactions, the most notable being bitcoin. When you make a bitcoin transaction on the blockchain, each transaction is distributed to many nodes in the bitcoin network.

Simply put, everyone participating in the bitcoin process also has a copy of that distributed ledger and can check it for inconsistencies. A cryptographic process relying on the combined computer power of the cloud verifies the order of transactions. Try to pass off a fake exchange and other bitcoin users should be able to trace every alteration and exchange that occurs, a role traditionally undertaken by established third parties like banks.

Presently, the tech-savvy community dominates the evolution of blockchain as it did when email was being made more user-friendly for mere mortals. Remember when the only way you could check your email was through a command-line prompt? Then web browsers were developed, producing a more seamless experience for non-technical users.

Blockchain is a simple digital platform for recording and verifying transactions that other people cannot erase

Fighting the legacy

Also slowing the community's appreciation of blockchain's potential is its legacy reputation. The majority of media coverage has been about the criminal activity surrounding the dark net market Silk Road, the collapse of the Mt. Gox bitcoin exchange, and the price volatility of the digital currency itself. Because of the prominence of digital currencies in any discussion of blockchain technology, people have focused on the currency rather than the technology behind it.

While digital currencies are not regulated by the Reserve Bank of Australia (RBA) or subject to regulatory oversight, the RBA maintains that the current limited use of digital currencies does not raise significant concerns with respect to competition, efficiency or risk to the financial system.

The RBA argues that digital currencies are more likely to raise concerns over issues relating to taxation, anti-money laundering and counter-terrorism financing rules, and consumer protection – the realm of other regulators.

Not surprisingly, the high profile of digital currencies has prompted those most likely to be affected by these changes to take a closer look. Westpac, ANZ and Commonwealth are testing blockchain technology, while UBS has set up a blockchain research lab, Goldman Sachs has invested in bitcoin startup Circle, and NASDAQ is also experimenting with the technology.

But the value of bitcoin is the technology, not the currency. Bitcoin enthusiasts predict that blockchain can impact anything involving a transaction. The question for business and governments is whether or not they will invest the resources to understand how blockchain could change the experience of their customers or citizens. At the very least, they need to keep current with its latest applications and be aware of its flaws. No technology is perfect.

Because a transaction does not have to be financial or locally based, governments will have to recognise that while national priorities are important, that cannot be the reason to avoid embracing these changes.

As technology rapidly decentralises across all parts of the world, governments need to think in more decentralised ways when providing services such as passports, health records and contracts. I can see this technology fundamentally changing regulators.

Regulators are obliged to take their direction from government. If government directs regulators to move rapidly, then that will be important. But regulators are generally large, and in many instances, slow. They are focused on compliance and enforcing the law, itself a focus on the past.

While governments will be given many reasons not to embrace blockchain technology, they need to look for reasons to do so. Citizens will generally be hesitant and cautious but with the encouragement of government they will grow and adapt.

Similarly businesses, not just financial institutions, need to evaluate this technology for its ability to disrupt their existing operations or provide new opportunities. And that could mean investing in specialists with the right expertise who are highly in demand. Failure to do so could consign them to the dustbin of history. Time for a 'Kodak moment'? ■

Rob Ward is CA ANZ's head of leadership and advocacy

In search of solutions

The current corporate reporting model has many successful features, but a number of its shortcomings need to be addressed, says ACCA's Richard Martin

There has been a good deal of gazing into the future of corporate reporting recently. But what are the key trends? What are the problems with the current model? What sort of changes are needed? ACCA's Global Forum for Corporate Reporting has produced some definitive reactions to these issues.

What's up ahead?

All are agreed on the growing significance of non-financial reporting. Companies need to provide a package that supplies not only the standardised information currently included in the financial statements, but also other relevant measures of performance reflecting other risks.

A discussion paper from the European Federation of Accountants (FEE), *The Future of Corporate Reporting*, picks out two trends. First, it points to advances in communications technology, which will affect how reporting is presented and how external parties make use of it. Second, it notes a broadening in the parties interested.

ACCA's research identified a number of key drivers:

- greater global harmonisation of standards
- the rising prominence of non-financial performance and reporting
- the use of technology to improve reporting and digital publishing.

The other source of change lies in the correction of the shortcomings in the current model:

- Financial statements are losing their relevance
- Corporate reports are too voluminous
- Financial statements and the standards that drive them are too complex for most to understand
- Corporate reporting is backward-looking
- Reports are too far out of date.

Search for relevance

Investors, their analysts and other users are now sourcing information on companies beyond formal annual or interim reports, from the web and other media streams. Preliminary announcements, briefings and analysts' recommendations are moving share and bond prices more than the publication of the financial statements and so are more relevant. Companies and analysts are focusing on adjusted earnings numbers rather than the standardised profit measures in GAAP (generally accepted accounting principles) statements.

Our reaction is that financial performance is just one measure, and that other key performance indicators (KPIs) – such as the number of mobile phone subscribers, pipeline of new drugs or proven oil reserves – are clearly vital for a coherent overall picture.

But an assessment also needs to consider risks and strategy in the shorter and longer term that may have an impact on the current business model and future performance. This thinking lies behind ACCA's strong support for integrated reporting (IR) as a framework that captures that wider picture and recognises that businesses need to consider a balanced scorecard of different capitals for their long-term sustainability. However, our research revealed a common view that while the non-financial elements will grow, financial reporting will remain the core.

Looking just at the financial statements, profit has a crucial status as the only standardised and widely recognised benchmark measure of performance. If other measures are deemed significant they should be included, but they should be reconciled to the benchmark profit number.

There are undoubtedly issues for the International Accounting Standards Board (IASB) to address in the current

measurement of performance, most notably the distinction in principle between items in profit and those dealt with as other comprehensive income. Equally, net assets in financial statements and stock market values of companies have grown further apart. To maintain the relevance of the financial statements the IASB will need to consider whether 'investments' being made in intangibles would not be better captured in balance sheets.

Long and short of it

Studies have confirmed the growing volume and length of the annual report. This trend has elicited numerous responses, among them the UK Financial Reporting Council's call for companies to 'cut the clutter' in annual reports; the IASB's disclosure initiative; demands for concise integrated reports; and FEE's 'core and more' model.

A number of points arise here. First, digital publishing will allow users to search a database of information. Both IR and the 'core and more' models assume that. Second, in the pursuit of conciseness we see the potential omission of material issues as more dangerous than the inclusion of an excess of immaterial matters. Third, more selective forms of reporting will tailor reporting more to the nature of the business, perhaps making them more relevant, but at the risk of a loss of comparability – a real concern, but within bounds.

More tailored forms of reporting, however, carry a far greater risk – the loss of neutrality. For all their faults, financial statements are a standardised form of reporting that minimises the scope for manipulation by management.

They should however be less complex. Mostly, accounting complexities are driven by the complexities of business. Principles-based standards should help, and some standards may be more complex than needed. The IASB must focus more on the principles of how items should be treated and less on covering every possibility. Calls for more consistent application of International Financial Reporting Standards around the world are, on the other hand, pushing in the opposite direction. We recognise that the application of principles-based standards requires judgment and that in some countries preparers and auditors have been accustomed to having clear rules. One way the IASB could help is by providing more application guidance.

> Financial statements are a standardised form of reporting that minimises the scope for manipulation by management

Timely reporting

The role of financial statements is to provide a record of the recent past so that others may use that information to estimate the future. Even so financial performance is generally a lagging indicator as compared to many of the non-financial KPIs noted above. Hence the emphasis in IR, for example, on a more forward-looking stance, if only via risk and strategy disclosures. That may be as far as it can go because in practice companies see anything that amounts to forecasting as a hostage to fortune or to future litigation.

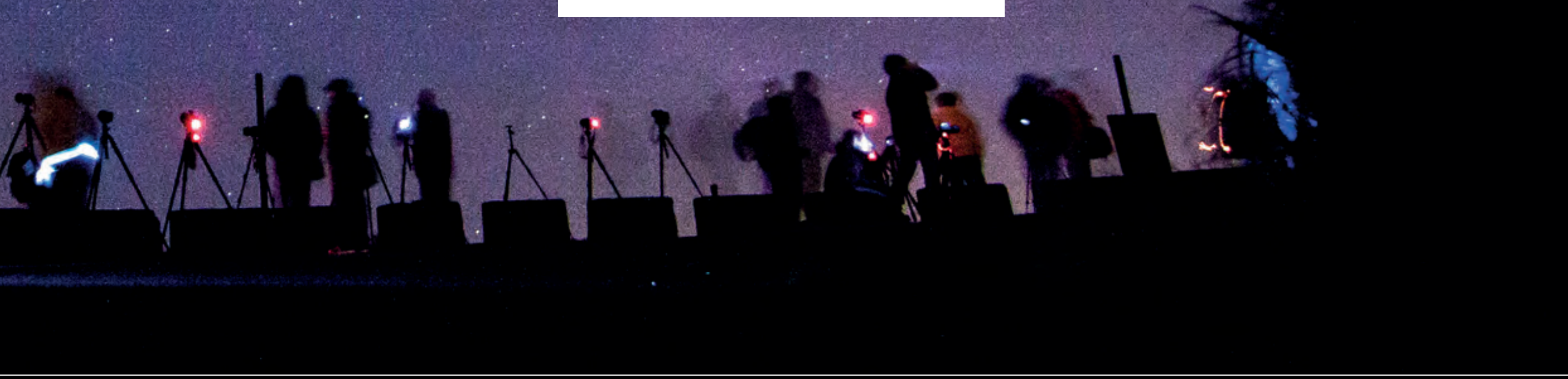
Reports are produced at widely spaced intervals and months after the events they portray. Digital reporting can be expected to be more up to date – some claim real-time. Users will always want the most up-to-date information and reporting should portray as recent a past as can be managed.

We also note that a key quality investors and users appreciate in the current model is that the annual report and accounts package is quite evidently the responsibility of the top management and signed off as such. The current package thus functions as an honesty check and confirmation.

In regulating the future of corporate reporting there is merit in retaining this package. Indeed arguably the full package should be released at the same time – earnings announcement, financial statements, management commentary/strategic/integrated report.

A more complete view of the business with a wider range of measures is needed, but financial performance will remain the core. Shortcomings should be addressed but some fundamental merits of the current model are worth retaining. ■

Richard Martin is ACCA's head of corporate reporting



The right message

As mandatory auditor rotation comes into effect in the EU, as well as other parts of the world, an ACCA study looks at the factors perceived as important to audit quality

High-quality audits are an essential part of business. If shareholders, directors, the public and press see the audit process as less than rigorous, their confidence in the stability of companies – as well as in the audit profession – will sink. Every corporate fraud and failure is a threat to this fragile balance.

The profession has struggled for years to get across the message that audits are not a panacea to cure all ills; even the best ones can fail to detect a problem if those preparing the accounts are intent on deception. So, more recently – in the wake of the financial crisis – regulators and standard setters have focused more closely on audit quality as a way of improving public confidence in the audit process. This culminated in the Framework for Audit Quality released by the International Auditing and Assurance Standards Board in 2014.

The framework set out the factors underpinning a high-quality audit: independence, competence and the interactions between the audit firm and company representatives. Of these, independence is arguably seen as most critical by regulators, resulting in a string of legislation around audit firm rotation and partner tenure.

A new comprehensive study from ACCA, though, shines a light on what company directors see as the most important contributors to audit quality. *Directors', CFOs' and auditors' perceptions of audit quality attributes: a comparative study*, carried out with the International Governance and Performance Research Centre (IGAP) at Macquarie University in New South Wales, Australia, looked at how these three stakeholder groups assessed and understood audit quality. Its findings threw up several surprises.

'The participants at the focus sessions were emphatic that competence was more important than the focus on independence'

Information inequality

The study assessed the perceptions of directors, CFOs and auditors against the importance of 10 audit quality attributes:

- audit firm size
- the length of the audit partner's tenure
- the provision of non-audit services by the audit firm
- the audit firm's experience of the client's industry
- the audit partner or manager's attention to the audit
- communication between the audit team and client management
- the audit partner's knowledge of the client industry
- the senior manager's knowledge of the client industry
- a very knowledgeable audit team
- the audit quality assurance review.

The study is particularly interesting because it compares the perceptions about audit quality of the supply side – auditors – with the perceptions of those who pay for the audit. As the report points out, those supplying the service have far more information about audit quality than is available to the purchaser. Of the three groups in the study, auditors have access to the most information about audit quality, directors the least, and CFOs are somewhere in between.

This is important because it means that the purchasers of audit services are essentially doing so on trust; they have only limited ability to determine the quality of an audit, both before they have bought it and after it is completed. The company could well be uncertain whether the service it is paying for fully meets its needs and would not know if it was overcharged.

Even so, the report's authors were surprised to find a high level of agreement between the three stakeholder groups on what contributes to a high-quality audit. 'We expected the directors to be much more concerned about independence than the auditors, for example,' says Nonna Martinov-Bennie, director of IGAP and a member of CA ANZ, who co-authored the report with Paul Taylor, a researcher at IGAP. 'Auditing firms know their personnel whereas the directors must, to some extent, put their faith in the audit team. It's logical to expect that directors would be more concerned about measures that increase independence.'

In fact, all three groups ranked the competence of the firm and the interaction between the company and auditor as more important than independence. Auditors, CFOs and directors ranked audit firm size as the most important attribute as an indicator of audit quality, followed by the level of attention that partners and managers paid to the audit. The level of communication between the audit team and the client was also rated as very important by all three groups. Audit partner tenure, on the other hand, had a relatively low importance.

Bigger is better

So why does size matter so much? As part of their study, the authors included focus group discussions with representatives from each of the groups taking part, and these conversations indicate general agreement that larger firms are seen as being able to offer better services across a wider range of industries. CFOs also argued that Big Four firms carried a level of prestige that was important for investor confidence. Auditors taking part in the discussion were split, of course, depending on whether they worked for a Big Four or second-tier firm.

The importance attached to partner and manager attention is an indication of the level of trust and confidence that is essential in a good auditor-client relationship. It was of particular importance to directors that they had full confidence in the senior members of the audit team conducting their audit. One CFO commented in the focus group discussions that a relationship with the audit partner built up over a period of time went to 'the heart of getting a quality job done', while a director added that 'the more complex the company, the longer it takes the partner to be across the job. I don't think they really get into the stride of it until about year three, and by year five it's going really well'.

'The participants at the focus sessions were emphatic that competence was more important than the focus on independence,' Martinov-Bennie says. 'The fact that longer tenure enhances the auditor's knowledge of the client and its industry outweighed, for them, the fact that longer tenure might potentially increase familiarity and reduce independence.' But, she adds, she was also left with the impression that although the participants felt that independence is important, they did not really consider it to be an issue: 'They appeared to agree with the auditor who said in one of the focus sessions that independence was "a given".'

Company managements want to know and trust their auditors – and it is clear that they see audit firm and partner rotation as getting in the way of that essential relationship. The unanswered question is whether shareholders would agree with the other groups; Martinov-Bennie's view is that because shareholders generally only have access to publicly available information, 'it is likely that regulatory controls such as limits on audit partner tenure may have much greater appeal for them'.

She adds that auditors may well be surprised that directors and CFOs would also place a relatively low level of importance on regulatory measures such as limits on audit partner tenure and mandatory quality reviews. 'Perhaps the real lesson, however, is for the regulators,' she says. 'The message is that these measures are almost universally not ranked as a high priority, and there's some concern that the excessive focus on compliance may in fact have a detrimental effect on audit quality.' ■

Liz Fisher, journalist

For more information:

See *Directors', CFOs' and auditors' perceptions of audit quality attributes: a comparative study* at bit.ly/acca-percept

Closing the loopholes

While tax avoidance remains high on many government agendas, the base erosion and profit shifting project aims to solve the issue at an international level

15 OECD actions

Action 1: Address the tax challenges of the digital economy
Action 2: Neutralise the effects of hybrid mismatch arrangements
Action 3: Design effective controlled foreign company rules
Action 4: Limit base erosion involving interest deductions and other financial payments
Action 5: Counter harmful tax practices more effectively, taking into account transparency and substance
Action 6: Prevent the granting of treaty benefits in inappropriate circumstances
Action 7: Prevent the artificial avoidance of permanent establishment status
Actions 8, 9 and 10: Align transfer pricing outcomes with value creation (intangibles, risks and capital, high-risk transactions)
Action 11: Measure and monitor BEPS
Action 12: Establish mandatory disclosure rules
Action 13: Establish transfer pricing documentation and country-by-country reporting
Action 14: Make dispute resolution mechanisms more effective
Action 15: Develop a multilateral instrument to modify bilateral tax treaties

Back in 2013, the OECD launched an ambitious project to tackle strategies used by multinational companies to take advantage of low tax regimes. With strong support from the G20, the OECD has subsequently produced a plan that sets out 15 actions it believes will combat base erosion and profit shifting (BEPS), the term used to sum up abusive tax strategies where profits are diverted from high-tax to low- or no-tax jurisdictions.

It has been a remarkably swift journey from inception to delivery, requiring input from more than 80 countries, over half of which are in the developing world. The actions (see box) address areas believed to facilitate tax avoidance, such as hybrid mismatches, transfer pricing, permanent establishments and controlled foreign company (CFC) rules. And moves to increase transparency and disclosure through country-by-country reporting (where multinational companies are required to disclose to tax authorities their revenue in every country in which they operate), effective dispute resolution systems and a multilateral instrument for tax treaties will, it is hoped, allow effective enforcement of international tax rules.

The aim is to close the gaps in international tax rules that allow multinational companies to legally, but artificially, shift profits to low- or no-tax jurisdictions. The OECD reckons governments are losing

US$250bn in tax revenue a year through BEPS.

Governments around the world are all engaged in fighting these abuses, many of them going it alone and legislating for changes in their own tax code. For instance, the UK introduced a diverted profits tax (DPT) in 2015, which will tax profits that have been shifted out of the UK at a rate of 25%, while Australia this year launched its own 'Google tax', to be implemented next year, with a penalty rate of 40% expected to raise some US$200m within two years.

Ramping up

But the point is clear: under a new regime of cooperation between tax authorities, abuse of the tax code should be reduced. For instance, according to Karen Smith, CA ANZ's senior tax advocate in Australia, the Australian Tax Office has been ramping up its approach to BEPS measures already in place. In particular, the Australian government has provided increased funding to establish a tax avoidance taskforce that, among other things, will scrutinise compliance.

However, Smith notes that there are challenges ahead: while accepting the need for change, Australian businesses still have concerns. 'Australian businesses acknowledge that BEPS needs to be addressed,' she says. 'However, there are concerns about complexity and compliance costs arising from additional laws targeting BEPS and also the challenges faced when dealing with the unilateral measures adopted. There is a feeling that Australia should not be the "first mover" but rather act in concert with other OECD jurisdictions.'

That said, the Australian government has already introduced a Multinational Anti Avoidance Law to target the artificial avoidance of a permanent establishment, while a general sales tax on imported digital products and services, to tackle the OECD's action 1, will come into force on 1 January 2017. It is also developing anti-hybrid and mandatory disclosure rules and country-by-country reporting requirements (action 13), as well as the 40% diverted profits tax.

Peter Vial, tax leader for CA ANZ in New Zealand, agrees that while businesses accept the need for reform, concerns still remain. 'New Zealand businesses are generally concerned about the potential complexity of any New Zealand domestic law changes and the risk of overreach,' he says. 'There is also concern that New Zealand could get ahead of other OECD countries and a belief that it should not lead the pack in implementing reform measures.'

He adds that although the NZ government has so far not contemplated a DPT of its own, the government will be watching developments in Australia and the UK. But Vial also notes that the NZ government believes its international tax settings are sound and do not need to be changed to comply with the OECD's BEPS recommendations.

However, the OECD's 15 actions will require legislation at a national level to become effective. The European Commission may also set out its views, but it is down to member states to implement. The debate around action 13 facilitating country-by-country reporting is reaching a crescendo. According to Chas Roy-Chowdhury, ACCA's head of tax, EC proposals are 'quite cute' as they focus on an accounting change, which would avoid disclosure of confidential transfer pricing information. There are however still calls for more public disclosure. 'The debate is ongoing,' says Roy-Chowdhury. ■

Philip Smith, journalist

Progress report

Brazil Anti-avoidance rules already in place, covering CFCs, thin capitalisation, excessive interest deductions, payments made to tax havens or tax privileged jurisdictions.

Canada Adopted country-by-country reporting in 2016. Plans to follow OECD transfer pricing guidelines and adopt treaty abuse approach. Will adopt common reporting standard for automatic exchange of information on 1 July 2017.

France Existing rules cover general anti-abuse rule, CFCs, anti-debt creation, transfer pricing, tax haven restrictions and increased transparency requirements. Unilaterally introduced anti-hybrid rules.

Ireland 'Double Irish' structures not available from 1 January 2015, although grandfathering period of six years for existing structures. Applies an 'OECD co-operative compliance regime' for taxpayers.

Russia BEPS included in tax policy plans for 2016–18. Proposals include automatic exchange of information, amending taxation of corporate borrowings, improving indirect taxation of e-commerce, refining CFC rules and reinforcing transfer pricing rules.

South Africa Anti-avoidance measures already exist covering CFCs, thin capitalisation, transfer pricing, hybrid instruments and exchange control rules. Country-by-country reporting proposals published in 2016.

US A number of anti-avoidance rules already exist, but unlikely to enact significant international tax legislation at least until a new administration takes office in 2017.

Source: Deloitte BEPS Country Scorecards

Lessons for leaders

Despite all the political and economic turmoil in the world there are leadership lessons to be learned from Brexit and other upheavals, says CA ANZ's Rob Ward

We are all still coming to terms with the Brexit result. However, the true financial effects will only emerge over time; in a world that is so interconnected, it's likely that any negative impact will affect us all.

And this is not a one-off event. We seem to be facing a worldwide breakdown in leadership systems as we have known them. The Arab Spring, uprisings in the Middle East and worldwide jihad, US dissatisfaction with its conservative leadership, annual prime minister changes in Australia – the list goes on. Why are these systems under such strain?

> We seem to be facing a worldwide breakdown in leadership systems as we have known them

It is essentially the dissatisfaction of an increasingly connected world with its political leaders – their perceived lack of authenticity, driven by serving their own interests and not those of the greater good, and at the expense of prosperity for all.

What lessons can we take? How are we acting in our personal and business lives to serve the public interest, as well as the interests of our businesses, clients and communities? Maybe there are opportunities here for us all.

Where it all went wrong

It's ironic that the first member of the EU to have voted to leave was the UK, whose parliament is often referred to as the 'mother of parliaments'. It's a small point, but it reflects the democratic heritage of UK voters. It also implies that the EU lacks a democratic structure able to evolve with the aspirations of the growing populations of its member states.

The EU (formerly the European Economic Community, or EEC) was formed from the ashes of World War II as a means of creating interlocking markets between former enemies so that it would be too costly to go to war again. It is essentially an economic bloc with political aspirations. But economics is only part of governing people. While the EU created a legislature, this never replaced national legislatures. It has a smallish judiciary but not one that balances the power of the legislature or executive (the European Commission, or EC). The legislature has an appointed president but without the power of a US president or a UK or Australian prime minister.

The main power lies with the executive in the form of a bureaucracy. After the UK joined the EEC in 1973 a general settling-in period ensued, with an acceptance of EU rulings, in the belief that it was for the good of the country. That made UK leaders and EU bureaucrats complacent. They assumed that the solution in all cases was an economic one. However, in the past few years the EC has also made centralised political decisions, which national voters believed they had no say over. Some of those decisions panicked people, such as opening up the borders. The EU has never adequately addressed social factors.

Leading from the front

Every leader who has taken their organisation through a massive change knows the challenges the UK faces. Some will be real, and some will be in the imaginations of their employees, shareholders, customers, etc. It's up to the leader to understand the effect those fears will have on stakeholders, no matter how trivial they might appear.

In the case of the UK leaders who led the campaign to remain in the EU, I think they were complacent and assumed the people would favour the status quo over uncertainty. The lessons to learn would be:

- Leaders must get out and about and develop a nose for the real issues worrying their constituents, not depend on surveys or focus groups.
- Leaders must be truthful and not talk in marketing-speak. In my view, former prime minister David Cameron failed to discern the real concerns of voters and naively agreed to a referendum rather than push for changes at the EU to better represent voters.
- Leaders need good advisers who will speak honestly – not pollsters or spin doctors.
- Nations that depend heavily on exports, like Australia, are likely to have leaders who are prone to emphasise the economic argument. That might be acceptable to younger populations where growth means jobs and homes. But ageing populations are in a position to compare different stages in a nation's life and are likely to put more emphasis on the social linchpins. If they haven't accumulated the massive nest-egg upon retirement that governments and financial institutions say they should have, they will look for comfort in their heritage or known social values, not simply money. If they see those social values threatened, watch out, because they think they have nothing left to lose.
- In a society in constant change, leaders must lead from the front, not the rear (by consensus). You can't follow a leader who is behind you. When a constituency is expecting a leader to make a decision, making a decision is better than no decision at all.
- Leaders must treat their better-educated and more globally aware constituents as partners and take them into their confidence.
- Leaders must be good communicators (a dose of humility wouldn't go amiss either).

Brexit was a failure of leadership, not only by UK politicians but also by other EU politicians and bureaucrats. But on the positive side, it was a success for the democracy on which we base our economy. ■

Rob Ward is CA ANZ's head of leadership and advocacy

The 'merry science'?

Policymakers and companies want to explore what really makes us tick. As a result, understanding happiness will be at the heart of economics in the future

It is getting harder to accuse economics of being 'the dismal science'. With every passing year, the discipline is taking an increasing interest in what makes us cheerful and fulfilled. The rising status of hedonics was underlined when Angus Deaton, a leading happiness researcher, became the most recent recipient of the Nobel memorial prize for economics.

Governments are also throwing their weight behind the trend. France and the UK have both started collecting data on wellbeing, while earlier this year, the United Arab Emirates appointed a minister for happiness.

So why is this discipline growing so fast? What has it taught us so far? And what does the future hold for practitioners of this ever more 'sentimental' science?

Although hedonic economists are exploring a range of factors that affect our mood, the most basic debate has been over whether money makes us happy – and if so, when, how and why?

The issue was identified in passing by the field's founding father Adam Smith, who believed that the notion that wealth created happiness was an illusion, albeit a helpful one. Writing in 1759 he argued that: 'The pleasures of wealth and greatness strike the imagination as something grand and beautiful and noble, of which the attainment is well worth all the toil and anxiety which we are so apt to bestow upon it. It is this deception which rouses and keeps in continual motion the industry of mankind.'

The question was only seriously picked up again in the 1970s by Richard Easterlin. He concluded that at a national level happiness does not increase with wealth once basic needs are fulfilled, a phenomenon that has come to be known as the Easterlin paradox.

More recently, economists have been breaking down this question into its various sub-components. 'The issue itself has sometimes been hard to pin down,' says Paul Zak, professor of neuroeconomics at Claremont Graduate University. 'For a start, we can try to measure different dimensions of happiness; day-to-day sentiment, an overall sense of life satisfaction, or a sense of purpose, what the Greeks called "eudaimonia".' In addition, it is possible to link either of these dimensions of wellbeing to money in a host of ways. Does income matter in absolute terms, with diminishing returns below a certain point? Is it the change in income that is important, with stagnation or declines making people unhappy at even high levels of earnings? Or is it relative income, with the material progress of your neighbours or the rest of society being the crucial determinant? Finally, is it net wealth, rather than income per se, that is key?

As yet, there is no full consensus on these questions. But there are some issues on which many economists now agree. The research of Deaton and psychologist Daniel Kahneman suggests money stops producing additional gains in day-to-day happiness after about US$75,000 a year in the US – roughly sufficient for a secure life. Still, there are also indications that people continue to rate their overall life satisfaction higher as their income continues to climb.

> 'We found that spending money on other people and experiences, over possessions, tended to make people happier'

Relative values

There is also strong evidence that relative wealth is important. A recent study allocated an average of US$357 each to around 500 lucky 'lottery' winners in rural Kenya, enough to almost double the wealth of the average villager. By using a range of clinical tests, the study showed lower levels of stress and depression among the winners. Sadly, this only lasted about six months and was matched with a corresponding rise in cortisol – a stress hormone – among non-winners, presumably envious at their neighbours' windfall.

Recent research suggests that more extreme levels of inequality can also reduce happiness. A rise in incomes of the top 1% of earners can depress life satisfaction in the rest of society, even when household incomes and GDP remain constant, says Jan-Emmanuel De Neve, an Oxford University academic and co-author of this study: 'We knew that human wellbeing is sensitive to relative standing or rank but we have underestimated the importance of the range of the income distribution that is getting extended as the top tier races ahead.'

Moving from individuals to countries, the controversy is even greater. Recent studies by Michigan economists Betsey Stevenson and

Justin Wolfers have disputed the Easterlin paradox, using survey data to show a reliable increase in life satisfaction as nations grow richer, with no limit in sight so far.

An additional wrinkle in the debate is that it appears to matter not just how much money you have, but how you use it. 'We found that spending on other people and experiences, over possessions, tended to make people happier,' says Michael Norton, a professor at the Harvard Business School and co-author of *Happy Money: The New Science of Happier Spending*. 'Your decisions are crucial in determining how much satisfaction you get from your cash.'

All the rage

So why has this study become all the rage among economists? Richard Layard, a professor at the London School of Economics and one of the creators of the *World Happiness Report,* believes that policymakers have increasingly seen the appeal of this approach. 'In the end what really matters is the quality of life as people experience it,' he says. 'We believe this should become the acid test for public policy. But wellbeing also matters because it affects productivity – the best places to work also experience the biggest rises in share price. So it's a win-win approach.'

Ecologically minded policymakers have been especially keen on hedonics. An economic model based on the assumption that 'more is better' may ultimately place unsustainable demands on the world's natural resources. Finally, the discipline may be getting a push from recent lower levels of growth around the world.

'The financial crisis got some countries to measure things other than GDP,' says Dan Ariely, professor of behavioural economics at Duke University and author of *The Honest Truth about Dishonesty*. 'If GDP growth is weak, why not measure something that makes us look a little better, like happiness.'

The techniques of economists are also becoming more futuristic. For much of the history of economics, academics simply assumed that they knew why people made decisions. From the 1990s, behavioural economists have proved through experiments that human decision-making was less rational than previously thought – with predictable irrationality, as professor Ariely has put it.

Increasingly, economists are moving beyond self-reported surveys to biological data, as in the recent Kenyan study. Professor Zak has even set up a monitoring company, ZESTxLabs, which allows companies to measure the minute-by-minute response of potential customers to their products by collecting gigabytes of data from sensors on the head, torso and fingers.

'As the cost of such technology falls, it is likely to be used more and more by policymakers and companies who want to understand what really makes us tick,' Zak says. 'This will be at the heart of economics in future.' ■

Christopher Fitzgerald and Fernando Florez, journalists

For more information:

Find the *World Happiness Report* at bit.ly/1O1QJnz

CPD boost for members

The alliance creates more value for members by opening up a huge range of new CPD opportunities – from online courses and conferences to webinars and workshops

Members of CA ANZ and ACCA are to enjoy new access to each others' CPD resources as a result of the strategic alliance between the two bodies.

The move will significantly increase the number of learning opportunities for members of both bodies. These include online courses, face-to-face events and conferences.

CA ANZ members will be given access at special ACCA-member rates to a huge range of online courses.These include courses from accountingcpd.net, which has a peer-enriched approach to learning involving sharing experiences and answers, meaning you'll learn from your peers as well as experts. They will also enjoy special rates on online courses from BPP's library of learning programmes designed exclusively for ACCA members.

Meanwhile, ACCA members will enjoy CA ANZ member rates on its recently launched Lifelong Learning platform, which offers a wide range of opportunities in formats ranging from workshops to webinars, on a huge range of technical, business and management topics.

ACCA professional development manager Clare Hodgson says: 'It's great to be working with CA ANZ to provide more learning opportunities for our members by sharing our resources and expertise.'

Stephen Carpenter, general manager of lifelong learning at CA ANZ, adds: 'The alliance has given us a great opportunity to create more value for our members and we look forward to further developments.'

Teams at both ACCA and CA ANZ are now working together to explore further opportunities, which will include events in Australia, New Zealand and other Asia Pacific countries.

CA ANZ members were recently invited to the ACCA Accounting for the Future Global Virtual Conference.

To access the new CPD opportunities, go to:
accaglobal.com/alliance (for ACCA members)
charteredaccountantsanz.com/alliance
(for CA ANZ members). ■

Sri Lanka meeting of members

Richard Abas FCA, the representative for Asia on the Council of Chartered Accountants Australia and New Zealand (CA ANZ), and his team, visited *ACCA Sri Lanka*'s office in November to meet staff members and members of the Member Network Panel, to discuss the benefits of the strategic alliance between ACCA and CA ANZ. CA ANZ hosted a luncheon on the same day.

Front row (left to right): Richard Abas; Abbas Sethwala, head of integrated finance, Expolanka International (CA ANZ Sri Lanka member); Sajeda Akbarally, chartered accountant and fitness instructor (CA ANZ Sri Lanka member); Lasantha Wickremasinghe, president of the Institute of Chartered Accountants of Sri Lanka (CASL). *Back row (left to right):* Adrian Perera FCCA, chairman, Member Network Panel, Sri Lanka; Aruna Alwis, CEO, CASL; Nilusha Ranasinghe, head of *ACCA Sri Lanka*.

Ethics report launch

ACCA members attended events around the world to launch a new report on ethics in financial services by CA ANZ (see page 18). Leo Lee, ACCA deputy president, who attended the Hong Kong launch, said the report provided useful recommendations to address the factors contributing to ethical behaviour.

Top: Rhonda Best (*right*), director of Alexander Bain and Associates and ACCA Council member, with CA ANZ members at the London event. *Middle* (*from left*): Leo Lee, ACCA deputy president; CA ANZ staff members Lee Whitney and Simon Grant; and ACCA Council member Fergus Wong, attending the Hong Kong launch. *Bottom left*: ACCA Network Panel member Bhavani Shanmugabalan (*left*), product controller, Royal Bank of Scotland, at the Singapore launch. *Bottom right*: Attendees at the Sydney event.

ACCA and CA ANZ step up joint research

Professional scepticism and corporate culture are among the first areas of joint research activity for ACCA and CA ANZ as the two bodies step up collaboration.

The work on professional scepticism will move forward previous research in this area by both bodies, while the research on corporate culture will focus initially on the role of external audit in fostering and developing it.

Karen McWilliams, leader, policy and thought leadership for CA ANZ, says: 'Sharing our knowledge and expertise will enhance the breadth and depth of our work, and will provide members with access to a wider range of research and thought leadership material.'

Maggie McGhee, ACCA's director of professional insights, adds: 'Working together also means we will be better placed to represent the profession, and have a greater influence on policy issues affecting accountants, the wider business community and capital markets.' ■

Joint statement on IFRS

The quality and comparability of Australian financial reporting has improved in the decade since local adoption of international financial reporting standards (IFRS), according to a research paper from the Financial Reporting Council (FRC) and Australian Accounting Standards Board (AASB).

The report indicates that local accounting under IFRS has had a positive impact on the Australian economy, been well received by investors and analysts of publicly listed Australian companies, and has improved the comparability of Australian entities' financial reporting against global peers.

In a joint statement, CA ANZ chief executive Lee White, and ACCA chief executive Helen Brand both welcomed the findings of this report, praising Australian accountants for their effective implementation of complex international standards to the benefit of local companies, investors and the economy. ■

ACCA and CA ANZ members celebrate

ACCA end-of-year member events in Australia and New Zealand marked an alliance milestone since it launched in June 2016. ACCA local panel members sat side by side with CA ANZ state council members to celebrate the year's achievements.

Hundreds of ACCA and CA ANZ members attended the events, in which academics and key stakeholders in Sydney and Brisbane, along with speakers from ACCA and CA ANZ, updated the audiences on the alliance in Australia, New Zealand and Asia. A shared vision and mutual respect between both organisations was overwhelmingly evident.

The events included lively Q&A sessions featuring CA ANZ and ACCA panellists. Guest speakers included Jane Gleeson-White (top right), author of *Six Capitals*, who gave an insightful talk: 'From medieval magicians to 21st century superheroes, can professional accountants save the planet?', challenging professional accountants to help shape the world's future.

These events ran across Australia in November in Sydney, Melbourne, Brisbane, Adelaide, Perth, as well as Wellington and Auckland in New Zealand.

CA ANZ experts at ACCA conference

ACCA's annual 'Accounting for the future' global virtual conference has been boosted by the inclusion of three sessions featuring expert views provided by Chartered Accountants Australia and New Zealand.

The landmark annual event was due to run as *Reach* went to press in November, but members of both ACCA and CA ANZ are able to watch sessions on demand up until 31 January 2017.

Held over three days, the virtual event focuses on the professional qualities and technical skills professional accountants need to succeed in their careers.

The items provided by CA ANZ include a session on insider views of financial reporting, featuring commentators from bodies such as the International Accounting Standards Board and the International Federation of Accountants.

There is also a panel discussion on the issues raised by CA ANZ's recent report on ethics in financial services, and the third item is a joint session on international tax issues.

Access on-demand sessions from the conference at **accaglobal.com/accountingforthefuture**

‘The qualification has equipped me with the ability to understand the issues for international organisations in the global market’

Agnes Chan, EY managing partner, Hong Kong and Macau

‘Together, ACCA and CA ANZ can provide a truly global voice for the profession in times of economic change’

Helen Brand, chief executive, ACCA

‘You don’t need to know all the answers to be successful, but if you collaborate, you can connect the dots’

Ivana Luketic Kostic, senior FD, Microsoft UK

‘We need to ensure we support our members to ensure they have the right skills and insight to be truly invaluable’

Lee White, chief executive, CA ANZ

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