Art and finance
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Future finance
Innovative ways to fund SMEs
CPD technical
Forex rate changes
Technology
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Keeping account of the world's most vital resource
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Civil duty
Josiah Tau, financial controller
Hong Kong Police Force
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Water makes the world go round

Water. So many of us take it for granted yet we are increasingly aware of the scarcity, excess or quality of the world’s key natural resource. Not a month passes without a news report demonstrating the impact that the availability of water has on society. Little wonder then that the World Economic Forum’s Global Risks report ranks water crises at number one in terms of impact over the next decade. And it is predicted that demand for fresh water will exceed supply by over 40% by 2030.

This leaves businesses and CFOs with a new challenge. While accounting for natural resources such as fossil fuels has been around some time, water has been off the radar. In Asia, concerns over water risk and its impact on the supply chain are rising, as urbanisation, economic expansion and industrialisation take their toll on water supplies and energy.

There are many opportunities to practise good water stewardship. In Singapore, businesses are actively encouraged to develop water-efficient technologies via tax benefits and breaks. We look at why water matters on page 26.

Also in this issue, we look at China’s ongoing process of liberalisation, as it flags up an opportunity for businesses throughout Asia and beyond to tap into the second largest economy in the world. In April, China began lifting some restrictions on foreign investment as a new Catalogue for the Guidance of Foreign Investment Industries took effect. This may prove attractive to SMEs, as the new catalogue opens up sectors such as e-commerce. We look at the potential impact on page 16.

In our big interview, we meet Josiah Tau FCCA, financial controller of the Hong Kong Police Force. He explains how he has thrived in the civil service and how the treasury accountant role has become more customer-oriented. You can read his profile on page 12.

And we continue our series of AB exclusive videos in which we interview global finance leaders about their careers. Taiwo Oyedele FCCA, PwC partner in Nigeria, explains why life was difficult as he grew up, but his positivity has led to his career in accountancy and fundraising. You can find out more on page 9 and via our AB hub (see www.accaglobal.com/ab).

Colette Steckel, Asia editor, colette.steckel@accaglobal.com
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09/2015 Accounting and Business
Not going for gold
Talk of a rise in the US interest rate has seen investors rushing to sell gold, pushing the price down to its lowest level in over five years.

Do the twist
The Rubik’s Cube World Championship took place in Sao Paulo, Brazil, with Australian Feliks Zemdegs winning the title with a best score of 5.695 seconds.

Time to go
Toshiba’s chief executive and president Hisao Tanaka stepped down after the company admitted that it had overstated its profits for the past six years.
Water under the bridge?

China’s Zhang Zhijun (l) and Taiwan’s Andrew Hsia agreed a landmark deal to pump water from mainland China to a Taiwanese archipelago.

Waiting game

Customers queue outside the National Bank of Greece’s Athens headquarters as banks started to reopen after weeks of closure during crisis talks.

Mad about Harry

JK Rowling’s Harry Potter saga is set to continue next year with a play and a new film. The film franchise previously generated around US$10bn over a decade.

Winds of change

China aims to increase the share of non-fossil fuels in its primary energy consumption to around 20% by 2030, according to a statement.

Mad about Harry

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Winds of change

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News roundup

This issue’s stories and infographics from across the Asia-Pacific region, as well as a look at the latest developments affecting the finance profession around the world.

Carbon crunch
The first global ‘natural capital protocol’ is to be launched next year by the Natural Capital Coalition, with a pilot running from October 2015. ‘Resources such as fresh water and clean air, and ecosystem services such as pollination and flood control, are fundamental for many businesses,’ said Steven Lang, a partner in climate change and sustainability services team at coalition member EY. ‘Yet, they are largely invisible in company accounts unless there is an established market mechanism to price them or metric to measure them by, such as a barrel of oil or a tonne of carbon.’

IPO market strong
Hong Kong secured the world’s largest initial public offering (IPO) market position in terms of funds raised in the first six months of 2015. The total of 45 deals boosted IPO proceeds by 57.6% to HK$129.4bn. KPMG reports that the IPO pipeline looks promising going forward, with a number of large financial service providers moving ahead with their IPO plans to complete within the year. IPOs in pharmaceutical and environment-related sectors will also be popular, it expects. Meanwhile, China’s market reforms and introduction of new fundraising channels present challenges for Hong Kong, and the Greek crisis and potential increase in interest rates will add uncertainties, the report found. ‘However, with a strong pipeline and a number of sizeable deals expected to list in the second half of the year, we maintain our forecast for 2015 for an estimated 110 IPOs, raising over HK$200bn in Hong Kong.’

Audit alert
Hong Kong Institute of Certified Public Accountants has advised that, from 1 July 2015, Hong Kong CPA practices auditing Chinese mainland enterprises listed in Hong Kong will have to enter into business cooperation arrangements with mainland CPA practices. Hong Kong CPA practices will be responsible for the scope of arrangements, a statement on the institute’s website said, citing a directive from China’s Ministry of Finance. The institute has prepared some advice to guide members through the process.

Big Four outperform
The US consulting market nearly reached double-digit growth last year, expanding by 9% to over US$50bn. This growth is almost four times that of the US economy (2.4% in 2014), and represents a rate typically reserved for emerging markets, according to Source for Consulting.com. The report found that Big Four firms outperformed the US market by some distance in 2014, posting growth of 12.8% to US$17.5bn, partly due to a strong commitment to acquisition. It said that in the US market alone, over a quarter of consulting acquisitions in the last 27 months involved accountancy firms.

Smart city vision
The Monetary Authority of Singapore (MAS) will partner with industry to work towards the vision of a ‘smart financial centre’, where innovation is pervasive and technology is used widely, MAS managing director Ravi Menon said in a presentation titled ‘The geeks shall inherit the Earth’. After citing the big trends in technology affecting finance – among them digital and mobile payments, authentication and biometrics, cloud computing and big data – Menon said that the bigger impact on financial services, and the broader economy, is likely to come from the technology behind bitcoins – namely the block-chain or, more generally, the distributed ledger system. ‘A smart nation needs a smart financial centre,’ he said. ‘Indeed, the financial sector is well placed to play a leading role given that financial services offer fertile ground for innovation and the application of technology.’

Consultancy kings
For the fifth consecutive year, Gartner has ranked Deloitte as the number-one global consulting organisation based on 2014 market share revenue. Gartner defines consulting as business and IT consulting and includes revenue from Deloitte Consulting practices and...
advisory businesses globally. ‘Developing actionable strategies and delivering on them with clients is critical to being a leader in this industry – but it isn’t enough to be the number-one consulting organisation,’ said Jim Moffatt, Deloitte Global Consulting leader. ‘Drawing on the breadth and depth of our network capabilities; investing the time to understand clients’ needs; and collaborating with them to create value – based on their definition of value – is what we feel has set Deloitte apart for five years running.’

Budget sceptics
Finance professionals worldwide are very cynical about the relevance and reliability of the budgeting process, according to research by KPMG and ACCA. Almost one in two (46%) respondents said it was a politically agreed number, generated from the top of the business, and not linked to operational reality. Some 62% said budgets simply reflected a point in time and quickly ceased to be relevant as the financial year went on. The Planning, Budgeting and Forecasting study also found that current processes are seen as antiquated and are not aligned to support strategic or operational processes of the business. John O’Mahony, Head of KPMG’s Enterprise Performance Management team, said that using antiquated processes and systems that aren’t helping the business to make informed decisions risks damaging the credibility of the organisation. ‘The board doesn’t want a static set of historic figures, but future looking metrics which can help them to track progress against their strategic objectives and realign resource and effort accordingly.’

Cooperation blueprint
The European Union-ASEAN Business Council has launched a region-wide position paper of recommendations to boost market access as well as increase trade and investment between Europe and South-East Asia. With Europe the region’s largest source of foreign direct investment, the position paper explores ways to open up markets even further in line with the ASEAN Economic Community blueprint. Top of the list is the elimination of non-tariff barriers to trade. Other issues include restrictions on foreign ownership and foreign competition, and lack of harmonised standards or lack of mutual recognition of such standards across the region.

SSCs uncovered
Deloitte and ACCA are due to launch a report on the challenges facing shared service centres (SSCs) in China and Asia Pacific. The report will look at how SSCs differentiate themselves as employer of choice by

Early life was difficult for Taiwo Oyedele, who was brought up in a village in Nigeria with no electricity and few aspirations. But his uncle’s advice – to do what fulfilled him – led him to embark on a career in accountancy with the support of ACCA. Today, his positivity extends beyond the profession to his hopes for the African continent.

His fast track to partnership broke PwC records, taking only seven years
His ‘Impact Africa Foundation’ raises funds and offers mentoring for the underprivileged
You can find out more about Taiwo Oyedele’s views on the profession and his ACCA Qualification at www.accaglobal.com/ab/videos

Take one
The latest in the series of video interviews with high-profile members features Taiwo Oyedele FCCA, PwC partner in Nigeria and leader of the firm’s tax and corporate advisory services

His fast track to partnership broke PwC records, taking only seven years
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building a strong brand as well as creating an attractive working environment. It will also consider how SSCs can take a global approach to process delivery and standardisation in order to deliver efficiency and cost savings through scale and volume. Look out for a report in a forthcoming issue of Accounting and Business.

Tax without borders
The Organisation for Economic Cooperation and Development and the United Nations Development Programme have launched a new initiative to help developing countries bolster domestic revenues by strengthening their tax audit capacities. The Tax Inspectors Without Borders project has been welcomed by stakeholders from business, civil society and developing country governments attending the Third International Conference on Financing for Development in Addis Ababa. They said the initiative will help countries to mobilise much-needed domestic revenues in support of the post-2015 sustainable development agenda. Under the project, tax audit experts will work alongside local officials of developing country tax administrations to help strengthen tax audit capacities, including issues concerning international tax matters.

New PwC China head
PwC has appointed Raymund Chao as its new Greater China chairman. Formerly PwC’s assurance leader for China and the Asia Pacific, he says the firm will need to remain agile in order to capture new opportunities across the region. ‘PwC will continue to invest in our people with the aim of building trust and solving important problems in society. We can achieve this by delivering timely solutions that help companies transform their business models, grow through innovation and technology, and stay ahead of global megatrends.’ Chao also joins PwC’s global Network Leadership Team as one of five senior partners, and the only Asian representative, playing a vital role in setting the overall strategy for the PwC network and its standards.

Change in the air
Singapore Airlines plans to appoint KPMG as its new external auditor, after 43 years with EY. A letter to shareholders outlining the proposal stated that ‘as part of ongoing good corporate governance initiatives, the directors are of the view that it would be timely to effect a change of external auditor with effect from the financial year ending 31 March 2016’. EY, the retiring auditor, would not be seeking reappointment, it said. KPMG was selected after the airline’s audit committee invited and evaluated competitive proposals from various audit firms.

Finance innovation
Taiwanese Premier Mao Chi-kuo has pledged government efforts to promote financial innovation conducive to the development of Taiwan’s financial sector. After hearing the Financial Supervisory Commission’s (FSC) report on a plan to create a digitised financial environment, the premier requested the FSC to remain attentive to the progress of the project, reviewing and amending relevant measures in a timely manner to facilitate the sector’s development. ‘The rise of internet and the advent of the mobile communications era have led to business model innovation,’ he said. ‘Financial services thus need to stay on top of scientific and technological developments to grasp business opportunities.’

Vera di Palma
Vera di Palma, ACCA’s first female Council member and first female president, has died aged 83. She joined Council in 1971, became president in 1980 and was awarded an OBE in 1997 for public service. ‘When I qualified in 1956, the profession was heavily male-dominated and there were hardly any women,’ she told ACCA’s Student Accountant magazine in 2009. ‘We felt there would be strength through unity, so in 1965 I formed the Certified Accountants Women’s Society.’ ACCA’s chief executive Helen Brand said: ‘She opened the door for many young women to succeed in finance and accountancy, and the fact that nearly half our membership and more than 50% of our student body are women is a fitting tribute to her legacy.’

Compiled by Peta Tomlinson, journalist

Age of opportunity
PwC’s new Golden Age Index compares countries’ success in harnessing the power of older workers. Indicators including employment, earnings and training were used to reflect the labour market impact of workers aged over 55 in 34 OECD countries. Korea and Japan were ranked in eight and ninth places respectively.

Make the most of older talent:
1 Iceland
2 New Zealand
3 Sweden
4 Israel
5 Norway
6 Chile

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Force for change
For Josiah Tau FCCA, financial controller of the Hong Kong Police Force, people management is the most important aspect of the demanding and diverse role.

Hong Kong Island’s expansive skyline greets visitors to the office of Josiah Tau, the financial controller of the Hong Kong Police Force. Key to the role is the ability to strike a balance between working within the constraints of government departments and harnessing the best of human resources to deliver the best possible finance-related services.

As one of the 14 assistant directors of accounting services (ADASs) of the Treasury department of the Hong Kong Special Administrative Region Government, Tau has been posted to various government departments since he joined the civil service in 1993. ADAS postings to each department last up to four years, enabling assistant directors to be exposed to different fields. While there are eight ADASs working in the central government offices or the Treasury department headquarters, Tau is among six ADASs in their respective departments who are responsible for a vast portfolio of accounting and financial activities. He began working for the police force in November 2013 and was promoted to the rank of ADAS in September 2014. ‘The six departments are among the largest government departments in Hong Kong and the police force is one of them,’ Tau says. ‘The role of the ADASs in these departments is the equivalent of that of a CFO in a corporation.’

The vision of the Treasury is to ‘lead and excel’ in the provision of accounting and financial management services in the government. ‘In keeping with this vision, we strive to pursue a mission encompassing the department’s core values of professionalism, stewardship and customer-centricity,’ Tau notes. The ADASs oversee such professional activities as financial accounting, cost and management accounting, IT system development, internal audit, and loan and fund management. ‘One unique aspect in the accounting services for the police is forensic accounting. We sometimes contribute to police investigations,’ he adds.

The financial professionals of individual government departments deliver their services within the constraints of financial and human resources. ‘We abide by the expenditure limits approved by the Legislative Council annually. At the same time, we have to deliver the services in accordance with our general and specific goals in the most effective and efficient ways,’ he notes.

Tau counts human resources as the most vital element in the operation of government departments, which maintain tight headcounts and where many civil servants cultivate lifelong careers. Currently, he supervises around 100 staff; among them, 12 are accountants and the rest are semi-professional or clerical staff.

2014
Financial controller, Hong Kong Police Force (assistant director of accounting services, Treasury Department, HKSAR Government)

1993
Treasury accountant, senior treasury accountant, and chief treasury accountant, Transport Department, Department of Health, Hong Kong Housing Authority, Education Department, Education and Manpower Bureau, University Grants Committee, Treasury Department, Transport and Housing Bureau, and Hong Kong Police Force, HKSAR Government

1988
Accounting manager, Toronto HA Community Redevelopment Inc, Toronto, Ontario, Canada

1982
Management accountant, Cable & Wireless HK, Lam Soon HK and the Hong Kong Jockey Club

1979
Management trainee and administration manager, Good Year Estate

‘Managerial levels in the civil service have to make the best use of the existing human resources by being reasonable and fair to everyone to maintain high morale,’ he says. ‘Even for the less productive individuals, we have to get the best out of them by harnessing their strengths and ignoring their weaknesses.’

Understanding motivation
To achieve this goal, Tau has sought to understand the motivation of individual staff members; while many are driven to be upwardly mobile, some simply want the security of their jobs and have the responsibility of looking after their families on top of a full-time career. ‘Our ability to foster team spirit and command respect and trust from colleagues is crucial,’ he says. ‘To get the best from the team, a supervisor should leverage on individual subordinates’ strengths. The supervisor should encourage all team members, who are parts of the process,’
to contribute their ideas freely. As the supervisor, I show equal appreciation to the contributions made by staff at each level.’

Tau also helps his staff further develop their strengths while overcoming their weaknesses. ‘A supervisor should lead by example. In turn, this will help build up a close-knit, highly effective and strongly motivated team instrumental to the successful execution of any daunting tasks.’

After graduating from the Chinese University of Hong Kong in the late 1970s majoring in accounting, Tau spent the next eight years working in administrative and management accounting positions in the private sector in Hong Kong. He moved to Canada in 1988 and worked as accounting manager in the Toronto HA Community Redevelopment Inc. He returned to Hong Kong in 1993 and joined the Treasury department as a treasury accountant. ‘My greatest interest is always in management accounting,’ he says. ‘I like working on such areas as costing and financial evaluation that lead to decision-making.’

Lasting reputations
Tau was attracted to a government career because the civil service has little office politics when compared with the commercial sector. ‘Civil servants can make friends with one another because there are little direct conflicts,’ he says. ‘Many of us are acquainted with one another for years because some will work in the government for over 35 years before their retirement. While we may work in different departments, we remain in the same circle. Reputation, good or bad, is always lasting.’

In addition, Tau believes that the promotion mechanism in the civil service is fair and free of any preferential treatment.

Hong Kong Police Force

Formed in 1844, the Hong Kong Police Force is the largest disciplined service under the Security Bureau of Hong Kong. It is the world’s second, and Asia’s first, police agency to operate with a modern policing system and is led by the commissioner of police. Including the Hong Kong Auxiliary Police Force and civilians, the force consists of about 38,000 personnel, giving Hong Kong the second highest police officer: citizen ratio in the world as of 2014. In addition, the Marine Region, with about 3,000 officers and a fleet of 143 vessels, is the largest of any civil police force.

‘Generally speaking, we are well aware of individual colleagues’ levels of commitment, sense of responsibility and diligence,’ he says. ‘Rarely is there anyone who will harm the others for the sake of promotion. This is the harmonious work environment that I appreciate the most.’

Tau’s dozen years of experience in the private sector, both in Hong Kong and abroad, have given him the edge in the civil service, as the treasury accountant role has become more customer-oriented and interactive. ‘Our role has evolved from serving as a purely technical expert – someone who just says “yes” or “no” based on technical principles – to a business-adviser-cum-trainer who is ready to pass on some basic financial knowledge and
skills to others,’ he explains. With the shift of his role, Tau believes that excellent communication skills have become the prerequisite.

He likens the current role of treasury accountant to that of a medical doctor. ‘A doctor needs to fully explain diagnoses to individual patients,’ he notes. ‘As the accountants working in the government, we are like business advisers. We need to fully explain our decisions and recommend solutions. In our customer-oriented approach, we aim to help the recipients of our information to acquire full understanding. We want them to appreciate the rationale behind the decisions or recommendations and learn good practice.

‘My experience is that I usually use simple, layman language to explain complex concepts. When those I communicate with receive this information as well as the basic financial knowledge involved and are able to pass the information and knowledge onto their supervisors, they are really appreciative of my efforts; this gives me great job satisfaction,’ he says. ‘We use the kind of language and data formats that our audience will understand. Good English writing skills are therefore essential.’

Planning, analysis, communication

Over the past 22 years in the government, Tau has encountered many challenges and every time he has overcome them with immaculate planning, thorough analysis from multiple perspectives, and excellent communication skills. While he was working for the University Grants Committee (UGC), for example, the government announced in its 2008-09 Budget that it would set up an unprecedented HK$18bn Research Endowment Fund to support research by local UGC-funded institutions.

Racing against a short period of time, Tau’s team needed to carry out the setup of the fund, thorough evaluation of the investment tools and investment house, and the execution of a trust in compliance with legal, financial and operational requirements. ‘There was zero tolerance of any mistake,’ he recalls.

Tau’s team laid the groundwork of comprehensive preliminary work, anticipated numerous issues that might arise and proposed solutions throughout the entire process. With his great communication skills, he ensured all parties involved were properly briefed and fully understood the daunting task at hand. As a result, the fund was established without a hitch.

Another challenge arose while he worked in the Transport and Housing Bureau between 2009 and 2013. Tau and his team were responsible for responding to a case for arbitration that would decide whether to approve the application for a toll rise by the then operator of the Eastern Harbour Crossing. The toll was last raised substantially in 2005, while losses in two previous arbitrations subjected the government to intense pressure. The meticulous planning and strong analysis were supplemented with effective legal tactics by Tau’s team. ‘We looked carefully at the internal rate of return of the tunnel operator and identified key financial factors that hinged on the lower inflation rate in the 2000s compared with the preceding decades,’ he explains.

The government won the case this time. ‘This gave me immense satisfaction because the further toll rise could have had a big impact on the general public,’ he notes. For these two challenges, among many other occasions, Tau was required to help top government officials at high-level meetings. His commitment and resourcefulness impressed the senior officials and his subsequent promotion has reflected their appreciation for his capability.

While Tau’s career is quite unlike those of the other senior civil servants because most would join the government soon after university graduation, he considers his promotions through the ranks fairly typical. He also recognises that the ACCA Qualification, which he earned shortly after graduation from university, has helped him throughout his professional career.

‘Because the qualification is recognised internationally, I got employed in Toronto,’ he says. ‘It has also helped me as I was posted in the various government departments in Hong Kong.’

Wilson Lau, journalist

Tips

* ‘Have passion, commitment and courage. It’s vital to be fully committed and courageous to embrace challenges and changes, such as IT system upgrades and streamlined processes. We have to step out of the comfort zone and uphold the “can-do” spirit.’

* ‘Given the hopefully continuous growth of the Treasury grades over time, it is important that every colleague should always equip themselves for opportunities to advance to the next level.’

* ‘Treasury accountants need to move with the times. They should bring in new business concepts by thinking “outside the box”, but at the same time adhere to the major control and regulatory principles.’

* ‘We have to learn the techniques and exercise discretion to strike a balance between a work-to-rule regulator and a business-oriented financial adviser.’

* ‘All decisions must be well-documented and properly authorised. Whether we can depict a sound business proposal going forward or to explain the practical difficulty that leads to the abolishment of projects, both require good communication skills, particularly good English writing skills.’

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FDI liberalisation in China
Changes to the regulations on foreign investment in the People’s Republic open up some sectors to small and medium-sized enterprises such as e-commerce.

China has taken another small step towards opening up its markets to foreign investment with new rules that could help some small and medium-sized enterprises (SMEs) tap into the second largest economy in the world.

A new Catalogue for the Guidance of Foreign Investment Industries (2015) took effect in April, opening the door for foreign companies to invest in sectors that have long been off limits, including e-commerce, distribution, construction and power distribution. The catalogue cuts the number of restricted industries by more than half, from 80 to 38, and the number of prohibited industries slightly, to 36.

‘It means that the market is more open and is encouraging foreign companies to invest,’ says Judy Tsang, a transaction advisory services partner at EY in Hong Kong. ‘Asia, especially Singapore, has been the main source of foreign investment in mainland China. Transactions have been active but, for the time being, it is still led by large enterprises.’

Heavy layers of bureaucracy remain a hurdle for SMEs looking to invest in China. Foreign investors often have to deal with multiple authorities and regulators to set up and maintain a company in the country, registering for example with the foreign exchange bureau, local governments, provincial governments and even the central government. In addition, companies must file numerous reports, annually, quarterly or even monthly.

Setting up a business in mainland China is much more complicated than it is in locations such as Hong Kong and Singapore, where investors use a service provider and a virtual office. In China, investors are required to lease space for a year before they can even apply to set up a company.

‘Those kind of things are quite difficult for SMEs because the whole point for them is saving money and time. In China, it is difficult to set up low-cost operations. And these “softer” obstacles are not apparent from the catalogue,’ says Howard Wu, head of the Asia Pacific information technology and communications group at Baker & McKenzie, an international law firm.

In fact, taken as a whole, the new guidelines may not in effect be terribly significant: the rules are actually less open than they might have been.

‘It is not some dramatic new market opening,’ says Wu. ‘On the contrary, the original draft of the catalogue, which was released in 2014, was more liberal than the final version.’

‘The government actually took a step back, and scaled back some of the openings provided in the 2014 draft version,’ says Wu.

The new catalogue opens up some sectors in which SMEs operate, such as e-commerce, but these small companies are not the focus.

‘The catalogue is just an incremental step in terms of attracting foreign investment,’ Wu says. ‘And in terms of China’s foreign investment policies, it has been more interested in attracting bigger fish, for example from the US and Europe.’

Foreign investors involved in the newly open sectors are likely to find doing business easier, and SMEs will benefit from some of the changes. The more sophisticated SMEs from Singapore could have most to gain among businesses in South-East Asia.
Asia, particularly given the extent of the links between the two countries. Singapore has been the second largest source of foreign investment into China, particularly in terms of total aggregate investment since China started opening up its economy in 1979. Last year, China received US$5.93bn in foreign direct investment (FDI) from Singapore, about 5.1% of the total.

Among the key measures of interest to Singaporean SMEs is the reclassification of e-commerce from ‘restricted’ to ‘permitted’. SMEs are active in e-commerce because the barriers to entry are relatively low. The opening of the Chinese market creates an interesting opportunity. ‘It is a big breakthrough,’ says Tsang.

The biggest change is technical. By adding e-commerce to the list of permitted sectors, China is opening the door to companies that are wholly owned by foreigners, known as wholly foreign owned enterprises (WFOEs). For years, foreign e-commerce players had to operate in China through the more complex variable interest entity (VIE) structure, which is more expensive to set up and exposed to higher tax rates.

‘Now, the e-commerce segment is lowering the barriers to entry and that is definitely a positive message for SMEs,’ says Tsang.

Wu too sees the relaxation of restrictions on e-commerce as ‘a very good and exciting opening’. He continues: ‘We are helping our clients to take advantage of this liberalisation by setting up 100%-owned subsidiaries in this sector, for example. It is an area that our clients are interested in,’ Wu says.

Foreign companies have not been kept out of the market, according to Wu, but would rather work around the restrictions by selling or trading goods through e-platforms operated by third parties, such as T-mall, the online shopping arm of Jack Ma’s Alibaba Group.

‘A lot of small companies can just set up a store on T-mall and then can sell their goods into China. You do not have to set up a company or a representative office here, and you do not have to take care of warehousing or logistics as well as importation formalities,’ says Wu. ‘That is a pretty strong trend, from the luxury brand companies to the smaller companies trying to make initial inroads into the Chinese market.’

Opportunities in real estate
Another newly permitted area that is likely to attract interest from businesses in nearby countries such as Malaysia, Indonesia and particularly Singapore is the real estate sector. EY’s Tsang describes the removal of real estate from the list of restricted categories as ‘a remarkable and favourable change to foreign investors’.

In the past, foreign investment projects worth more than US$50m required approval from the central government.
Ultimately, however, the new guidelines constitute another step in a decades-long process of liberalisation. ‘China is opening its market, but it is still keeping an eye on its negotiations with the US, the European Union and ASEAN countries. There will be a further updated version with additional openings depending on the progress of these various bilateral and multilateral trade negotiations,’ Wu says.

Pearl Liu, journalist
Boom and bust

While China’s slowing economy may now be seeing a tentative recovery as a raft of new measures bolster confidence, what does the future really hold, asks Manu Bhaskaran

After soaring by 150% over the past 12 months, Chinese stocks crashed spectacularly towards the end of June. Only after a flurry of vigorous policy measures did the markets steady and recover some ground. So, confidence has returned, but will this last and what are the consequences for China’s economy and the rest of the world?

A plethora of policy measures has convinced investors that the government will do whatever it takes to support the market. New initial public offerings were suspended, rules on margin loans eased, and pension funds were allowed to buy equities for the first time ever. Regulators even permitted retail investors to pledge property as collateral to buy stocks.

Other policy measures, however, were more controversial. Regulators banned substantial shareholders holding stakes of more than 5% from selling for six months. A crackdown has been announced on alleged short-sellers. At one stage, regulators had suspended trading in more than half the market. Still, while such heavy-handed measures could hurt investor confidence in the long term, the near-term effect has been salutary.

If the financial markets can be stabilised, what are the remaining risks in China?

China’s economy has been slowing for several quarters, dragged down by a deflating property sector, huge industrial overcapacity, slumping global demand and reduced consumption resulting from President Xi Jinping’s anti-corruption crackdown. First quarter economic growth was just 7% compared with 7.3% in the final quarter of 2014. Forecasts suggest that this year’s growth will be even slower than in 2014 – already the lowest in 30 years.

In response, China’s economic managers have been easing policy, cutting interest rates and banks’ reserve requirements and spending massively on infrastructure and social housing. Restrictions on the property market have been eased. Consequently, the housing market has steadied, with transaction volumes in the bigger cities picking up. Industrial production, fixed asset investment and retail sales grew a tad faster in May compared to April. In June, export growth regained some momentum, raising hopes that global demand could soon reinforce this tentative recovery.

Can this rebound last? There are two concerns here. First, does official data truly reflect the state of the economy? The numbers for power consumption and container freight do not seem to tally with the slight improvement witnessed in May, for example. While the changing structure of China’s economy, including the shift to services rather than manufacturing, could explain part of this disconnect, it cannot explain most of it. The suspicion is that the economy is weaker than the government’s statistics show.

Second, the underlying headwinds are strong. Investment accounts for almost half of the economy yet there is diminishing appetite to invest as overcapacity squeezes profit margins and expected returns. As margins fall, heavily indebted firms are struggling to repay debts. Not surprisingly, non-performing loans have rebounded, albeit off a very low base.

This leaves policy response as the key. Despite the increasing market-orientation of China’s economy, the government has considerably more steering tools than in a conventional economy. It owns the major banks and can increase credit aggressively should the economy lose momentum. It has huge fiscal firepower after years of conservative spending. Reserve requirements on banks are still much too high and can be cut to release liquidity into the system on a huge scale.

Thus, the most likely scenario is for the Chinese economy to experience some hiccups from time to time but to eventually settle down to a new equilibrium of lower but steady growth, helped by a substantial dose of policy support. For the rest of the world economy, this means that Chinese demand growth will not be as exciting as before but it will still be a positive driver.

Manu Bhaskaran is CEO, Centennial Asia Advisors, Singapore
Beyond a pass or fail
The IAASB’s new standards mean that today’s auditors must leave behind the boilerplate reporting of old and learn to interpret and incorporate key audit matters, says Errol Oh

Can a rule change turn the auditing profession on its head? Yes, if it alters considerably the profession’s chief tangible product – the audit report. This is why it is important for us to keep an eye on the moves by regulators, policy makers and standard setters to revamp auditor reporting.

In June 2013, the UK’s Financial Reporting Council revised its standard on the independent auditor’s report so as to require auditors to explain more about their work. Meanwhile, the European Commission’s reform of the statutory audit market last year includes providing investors and shareholders of audited entities with better and more detailed information via the audit report.

The International Auditing and Assurance Standards Board (IAASB) released new and revised auditor reporting standards in January this year to ‘significantly enhance auditor’s reports for investors and other users of financial statements’. These are applicable for audits of financial statements for periods ending on or after 15 December 2016. A crucial part is the introduction of a new section in the audit report to communicate key audit matters; the Public Company Accounting Oversight Board (PCAOB) of the US has proposed a similar step but the term it uses is critical audit matters.

Whatever you call these disclosures, auditors must accept the fact that the market demands that they go beyond expressing the binary pass/fail opinion on financial statements. It is no longer enough to just say the statements are fairly presented (pass) or not (fail).

Key audit matters are defined as matters that the auditor deems the most significant in the audit of the financial statements. The PCAOB’s criteria for critical audit matters are those that involved the most difficult, subjective or complex auditor judgments; posed the most difficulty to the auditor in obtaining sufficient appropriate evidence; or posed the most difficulty to the auditor in forming the opinion on the financial statements.

In a January 2015 note, KPMG gave perhaps the best description of key audit matters: the areas that the auditor worried about and focused on the most during the audit.

The enrichment of the audit report will likely make people think differently about what the auditors do. For too long, the sum total of a statutory audit in Malaysia comprises a two-page boilerplate report giving a terse opinion. It is a miserly representation of the hours of fieldwork, paperwork and discussions.

In his message in the Audit Oversight Board’s annual report 2014, executive chairman Nik Mohd Hasyudeen Yusoff wrote that the IAASB’s new and revised auditor reporting standards are a possible game-changer that will enhance the quality of financial reporting in Malaysia. He singles out the incorporation of key audit matters in audit reports, saying that this will lead to reports that are more tailored to the circumstances of the clients rather than the existing format, which contains mostly standard terms and boilerplates.

‘We envisage that the information reported in the future would provide more insights of the risks surrounding a particular reporting entity and some of this information may have market impact,’ he added.

There is indeed a compelling reason for us to look forward to the audited accounts that will be issued from 2017 onwards. They will show us how the auditors have responded to the challenge of reporting with more insight, relevance and transparency.
The bucket challenge

Make sense of the deluge of business software and other innovations by putting them in three buckets to decide how much time and resources to devote to each, says Cesar Bacani

At the sixth CFO Innovation Asia Forum in Singapore in June, I moderated a panel discussion on how the finance function can best leverage existing and emerging technologies for both financial management and the business in general. I was struck by the approach espoused by one panellist, VS Parthasarathy of India.

Partha, as he is known, knows whereof he speaks. He is group CFO of Mahindra & Mahindra, an automotive-and-services conglomerate. Partha is also group CIO and president (Group Finance and M&A) – and was honoured last year as one of the winners in the CFO Innovation CFO of the Year Awards.

He is, in other words, someone who knows finance and technology intimately.

So how does this group CFO approach technology? He and the finance and IT teams categorise software, solutions, systems and other innovations in three buckets: those that enable the business, those that enhance the performance of the business, and those that serve as new engines for the business.

If a department needs new computers, the request would be processed expeditiously because finance knows that computers are basic enablers of the business, said Partha.

If the technology is accepted as having the potential to enhance a process, such as robots on the car factory floor, for example, Partha will examine the business case very seriously. Anything that can potentially enhance the bottom line must never be dismissed and always prioritised. But given the cost and effort, finance will take a longer time to study and decide.

What if the technology is touted as a new engine of growth for the company, such as a technology system that will allow a sharing-economy-type service like Uber, Airbnb or Zalora? Finance, along with the rest of the business, will assess whether this is a disruptive force that could upset, and therefore make the current business model unsustainable in the long run.

By placing the technologies in these three buckets, said Partha, finance can prioritise and allocate appropriate time and resources to each business case. What if a technology can be argued to be both an enhancer and a new engine? All the more reason to take a closer look.

And when an innovation is flagged as potentially disruptive to the entire industry, as Uber is doing with the taxi business, Airbnb with hotels and Zalora with consumer goods, the CFO should take notice. The business can be at risk if the technology is not properly assessed and deployed.

At CFO Innovation, we are constantly bombarded by vendors and other companies touting a deluge of software, business tools and ideas to transform finance and the business. Software-as-a-service, mobile solutions, in-memory computing, big data, predictive and cognitive analytics, social media and crowdsourcing, robotic process automation – you name it, there is some marketing person wanting to publicise it.

It seems to me that Partha’s common-sense approach is a practical way to stay on top of this dizzying flood. Finance should coordinate with IT and other parts of the business, of course, on which bucket to place an innovation in a credible way. The task of prioritising, allocating resources and deployment can then proceed in an orderly way. ■

Cesar Bacani is editor-in-chief of CFO Innovation

Cesar Bacani | Comment

09/2015 Accounting and Business
Moving forward

After 12 months as ACCA president, Anthony Harbinson looks back over his term of office and pays tribute to the commitment of students, members and staff

It is with a great sense of pride and some very fond memories that I look back on my year as ACCA president. It has been a huge honour and privilege to have served the members and students that make up our fantastic body and to be an ambassador for you and ACCA in so many forums.

Among the many highlights was leading the ACCA delegation to the World Congress of Accountants in Rome last year. We were, I believe, able to demonstrate how ACCA is helping to lead and develop the accountancy profession globally while making a valuable contribution to debates and presentations.

Travelling around the world has given me the opportunity to meet so many of our students and members, and to recognise that we are indeed one very large family, with shared values and commitments. That has also enabled me to see how they engage with ACCA within their local markets and to understand how they help develop our communities and economies.

It has also been a privilege to meet with the staff teams that deliver so much for us as members and students – the individuals who make ACCA work and help us all to get the most from our Qualification and our careers. They are the true heroes of ACCA!

At the start of my presidential year, I said I wanted to put the public sector at the forefront of the profession and to highlight the strengths, threats and opportunities that this sector faces. As someone who works in this vital sector, it has been a source of pride that I had the opportunity not only to have met with and influenced so many key stakeholders but also to have launched ACCA’s Certificate in International Public Sector Accounting Standards, which will help many thousands of public servants around the world.

I have also thoroughly enjoyed the chance the last year has given to me to really discuss public value and the public interest on the world stage, and explain how ACCA puts this at the very heart of all that we do, particularly in terms of espousing our commitment to ethics and doing the right thing, no matter how difficult that may be.

I have many special memories of my presidential year – not least being made a ‘chief’ while visiting Uganda in November last year. I want to conclude by thanking you once again for the opportunity to serve ACCA at the highest level and to wish you all future success in your careers.

Anthony Harbinson FCCA is director of safer communities in Northern Ireland’s Department of Justice.

I have thoroughly enjoyed the chance to really discuss public value and the public interest on the world stage.
The view from

Upenyu Mukuhlani ACCA, regional services manager, United Nations Development Programme, Malaysia

I lead a team of experts in providing transnational and advisory support to United Nations Development Programme (UNDP) country offices on International Public Sector Accounting Standards (IPSAS) compliance across Asia Pacific and Europe. My primary goals are the timeliness, accuracy, responsiveness and consistency of IPSAS application. The capacity building and advisory aspect of my job makes it very interesting; it gives me the opportunity to share my knowledge and experience with others.

The adoption of IPSAS has brought so much change in public sector accounting and there is a sense of improved accountability for entities and governments that have adopted IPSAS. The possibility of having financial statements that are comparable across the public sector and governments is good news for finance professionals and users of financial statements. This has had an impact on professional bodies like ACCA which are now offering a certificate for IPSAS to improve capacities for finance professionals.

My role helps to ensure that UNDP offices comply with IPSAS and thereby improve the transparency and accuracy of financial statements. I prepare training material for staff in the centre and for our client office. Executing my role effectively will ensure that financial statements are prepared based on policies that are crafted by independent global accountants giving independent recommendations; best practice for public sector entities; and detail-oriented, consistent, transparent and comprehensive.

Something I’m extremely proud of is being part of the team that was given the shared service centre blueprint and made it a reality. I’m part of the team that started the centre, ensuring that all standard operating procedures were in line with operational requirements. I championed the realigning of the revenue recognition business process under the guidance of the head of the centre and support from head office. Building on the wealth of experience from HQ and trouble-shooting, I developed a best practice document for revenue recognition.

My top priority for 2015 is to build my knowledge of IPSAS and public sector accounting developments. I also want to have more time with my wife; most accountants take family time for granted, but we have one life and we should make an effort to spend a good chunk of it with the people that matter to us.

My mother was my greatest inspiration. Despite not being highly educated, she dreamt of a better life for her kids through education. She believed in hard work for a better life and that is the only formula for success that has worked for me.

■

Snapshot: automotive

The automotive sector is heavily affected by regulation. The need to design engines emitting less CO2 is increasing costs quickly and will reduce manufacturers’ profits, especially in the European Union, which has the most stringent standards.

Globalisation has progressed a long way into the industry and almost all future growth will come from emerging markets. While China has been strong in this sector so far, the industry must respond to today’s downward pressure on prices following the government crackdown on corruption and the slowing Chinese economy.

In addition, this is an industry where a great deal of technological change and innovation is taking place. Vehicles are becoming internet-connected and customised, and there is also the switch to electric models. All of this will happen over a generation.

From a career point of view, a global outlook and a thirst to learn about how consumers around the world look at motor vehicles are imperative. Commercial expertise is essential. Around one-third of profits typically come from consumer finance products, while the connectivity of today’s vehicles, and widening customer product and design preferences make big data and predictive analytics increasingly important.

John Leech, UK head of automotive at KPMG

23/07/2015 14:27
Better dialogue

Major initiatives aimed at improving the way Japanese companies share information with their shareholders have received a positive but somewhat uneven response.

Japanese corporations have broadly welcomed the availability of integrated reporting (IR) in Japan, although the majority appear to be waiting for others to take the plunge before committing to a system designed to promote better dialogue between companies and investors.

And while only a handful have actually adopted integrated reporting so far, there has been a rush to comply with the new self-regulation requirement for firms to meet the provisions of the corporate governance code, which came into effect in June and calls on companies to appoint at least two independent, outside board members with no vested interests.

The importance of a major overhaul of the way Japan’s companies communicate their achievements and failures to investors was underlined by Shinzo Abe, the Japanese prime minister, at The Economist’s Japan Summit 2015 in July.

Abe played up the recent economic achievements of his administration: net earnings of companies listed on the Tokyo stock exchange surpassed the 20 trillion yen (US$16.6bn) level for the first time ever, wages have been rising, unemployment falling and fiscal 2014 tax revenues hit a 21-year high of 54 trillion yen (US$436.2bn).

The prime minister’s ‘Abenomics’ reforms are ‘picking up acceleration’, he insisted, with efforts to mesh with the global economy playing a key part.

‘Beginning last month, more than 2,000 publicly traded companies have adopted the corporate governance code,’ he said. ‘Over the last two years, the number of companies appointing independent, non-executive directors has roughly doubled.’

‘And as for the stewardship code, which we acquired by learning from the UK, 191 institutional investors have adopted it as of now.

‘It is incumbent on us to strengthen corporate governance and change the mindset of Japanese executives, who will no longer be forgiven for continuing the kind of management that is inward-looking or risk averse,’ he added.

‘A new mindset to be embraced should encourage the people of Japan to look beyond their home country at the far wider world and to set sail vigorously into the rough waters of international competition,’ Abe said. ‘That, fundamentally, sums up my own belief that is at the base of my growth strategy.’

At present, only South Africa requires firms to carry out integrated reporting, although three companies in Japan – Takeda Pharmaceutical, Showa Denki and EY Japan – took part in a pilot programme launched in December 2013. By 2014, 142 firms had adopted the system, including convenience store chain Lawson and electronics giant Omron. Others, however, are biding their time.

Andrew Davies, a partner in the Financial Accounting Advisory Services department at EY, said: ‘Firms here have welcomed IR because it makes sense, while the government is keen for them to adopt it because it fits in with the growth strategies of “Abenomics”.

‘Despite many Japanese companies embracing the principles of integrated reporting, universal adoption of this new reporting framework is still in its infancy,’ he continued. ‘A lot of companies here have a wait-and-see mentality; they’re not willing to be the first because they already have a lot to do in terms of mandatory reporting, so there has to be a tangible value in integrated reporting for them.’

Another concern will be the added cost and additional hours required to produce the new type of report.

According to Davies, however, many of those that claim to have introduced IR are not doing it in the optimum way. Corporations that merely bundle their financial reports with an existing corporate social responsibility report are missing the point, he said, as the value to the investor lies in the two sets of paperwork.
being fused, and the impact of decisions and actions on both sides of the equation being apparent.

‘Some entities are being more proactive in providing greater disclosure and enhancing their communications with stakeholders, because they believe it will enhance their corporate value,’ agreed Tomokazu Sekiguchi, technical manager of the Accounting Standards Board of Japan.

From his point of view, however, many Japanese companies do not ‘strongly advocate the introduction of IR’ because the positive impact on their business remains unproven. Until it becomes a legal requirement, he said, the majority of firms will put IR on the back burner.

However, Mikiharu Noma, an associate professor at the Graduate School for International Corporate Strategy at Hitotsubashi University, believes making integrated reporting a requirement may have the opposite effect.

‘If Japanese companies are “required” to disclose IR by the Japanese government, they will resist adopting it,’ he said. ‘They are already required to provide quarterly earnings reports and this will just increase their investor relations costs.’

Toshifumi Takada, a professor in the School of Accounting at Tohoku University and chairman of the Japan Association of Auditing, is also opposed to integrated reporting becoming a requirement.

‘If and many others think that IR should not include compulsory disclosure, but that the system should expand naturally and without regulations,’ he said. ‘There is already a sense among the majority of Japanese CEOs that their companies are not for the stockholders, but that their primary focus is to contribute to society, both in Japan and, now, more globally.’

That attitude is one reason why Japanese firms are among the longest-lived in the world, often enduring for generations. In comparison, the majority of listed companies in the West are relative youngsters. The six oldest companies in the world are all Japanese. Osaka-based Kongo Gumi, which specialises in building shrines and temples, can trace its history back to the year 578, for example.

‘Japanese companies were among the first to have the concept of shared value,’ said EY’s Davies. ‘That’s not only the economic benefit of an entity, but also its positive impact on society.’

The commitment to lifetime employment, which still exists in many

Developing an effective dialogue

In April, the Study Group for Promoting Dialogue between Companies and Investors for Sustainable Growth, set up by METI, published its key recommendations.

1 **Comprehensive and integrated corporate disclosure**: companies should provide both mandatory disclosures, in accordance with the Financial Instruments and Exchange Act, the Companies Act and Listing Regulations for the Tokyo Stock Exchange, and voluntary disclosures, in an integrated manner. The ‘module-based integrated disclosure system’ requires companies, investors and ‘relevant organisations’ that enforce the mandatory disclosure system to meet to analyse and verify the details of annual disclosures. The report also calls for the practical unification of audits and the consolidation of quarterly disclosures.

2 **Enhancement of information for evaluation and analysis of mid to long-term corporate value**: firms need to provide information that gives a comprehensive understanding of ‘how corporate visions, management policies, strategies, governance and the like contribute to the achievements, financial status and sustainable value creation of a company’. The report recommends considering the disclosure of mid-term management plans and information on ESG (environment, society and governance).

3 **A move towards dialogue-oriented shareholder meetings**:

   i. Appropriate scheduling and information provision that allows shareholders to deliberate agenda items and engage in dialogue.

   ii. Promotion of electronification, to increase efficiency, including the electronification of the exercising of voting rights.

   iii. Providing an environment for meaningful shareholder meetings, for example through the facilitation of shareholders’ participation.

4 **Attitudes and behaviour of stakeholders**: companies and investors should develop a common understanding of dialogue and improve perceptions and competencies on both sides. Management and investors should be aware of issues impeding dialogue and clarify the underlying reasons for such issues.

Integrated reporting

Japanese companies, despite the difficulties the country has faced since the economic bubble burst in the early 1990s, is a reflection of that. Equally, loyalty to suppliers, allegiance to the local community and an understanding of the need to protect the natural environment have long been factored into corporate decision-making. That sort of social responsibility was always there, Davies believes, it was just not well communicated to global, long-term investors.

‘That is why so many companies are old but still successful,’ he added.

The International Integrated Reporting Council (IIRC) has welcomed efforts by Japan’s Ministry of Economy, Trade and Industry (METI) to promote IR in order to achieve better dialogue between companies and investors and enhance corporate value creation.

Measures outlined in a ministry panel report calling for the creation of a ‘dialogue-rich nation’ in which companies comprehensively disclose information so that investors are better informed about decisions have been applauded. Moves to promote ‘electronification’, or the application of new technology to improve communications, were similarly welcomed.

‘I am delighted that METI has come to the same conclusions as the IIRC – that integrated reporting can be a means for enhancing value creation, as a result of a better understanding by both the company and investors of the information that is material to the company,’ said Paul Druckman, CEO of IIRC.

Julian Ryall, journalist

09/2015 Accounting and Business
Choppy water

With water demand set to exceed supply by 40% within 15 years, businesses and CFOs are realising that this issue also carries a significant financial risk beyond the human cost.

Recent years have seen water make waves across the globe – catastrophic droughts in North Korea, Thailand’s devastating floods of 2011 and 2012, and gruesome images of dead pigs bobbing along China’s Huangpu river, their bloated carcasses contaminating reserves destined for Shanghai. Increasingly, businesses are taking note: water access is no longer misunderstood as a purely humanitarian issue; it carries significant financial risk – as well as several opportunities.

To contextualise the issue, the most recent edition of the World Economic Forum’s Global Risk Report ranks water crises as number one in terms of impact over the next decade. It is predicted that demand for freshwater will exceed supply by over 40% by 2030, at which point UN-Water estimates that 47% of the global population will be living in areas of high water stress. Of course, those areas won’t just be home to individuals; they’ll inevitably be places of business and manufacturing. Simply put, no matter whether global conglomerate or local cooperative, the implications of water security are non-discriminatory and potentially extremely costly – in all senses of the word. Thanks to its relatively low operating costs, shifting demographics and relative abundance of key natural resources, Asia is particularly vulnerable.

Natural resource accountancy has been on the agenda for some time. Most are well versed in depleting fossil fuels, greenhouse gases, carbon offsetting and the like. But water? That some 70% of the planet is covered in the stuff is grossly misleading in terms of the quantity – and quality – of usable H2O. The issue is freshwater – our rivers and streams, and above all their finite source, groundwater: reserves hidden beneath the Earth’s surface in soil and rock cavities. Part of the planet’s endless hydrological cycle, these aquifers naturally replenish from the surface. But when extraction overtakes organic replenishment, input becomes contaminated, or reserves become displaced, then problems arise.

Cate Lamb, head of water at Carbon Disclosure Project (CDP), explains: ‘For many years, water has been viewed as cheap, readily available and abundant. What adds a certain level of complexity is that unlike fossil fuels, for which there are many alternatives and technologies in constant development, there really is no alternative for water.’

An international not-for-profit entity, CDP was launched with carbon in mind. Working with stakeholders spanning communities and governments, it incentivises companies large and small to measure and disclose environmental information. This data is used by international financiers to inform investment decisions, and predict risk.

The organisation first turned its attention to water in 2009, and in 2010, it received disclosures from some 150 companies. Headed by Lamb, the programme has grown exponentially: 1,064 companies responded to last year’s water questionnaire, details of which have recently been shared by CDP. The findings are used by investors collectively managing more than US$63 trillion. High stakes indeed.

A hot global topic rightly working its way up CFOs’ agendas, Asia faces a unique set of challenges with regard to water security. Take China: home to 20%...
of the world’s population, it accounts for just 7% of the global fresh water supply. Coupled with the country’s rapid urbanisation, economic expansion and ongoing industrialisation, this imbalance becomes a real cause for alarm.

Amongst Asia’s thirstiest industries are beverage manufacturers, agriculture, chemical and pharmaceutical, and perhaps most notorious of all both in terms of consumption and pollution, fashion. However, as Gary Sharkey, global sustainability network director at PwC, observes, such industries represent just the tip of the iceberg.

‘You can’t look at water use without considering energy. Steel, chemical, heavy manufacturing – yes, they all use a lot of water, but also a lot of energy. Energy itself is one of the greatest water users in many economies. So as CFOs are now trying to understand their water use, a lot of that relates to the water supply chain.’

Though highly vulnerable to issues of water security, supply chains can also create opportunities for businesses looking to clean up their act. ‘In a lot of cases, businesses’ most direct means of engaging is with their customers and suppliers,’ Sharkey explains. ‘The supply chain is where you see a lot of water risk coming up. It links to the UN’s Principles of Responsible Investment. We’re seeing investors calling out retail companies for not adequately (a) investing or (b) engaging with their supply chain to give them the tools and knowledge upstream, and help them address the risks.’

Working together
Both PwC and, in particular, CDP work closely with governments and policymakers on devising, implementing and enforcing water regulations. And, as a handful of companies have discovered, governments across the board are taking water very seriously indeed. Take gold mining company Barrick Gold Corp: with no adequate means of containing and treating contaminated groundwater at their Pascua facility in Chile, the group was refused a licence to operate in the area. ‘A wonderful example of a stranded asset,’ explains Lamb.

Though encouraging, for many regions a tightening of regulations comes too late. Clean, quality water is already in short supply. Tellingly, some 22% of Global 500 companies who responded to CDP’s most recent water questionnaire anticipate worsening water security.

Find out more

**Matchmaking tool**
UN Global Compact Water Action Hub is an online ‘matchmaking tool’ developed by the CEO Water Mandate. It helps companies identify fellow stakeholders active in their respective river basins, as well as offering updates on regional water-related initiatives. A global resource, Asia is well represented – the hub currently boasts 103 participants in India, and 77 around China’s Yangtze River Delta. Visit [wateractionhub.org](http://wateractionhub.org) for details.

**Collaboration report**
PwC’s most recent water report can be found at [tinyurl.com/pjxtoma](http://tinyurl.com/pjxtoma). ‘Five or so years ago we realised there were individuals across PwC who had been working with water regulators and utilities for years,’ explains Gary Sharkey, global sustainability network director at PwC. ‘With the increasing growth in water users trying to understand this issue, we created a global water network of experts in this area, including hydrologists, geologists and hydro-economists.’ Hannah Routh, director of sustainability and climate change at PwC in Hong Kong, expands: ‘We work with clients on water resource assessments. A lot of our work is around natural capital accounting, environmental profit/loss accounting, and attributing a value to the water businesses are using.’

**Corporate role**
A report detailing Carbon Disclosure Project’s (CDP) 2014 water disclosure project can be found at [tinyurl.com/pv37gw](http://tinyurl.com/pv37gw). ‘In many cases around the world, corporations are viewed as solely a part of the problem with regards to water security,’ says Cate Lamb, head of water at Carbon Disclosure Project (CDP). ‘We feel that businesses have a role to play not just in enhancing water security for themselves, but also the communities and environments on which they rely so heavily.’ The organisation hopes to establish a water team in China in 2017.
will constrain growth. ‘Take Unilever,’ says Lamb. ‘It’s viewing emerging markets as burgeoning places for its products and services, but these also represent locations where water supply is becoming more scarce – particularly in the APAC region. As a result, consumers in these areas who would typically buy Unilever products are now having to make decisions as to which daily chores receive their small allocation of water. That’s likely to have an impact on Unilever. In response, it’s creating more waterless products; those that require less water for use.’

Unilever’s response touches on another important element of water stewardship: local communities. For Hannah Routh, director of sustainability and climate change at PwC in Hong Kong, the societal value of water is just as important as its financial worth: ‘Businesses have lobbyists and marketing departments, five-year strategies and so on – they’re more likely to be asking for the water they need – or grabbing the water they need – whereas communities are less likely to have that, and are therefore more likely to be affected by water scarcity. CFOs should take the initiative to internalise the externalities; that is, the value of the water they use – not the dollar value that they pay, but the societal value.’

Collective action
In order to be effective, water stewardship calls for a collaborative approach. ‘Collective action is absolutely necessary,’ stresses Lamb. At a river basin level, tools such as the UN Global Compact Water Action Hub allow companies to identify others sharing the same water source. ‘Identifying and coordinating partnerships on the ground is often one of the barriers to action,’ Lamb explains. ‘Acting alone, there’s a real risk these companies become a clean fish in a dirty pond. If a company upstream can get away with polluting the freshwater resources that the company downstream relies on, that implies additional costs or risks for the latter. It’s in the best interests of companies collectively to establish a level playing field within their basin.’

Water security, it would seem, makes for risky business. However, one need only look to Singapore to appreciate how these potential vulnerabilities can translate to opportunity. ‘For decades, Singapore purchased all its freshwater from Malaysia, but it’s unwise to be totally reliant on external countries or companies for this fundamental resource,’ says Sharkey. ‘So it invested heavily; it gave tax benefits and tax breaks for the application of water-efficient technologies; it encouraged local businesses and universities, and invested in local research and development programs to support desalination and water-efficient technologies, as well as water meters. It turned extreme water stress into a source of growth, resulting in new business models and technologies. There’s certainly an opportunity both in Asia and beyond to make the same sort of strategic investments.’

For CFOs, water accountancy can be a daunting prospect. Routh says: ‘In places like China where very few water meters are in place, most businesses have trouble telling you how much water they’re actually using, and have little data for how much they’ll have in two, five or ten years. The issue is mainly being driven by the NGOs and, as a result, companies are more exposed. [In terms of investment], that leads to better decisions being made, not only on the financial side, but also for a variety of indicators, including water.’

The tide is turning: water matters. The resounding message to CFOs is to be aware of the risks, be active in water basin communities and, above all, keep account of this most remarkable and vital resource.

With thanks to Roger Burritt, professor of accounting and sustainability at Macquarie University, and Katherine Christ, senior research assistant at Macquarie University.

Frances Arnold, journalist
Being an audit manager in a mid-tier audit firm is a challenging role in Singapore. Most listed companies and multinational companies prefer Big Four representation; however, small-and-medium-sized business are often not willing or able to afford the Big Four, so mid-tier audit firms attempt to fill this gap in the market. Meeting deadlines is a major challenge as most clients work to the same financial year-end, hence staff allocation, job progress supervision and completion of jobs are critical elements. It’s all about good scheduling, combined with commitment and determination to deliver the best services to our clients.

Accounting was merely a function for so many years, but its scope has changed broadly. It now not only provides figures or quantitative outcomes, but forces decision-makers to think in a way where qualitative aspects of accounting are important in real-world business. Over the past few years, irrespective of how an organisation survives in a competitive environment, the government and other financial institutions are keen to know the actual results of a business and its future plans in terms of performance and liquidity positions, as corporate bodies were previously able to produce figures as they wanted. Such reliance on self-generated figures has been held up as a key driver behind the collapse of big businesses in recent years.

Compliance and regulatory reform has tightened. It is leading to corporations enforcing greater standards and compliance. Professional services have been key supporters of business by providing assurance, outsourced accounting, actuarial valuation, and advisory and consultancy services. As a result, the economy has benefited in a way where new employment opportunities and new business are consistently emerging.

One of my proudest achievements is that my previous employer did not want to let me go. Though he was ready to match the remuneration package of my current role, I stood by my decision. His last few words of appreciation made my day and I realised how much I’d done for his business. I’m also proud of the fact I completed my ACCA Qualification while working full time and self-studying.

The three things I can’t live without are my mother, my job and good friends. Firstly, my mother has sacrificed everything for me and I really don’t know how to repay her. Secondly, my job gets the juices flowing. Finally, best friends; I am very much blessed with good friends. I wouldn’t be an ACCA-qualified accountant or in a position to write this if it wasn’t for friends.

Snapshot: financial services

Since 2008 the driving force in financial services has been regulatory reform. The initial focus was prudential – restoring safety and soundness to the global system. More recently, the focus has been on conduct and cultural renewal, especially within the banking system.

However, we see greater focus on jobs and growth. Politicians recognise the pivotal role financial services play in extending credit to boost economic activity and supporting long-term infrastructure investment. The challenge for many financial services players is generating a return in this environment. Regulatory reform has increased the level of capital employed, while compliance costs have soared; returns have dropped and interest rates have remained low. In response, we are seeing the return of large-scale international mergers and acquisitions within the insurance industry and national-level consolidation of a fragmented banking sector in many countries.

As the industry responds to these challenges, so must the profession in order to provide the right advice and assurance. With ever greater use of technology, integrating more specialist expertise alongside accountants is key to broadening the perspective and skills of the next generation of accountants.

Andy Baldwin, global financial services leader at EY
Taking the e-plunge

As more and more companies look to conduct at least some of their business online, you need to be ready to help your clients make the leap into the digital economy.

Internet and digital technologies are now affecting virtually all business functions and industries. James Chalmers, UK head of assurance at PwC, says: ‘Barely a week goes by without another reminder of how digital continues to disrupt the traditional way business is done and how it offers new ways of delivering products and services and of creating value.’

Going digital is now pretty much a necessity if a business wants to secure competitive advantage, and the speed of change is such that, put simply, ‘failure to embrace digital opportunities is not an option’, according to Chalmers.

Some countries are seizing the digital opportunity more successfully than others. According to Accenture’s ranking of the world’s 17 leading economies, the Netherlands is the top digital economy, followed by the US, Sweden, South Korea and the UK. France and Italy, on the other hand, are placed near the bottom, while India comes last.

Accenture’s research shows that a more effective use of digital technologies – such as e-commerce, data analytics, mobile, cloud computing and social media – could improve operational efficiency in organisations by up to 74% and increase sales by up to 58%.

Expectancy

That isn’t the only reason for companies to embrace digital. Richard Suhr, partner and Asia Pacific digital leader at EY, explains: ‘Investors now look for growth models that embrace a new digital operating model to find more effective ways to acquire and retain customers.’

What’s more, according to research conducted by Deloitte and digital consultancy OpenMatters, investors assign higher valuations to companies that embrace emerging technologies. Jonathan Rees, executive director and leader of Deloitte Digital in Southeast Asia, says: ‘The most digitally mature companies – the “digirati” – outperform their industry competitors by 26% in terms of profitability, and achieve significantly higher – 12% – market valuations.’

However, adapting a business strategy to incorporate digital is a challenge. ‘Most companies lack the relevant experience to know how to effectively drive digital transformation,’ says Lyon Poh, head of digital and innovation at KPMG Singapore. In fact, Accenture’s research shows that up to 61% of companies will find the change difficult because they lack the necessary skills. This is where the accountant adviser can be of some help.

Digital advice

First, practitioners need to fully understand today’s digital technologies to be able to assess which ones are appropriate to a particular client if they are going to use them to drive new revenues. In addition to social media, mobile, data analytics and the cloud, the internet of things (that is, disparate devices capable of communicating with each other because they are all internet-connected) is now growing rapidly.

Reviewing clients’ intangible assets is clearly a good starting point. According to data gathered by international intellectual property specialist Ocean Tomo, tangible assets currently constitute just 20% or less of total corporate value compared with more than 80% in 1975. Rees comments: ‘The value of companies has been shifting markedly from tangible assets, “bricks and mortar” to intangible assets such as intellectual capital. These invisible assets are the key drivers of shareholder value in the knowledge economy.’

Many businesses still do not realise the value that could be derived from intangible assets such as customers in today’s digital world. By using mobile technology and social networks, companies can create more detailed views of their customers, their attributes and their transactions.
This greater insight can in turn lead to improved customer experience, engagement and loyalty, and even new sales channels.

Nicklas Jonow, partner at Pacific Consulting Group in Hong Kong, says: ‘The value of customers may be easier to calculate than the value of other intangible assets as it’s more about sales/profits.ability. However, one should be careful not to reduce a customer merely to a dollar figure – the most successful companies build long-term partnerships with their clients rather than seeing them just as revenue.’

The online USP
Next, what is your client’s digital value proposition – its USP (unique selling point) online? What could it offer by way of new content, products, services and experiences to engage online customers? Why will customers click on, register with, buy from and return to the business’s website and share their experience?

To come up with an online USP, you and your client need to understand the target audience. ‘If you don’t, you are destined to fail,’ warns Jonow. Bear in mind it is a continually shifting target, too. ‘Today’s customers expect businesses to be available at all times, at all places and across multiple channels and devices,’ says Poh. He adds: ‘Customer-centricity in the digital world is synonymous with understanding the changing role of omni-channel customers and responding with digital initiatives based on high-value insight about their behaviour.’

A new digital USP will demand an appropriate revenue model, so clients may need advice on converting traditional transaction-based revenue models to, for example, premium pricing, subscription-based pricing, user download or advertising-supported pricing. Premium pricing models are applied where there is a unique content or service offering, and an advertising-supported model in cases where the offering is ubiquitous.

Ultimately, though, the new revenue model will depend on what kind of business your client is in. For example, a merchant business that sells the products or services of other companies through its site could generate affiliate revenue by charging a commission on the purchase price. Also, where customers have given their permission, the contact details gathered via your client’s site can be valuable to third parties, who may be willing to pay the website owner to email and advertise to the site’s customer-base.

Suhr says: ‘We now also see a number of financial services operators, particularly in insurance, moving to a pay as you consume model, and pay as you drive in telematics-based automotive insurance.’

Clients may also need to review the costs of investment in any new technology intended to power their digital strategy. Amir Sharif, professor of operations management and acting head of Brunel Business School, says: ‘Investments in technology are generally broken down into direct and indirect costs. Indirect costs, such as initial losses in productivity, patents, business process re-engineering, organisational restructuring and training and development, are typically four times that of direct costs.’

Data smart
When they take the digital road, your clients will be able to collect troves of unstructured data about their customers, suppliers and trends, but this data is only valuable if a business can analyse, measure and act on it. This means more is required than just an investment in, and the use of, the latest data analytics tools.

Chalmers says accountants can help ask the right questions of data and correctly interpret the answers. ‘Although this may be a challenge for accountants who are typically used to structured financial data and standard-based reporting models, their DNA of control, challenge, diligence and integrity can help ensure the decision-makers have confidence in their management information,’ he says.

Clients may also need new metrics to integrate digital data with financial data. ‘In the publishing industry for example, reporting metrics like cost per action need to be tracked because advertisers are now paid by price per action,’ says John Low, partner at Roland Berger Strategy Consultants in Kuala Lumpur.

Opportunities for an accountancy firm to support clients in the digital space are numerous and on a broad spectrum. By coming at the challenge from the outside, the practitioner’s perspective will be valuable in a confusing world.

Iwona Tokc-Wilde, journalist
Shape of things to come

Companies in Asia are waking up to the massive potential offered by the Internet of Things, but they also need to be aware of the increased risk of cybercrime.

The Internet of Things (IoT) is booming in Asia as companies wake up to the huge potential increased connectivity offers their business.

The market size for IoT in Asia, excluding Japan, looks set to more than double in the next few years, from US$408bn in 2013 to US$862bn by 2020, according to a recent report by market intelligence firm IDC.

At the same time the number of items that are connected to the internet, known as autonomous intelligent things, is projected to soar three-fold from 2.59 billion to 8.98 billion by 2020.

In the past year there has been an explosion of IoT products in Asia, ranging from consumer wearables and smart home products to industrial solutions.

IoT refers to the digitalisation of the physical environment, and covers everything from an electronic road toll to smart chips that enable logistics firms to track cargo.

In Singapore, the concept has been harnessed to use drones to deliver food orders to tables in a restaurant, while in Japan a hotel recently became fully automated, using robotics and intelligence systems to replace staff.

Asia is significantly ahead of the global curve in terms of its adoption of IoT, with 24% of companies in the region currently investing in sensors in a bid to cash in on the benefits offered by increased connectivity, while 26% plan to invest more, according to a recent study by PwC.

By contrast, just 18% of firms in the United States are currently spending money in this area and only 7% plan to increase investment in the future.

The rapid adoption of IoT in Asia is unsurprising, given the region’s huge manufacturing base. Saj Kumar, vice president, Internet of Things, SAP Asia Pacific Japan, explains that, as a manufacturing centre for the world, Asia already leads other regions in machine-to-machine integration and shop-floor connectivity. IoT is simply the next step in this process.
A cybercriminal’s dream

The Internet of Things (IoT) has been described as a cybercriminal’s dream come true. Along with the many benefits that increased connectivity brings there also come increased risks. Internet security firm Nexusguard warns that by its very design, IoT has only lightweight security.

King-Yew Foong, research vice president at Gartner says: ‘There are so many sensors out there in the field and each endpoint could potentially be a point of entry for hackers to attack the enterprise in its computing system.’

Unfortunately, many companies are not thought to be paying sufficient attention to this potential vulnerability. Firms in Asia generally underestimate the risks from cybercrime compared with companies in other regions of the world. In the recent Allianz Risk Barometer, in which executives were asked to cite what they saw as the biggest threats to their businesses, Asia was the only region that did not view cyber risks as a top 10 issue.

Mark Koh, senior industry analyst for ICT, Frost & Sullivan Asia Pacific, says: ‘I think a lot of companies are waking up to the fact that they have not paid enough attention to the security of IoT, and with more things coming on board that could pose a financial risk and also a physical risk. This is a huge issue.’

Manufacturing and logistics are two of the key sectors that can benefit from IoT, and businesses in this area are investing heavily in sensors in order to generate information that can help them run their operations more efficiently.

Firms in other sectors, including retail, healthcare, sports and transportation are also becoming increasingly connected.

King-Yew Foong, research vice president at Gartner says: ‘Businesses are under a lot of competitive pressure and they are looking for ways to be more efficient, and for new ways of conducting business. As a result, many companies, particularly in the industrial space, are looking at IoT to change the way they monitor equipment and processors.’

A key example of this approach is using sensors to monitor machines in industrial plants to gauge when they require maintenance. Foong explains that being able to harness this information not only saves companies money as they do not carry out maintenance unnecessarily, but it also prevents unplanned stoppages in production due to components unexpectedly breaking.

PwC has coined the term the Internet of Business Things, to describe how IoT has been harnessed by industry to improve operational efficiency. Scott Likens, analytics consulting leader, PwC Hong Kong, says: ‘There are lots of opportunities to use data to optimise supply chains, carry out predictive maintenance, or even use the information to create a model to simulate trials for changes businesses want to make. Because executives in China are seeing the power of sensors, the take-up is much faster than in other areas.’

The use of IoT in the industry and logistics sector in Asia is expected to grow exponentially. Mark Koh, senior industry analyst for ICT, Frost & Sullivan Asia Pacific, says: ‘A lot of manufacturing factories are not really networked as much as most owners would like them to be but it is changing.’

Companies are also looking to IoT as a means to differentiate themselves from their competitors. Foong says: ‘In the automobile sector companies are investing heavily in connected cars as a means of differentiation, and also so they can maintain pricing and even drive growth in market share.’

Kumar believes IoT has the power to revolutionise the way companies carry out their operations: ‘IoT will enable the 4th stage of the industrial revolution or what we call Industry 4.0, one that will be defined by the emergence of cyber-physical systems that will transform the way companies interact with customers, suppliers, employees and governments.’

There is also strong IoT growth in consumer markets. Asian consumers are typically the world’s most enthusiastic adopters of technology, with the region currently accounting for more than half of global mobile phone ownership.

The region is home to a large concentration of ‘digital natives’, people who have grown up with digital technology
and who typically use digital devices as their default channel for everything from shopping through to social interaction.

Likens says: ‘Savvy businesses are seeing this trend and adapting to it. It is driving the ubiquity.’

Another factor driving take-up of IoT among consumers in Asia is increased connectivity, says Koh: ‘Limited connectivity used to be the biggest hurdle for IoT, but the rollout of 2G, 3G and 4G networks, as well as high speed broadband networks and the falling costs of hardware is driving adoption.’

But while many businesses are effectively using IoT to cut costs and improve efficiency, harnessing it to drive revenue is proving harder. One area where it is being used in this way is to sell aftersales services, says Foong: ‘Companies can use advanced telematics to really monitor a car or engine performance, for example. They can then inform the driver to send in the car for servicing or maintenance. The same is true for industrial equipment and office equipment. Photocopiers can have sensors that inform the service centre when the toner is low. These service activities drive aftersales care revenues.’

But converting IoT services to revenue in the business-to-consumer sector is more difficult. Part of the problem is that while consumers do not mind spending money on the devices they need to access IoT, they are often not prepared to pay for the services it offers, having got used to the so-called ‘price of zero’ for other internet services, such as Google and Facebook.

Foong says: ‘We believe that the B2B market will be the one to take off first, rather than B2C one. People may think a service is great to have, but they don’t want to pay for it.’

Not only are consumers unwilling to pay for services, but they also frequently expect companies to give them something for free in exchange for giving up their personal information.

Likens says: ‘We have seen some approaches that have tried to charge for a service where consumers are giving them information and effectively they have failed. The ones that have been more successful are the free ones.’

There is also a darker side to IoT, as it increases the opportunities for cybercrime and raises significant privacy issues.

Koh explains: ‘Privacy is going to be a very big issue, especially when data is being used by enterprises. The scary thing would be when it ties into your physiological or your biological data. It is quite a scary thought that you could actually be denied healthcare insurance if the insurance company has access to that kind of information.’

Foong agrees: ‘There will be so much data being collected from the field devices there will certainly be issues with how this personal data is being collected, who will have access to it and how long it will be stored for.’

‘Privacy is going to be a very big issue. The scary thing is when it ties into your physiological or biological data’

Nicky Burridge, journalist
Redefining excellence

Connectivity and automation are transforming the face of finance, resulting in changes to the kind of people needed to run the finance department, says PwC

The new numbers

PwC’s annual finance function benchmark report, Breaking away: how leading finance functions are redefining excellence, shows how the best-performing finance functions have ditched the focus on bookkeeping and information gathering. Instead, they are producing real-time analytics and management information for use by other parts of the business. These changes mean that there is a demand for a new type of numbers professional – one with soft skills and able to navigate the new business landscape, and partner more meaningfully with the business.

5,600+ finance teams surveyed
100+ countries
400+ companies
50% The amount of time finance professionals now spend on analysing rather than gathering data (up from 36% last year)

Function costs take a nosedive

As fewer people are needed to run finance, so the cost of the average finance function as a percentage of revenue has fallen since 2011/12 by more than 10%. A combination of automation, shared services and more efficient use of capacity means that the cost of finance is a full 40% lower in the best-performing organisations.

Rewards for the first rank

PwC benchmark data reveals that cost efficiency is improving across the board, though much more quickly within top-performing finance teams, where average finance cost as a percentage of revenue is continuing to fall to below levels reported before the global financial crisis.

What sets top performers apart?

Scale and complexity still drive costs up, but top performers run at 40% lower cost
Top performers spend 20% more time on data analysis

Complexity and compliance push up costs

There are significant differences between industries. Complexity and regulation mean that the finance function remains more costly within the financial services sector than any other (1.32% of revenue for the median).

Cost of the finance function in selected sectors

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For more information:
You can read and download PwC’s 2015 finance function benchmark study, Breaking away: how leading finance functions are redefining excellence, at bit.ly/PwC-BA

09/2015 Accounting and Business
Crystal ball gazing

Rosanna Choi brings together the results of roundtables held globally that looked at future funding scenarios for SMEs and the role of accountants in this brave new world.
Considering future scenarios is an important aspect of running sustainable organisations. As the Economist Intelligence Unit identifies in its report *Long-term macroeconomic forecasts: key trends to 2050*, major economic changes are underway. By 2050, China's GDP could exceed that of the US, while each of the largest three economies in the world (China, the US and India) will be richer than the next five put together. Asia overall could account for 53% of global GDP.

Other research has also attempted to see into the future. A report, *In safe hands? The future of financial services*, published by Long Finance with the support of the Qatar Financial Centre, looked at the future of financial services globally up to 2050. It developed four scenarios based on varying assumptions about the longevity of the Washington Consensus (where policies support liberal democracy, free markets and trade, financial codes and standards) and about the future of human connections. For example, might a future global crisis result in nation states being replaced by a group of dominant cities, or in the rising importance of global affinity groups (for example, religious or political)? What could happen if global market integration continues rapidly and disruptive technology challenges current ways of living and conducting business?

Inspired by such forward-thinking analysis, ACCA conducted a number of roundtables around the world, in conjunction with SAMI Consulting, specialists in strategy and scenario planning. The roundtables considered how a number of different future scenarios could affect the way that small and medium-sized enterprises (SMEs) access finance, how the role of accountants in this process might change and therefore the skills they would need to develop. ACCA's Global Forum for SMEs has also discussed these issues, including emerging challenges around assessing business prospects and valuing businesses.

Translators
Such discussions highlighted how professional accountants have traditionally been called on to translate financial information for entrepreneurs. Business owners draw on a variety of information sources when running their businesses, but don't necessarily use their financial statements as effectively as they could. It is important that accountants, as SMEs' trusted advisers, make sure that entrepreneurs understand and take account of the current financial position of their business, particularly when it comes to making decisions about funding.

This role is likely to become even more important in the future, particularly as business models become increasingly dependent on intangible assets. For example, Uber, the world's largest taxi company, owns no vehicles; Alibaba, the world's most valuable retailer, owns no inventory; and Airbnb, the world's largest accommodation provider, owns no real estate.

Traditional providers of SME finance such as banks struggle to lend when they can't secure their loans against borrowers' physical assets. Accountants need to develop new ways of evaluating the future cashflows that intangible assets will deliver. In this way, they can help SMEs to demonstrate their financial value.

Gabriel Low, CFO, GEA Westfalia Separator Ltd

‘The transformation of SME funding is happening already. It used to be based on traditional bricks and mortar funding from a bank. Now it's very much based on intellectual property, technology, software, intangible assets, but banks struggle with lending in those situations. Because of that, crowdfunding is becoming a transformative way of funding SMEs.

‘Accountants need to influence governments to develop good frameworks for governing this – regulatory systems that embrace crowdfunding. Accountants also need to be better trained to value intellectual property-based business models. Stock exchanges have moved fast in this direction, but the accountants are behind the curve.

‘Accountants need to develop skills so they can support SMEs with these new business models and help them in accessing finance.’

Ellis Quinlan, Ellis J Quinlan & Co

‘It's extremely difficult to value intellectual property and any intangible assets, but if you know there's enough of a market for your product that people will fund it, then you know you’ve got a decent business concept. In this way crowdfunding has the potential to validate a business idea for a potential product or service.

‘Banks have seen the mistakes they made in the past in terms of asset-backed funding and are now more interested in repayment capacity. Your repayment capacity is about your future, not what's happened in the last 18 months or five years.

‘So there are a great deal of opportunities for accountants to get into this space – to learn about valuing intellectual property and using information available through crowdfunding, and in doing so provide much better support to SMEs.’

Anne Kimari, COO, African Academy of Sciences

‘In developing countries like Kenya there has been a lot of innovation in business funding in the last few years, with financing coming from non-traditional sources. A lot of telecoms companies are forming alliances with financing institutions that are not necessarily banks and providing access to funding in an innovative way. We also see crowdfunding, which depends on internet connectivity, but there are some programmes that potentially will revolutionise access to funding.

‘But there are challenges, because funding comes with risk for the funder in terms of how the money will be paid back and around whether recipients really understand what happens if funders don’t get their money back. Accountants are key in guiding entrepreneurs to access these new sources, and in influencing government policy on how non-traditional financing can be encouraged.’
The inability of banks to finance new business models is in part being addressed by the rise of innovative funding models such as crowdfunding, whose importance is only likely to increase. Crowdfunding models vary, but a powerful version involves individuals being willing to lend relatively small sums in return for rewards in the form of novel products or services. By definition, where crowdfunding succeeds in raising the finance an SME needs, the business has identified a valid demand for its product or service. There are also emerging forms of supply chain finance. For example, the ability of e-commerce platforms to finance businesses based on knowledge of their past trading and payment activity is potentially hugely powerful.

New skills

Both crowdfunding and e-commerce finance models represent a move away from the use of intermediaries. This has implications for accountants and the skills they require. Although accountants won’t necessarily be making approaches to lenders on behalf of clients, they could still have a vital role in guiding SMEs through the range of loan finance options available. They will also need to play a role when SMEs seek equity finance. This is expected to become more widespread, particularly among SMEs in fast-growing Asian economies. Professional accountants will need to help SMEs in presenting their businesses in a way that appeals to investment banks, and find methods (as already highlighted) to ensure that businesses based on intangible assets receive appropriate valuations.

This will require professional accountants to draw on all the new and extensive information being created through the use of modern technology – the huge reserves of ‘big data’. Business transactions and the actions of business owners will become increasingly traceable (for example, through Bitcoin transactions or Facebook postings). This information will be increasingly used by investors and lenders when making funding decisions. Professional accountants need to use this data most effectively, so maintaining their relevance to SMEs and funders over the coming decades.

Predicting the future is difficult, but ongoing developments in technology and innovations in funding models will change the business landscape. Professional accountants need to stay ahead of the curve and develop the skills they need to help SMEs access the finance they need.

Francis Chittenden ACCA, professor of small business finance, Manchester Business School

‘The traceability of money, people, assets and transactions will be transformed in the coming decades. For example, Bitcoin is a novel exchange mechanism where each Bitcoin has its own identity and can be traced. So the custodial roles of accountants – in auditing or checking that assets exist – are going to become largely irrelevant. Big data will hold huge reserves of traceability for all kinds of assets and people. If you want to judge how well equipped an entrepreneur is to conduct their affairs, you will be able to observe many things about their lifestyle and habits. That’s going to have a big influence on access to finance.

‘Accountants need to become skilled in capturing and understanding this kind of information, as it will help inform decisions about businesses. There’s an opportunity for accountants here, but also a requirement to learn new skills.’

Ng Boon Yew, chair of ACCA’s Futures Academy

‘Big data is a trend that cannot be ignored. Collected through devices and technologies such as credit and loyalty cards, the internet, social media, WiFi sensors and electronic tags, big data has the potential to radically change how businesses operate, how they are assessed and the roles accountants play.

‘At the moment, the analytical tools and skills required to make the most of big data – characterised by its volume, variety and velocity – are still developing. As professional accountants, we need to be at the forefront of this activity – looking for ways to use big data to enhance business success. SMEs seeking to raise finance will increasingly find that their big data profile influences investment and lending decisions. Accountants will need to advise entrepreneurs on how to manage that profile in order to present their business – and themselves as business owners – in the best light.’

Rosanna Choi, partner at professional advisory firm CWCC and chair of ACCA’s Global Forum for SMEs

For more information:

Long-term macroeconomic forecasts: key trends to 2050 is available at tinyurl.com/pdm9b3e

In safe hands? The future of financial services is available at www.samiconsulting.co.uk/Sinsafehands.pdf
Painting by numbers
The eye-watering figures that works of art are selling for at auction puts the sector firmly in the same asset class as equities, bonds or precious metals.

The wealthy have always spent lavishly on art. But many are increasingly seeing their wall-candy as a source of return too. Along with gold or hedge funds, paintings and sculptures have become an established part of the financial portfolios of rich investors. An industry has sprung up to counsel high-net-worth individuals on which works of art to consider, just as wealth managers help their clients pick stocks.

The potential rewards of treating art as an investment were highlighted when Picasso’s Les Femmes d’Alger broke auction records by selling for US$179.4m this May – more than five times the US$31.9m (US$47m in current prices) it fetched when it last exchanged hands in 1997. That’s a return that is multiples better than the FTSE 100.

‘Art has considerable appeal as part of a balanced portfolio,’ says Philip Hoffman, a former KPMG accountant, Christie’s executive and now chief executive of the Fine Art Fund Group, which manages about US$500m of assets. ‘For those who know what they are doing, the returns can be appealing. Our business has grown 50-fold over the past 10 years.’

Even so, opinion is divided on how art stacks up compared to other asset classes, such as equities, bonds or precious metals. ‘Most people still get a huge amount of pleasure from art,’ says Kathryn Graddy, an economics professor at Brandeis University who has devoted years to understanding the market for paintings and musical instruments. ‘But to evaluate art as an investment you have to take an unsentimental look at its potential for capital appreciation, price volatility, levels of liquidity and its degree of correlation to other investments.’ And since not all works of art will rise in value, how many pieces do investors need to buy to get an adequate level of diversification?

It is the price appreciation of this calculation that grabs...
most attention. In recent years the market for world-famous works of art has been going from strength to strength. "The ultra top end appears to be getting a boost from the rising number of ultra-rich individuals around the world," says Graddy. As of early 2015 there were 1,826 billionaires – with 290 individuals entering this category for the first time over the past year, according to Forbes. Billionaires also added about US$600bn to their net worth over the past 12 months, with their total fortune rising to roughly US$7 trillion. "Such people usually have money in almost every asset class, from equities and bonds to hedge funds and private equity," says Graddy. "It is a small leap to put a small share of their wealth in art. Art seems especially tempting when many financial professionals believe that returns on equities and bonds will be relatively muted coming years."

There is often a big gulf between the most celebrated works of Picasso and van Gogh and the broader market. While returns for here have been good, they have been less spectacular than at the highest end, according to the Mei Moses index, which tracks the repeat sales of around 40,000 works. The index has increased 5.4% a year to date as of early June, swinging from being down 4.4% as of April. That return, which modestly beats US equities, is relatively strong by historical standards, says Mike Moses, a New York University professor who co-founded the index. "Over the past 60 years art has done about 1 percentage point per year worse than equities," he says. Using a longer timeframe, others believe art lags equities by a larger margin. Graddy calculates that between 1875 and 2008 the Mei Moses index returned an average 2.26% – slightly less than the 2.5% return on US government bonds and far less than the 6.1% from the S&P stock index. "You might get disappointed if you expect your art to outpace your equities in terms of pure return," she says.

As with stocks or real estate, however, individual returns can vary massively, points out Roman Kräussl, a professor of finance specialising in art at the Luxembourg School of Finance. "If you invest in a young undiscovered artist you can achieve a 1,000% return in just six months when things go right," he says. On the other hand, Old Masters, where investors needn’t fear a flood of new supply or a collapse in the artist’s reputation, have lower levels of volatility and offer correspondingly lower returns.

Accounting for art

Accounting firms have become major sponsors of art exhibitions. EY, for example, is one of the largest corporate sponsors of the Tate gallery in London. Most recently the firm backed an exhibition of late Turner paintings. In April this year KPMG sponsored a show by students, tutors and alumni of The Art Academy.

The accounting industry has also been tracking what Deloitte calls the ‘financialisation’ of the art market. In its third annual report on the subject, Art & Finance, Deloitte found that 76% of collectors now looked at art at least partly from an increment standpoint, up from 53% in 2012. The report also found that half of family offices surveyed stated that one of the most important motivations for including art in their service offering was for its role in balancing a portfolio.

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The purely financial drawbacks don’t end there. In terms of cashflow, art is pretty much a dud – much like gold or oil. It offers no coupon payments or dividends to compensate for the potential price fluctuations. That said, creative minds in the art world have devised some ways to make art earn its keep. ‘Art can increasingly be used as a form of collateral against loans,’ says Graddy. ‘In that way it can reduce the owner’s cost of borrowing, which is in itself a form of return.’ Funds like Hoffman’s can also make money from art by underwriting auctions. Since many works of art fail to meet the reserve price and so are not sold, a dealer can guarantee to pick up the piece at a certain minimum in exchange for a percentage of the upside if the work fetches far more than expected. Such deals have become relatively routine, according to Graddy.

Overall, however, the biggest returns from art are intangible, says Kräussl. ‘For the genuine connoisseur, there is the pleasure of seeing a great work of art whenever you please,’ he says. There is also a potential status dividend, he adds, and becoming a collector puts you at the centre of a vibrant global social scene.

Of course, even the most glamorous gallery openings and receptions won’t convince many rich individuals to invest if there is a substantial risk of a huge capital loss. So far most art finance experts do not believe there is yet a price bubble. ‘We have not seen the surge in transactions, a common sign that the market is overheating,’ says Kräussl. ‘That is despite pockets of mania, mostly at the very top end.’

Crashes in art valuations, however, do happen. ‘Prices of impressionist art suffered a sharp setback in the early 1990s after the Japanese property and equity bubbles burst,’ says Kräussl. ‘And there was a downturn in 2009 too, the result of the wealth destruction caused by the 2008 financial crisis.’

A repeat of such economic and financial disruptions could certainly do the same again, experts warn. ‘One of the main drivers of art prices in recent years has been the surge in wealth in China – where there has always been an intense interest in art,’ says Hoffman. ‘This should continue to be the case. But clearly any setback for China would be bad news for global art prices.’

A sharp rise in the yield of rich-nation government bonds could also stop art prices in their tracks, he adds. ‘If you were to see the risk-free rate of return climbing to 10%-15%, that would diminish the relative financial appeal of art.’

Such bleak scenarios, however, are not what most experts anticipate. Steady global growth combined with faster wealth creation at the very pinnacle of the income pyramid is expected to keep prices pushing higher. And even if prices do disappoint, it is increasingly clear that art has entered the mainstream as an investment class.

Christopher Fitzgerald and Fernando Florez, journalists

Again as with stocks, investors can benefit from the greater safety of diversification in several ways, explains Hoffman. The most obvious is to buy a broad selection of pictures from different artists and periods. Firms like his Fine Art Fund Group advise clients on how to do this for the maximum risk-adjusted return. They have also offered pooled investment products, by which purely financial investors can spread a smaller amount of money over a larger amount of art. ‘The downside is that they will lose the pleasure of seeing the pieces hanging on their walls,’ observes Graddy.

Art versus equities
When it comes to volatility, the broad art market is very similar to that for equities. ‘The gyrations for the overall asset class are very similar to equities over the long run,’ Moses says. ‘Art has the added advantage that it is not correlated to other asset classes, so it tends to make a portfolio more stable. That’s a quality that good investors prize greatly.’ For example, while the world stock market fell sharply in 2008, art prices only started to slide in 2009. ‘The reason is that art is pretty much the last thing that a struggling investor will sell, since transaction costs are high,’ explains Kräussl. His research concludes: ‘By the time art prices fell in 2009, stock prices were already on the up again.’

The flip side of this benefit is that art can be illiquid and transaction costs are relatively high. ‘A quality piece of art can always be sold, but not in a great rush,’ says Kräussl. ‘It’s certainly not like the quick liquidity you can get in stocks, bonds or gold.’ Meanwhile, bringing a piece to market at the wrong time can be a mistake. ‘If the work does not sell it can be seen as damaged goods, harming its long-term value,’ says Graddy.

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Ruck and roll

While the world’s best players prepare for what is expected to be the biggest ever Rugby World Cup (RWC), a report by EY entitled The economic impact of Rugby World Cup 2015 estimates that the tournament in England is set to generate £982m of value to national GDP and £2.2bn of output into the economy.

The last time the tournament was held in Europe was in 2007. When France hosted the event, it produced a total direct economic impact of £800m, with domestic spectator spending adding a further £1.7bn to the French economy. Post-event study estimates found that more than £363m was produced in net additional economic gain to the French economy during the seven-week tournament.

The EY report also predicts that record numbers of international visitors are expected to visit England for the RWC. An estimated 500,000 visitors are expected to contribute up to £869m in direct expenditure through travel and accommodation. In comparison, the last tournament held in New Zealand in 2011 saw 133,000 visitors staying for an average 23 nights during the 44-day event, making an overall economic impact of approximately £540m.

The author of the EY report, Peter Arnold, a director at the firm, says: ‘Our forecasts are based on a range of direct, indirect and induced benefits of RWC 2015, from the investment that will be made in infrastructure to the ticket and tax revenues that will be generated. The tournament creates economic activity and employment throughout the supply chain, which can bolster the growth of the host cities as well as the UK.’

In preparation for this year’s tournament, £85m has been invested in infrastructure, including the £76m redevelopment of Twickenham Stadium by the Rugby Football Union (RFU), which will continue to deliver benefits to fans and local communities long after the tournament has finished.

An estimated 41,000 jobs will be supported around the country, including 16,000 employees directly linked to the tournament and 12,000 along the supply chain.

With the tournament being hosted across 13 venues in 11 cities, the economic benefits will be spread around the country. The EY report estimates that in Exeter the tournament will generate economic output of £39m, with £17m added to the local economy. In Newcastle, the tournament is estimated to generate economic output of £93m and, of this, £43m will be added to the local economy.

The former chief executive of England Rugby 2015, Debbie Jevans, says: ‘RWC 2015 is set to create a wide range of economic opportunities across many different sectors. Whether through investment in infrastructure, supporting jobs or generating revenue in fanzones, the economic benefits will be shared around the 11 host cities and beyond.’

Rugby World Cup Limited chairman Bernard Lapasset adds: ‘RWC is one of the world’s biggest and most popular global sporting events that attracts sports and major event fans from around the world for a six-week celebration of rugby and the host nation.

‘The findings of the EY report outline the enormous economic, sporting and social benefits of RWC, reaffirming its low-risk, high-return attractiveness to future host unions and governments and just why the tournament increasingly is great for rugby and great for the host nation.’

The report is in stark contrast to the concern from New Zealand following the 2011 tournament. Steve Tew, chief executive of the New Zealand Rugby Union, claimed at the time that the whole future of the competition was under threat.

Tew revealed that competing at that RWC had cost his union more than £6.6m – a loss it could ill afford at a time when player costs were rising and the world economy was stagnating.

The losses were compounded because for the host nation incoming tours were halted in World Cup year and competing nations were not allowed to have any association with their sponsors for the duration of the tournament. These revelations preceded the International Rugby Board (IRB) undertaking a review of the financial model of the World Cup the following year. The IRB also undertook a full review of RWC commercial rules and money flows.

Tew was adamant that unless changes were made, the All Blacks would have considered sitting out this year’s tournament. Other nations were also clamouring for change.

World Cup 2015

* 48 matches to be played
* 18 September – group matches start (England v Fiji)
* 11 October – group matches conclude
* 17/18 October – quarter finals
* 24/25 October – semi finals
* 30 October – bronze final
* 31 October – final
However, Lapasset subsequently delivered significant changes that have eased many of the financial problems from 2011. The IRB Council supported an increase in the level of distributions from RWC revenues to international rugby associations across the period between the 2011 and 2015 tournaments.

In addition, by setting the 2015 RWC start date as 18 September, the IRB has also set aside a £10m allocation to lessen any impact the timing may have on the Castrol Edge Rugby Championship and the finances of Australia, New Zealand, South Africa and Argentina. The allocation will be distributed between the four individual unions on the basis of any proven revenue shortfalls they suffer as a result of RWC timing.

Commercial rules
A further significant outcome was the decision by the IRB Council to review and relax the commercial rules of the tournament to change the way commercial partners are associated with the national teams during the tournament. Previously sponsors only had limited visibility during RWC. But changes have seen a move more towards the FIFA World Cup model where the commercial partners of national unions can have association at training, on training kit and on media backdrops.

Earlier this year Rugby World Cup Limited announced that global electronics company Toshiba had remained with the family of official tournament sponsors after successful renegotiations. The announcement extended Toshiba’s association with the event and reconfirmed the global prestige of the event. Toshiba pointed out this tournament was on track to be the most viewed, best attended and most engaged RWC to date. Rising audience numbers also continue to attract and retain sponsors.

Television audiences for the tournament have grown across the world. The inaugural RWC was broadcasted to 17 territories and could have been watched by 200 million people. The 2011 edition had a reach of 207 territories and a potential television audience of four billion.

‘Rugby World Cup Limited head of commercial, broadcast and marketing Murray Barnett adds: ‘With the expanded reach of RWC, we are working together to reach people wherever and whenever they are watching, talking about or playing rugby.’

The RWC financial model generates revenues that are entirely reinvested and distributed by the board across the 117 member unions during the four-year cycle between tournaments to increase competitiveness and advance the strategic goal of implementing development plans in order that rugby can be a truly global sport.

The IRB spent £150m between 2009 and 2012, with approximately 50% of the revenues going to the tier-one nations. For World Cup 2015, tournament organiser England Rugby 2015 needs to sell 2.9 million tickets to cover the £80m guarantee owed to the IRB for this year’s tournament. The 2007 tournament sold over 2.2 million tickets, with average attendance of almost 47,000 and capacity utilisation of 94%.

The 2015 target looks set to be achieved due to the phenomenal demand for tickets. In the region of 950,000 tickets were sold last September, while another 340,000 tickets were sold by England Rugby 2015 to fans through rugby clubs in England and Wales.

Alex Miller, journalist

EY’s The economic impact of Rugby World Cup 2015 can be read at: tinyurl.com/p6ueacw
Career boost

Dr Rob Yeung explains how understanding others’ perspectives is a vital business skill. Plus, the best Big Four firm to work for, and the perfect team dynamic

Several years ago, I worked with a managing director who ultimately sold his chilled food business in a multimillion-pound deal. When I began coaching him, he had been criticised for seeming not to care about his employees, for not empathising with them. Yet he was a brilliant business developer: he had a sales background and an almost uncanny ability to understand customers’ often unspoken needs.

He could seemingly empathise with customers, but not his own employees. It turns out that the ability to see the world from the viewpoints of others requires more than one skill. If you’ve ever been told to empathise more with other people – whether colleagues or customers – it’s worth thinking about what you’re actually being asked to do.

To explain, allow me to walk you through research conducted by Adam Galinsky, currently a management professor at Columbia Business School. In one study, he asked negotiators to bargain over the sale of a hypothetical business. All of the experimental participants were given a week to read materials pertaining to the business and to prepare their negotiation strategies.

Mere minutes before engaging in the negotiations, however, the would-be buyers were split into three groups. One group was given no further instruction. Another group was asked to ‘try to understand what [the sellers] are feeling, what emotions they may be experiencing’.

A third group was asked to ‘try to understand what [the sellers] are thinking, what their interests and purposes are in selling the business’.

The research team found that the negotiators given no further instruction managed to reach an agreement only 39% of the time; negotiators instructed to focus on the feelings of the seller reached an agreement 54% of the time; those focused on the thoughts of the seller were successful 76% of the time.

The researchers established that understanding others’ viewpoints actually consists of two related but separate skills. Empathy is the emotional ability to feel the feelings of another person – to experience their excitement, anxiety, anger and so on. On the other hand, perspective-taking is the rational ability to work out someone else’s objectives.

Some people are naturally stronger at empathy; others are stronger at perspective-taking – but all of us can develop both skills.

Returning to the chilled food business owner, we discovered that he was more gifted at perspective-taking, at working out others’ thoughts and objectives. Empathy came less easily to him. But just because it wasn’t instinctive for him didn’t mean he couldn’t do it. With instruction and persistence, he improved his empathy considerably. The result: his team didn’t just feel happier; he thought that they became more productive and engaged too.

Understanding the world from others’ viewpoints is a vital skill. But remember that it is not one but two skills. Which one might you need to develop more?
Strong Singapore

Singapore is showing positive hiring signs for talent in 2015, according to a report by recruitment company Hays.

The race to secure top talent is getting hotter given rising demand for candidates and government rules on how long an employer must search for local talent before looking outside Singapore.

The Hays report also expects the extensive use of contractors and temporary staff to continue. Singaporeans now view temporary assignments as an attractive employment option given the higher pay rates and the quality of assignments on offer. The trend has sharpened the competition for those candidates who are available to fill permanent jobs.

In the Singaporean professional services market, the downward pressures on mainstream audit fee income have encouraged firms to diversify, with salaries for roles in the new areas on the rise. The report also noted strong demand for candidates specialising in corporate governance, internal audit and regulatory control.

Best firm to work for

US ranking and review site Vault has ranked PwC as the top accountancy firm to work for in the US. The Vault Accounting 50 is compiled to reflect the issues that accountancy professionals care most about. The algorithm combines quality-of-life rankings (such as culture, satisfaction, work-life balance, and compensation) with overall prestige.

EY was ranked second in the Vault Accounting 50, followed by Deloitte, KPMG and Grant Thornton.

Confidence in the UK

A survey by APSCo, the Association for Professional Staffing Companies, has found that UK recruitment firms have 13% more permanent vacancies on their books than this time last year.

While the IT jobs sector leads the way with 14% more vacancies, accountancy vacancies were up 11%. Median salaries across all professional sectors have risen by 5.7% year-on-year.

APSCo chief executive Ann Swain said: ‘Wages jumping so significantly across the professional sectors is a sure sign that market confidence is soaring. Organisations are scrambling to get their hands on the brightest talent, and those that can offer attractive remuneration packages stand a fighting chance.’

Temporary and contract vacancies remain resilient across the professional market, with opportunities up by 2% across the board year-on-year.

Big Four hopping

Figures from salary benchmarking company Emolument contrasting relative pay for partners across the Big Four in the UK put Deloitte at the top on average, followed by EY, PwC and KPMG.

A consideration of wider pay grades across the 2,650 Big Four salaries analysed suggests you might want to start and end your career at EY. The firm pays its juniors the most – an average of £37,000. After five years in the industry, according to Emolument’s figures, you might want to work for Deloitte. After 10 years, you might want to work for KPMG. However, for the first 10 years of a Big Four career, most firms pay much the same, although PwC trails the pack.

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Through a lens

Opticians in the UK are enjoying favourable competitive forces, but they should beware of potential new entrants who could do them some real damage, says Tony Grundy

The optical industry is typically profitable, but patterns of competition are changing. It is geared partially to dealing with physically related issues and thus health, while also sharing the characteristics of the fiercely competitive world of retailers.

When I first started to wear glasses some decades ago, opticians were either independent retailers or low-profile chains. It was a fragmented market, which normally generates greater competition but in this case this was restrained by an informal understanding that avoiding pricing competition was in the best interests of all which I like to call a ‘tacit oligopoly’. The UK high street pharmacy chain Boots entered the market and demonstrated that a branded and bigger chain could be an attractive proposition.

Then, according to the story, the wife of the founder of Vision Express came home in tears after she felt that an optician had not dealt with her as ethically as they should have. He decided to simplify, make the deals on offer more transparent, offer a one-hour faster service and compete on price. Vision Express grew rapidly and became very profitable. (It has been a carefully guarded secret that the manufacturing cost of frames and lenses are a relatively small proportion of the total price, so sales margins are high.)

Of course that mini-monopoly position owned by Vision Express and Boots wasn’t to last, and Specsavers came along with a similar model but a different positioning: cheaper prices and some cunning marketing (‘You should have gone to Specsavers’ became quite a catchphrase in the UK). This made it the number one player. Asda and Tesco later entered the market, so we now had a number of powerful players, with the top four accounting for an estimated 70% of the market. Since then, the market has been quite static as a result of economic austerity, although that is slowly changing.

Having addressed one of Michael Porter’s five forces – threat of new entrants (see above) – let’s analyse the industry with regard to some of the rest: bargaining power of suppliers; bargaining power of customers; intensity of competitive rivalry; and threat of substitute products or services.

Bargaining power

While customers have an apparently wide choice of optician and there are lots of deals around, buying spectacles is an emotional decision: glasses are part of a person’s look and identity, and this offers opportunities for opticians to reduce and maybe manipulate buyers’ bargaining power.

There is a lot of discussion on the internet around pricing and cost behaviour in the sector and the dynamics between the chains and the independents. But there’s no substitute for real-life experience. The buy-one-get-another-pair-half-price offers abound and are heavily promoted by the salespeople in the stores. In fact when you purchase new glasses you often need to argue quite hard if you don’t want to do so under this deal. This kind of anticompetitive behaviour is used by some players to create temporary superior returns. But I doubt whether this is sustainable longer term and I believe this leaves some players exposed to new forms of competition. In addition, confusing pricing structures and processes leave the industry potentially exposed.

In my view, supermarket opticians could take huge advantage of this confusing market, not only by offering more transparency but by being more direct and aggressive in their marketing (Boots, for example, simplified its pricing structure in 2014).

Competitive rivalry

Competitive rivalry has led to a proliferation of offers, which are replicated by many opticians without much innovation, so the competition hasn’t differentiated itself and offers are predictable, which undermines their impact.

Threat of substitutes

Other models – or ‘substitutes’ – are not really possible, other than the internet for supplies of contact lenses, for example.

Entry barriers are a bit of a

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concern, as these seem to be more financial than about competences or brand. It would be easy to come up with an equally if not sexier brand than Vision Express or Specsavers, especially with the vulnerabilities that I have identified in terms of customer service, pricing and sales process. A new upstart could do some real damage to the existing players, especially if it had a new business model that was difficult for others to imitate.

So we have seen that while opticians in the UK have reasonable profits on the back of generally favourable competitive forces, this could change with new entrants with a new positioning, business model and mindset. Watch out!

Postscript: I just did a final Google search and found that an alien ship had already landed – Glasses Direct, an internet business that supplies cheaper frames and lenses to anyone with a prescription. There you go.

Tony Grundy is an independent consultant, trainer and lectures at Henley Business School.

For more information:
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For previous Tony Grundy articles on strategy and management theories, visit www.accaglobal.com/abcpd
Introducing kaizen

In the first in a series of articles on ‘agile methods’, David Parmenter looks at the lean techniques that will transform your finance team, your enjoyment of work and your career.

A good starting point for this series on ‘agile methods’ in business is to investigate what makes Toyota so special. One aspect that sets Toyota apart from nearly all organisations is its focus on continuous improvement (kaizen). In a marvellous book about the car manufacturer, *The Toyota Way*, author Jeffery Liker reports that every Toyota employee is expected to reflect each day on ‘What could I do better tomorrow?’ and come up with at least one innovation per month, no matter how small. The Toyota average, internationally, is 10 innovations per employee per year.

Far too often finance teams will perpetuate and support systems and processes that have been broken for some time. All the great paradigm shifters, such as Peter Drucker, Jim Collins, Tom Peters and Robert Waterman, have preached the need to innovate and not spend too much time trying to second-guess whether an innovation will work or not. Get your finance team to see innovation, as Motorola does, as a growing tree: you let it branch out, but you are also constantly pruning.

Jim Collins has created a blueprint for evolutionary progress based on analysing technology company 3M. The five steps are:

* Give it a try and make it quick. Vary, change, solve the problem, seize the opportunity and try something new even if you can’t predict how things will turn out.
* Accept that mistakes will be made. As you can’t tell ahead of time which variations will prove to be favourable, you have to accept failures as an evolutionary process.
* Take small steps. It’s easier to tolerate failed experiments when they are just that – experiments, not massive corporate failures.
* Give people room to act. By doing this you can’t predict precisely what they will do, and this can be beneficial. 3M gives its staff 15% of discretionary time to play around with ideas. The Post-it note was developed this way.
* Build a ticking clock. 3M ideology creates an environment where innovation is cut loose and lights a hot fire under the ‘innovation’ pot and stirs vigorously. ‘Abandonment’ needs to be embraced alongside innovation, as you need to clear the way and free up time for innovations to have a chance to succeed. Drucker frequently said that abandonment is the key to innovation; it could also be your key to adopting a lean month-end.

Here are some tips for embracing kaizen and abandonment:

* Hold an abandonment and kaizen session once a month.
* Use a scrum meeting (a stand-up meeting where each attendee talks to some defined issues) where each team member suggests one innovation and one abandonment.
* Ask if each of these suggestions will be of concern if it fails and if there is any reason why you should not undertake it. If there are no barriers, then agree to implement. Remember that the goal is to match Toyota’s 10 innovations/abandonments per year for each finance team member.

David Parmenter is a writer and presenter on measuring, monitoring and managing performance.

Next steps

* Hold your first scrum meeting within the next week, focusing on month-end processing abandonments.
* Access my website at www.davidparmenter.com for some easy abandonments.
* Email me at parmenter@waymark.co.nz for details of an executive summary of the Jeffery Liker’s book.
Forex rate changes

Graham Holt examines the issues raised by IASB research that referred to KASB study into whether IAS 21 needs amending.

The International Accounting Standards Board (IASB) recently initiated a research project, which examined the previous research conducted by the Korean Accounting Standards Board (KASB). This research considered whether any work on IAS 21, The Effects of Changes in Foreign Exchange Rates, was appropriate. This article looks at some of the issues raised by the project in the context of IAS 21.

The foreign exchange market is affected by many factors, and in countries with a floating exchange rate, their foreign exchange rates are inevitably exposed to volatility due to the effects of the different factors influencing the market. For example, the ongoing problem of Greece repaying its enormous debts has significantly affected the value of the euro.

As the barriers to international flows of capital are further relaxed, the volatility of the foreign exchange market is likely to continue. This volatility affects entities that engage in foreign currency transactions and there has been a resultant call in some quarters to amend IAS 21. IFRS 7, Financial Instruments: Disclosures, requires disclosure of market risk, which is the risk that the fair value or cashflows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects, in part, currency risk. In IFRS 7, the definition of foreign currency risk relates only to financial instruments. IFRS 7 and IAS 21 have a different conceptual basis. IFRS 7 is based upon the distinction between financial/non-financial elements, whereas IAS 21 utilises the monetary/non-monetary distinction.

The financial/non-financial distinction determines whether an item is subject to foreign currency risk under IFRS 7, whereas translation in IAS 21 uses monetary/non-monetary distinction, thereby possibly causing potential conceptual confusion. Foreign currency risk is little mentioned in IAS 21 and on applying the definition in IFRS 7 to IAS 21, non-financial instruments could be interpreted as carrying no foreign currency risk. Under IAS 21, certain monetary items include executory contracts, which do not meet the definition of a financial instrument. These items would be translated at the closing rate, but as such items are not financial instruments, they could be deemed not to carry foreign currency risk under IFRS 7.

Foreign currency translation should be conceptually consistent with the conceptual framework. IAS 21 was issued in 1983 with the objective of prescribing how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. There is little conceptual clarification of the translation requirements in IAS 21. The requirements of IAS 21 can be divided into two main areas: the reporting of foreign currency transactions in the functional currency; and the translation to the presentation currency. Exchange differences arising from monetary items are reported in profit or loss in the period, with one exception which is that exchange differences arising on monetary items that form part of the reporting entity’s net investment in a foreign operation are recognised initially in profit or loss.
It may not be appropriate to recognise foreign exchange gains or losses of all monetary items as realised gains or losses.

There is an argument that the current accounting standards might not reflect the true economic substance of long-term monetary assets and liabilities denominated in foreign currency because foreign exchange rates at the end of the reporting period are used to translate amounts that are to be repaid in the future. IAS 21 states that foreign currency monetary amounts should be reported using the closing rate with gains or losses recognised in profit or loss in the period in which they arise, even when the rate is abnormally high or low. There are cases where an exchange rate change is likely to be reversed, and thus it may not be appropriate to recognise foreign exchange gains or losses of all monetary items as realised gains or losses. Thus there is an argument that consideration should be given as to whether foreign exchange gains or losses should be recognised in profit or loss or in other comprehensive income (OCI) based on the distinction between current items and non-current items. Any potential fluctuation in profit or loss account would be reduced by recognising in OCI those foreign exchange gains or losses of non-current items with a high possibility of reversal. Furthermore, the question would arise as to whether these items recognised in OCI could be reclassified.

However, the IASB is currently determining via its conceptual framework project the purpose and nature of OCI, as there is no obvious principle that drives gains and losses out of profit or loss and into OCI, and there is no shared view among the IASB’s constituents about what should be in profit or loss and what should be in OCI. IAS 21 does provide some guidance on non-monetary items by stating that when a gain or loss on a non-monetary item is recognised in OCI, any exchange component of that gain or loss shall be recognised in OCI. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss shall be recognised in profit or loss.

Long-term liabilities

In the case of long-term liabilities, although any translation gains must be recognised in profit or loss, and treated as part of reported profit, in some jurisdictions, these gains are treated as unrealised for the purpose of computing distributable profit. The reasoning is that there is a greater likelihood in the case of long-term liabilities that the favourable fluctuation in the exchange rate will reverse before repayment of the liability falls due.

As stated already, IAS 21 requires all foreign currency monetary amounts to be reported using the closing rate; non-monetary items carried at historical cost are reported using the exchange rate at the date of the transaction and non-monetary items carried at fair value are reported at the rate that existed when the fair values were determined. As monetary items are translated at the closing rate, although the items are not stated at fair value, the use of the closing rate does provide some fair value information. However, this principle is not applied to non-monetary items as, unless an item is measured at other comprehensive income, and in profit or loss on disposal of the net investment. However, it would be useful to re-examine whether it is more appropriate to recognise a gain or loss on a monetary item in other comprehensive income instead of profit or loss in the period and to define the objective of translation. Due to the apparent lack of principles in IAS 21, difficulty could arise in determining the nature of the information to be provided on translation.
fair value, the recognition of a change in the exchange rate appears not to provide useful information.

A foreign operation is defined in IAS 21 as a subsidiary, associate, joint venture, or branch whose activities are based in a country or currency other than that of the reporting entity. Thus the definition of a foreign operation is quite restrictive. It is possible to conduct operations in other ways; for example, using a foreign broker. Therefore, the definition of a foreign operation needs to be based upon the substance of the relationship and not the legal form.

Although the exchange rate at the transaction date is required to be used for foreign currency transactions at initial recognition, an average exchange rate may also be used. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards. For practical reasons, a rate that approximates to the actual rate at the date of the transaction is often used. For example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.

**Average exchange rate**  
A question arises as to which exchange rate to use and therefore it would be useful to have more specific guidance on the use of the average exchange rate. IAS 21 allows a certain amount of flexibility in calculating the average rate. The determination of the average rate depends upon factors such as the frequency and value of transactions, the period over which the rate will apply and the nature of the entity’s systems. There are a large number of methods that can be used to calculate the average rate, but no guidance is given in IAS 21 as to how such a rate is determined.

The IASB has completed its initial assessments on this project and decided that narrow scope amendments were unnecessary. In May 2015, it had no plans to undertake any additional work and is to remove this project from the research programme, subject to feedback in the next agenda consultation.

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Technical update

A monthly round-up of the latest developments in taxation, audit, codes, standards, agreements, guidance, proposals and consultations across Asia Pacific

Mainland China

New IPO rules

The finance ministry has released an anticipated regulation preventing accountancy firms that help Chinese companies secure overseas initial public offerings (IPOs) from working alone. The regulation, which took effect on 1 July, insists that such firms work with legitimate and certified mainland China-based accountancy firms that have experience of issuing IPOs. The regulation will also insist that firms from Hong Kong, Taiwan and Macau will have to form a partnership with mainland China-based firms employing at least 25 China-registered certified public accountants to serve mainland clients. As expected, the regulation insists that all paperwork handled within mainland China will be held by the Chinese partner. More at bit.ly/china-ipo.

Chile agreement signed

China and Chile have signed an agreement on avoiding double taxation and tax evasion. The agreement aims to encourage cross-border investment and economic exchange through reducing mutual tax burdens, provide tax certainty, ensure non-discriminatory treatment and create a resolution mechanism for tax-related disputes to protect investors. The two countries will also work together to prevent base erosion and profit shifting (BEPS), reflecting concerns within both countries about multinational companies transferring profits to low- or no-tax locations to avoid taxation. More at bit.ly/chile-dta.

Hong Kong

Regulator concludes

The Securities and Futures Commission has released conclusions on proposed amendments to the Hong Kong securities and futures ordinance on providing assistance to non-Hong Kong regulators by making enquiries and obtaining records and documents from corporations. More at bit.ly/sfc-regs.

All change for appeals

The government has tabled reforms to the operation of the Special Administrative Region’s Board of Review, which hears and determines appeals lodged by taxpayers. A proposed bill would allow appeals against board decisions on points of law to go direct to the Hong Kong Court of First Instance or Court of Appeal, rather than going through an intermediary board appeal. The reform would provide privileges and immunities to board members, dispute parties and witnesses. Maximum costs paid by appellants would be raised from HK$5,000 to HK$25,000 to deter frivolous appeals.

Social exchange

The Hong Kong stock exchange has released a new account on popular mainland China social network and messaging platform WeChat (Weixin), providing real-time trading information about the Shanghai-Hong Kong Stock Connect system for mainland investors. The account provides stock prices, real-time trading turnover data, quota balances and index tracking on phones or tablets. More at bit.ly/hkex-wechat.

Thailand DTA signed

Singapore and Thailand have signed a new avoidance of double taxation agreement, updating an existing agreement struck in 1975. The new deal lengthens the threshold period for determining the presence of a permanent establishment and lowers withholding tax rates for dividends, interest and royalties. More at bit.ly/thai-dta.

New income tax rates

The Inland Revenue Authority of Singapore has released new resident income tax rates applicable from 2017. More at bit.ly/iras-tax.

Singapore

Getting tough on OTC

The Monetary Authority of Singapore (MAS) has proposed reforms strengthening the country’s over-the-counter (OTC) derivatives market and boosting financial advisory services. The authority has suggested that, in future, intermediaries dealing in OTC derivatives must meet prescribed capital and business conduct requirements, including establishing risk management policies and controls. The MAS has also proposed introducing risk mitigation requirements for intermediaries dealing in non-centrally cleared OTC derivatives, boosting legal certainty, management of counterparty credit risk and dispute resolution. It has also proposed exempting certain trading representatives from Financial Advisers Act controls when offering advice that is only incidental to their execution services regarding stocks and shares, real estate investment trusts and simpler exchange-traded funds. More at bit.ly/mas-otc.

Tax guides published

The Inland Revenue Authority of Singapore has released electronic explanatory tax guides on charities and non-profit organisations and
Agreement on investment markets

The mainland China Securities Regulatory Commission (CSRC) and the Hong Kong Securities and Futures Commission (SFC) have signed a memorandum enabling eligible mainland and Hong Kong funds to be distributed in each other’s retail investment market.

This scheme, implemented from 1 July, includes an information exchange system, regular dialogue and regulatory cooperation. The memorandum lays down how the CSRC and SFC will jointly develop a fund regulatory standard. Associated documents set out eligibility requirements, applications procedures, operational requirements and regulatory arrangements, underpinning regulation and enforcement, backed by a cooperation mechanism.

The regulators will establish equivalent eligibility requirements for recognising Hong Kong and mainland funds.


System speeds up

The Securities Commission Malaysia (SC) has brought into effect a ‘lodge-and-launch’ system for wholesale products, designed to reduce time-to-market by enabling them to be launched once required information is lodged with the SC via its online submission system. Products covered include wholesale funds, structured products, bonds, sukuk and asset-backed securities. More at bit.ly/sc-lodge.

Six is a crowd

The Securities Commission has announced the names of six registered equity crowdfunding platforms giving small Malaysian businesses and entrepreneurs greater access to capital. They are Alix Global, Ata Plus, Crowdonomic, Eureeca, pitchIN and Propellar Crowd+. They are expected to start operations by the end of 2015.


Ruling on real estate

The Inland Revenue Board of Malaysia has released a public ruling explaining the tax treatment of approved Malaysian real estate investment trusts and property trust funds. More at bit.ly/irbm-prop.

Keith Nuthall and Wang Fangqing, journalists
All change for Thailand

Against a backdrop of political upheaval, economic sluggishness and the arrival of the ASEAN Economic Community, Thailand is set to undergo major tax reform.

In the past decade, Thailand has undergone a series of political upheavals, coups and reversals of power that have left deep divisions. But while opposing factions are still arguing about the future direction of the country, there is one point on which almost every side in Thailand can agree: the Thai tax system is sorely in need of an overhaul.

Thailand is still operating under a Revenue Code that was written in 1939 and, while it has been tweaked and modified over the years, the last major addition was the introduction of a value-added tax (VAT) in 1992. The current military government, which seized power in May 2014, is led by General Prayut Chan-o-cha, who has made tax reform a key priority.

Speaking at the Wharton Global Forum, held in Bangkok in March, General Prayut put it bluntly: ‘The whole system needs to be revised, including land and construction, excise, personal and corporate taxes.’

Pulling power

Alongside planned changes to the revenue code – currently being drafted and due for completion in November – the Thai government has introduced a set of incentives aimed at companies that set up international headquarters in the country.

Economic malaise

Adding to the urgency is Thailand’s economic malaise in the wake of the political unrest in 2013 and 2014. Last year, GDP grew an anaemic 0.7%, while exports have continued to fall in 2015 along with consumer confidence. Stimulus measures have been planned, including a major overhaul of the rail network in an effort to make Thailand a regional transport hub. However, Thailand’s tax base is far from sufficient to meet its spending needs, which also includes fulfilling populist policies that have been carried over from the previous civilian administration.

It is a challenging situation to say the least. For some observers, the challenge is to make the kind of lasting changes that will position Thailand for the future, including its role in the upcoming ASEAN Economic Community (AEC). With a constitution being rewritten from scratch, and nearly every major sector of Thai politics under review, the time may be ripe to get Thailand’s taxes in order.
‘We need to do a real tax reform,’ says Kitipong Urapeepatanapong, chairman of global law firm Baker & McKenzie’s Bangkok office. ‘And this is the only time you can do it. We have so many social, education and investment projects but we don’t have the money to pay for them. For these extensive welfare policies, we need to have a good tax base. Until now, we have been borrowing money but we can’t do that forever. We will be insolvent.’

Urapeepatanapong is one of 16 members of the tax reform committee on the National Reform Council, an appointee body that is part of the military regime, which is currently working on a draft of a new revenue code, this is expected to be ready by November.

High rates, low base
Thailand’s basic tax problem is twofold, according to Urapeepatanapong: income tax rates are too high and the taxpayer base is too low. The country lowered its corporate income tax to 20% in 2013, but its individual top rate remains at 35%, which is much higher than regional rivals, such as Singapore at 20% and Malaysia at 25%.

‘The tax rate is not up to date. Thailand cannot compete with ASEAN,’ Urapeepatanapong says. At the same time, fewer than 50% of Thailand’s 600,000 companies are paying tax, he says. And, of 35 million workers in the country, fewer than 10 million actually paid tax in 2013, with only about 25,000 taxpayers even subjected to the maximum income tax rate.

Urapeepatanapong says it is important to foster a ‘culture of paying tax’ in Thailand. He has proposed ideas such as issuing electronic cards to all taxpayers, which would store information on income and assets, and even give cash payouts to first-time filers to be applied to back taxes due.

One solution to raise more tax revenue has been in the works for some time: a tax on land and buildings. However, in March, General Prayut put the tax on indefinite hold, citing the sluggish economy pricing, or the setting of prices between goods and services sold between entities within the same company, is supposed to be conducted at ‘arm’s length’, i.e. similar to market prices. However, in practice, many companies set artificially low prices to lower profits and avoid taxes.

Under the new transfer price rules, taxpayers will be required to prepare contemporaneous documentation to prove their transfer prices are at arm’s length. Failure to comply will result in a penalty of up to THB400,000 (US$11,700).

Meanwhile in May, the Thai government also approved a set of incentives for companies that set up international headquarters (IHQ) in Thailand. Highlights include exemptions on profits from overseas subsidies as well as a withholding tax exemption on dividends distributed to a non-resident entity. Capital gains from sales of subsidiary branches overseas, as often happens during restructuring, are also exempt. Headquarters functions, such as centralised back office services, will receive tax breaks better than those offered in Singapore. The new rules also exempt interest income from providing treasury centre services to overseas associated enterprises, and trading income from ‘out-out transactions’, where goods are bought and sold outside of Thailand.

Major step
Anthony Visate Loh, managing tax partner at the Thailand office of Deloitte Touche Tohmatsu, says this will be a major step towards increasing Thailand’s tax base.

The new IHQ rules are intended to attract both multinationals and Thai companies now based overseas to maintain their base of operations in Thailand. Singapore, Hong Kong and even Malaysia have become more popular destinations as company headquarters. Singapore has around 2,000 companies headquartered there, while Thailand only has around 100, according to Loh. But he thinks the new IHQ rules could attract companies to Thailand.

‘This incentive is going to be the best there is, not just for Thailand,’ he says. ‘It’s actually the best there is in the region. Going forward, companies in Thailand no longer need to go to Singapore or go to Hong Kong to set up a holding company in those locations.’

What short-term effect policies, such as the new transfer pricing law and the IHQ incentives, will have on the Thai economy remains to be seen. Some international investors remain wary of political instability, and other factors such as a strong anti-corruption drive in Thailand are slowing disbursements for stimulus projects.

Still, at this point, many in the business community are expressing a measure of optimism, partly because they feel that their voices are being heard during this current reform process. The overall tax reform process has been more inclusive than in the past, according to Urapeepatanapong.

‘The majority of the tax reform committee is from the private and academic sectors,’ he explains. ‘This is very rare in Thailand. Usually it has been bureaucrats. But now, the government has been more open to the private sector and academic sector.’

Thomas Maresca, journalist based in Bangkok
Interpreting tax treaties

Tax treaties between sovereign states have been the subject of international scrutiny and interpretation for many years, explains Yee Fook Hong.

A tax treaty becomes part of the statute law once it is passed by parliament. As such, should it be interpreted by applying the ordinary rules of statutory interpretation or by applying the rules applicable to interpreting contracts or the generally accepted rules of international law?

Lord McNair, in *The Law of Treaties* (Oxford University Press, 1961) viewed that treaties, where ambiguous, should generally be given a liberal construction.

With respect to the courts in the UK, Lord Denning in Bulmer Ltd v Bollinger SA [1974] 2 ALL ER [1226], said: ‘The treaty (ie the EEC Treaty) is quite unlike any of the enactments to which we have been accustomed. The draftsmen of our statutes have striven to express themselves with utmost exactness. They have tried to foresee all possible circumstances that may arise and to provide for them... They have become long and to provide for them... They have tried to express their aims and purposes. All in sentences of moderate length and commendable style. But it lacks precision...’

Seeing these differences, what are English Courts to do when they are faced with a problem of interpretation? They must follow the European pattern. No longer must they examine the words in meticulous detail... They must look to the purpose or intent...’

Also, in Stag Lines Ltd v Foscolo, Mango & Co [1932] AC [328], Lord MacMillan said: ‘As the rules...come under consideration in foreign courts, it is desirable in the interest of uniformity that their interpretation should not be rigidly controlled by domestic precedents of antecedent date, but rather the language of the rules should be construed on broad principles of general acceptance.’

The Canadian courts also advocated the liberal approach as can be seen in Saunders v MNR 54 DTC 524: ‘The accepted principle is to be that a Taxing Act must be construed... with perfect strictness so far as the intention of the Parliament is discernible. When a tax convention is involved, however, the situation is different and the liberal interpretation is usual in the interest of the comity of nations.’

**General canons of interpretation**

In *The Law and Procedure of the International Court of Justice* (1951) – *Treaty Interpretation*, GG Fitzmaurice highlighted three main schools of thought:

- a) Intentions of the parties
- b) Ordinary meaning of the words
- c) Aims and objects.

It is generally held that a tax treaty should be read as a whole. The more conservative view stresses that if the natural and ordinary meaning of the words is ambiguous or leads to an unreasonable result, the court should seek what the parties intended.

The Vienna Convention on the Law of Treaties (1969) provides that:

**Article 31 – General Rule of Interpretation**

- a) A treaty shall be interpreted in good faith in accordance with the ordinary meaning given to the terms of the treaty and in the light of its object and purpose.
- b) The context for the purpose of the interpretation of a treaty shall comprise, in addition to:
  - i) Any agreement relating to the treaty made between all the parties in connection with the conclusion of the treaty
  - ii) Any instrument made by one or more parties in connection with the conclusion of the treaty and accepted by the other parties as an instrument related to the treaty.
- c) There shall be taken into account:
  - i) Any subsequent agreement between the parties regarding the interpretation of the treaty or the application of its provisions
  - ii) Any subsequent practice in the application of the treaty which establishes the agreement of the parties regarding its interpretation
  - iii) Any relevant rules of international law applicable in the relations between the parties.
- d) A special meaning shall be given to a term if it is established that the parties so intended.

**Article 32 – Supplementary Means of Interpretation**

It may be necessary to resort to supplementary means of interpretation in order to confirm the meaning resulting from the application of Article 31 when the interpretation according to Article 31:

- a) Leaves the meaning ambiguous or obscure, or
- b) Leads to a result manifestly absurd or unreasonable.

As to whether the OECD Commentaries can be used to ascertain the meaning of the terms and expressions used in tax treaties, Lord Diplock in Fothergill v Monarch Airlines Ltd [1981] AC 251 said: ‘So far as domestic legislation is concerned... even where the words of a statute are ambiguous or obscure... Hansard can never form part...’
of the travaux preparatoires of any Act of Parliament whether it deals with purely domestic legislation or not... It is, however, otherwise with that growing body of written law in force in the United Kingdom which, although it owes its enforceability within the United Kingdom... nevertheless owes its origin... to some prior law-preparing process in which Parliament has not participated, such as the negotiation and preparation of a multilateral international convention designed to achieve uniformity of national laws in some particular field of private public law, which Her Majesty’s government wants to ratify on behalf of the United Kingdom but can only do so when the provisions of the convention have been incorporated into our domestic law...

‘The language of an international convention... is addressed to a much wider and more varied judicial audience than is an Act of Parliament that deals with purely domestic law. It should be interpreted, as Lord Wilberforce put it in James Buchanan & Co Ltd v Babco Forwarding and Shipping (UK) Ltd [1977] 3 All ER 1048 (HL) at 1052, “unconstrained by technical rules of English Law, or by English legal precedent, but on broad principles of general acceptation.”

‘It would seem that courts charged with the duty of interpreting legislation in all the major countries... have recourse in greater or less degree to travaux preparatoires... in order to resolve ambiguities or obscurities in the enacting words... As Lord Wilberforce has already pointed out, international courts and tribunals do refer to travaux preparatoires as an aid to interpretation of treaties...’

The law of the forum
A tax treaty may use terms that have a special meaning in tax law or mean different things in the two contracting states. The issue arises as to which of the two possible meanings is to govern the interpretation. Where there is an important difference between the meaning in the domestic law and that given to it in the context of the treaty, priority should be accorded to the meaning given to it in the context of the tax treaty.

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For more information:
Ng, Lee & Associates DFK: www.nglee-dfk.com

09/2015 Accounting and Business
Reporting for duty
Bob Herz, Accounting Hall of Fame incumbent and former FASB chairman, describes his vision for corporate reporting in the US

A household name in the standards-setting community, Bob Herz has made history on several fronts, not least as chairman of the Financial Accounting Standards Board (FASB) in the US during the rigorous process of harmonising International Financial Reporting Standards (IFRS) and US GAAP. At the time, Herz described the process as ‘riding two horses at the same time’.

Five years after his retirement from the FASB, Herz is again at the forefront of international accounting standards setting – perhaps in an even trickier spot – as a newly appointed member of the board of directors of the US-based Sustainability Accounting Standards Board (SASB).

When Herz left the FASB, early retirement was never on the cards. Since then, he says, ‘my dance card has been full’. In addition to lecturing at Columbia University, Herz sits on the board of directors of Morgan Stanley, Fannie Mae, Workiva and others, and is on the advisory boards of several companies and regulatory bodies such as the Canadian Accounting Standards Oversight Council.

His decision to take on his new role was the result of a longstanding passion for improving corporate reporting worldwide. While most of us know Herz as the force behind standards reform in the US, his enthusiasm for non-financial reporting has its roots in his early career.

In 2001, Herz co-authored a book with Bob Eccles (the SASB’s first chair and an honorary ACCA member), entitled The Value Reporting Revolution – Moving Beyond the Earnings Game, where he explains key non-financial performance indicators in relation to the value drivers of businesses.

‘I’ve devoted a lot of my professional career to trying to improve the information that goes to the capital markets and I’ve had a longstanding belief that financial reporting is a very important part of that, but it’s not all that’s needed,’ he says. ‘When it comes to determining the underlying sustainability of a company, or its capacity for growth, you’ve got to look at more than financial reporting if you want to understand what creates or destroys value over time. When I was a partner at PwC, and before I became chairman of the FASB or a member of the SASB, I advocated more systematic reporting of information on key value drivers, so my interest in the subject of sustainability reporting goes back a long way.’

Passion for helping
He adds: ‘I am not a tree hugger or an environmental activist – just a citizen of this planet concerned about the welfare of future generations. So as someone with a passion for helping bring about positive changes in accounting and reporting, the realm of integrated reporting and accounting for sustainability represents a new frontier of accounting changes.’

Herz’s role as board member at the SASB is multifaceted but his experience with the FASB adds an important perspective. The SASB has come a long way since it was established a few years back, and he says it has developed an effective set of processes for designing

Accounting and Business 09/2015
Bob Herz served as the chairman of the US Financial Accounting Standards Board from 2002 to 2010. Before that, he was a senior partner at PwC and a member of its global and US boards. He also served as one of the original members of the International Accounting Standards Board (IASB). He has served as chair of the American Institute of Certified Public Accountants’ SEC Regulations Committee and the Transnational Auditors Committee of the International Federation of Accountants (IFAC), and as a member of the FASB Emerging Issues Task Force, the American Accounting Association’s Financial Accounting Standards Committee, and the International Capital Markets Advisory Committee of the New York Stock Exchange. He is currently director of two major public companies, on the Standing Advisory Group of the Public Company Accounting Oversight Board (PCAOB) and the Accounting Standards Oversight Council of Canada, a trustee of the Kessler Foundation, and executive in residence at Columbia Business School.

The SASB

The Sustainability Accounting Standards Board is an independent, US-based accredited standard-setting organisation that develops industry-specific standards for voluntary use in disclosing material sustainability issues in filings to the US Securities and Exchange Commission (SEC). A not-for-profit organisation based in San Francisco, the SASB is not affiliated with the Financial Accounting Standards Board nor the SEC. By early 2016, the SASB is expected to have developed provisional sustainability accounting standards for over 80 industries in 10 sectors.

Evolutionary process

He adds that the SASB has been meeting regularly with SEC staff to keep them informed. ‘There’s clearly interest at the SEC,’ he explains, ‘but it has to be an evolutionary process. They first have to see that there’s growing market acceptance and uptake, and as that occurs then the regulators may begin to consider mandating such reporting.’

Herz provides three key insights into things to come for corporate reporting in the US, potentially with the powerful backing of the SEC: ‘First, I’d encourage readers to go to the SASB website and learn about the process, read the standards and the accompanying industry briefs. You will see that we’re trying to get at finite sets of issues and metrics that really matter from an investment and value proposition on an industry-by-industry basis.

Second, while the sustainability folks in the company are usually involved in developing the information, ultimately it will have to be the finance function that makes the decisions on what they’re reporting in the 10-K (the annual financial report for the SEC) and on putting internal controls around that information.

Third, we’re designing the sustainability reporting standards so that the information can be audited. If the markets want more assurance on this, then we would want the auditors to be able to provide that assurance. And, ultimately, capturing the essence of material issues is the key consideration, along with cost benefit.’

When considering the potential future direction of corporate reporting in the US, it also helps to remember Herz’s longstanding relationship with the UK. In well as his close relationship with the IASB and its former chairman Sir David Tweedie, Herz is a graduate of the University of Manchester and articled with PwC in Manchester and London.

In terms of his continued reach across the pond, Herz also explains his connection to the recently developed International Integrated Reporting Framework of the International Integrated Reporting Council (IIRC). ‘I was fortunate to also be involved with the IIRC during the formative days of integrated reporting. When I was chairman of the FASB I was invited to the inaugural meeting of the IIRC in London and also became involved with the Prince of Wales’s Accounting for Sustainability project, which was one of the motivators for creating the IIRC.’

These connections have had an effect. ‘I’ve become much more aware of the potential magnitude and severity of these threats to our ongoing economic, environmental, social and planetary welfare,’ he says, ‘and of the need for better measurement and reporting as part of a global effort to address these issues.’

As for the reunion of the ‘dynamic duo’ with Tweedie in directing the future of corporate reporting and disclosure, he says: ‘I would say we’re both suckers for what we view as a good cause. We continue to share a common goal of trying to improve information for the global capital markets, see each other regularly and remain good friends.’

Ramona Dzinkowski, economist and journalist

For more information

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Members in business

- Big Four Accounting Firms
- Other Accounting Firms
- Corporate Sector
- Financial Sector
- Not for Profit
- Public Sector
- Other

Registration split

- Members
- Affiliates & FP Students
- Students
- Graduates

What recruiters want

- Accounting Practice
- Retail and wholesale
- Financial Services
- Manufacturing
- Banking and capital markets
- Technology and IT
- Telecoms
At its June meeting, Council discussed the 2014 annual report, endorsed the Regulatory Board’s work programme and looked at the Strategic Delivery Plan, among other topics.

Council held a scheduled meeting on 20 June 2015. The guest presenter at the meeting was Antony Townsend, chairman of ACCA’s Regulatory Board, who presented the board’s annual report for 2014. The Regulatory Board was established in 2008 and brings together all of ACCA’s arrangements for regulation and discipline in a single entity. It stands at arm’s length from Council, and the majority of its members are lay individuals.

This was Townsend’s first chairman’s report to Council. It focused on the priorities for ACCA’s public interest functions, the board’s work programme for the next three years and how its arrangements need to change to meet the challenges ahead.

An overarching theme in the report was that the public interest functions that the board oversees are central to the work of ACCA.

ACCA’s 2020 Strategy includes numerous references to public value and the public interest, and the board sees its role as assuring Council that ACCA’s public interest functions are demonstrably delivered in the public interest.

Townsend’s presentation was followed by a question session with Council, after which Council agreed to endorse the board’s proposed direction and outline work programme for 2015-17.

A number of other issues were considered in Council’s formal sessions.

* Council discussed how the Strategic Delivery Plan will deliver ACCA’s difference in terms of reach, relevance and resources, for the benefit of members and other stakeholders.
* Council took a number of decisions around amendments to the strategic measures and targets for 2015-16 and updates to ACCA’s practical experience requirements.
* Council agreed recommendations from the Nominating Committee regarding membership of boards and standing committees in the coming Council year. It also agreed that there should be no change to Council’s standing orders for the 2015-16 Council year.
* Council approved the financial statements, the corporate governance statement and the report from the Audit Committee for 2014-15, together with the text of ACCA’s 2014-15 integrated report (see page 82). It also approved the notice of meeting for the 2015 AGM. The reporting suite of material is available at www.accaglobal.com/agm, together with information relating to the AGM and council elections. (Members are asked to submit their votes by the closing date of 10 September.)

* On international matters, Council was pleased to approve the renewal of the Agreement for Recognition Arrangements (as a Mutual Recognition Agreement) with the Hong Kong Institute of Certified Public Accountants (HKICPA). In accordance with Membership Regulation 3(f), Council agreed to invite nine senior CICPA members from China to become full members of ACCA, together with the accountant general of Malaysia, Dato’ Haji Che Pee bin Samsudin.

ACCA’s AGM will be held at 1pm (BST) on Thursday 17 September 2015 at 29 Lincoln’s Inn Fields, London. The AGM will be followed by the annual Council meeting, at which ACCA’s officers for 2015-16 will be chosen.
Membership on the rise

Growth in ACCA membership has topped 5% as employers back the Qualification as ‘delivering complete finance professionals’

ACCA worldwide membership has increased by more than 5%, or 11,530 new members, to over 178,000 in the past year.

It also recorded 455,000 students, of which 397,000 were studying for the ACCA Qualification in 2014-15. This represents an increase of over 12,000 on the previous year and cements ACCA’s position as the number one accountancy body operating worldwide.

ACCA’s membership growth rate, the highest of any of the international accounting bodies at 5.1%, is backed by a 98.3% retention rate among existing members.

Commenting on the figures, ACCA’s chief executive, Helen Brand said: ‘The demand for professional, ethical accountants is on the rise right across the world, and ACCA is committed to continued delivery of a qualification that reflects this global requirement.’

ACCA’s growth is also backed by positive feedback from businesses and learning providers on the relevance of the qualification, as Brand explains: ‘It is enormously encouraging that 82% of employers think ACCA delivers complete finance professionals. Our Qualification ensures ACCA students finish their studies fully equipped to enter the world of work, and it is vitally important that employers from all sectors and industries are aware of the benefits associated with employing qualified ACCA professionals.

‘To also hear that 89% of learning providers who teach more than one professional accountancy qualification would recommend ACCA to prospective students is very welcome news.’

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- Committees/panels/discussion groups
- Undertaking research
- Additional qualifications
- Coaching and mentoring
- Networking
- Publications and technical articles.

If the activity is relevant to your current or future role then it can count as CPD.

Visit My Development – ACCA’s CPD hub at www.accaglobal.com/cpd to access a great range of learning resources.
Students get hunting

Success in Job Hunting Competition, CFO Club discusses economics over lunch, ACCA and SNAI launch Shanghai research centre, and it’s celebration time with SAIC.

Guangzhou

JHC reaches climax
The grand final of the ACCA Job Hunting Competition (JHC) took place in Guangzhou on 10 July, with two teams from Sichuan University winning the championship and first runner-up team awards. The prize for the second runner-up went to a team from Jinan University.

The JHC is now well established and has been held in Beijing, Shanghai, Guangzhou and Chengdu since its launch in 2004. This year’s contest attracted more entrants than ever before, and involved nearly 2,800 students from over 240 universities across China.

The 32 grand finalists were the top two teams from four regional finals, having survived several rounds of challenges, including online aptitude tests, case studies and English presentations.

The judging panel – made up of senior management from national sponsors and the ACCA China Professional Expert Forum, including EY, KPMG, PwC, Huawei Technologies, Hainan Airlines and cut-e China – was impressed by the professional financial knowledge, business sense, presentation skill and creativity of the students.

This year the competition was supported by 10 nationwide sponsors and more than 80 enterprises, who provided over 160 internship opportunities to candidates – one the most attractive features of the competition.

Speaking at the event, Ada Leung, head of ACCA China, said that JHC offers a snapshot of ACCA’s value as a global professional body. She went on to say that ACCA provides an excellent platform for students to enhance their professional knowledge and competency, which will help them succeed in their future career. At the same time, it helps employers to identify future leaders among ACCA students, and provides a supply of talented individuals for local conglomerates across different industries, including Fuji Xerox, Maxim’s, Swatch Group, Moet Hennessy Diageo and Crabtree & Evelyn. Soo Yee Leung, ACCA’s director for Asia Pacific, flew in from Singapore to meet leaders of the profession.

Ricky Choi, senior economist at Bank of China, spoke on the outlook for Hong Kong in 2015, sparking considerable discussion among CFOs over lunch. Eunice Chu, head of policy, ACCA Hong Kong, delivered a short presentation on the Q1 2015 results of the Global Economic Conditions Survey conducted by ACCA and the IMA (Association of Accountants and Financial Professionals in Business).

Study trip to Guangzhou
Guangzhou played host to a joint study trip organised by the Accounting Development Foundation and the Society of Chinese Accountants and Auditors from 4-7 July. Exchange meetings with...
mainland government officials at Guangzhou provided an opportunity for ACCA members to gain a better understanding of the latest government policies affecting the accounting profession. The trip also allowed Hong Kong and Guangzhou members to exchange views and ideas during the networking dinner. On the second day, the delegates visited China Southern Airlines and saw its system operation control centre in action.

Shanghai

New research centre

ACCA and Shanghai National Accounting Institute (SNAI) jointly launched the SNAI-ACCA CFO Leadership Research Centre in Shanghai in July. ACCA chief executive Helen Brand and SNAI president Li Kouqing unveiled a plaque during the ceremony attended by 300 finance professionals.

Speaking at the launch, Brand said: ‘The partnership between ACCA and SNAI continues to grow from strength to strength. It is an honour to see another milestone in our collaboration. ACCA will leverage resources to support the study of CFOs and finance leadership, to challenge thinking, provide practical insights and, most importantly, to maximise our voice and impact within the profession. It is our hope that the launch of this centre will play an important role in helping more CFOs in China lead crucial change and drive sustainable growth.’

Masters look forward

ACCA chief executive Helen Brand was guest of honour at the graduation ceremony for the Shanghai National Accounting Institute’s full-time Master’s programme in Shanghai. Addressing the 80-plus graduates in accounting and auditing, she said they looked forward to a bright future in the profession, highlighting ACCA’s global development and the career prospects of its members.

CFO Club launched

ACCA Shanghai launched the ACCA CFO Club with a ceremony and roundtable on 3 July, entitled ‘The Future Pathway for CFOs in China’.

ACCA chief executive Helen Brand attended the event, along with 50 finance executives from multinational companies such as KONE Elevators, IBM and Philips.

ACCA CFO Club has been created to provide a unique, high-profile forum for senior CFOs in Greater China to come together to network, share best practice, learn and inspire one another. In her welcome speech, Brand said: ‘We know that the assets needed to be an effective CFO have changed. In a customer-centric economy, intangibles such as data, brand, talent and innovation are central to helping businesses succeed. I am sure this club will explore these and many other issues in the months and years ahead.’

During the roundtable, ACCA China’s head of policy Yuki Qian and renowned lecturer Jackson Wang from Drucker Lab delivered presentations on the opportunities and challenges facing CFOs in China, and debated the steps that will allow them to go beyond stereotypes and gear up for change.

Celebrating with SAIC

In July ACCA organised a celebration at one of its Approved Employers, SAIC Motor.

The largest car manufacturing company in China’s A-share market, SAIC Motor started its ACCA Training Programme in 2014 to develop key finance talent in the organisation. The programme has so far enrolled 118 ACCA students and achieved good results, including those of Kang Sichao, who was a national top scorer at F7 after the first exam session in December 2014.

SAIC Motor is the first state-owned enterprise to establish this kind of ACCA Training Programme in Shanghai. The programme has had great support from the company’s management team, in particular its finance director, Gu Feng. In his speech, Gu recognised ACCA’s global reputation and said that the cooperation with ACCA was a key driver for the company’s strategy on developing international talent.

ACCA chief executive Helen Brand gave a speech on the importance of talent management in the current business environment and stated that developing the right talent pipeline would ensure the company meets its goals for global expansion.
Support the final frontier

As China readies for the next phase of its taxation reform, Matthew Wong outlines the role of accountants in helping the financial services sector move forward

Two decades after the last major VAT reform, which set China on a path to follow international best practice, Beijing is about to embark on another taxation milestone. This time, the focus is the financial sector – regarded by many as the final frontier in China’s financial reform.

The 1994 reform provided the stepping stone by introducing a general, creditable VAT regime. However, it only focused on the sale of goods. Until 2011, the Chinese services sector was subject to a different turnover tax regime known as business tax, which was in parallel and mutually exclusive with the VAT system. The result was a complicated and ineffective system which was seen to have created a heavy tax burden on service providers.

Now that service sectors have become pillar industries in modern China’s economy, the government faces an urgent need to transform the business tax system to VAT (B2V). It began rolling out pilot B2V reforms in 2012 – to telecom, transportation and logistics providers – with the aim to have migrated all service sectors by the end of 2015.

This is mandated in China’s 12th five-year plan (2011-15), reinforced at the World Economic Forum in Davos in January when Premier Li Keqiang affirmed his commitment to complete B2V reform on the remaining service sectors (financial services and real estate) this year. We don’t yet know exactly when, but there’s no doubting its profound effect.

The past five years have witnessed a quantum leap in terms of financial reform. We’ve seen yuan liberalisation, the new Shanghai Free Trade Zone, Shanghai-Hong Kong Stock Connect and Hong Kong-China mutual fund recognition. The next decade brings the prospect of unprecedented challenges, namely demographic changes, a bottleneck in economic growth, and environmental issues. Status quo is not an option; reform must become the rule of the game to achieve the ‘new normal’.

Accountants and ACCA members have a lot on their plates in helping China’s financial services sector to navigate the uncharted waters of taxation reform. One of our roles is to assist CEOs to recognise the impending challenge of VAT reform, say through impact studies and GAP analysis. Another is to organise or facilitate industry group meetings to help the Chinese authorities to develop an internationally competitive and effective VAT regime for the financial services sector.

Meanwhile, bankers and insurers need a lot of training from accountants to understand how the upcoming VAT reform will change their business landscape. Business systems and operational processes need to be redesigned, tested and rolled out before the new financial services VAT regime goes live. Accountants play an essential role in providing expertise as well as effective project management.

Matthew Wong is deputy chairman of ACCA Central China steering committee

Status quo is not an option; reform must become the rule of the game to achieve the ‘new normal’

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How are we doing?

ACCA’s fourth integrated report examines the performance, strategy and vision to be the best at training accountants the world needs.

ACCA has published its fourth annual integrated report (IR) on its performance for the year ended 31 March.

ACCA was an early adopter of integrated reporting and was the first international professional body to produce a report around the International Integrated Reporting Council’s emerging IR framework back in 2011.

Every year, ACCA looks to develop its reports based on feedback from readers, and consults groups of members and other stakeholders around the world on what and how it reports. This year, workshops were held in China, Malaysia, Nigeria, Pakistan, Poland, the UK and the US – the largest consultation exercise to date.

As a result of the feedback, ACCA has focused on overall corporate performance, explained how it engages with stakeholders and the influence they’ve had, and highlighted the assurance measures it takes, in addition to other changes to present how it has performed more clearly.

This year’s report focuses on ACCA’s new strategy, designed to take it forward to 2020. ACCA’s vision is to be number one in developing professional accountants the world needs; the report looks at the substantial progress made towards this in 2014/15 and highlights ambitious plans for the future.

The past 12 months has been about both establishing immediate impetus behind the strategy and investing for the future so we are in the best position to deliver our vision on behalf of our members,’ said Helen Brand, ACCA chief executive.

‘This has resulted in some significant operational changes during the year. We have a new, focused executive team and a new organisational structure that underpins it, firmly aligned to the execution of our strategy to 2020.

‘As our report illustrates, we have made a solid start in this first year of our new strategy. It will require continued effort and vision and the ability to respond to market needs with agility and flexibility – thinking about what we can do differently to enable our stakeholders to meet their goals.’

David Willingham, ACCA head of strategic performance, said: ‘We adopted IR primarily to present a clear picture of our strategic progress and as a means of being accountable and transparent to all our stakeholders. Members have invested significantly in their ACCA Qualification, and they need to know that this investment is being safeguarded. Above all, we aim to show how we and our members are delivering public value – that is, acting in the public interest, promoting ethical business and supporting economic growth.’

ACCA’s 110th annual general meeting is on 17 September.

Vocational education key to European renaissance

A conference has called for action on the skills gap and educational mismatches in Europe. Organised by ACCA and PwC, and hosted by MEP Martina Widajova at the European Parliament in Brussels, the conference concluded that a change of perception was needed about ‘traditional manual’ professions and vocational education and training.

With the European Commission’s top priority being to get Europe growing again and people back to work, the panelists considered how to address the ‘skills gap’ between EU education systems and the real needs of employers. They called for policies to make ‘traditional manual professions’ and vocational education and training more attractive to young people. The aim, they said, should be to develop soft skills, and also managerial and entrepreneurial skills, combined with a strong focus on employment, which means making apprenticeships more attractive.
Lead the conversation
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