AB Accounting and Business
CN 09/2016

Exit centre stage

The impact of the UK's decision to leave the European Union

Strategic alliance

ACCA and CA ANZ forge partnership

Interview Patrick Wong, AECOM Asia

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Welcome

Waking up to a post-Brexit world

The UK's shock decision to leave the European Union – Brexit – had immediate, devastating effects: financial markets were plunged into disarray and sterling fell to its lowest level in 30 years, while fears of economic hardship in the UK grew. Meanwhile, the leading political parties imploded, with resignations on all sides. Though a new prime minister is in place, it's difficult to say what the long-term prognosis for the UK, Europe and the rest of the world might be. No country has ever opted to leave the EU before, so these are uncharted waters.

We look at the impact of the Brexit decision on European political and economic integration. What are the pressure points within the EU? Can the UK prosper now that it has chosen to quit? And what now for the EU itself? Read more on page 16.

Also in this issue, we speak with Patrick Wong, executive vice president, finance, at AECOM Asia in Hong Kong. As head of finance, Wong, with his team, plays a strategic role in the financial management of the engineering firm across its Asia-Pacific marketplaces. His interview is on page 12. We also hear from FCCAs Quin Thong and Malik Mirza who, despite living in different countries and time zones, have collaborated on a book to teach finance to young children. Their inspiring story is on page 54.

In July, ACCA announced an exciting alliance with Chartered Accountants Australia and New Zealand (CA ANZ). This move, which will bring together 308,000 members and 480,000 students across 181 countries, aims to create a stronger voice for shaping the future of the profession and to deliver further value to members of both bodies. We cover the announcement in our news roundup section on page 9 and have an interview with the ACCA and CA ANZ chief executives on page 60 where they explain their vision.

Thanks to everyone who completed the *AB* readers' survey – your feedback is really valuable to us. We will be making some changes to the magazine over coming months to reflect your views. In the meantime, we are always interested to receive your comments, so do send them in to the email address below.

Colette Steckel, Asia editor, **colette.steckel@accaglobal.com**

* Please note that the October issue of *Accounting and Business* will be out 10 days later than usual.

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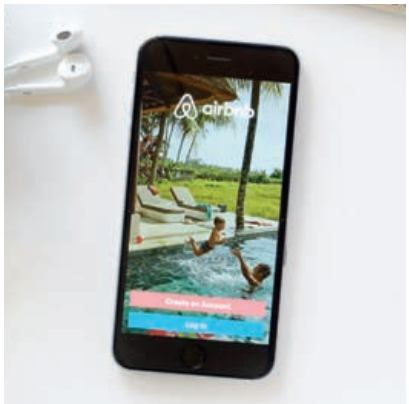

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► Counting the cost
China has seen its worst flooding since 1998, which, compounded, by Typhoon Nepartak, caused 67.1 billion yuan in damages to 2.7 million hectares of cropland

▲ Credit crunch
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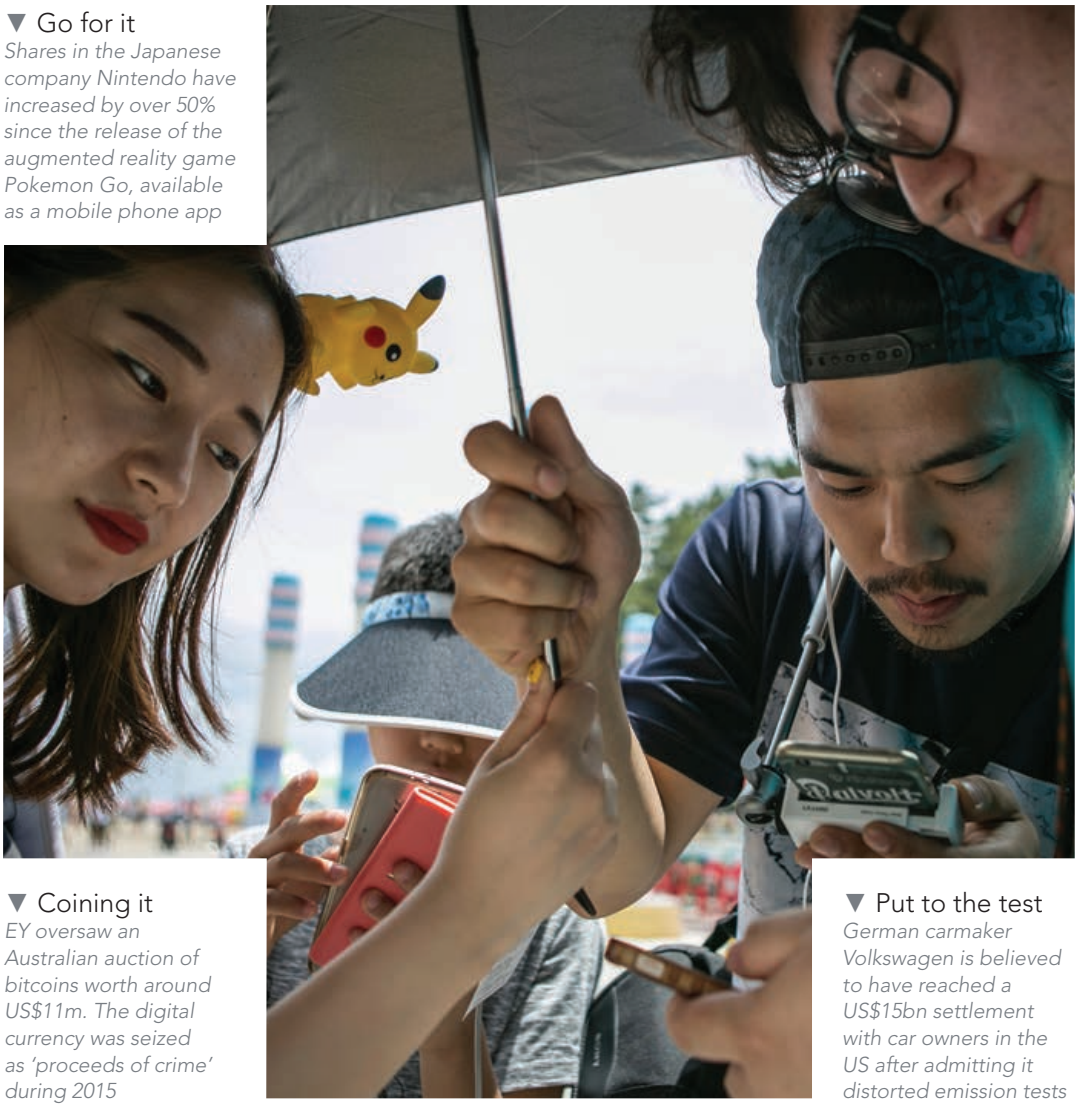
US fast-food giant McDonald's plans to sell its Hong Kong and China stores, in a 20-year franchise agreement believed to be worth around US$3bn

▼ Go for it

Shares in the Japanese company Nintendo have increased by over 50% since the release of the augmented reality game Pokemon Go, available as a mobile phone app



▼ Coining it

EY oversaw an Australian auction of bitcoins worth around US$11m. The digital currency was seized as 'proceeds of crime' during 2015

▼ Put to the test

German carmaker Volkswagen is believed to have reached a US$15bn settlement with car owners in the US after admitting it distorted emission tests

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

Brexit fallout

The UK's vote to leave the EU will have no direct ratings impact on Asia-Pacific sovereigns or banks, according to Fitch Ratings. However, the effects of Brexit on investor risk appetite could pose the greatest challenges for Asia in the short term, the agency said. 'If protracted uncertainty has a sustained effect on investor and consumer confidence, the resulting tightened liquidity conditions and pressure on emerging markets' capital markets could weigh on growth in the region,' the Fitch statement read. 'This is especially the case for more trade-integrated economies such as Singapore, Taiwan, Hong Kong and Korea.'

Deloitte University

Deloitte has launched Deloitte University Asia Pacific (DU AP) to cultivate leadership skills among its own employees in the region. Located in Singapore, the initiative builds on the success of Deloitte universities in Texas in the US, France and Belgium in EMEA (Europe, the Middle East and Africa) and India. The curriculum in Asia Pacific will be tailored to the region's business needs. 'Our single most important asset is our people and their learning and development is at the heart of our ability to successfully serve our clients,' said Punit Renjen, Deloitte Global's CEO. 'Through Deloitte University, we are investing in the professional, leadership, industry and technical skills of our practitioners across all levels, enhancing our ability to make an impact that matters for our clients, talent and communities. We are pleased to bring this programme to the Asia-Pacific region, which we see as a critical engine to the world's future economic growth.'

Wealthy want more

Wealth management is one of the least tech-literate sectors of the financial services industry, and is falling well behind non-financial services industries, according to a report by PwC. What wealth managers currently offer is sharply at odds with the expectations of their clients – high net worth individuals (HNWIs) surveyed in Europe, North America and Asia. The study found that only a quarter of wealth managers offer any digital channels other than email. 'With a client base that feels only weak affiliation to its chosen providers, the sector is now acutely vulnerable to digital innovation from fintech incomers, including robo-advice services, which may be able to offer a broader range of products and services,' said Antoinette Hoon, private banking advisory services partner at PwC Hong Kong. 'Ignoring this state of affairs is not an option. If firms do not respond now, they simply will not survive in the medium to long term.'

New network

Accounting and professional services firms in the ASEAN region have joined a network helmed by Singapore accounting firm RT to increase cooperation in areas such as professional services, public accounting, business and corporate advisory. Nine signatories – from countries including China, India and Australia – have joined the RT ASEAN Network, with a view to leveraging the diversity and localised knowledge and skillsets of its partners to serve businesses looking to expand in South-East Asia. 'The potential and possibilities the region has to offer are tremendous,' said Ravi Arumugam, CEO and managing partner of RT Group. 'Therefore it is only logical that professional services providers come together, especially from ASEAN, in a similar spirit to support growth, investment and demand for services.'

Fintech inflow

Capital flowing into venture capital (VC)-backed fintech companies has driven fintech investments in Asia to a new high, KPMG research has found. In the first quarter of 2016 alone, China attracted US$2.4bn of investment into VC-backed fintech companies through nine deals, compared to just US$300m through six transactions in the fourth quarter of 2015. Raymond Cheong, partner at KPMG China, said that with innovation occurring across a number of sectors, consumers are increasingly looking to avail [themselves] of technology and liquidity within the China VC community. 'This creates a perfect storm in terms of achieving these high levels of fintech investment.'

Wilting under regulatory pressure

69%

of firms expect even more new regulation in the next year

26%

expect significantly more documentation

1/3

of firms spend at least a day a week keeping on top of regulatory changes

Compliance professionals expect to face more regulations with fewer resources in the next year, according to the 2016 *Cost of Compliance Survey* from Thomson Reuters. The survey reveals fatigue and overload among compliance experts who see no letup in the deluge of regulation.

▶ Chief executives unite
Helen Brand greets Lee White at ACCA's office in the Adelphi

ACCA and CA ANZ forge alliance

ACCA and Chartered Accountants Australia and New Zealand (CA ANZ) have entered into a strategic alliance that aims to add value for members both locally and across the world. It brings together the resources of the largest global professional accountancy body with one of the world's pre-eminent chartered accounting bodies, enabling both organisations to strengthen their reach, relevance and resources for members.

By sharing expertise across geographies and sectors, the alliance aims to provide a stronger voice on behalf of current and future members. Eligible ACCA members will be able to become members of CA ANZ, while eligible CA ANZ members will be able to become members of ACCA.

ACCA president Alexandra Chin said: 'We believe this alliance will increase the value we provide to members and strengthen our ability to achieve our shared goals.'

For more details, see the president's column on page 22, and an interview with chief executives Helen Brand (ACCA) and Lee White (CA ANZ) on page 60. A video featuring the chief executives and more information can be found at **accaglobal.com/alliance**.

The new normal

South-East Asian (SEA) corporates are resigned to the fact that low GDP growth will become the norm, according to Harsha Basnayake, EY ASEAN managing partner for transaction advisory services. 'Resilience is an important theme as CEOs and senior executives look at creative ways to seek growth,' she said. Responses to a recent EY survey 'reflect that they are waking up to this reality'. The survey also revealed that the top concerns for SEA corporates are political stability in both local and global markets; volatility in commodities and currencies; and the slowing growth in the Chinese economy.

Private investment up

Chinese prime minister Li Keqiang wants to see rapid development of public-private partnerships (PPPs), especially for financing of projects in the public services sector, in a bid to boost slowing investment growth. To facilitate this, taxation policy will be tailored to better suit the financing system of PPPs. In a recent survey, China's state council found reluctance among companies to participate in PPP projects, because of concerns that their interests might be adversely affected. In a bid to address such issues, Li urged the acceleration of PPP legislation, with clear accountability. According to Xinhua, the official news agency, more than 600 PPP projects were implemented in China in the first half of 2016.

GDP revamp

China has changed how it calculates the country's GDP, a move that is in line with international standards and is 'not an attempt to jazz up growth figures', according to a *China Daily* report quoting the National Bureau of Statistics (NBS). Under the new method, the calculation will in future include spending on research and development. »

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According to the NBS website, China is adopting the general methodology used by major developed countries for compiling measures of economic activity. With R&D spending soaring from 0.57% of GDP in 1996 to 2.08% in 2014, the new method 'better reflects the contribution of innovation to [China's] economic growth', the NBS said.

Islamic finance awards

For the second year running, Bursa Malaysia has been named Best Islamic Finance Facilitation Platform Asia by *Global Banking & Finance Review*, which this year also ranked it Best Islamic Exchange Asia. The accolades recognise the double-digit growth of its sharia-compliant commodity trading platform, Bursa Suq Al Sila' (BSAS) since its inception in 2009. Datuk Seri Tajuddin Atan, CEO of Bursa Malaysia, said that recognition by the international finance community and consistent double-digit growth is testament to the wider acceptance and increasing investor confidence in the BSAS platform. 'We will continue to remain focused on efforts to increase the breadth and depth of our sharia-compliant products and services for both institutional and retail investors,' he said.

IPO pipeline healthy

Despite a significant decline in IPO proceeds in the first half of the year, Hong Kong is on track for 100 IPOs with a value of HK$200bn in 2016, retaining its position as one of the world's top-performing locations for new share sales, KPMG China has said. Maggie Lee, partner and head of capital markets development group, Hong Kong, said Hong Kong's IPO pipeline remains healthy despite market volatility, with a number of sizeable deals expected to be completed in the second half. The firm estimates there were around 120 active listing applications for the Hong Kong bourse, as at end of June.

Green target

Singapore aims to cut its greenhouse gas emissions intensity by 36% by 2030, compared to 2005 levels. Announcing the city-state's Climate Action Plan at the World Cities Summit, President Tony Tan Keng Yam conceded that this was an ambitious target, given Singapore's limited options for renewable energy. But he said that a study commissioned by the National Climate Change Secretariat projected that 20% energy savings could be achieved by 2030 compared to business-as-usual levels. Significant opportunities were identified in the petroleum, petrochemical, and semiconductor sub-sectors. The nation will also invest in cutting-edge low-carbon technologies and scale up low-carbon solutions for deployment in Singapore.

Valuations course launch

A new, online certificate in business valuations course has been launched by ACCA in partnership with French accountancy body CSOEC (Conseil Supérieur de l'Ordre des Experts-Comptables). The course is accessible globally, and is available in both English and French. It takes around 20 hours to complete. Mary Bishop, ACCA's director of learning and transparency, said: 'Business valuation is a growth area for finance professionals and especially for accountancy practitioners.' For more information, visit **accaglobal.com/certbv**. ■

Compiled by Peta Tomlinson, journalist

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Beyond the numbers

For Patrick Wong, executive vice president, finance, at AECOM Asia, ensuring that the finance function is more widely understood is vital to the company's long-term success

Born and bred in Hong Kong, Patrick Wong, AECOM Asia's executive vice president, finance, takes great pride in the company's infrastructure projects. 'When I go out with my son I point out projects we've worked on and tell him, "This is my company's project". He's seven years old. He takes it very seriously; he wants to know what I've done,' he says.

As head of finance for Asia, Wong and his team's input play a critical role in both strategic financial management of the global, integrated infrastructure firm across its Asia-Pacific marketplaces, operationally deciding whether or not to give a project the green light and follow through its financial performance until completion.

'We need to ensure that we advise the project team of all the potential cost implications so that when they prepare for the bidding they factor in the cost budget, otherwise a big win could become a big loss,' Wong says.

This is particularly important when dealing with big projects such as the Olympic Games – AECOM was involved with the London 2012 and Rio 2016 Games and the upcoming games in Tokyo – and crossborder mega projects, where the first things for finance to consider are the foreign currency risk and the tax exposure.

'That and the forex can impact the P&L,' Wong points out. 'In this industry a lot of the payment is by milestone, so we must look at cashflow and the payment terms, and then the payment schedule, before we commit to any project. We also look at how to manage employee tax as our people move around the world to serve projects.'

Ensuring timely payment by milestone – and thus a steady cashflow – is one of the challenges of the job, particularly in Asia. It is more challenging compared with other parts of the world when it comes to cashflow management, and more prevalent when the economic climate is poor. Turnover in Asia is typically higher than in other countries, such as the US and Australia. Faced with this challenge, 'We need to be clear upfront in signing the contract, take action early and follow the client closely. We also need to actively manage by doing a little in-house reminder. The aim is to pass on the message that the firm is serious about timely payment – and avoid having to resort to legal action because we'd prefer not to burn bridges,' Wong says.

> 'I feel proud to be part of the company, and I feel strongly about helping my team to connect to the role that their work plays'

CV

2007
Executive vice president, finance, AECOM Asia

1994
Joined Bausch & Lomb Asia Pacific as manager, accounting and reporting (Asia Pacific), before becoming director of finance (Hong Kong); director of finance and IT (Taiwan); executive director, finance and IT (Japan); and vice president, finance, Asia Pacific

1991
Regional accounting controller, Club Med Asia

1989
Gained ACCA Qualification

1988
Auditor, Deloitte

1988
Professional diploma in accountancy, Hong Kong Polytechnic University

Keep on top of cashflow

Keeping on top of cashflow is one of the top finance functions. Wong's team advises those working on key projects to remember that it's important to finish the job with quality and within budget. To this end, AECOM Asia recently introduced a project bonus scheme.

'Once the project leader has set up the project to make a certain target margin, AECOM provides the incentive that if the project team can hit that target, the incremental profit will be shared between the regional business and the project team,' Wong says. 'That gives an extra incentive to the project team and makes financial management more relevant to them because hitting their target will enhance their compensation.' »

Founded in 1990, AECOM is a US multinational, fully integrated infrastructure services firm that designs, builds, finances and operates assets for governments, businesses and organisations in more than 150 countries. A Fortune 500 firm, AECOM had revenue of around US$18bn during fiscal year 2015. AECOM was ranked top in *Engineering News-Record*'s 'Top 500 Design Firms' for the sixth consecutive year, and has been included in *Fortune* magazine's 'World's Most Admired Companies' for two years running. AECOM Asia has around 6,600 employees in 24 offices across the region with key locations in China, Hong Kong, Taiwan, Japan, Singapore, Malaysia, Indonesia, Philippines, Thailand, Vietnam and Sri Lanka.

* 'Be curious and passionate. Everything comes back to finance, so when you are curious you will touch on so many different functions and learn so much more that will open up many other career opportunities.'
* 'A job description is only for your reference; don't stick to it blindly. Whenever you have a question, ask it. Don't let other people stop you.'
* 'Be positive and open. Everyone should do their best to equip themselves with the requirements and skills for the job.'

He notes that staff such as engineers and architects are more interested in the technical aspects of managing a project than the financial ones, such as reviewing the details of the contract. Wong has been instrumental in helping roll out a comprehensive training scheme over the last six years.

'We train them from a risk management and financial management perspective,' he explains. 'Our employees usually attend a half-day lecture. There are also courses for the newly joined and newly promoted. Our aim is to ensure that our people are equipped with the knowledge and guidelines at their levels to participate in the bidding process.'

AECOM offers online training courses – both technical and soft skills – and beginning this year all staff are assigned set courses to take. Their supervisor is responsible for choosing the course and the aim is to give the team the skills and the confidence to connect to the company's mission to enhance and sustain the world's built, natural and social environments.

AECOM has also invested in systems to enhance operation efficiency such as distributing designated financial information via tablet apps to people at different levels of the organisation.

'I feel proud to be part of the company, and I feel strongly about helping my team to connect to the meaning of the company and the role that their work plays,' Wong says. 'They need to see there's more than just doing the invoicing and accounting; we want to engage them.'

AECOM has grown significantly in Wong's nine years with the firm. It took US$4.2bn in revenue during fiscal year 2007 and in 2015 that was up to US$18bn. Much of that growth is due to mergers and acquisitions; in 2014, AECOM bought its peer URS – which was even bigger than AECOM – and spent the following year integrating the company. Such a major acquisition resulted in US$5.3bn in debt following the close of the deal; and paying off that debt on a timely basis every quarter is a matter that the firm takes seriously. 'We have a role to deliver cashflow so that the company pays down the debt in the schedule that we planned. A healthy cashflow is the most important thing to continue,' Wong says.

Holistic view

As the company has grown, so has Wong's role. In addition to his duties as the head of finance, he works closely with the management team and is seen as a business partner. This gives him a more holistic view of the company and puts him in a stronger position to make calls on key financial issues.

'I join our CEO at the town halls once a year to talk about the company's direction and priorities, and travel to different offices almost every quarter to meet with them,' he says. 'It is important they don't see me just as finance – I'm an operation partner. Sometimes informal channels work more efficiently than formal channels. I find maintaining good communication lines on both levels gives me the edge to be able to collect a lot of intelligence from the ground and channel it up.'

In February, for the second year running, AECOM was named on *Fortune* magazine's list of the 'World's Most Admired Companies'. Wong notes that of the magazine's nine criteria, three are financial components: financial soundness, wise use of corporate assets and long-term investment value. He believes this shows that the success of AECOM is not just down to the quality of the management and innovation but also to the financial discipline.

'The equity structure is a very important focus and requires a lot of discipline,' he says. 'How do you want to use your money? To repurchase the company's stock? Invest in the systems and people? Or pay down the debt? All this requires a lot of analysis in capital allocation. We drive the cash consciousness throughout the organisation; it's not just within finance.'

Almost 30 years in business, starting as an auditor with Deloitte, have given him great experience in a multinational environment and across all aspects in strategic planning to operations. 'Since I left audit in 1991, I have taken up regional roles in multinational companies and that has given

'You need to think more broadly about the purpose of finance and act like a business manager, not just an accountant'

me a lot of exposure to business dynamics from a different perspective to finance professionals who are not working for a corporate,' Wong says.

He studied for his ACCA Qualification immediately after graduation. In those days it meant passing 18 papers and he learned much about company law, financial management and accounting. He earned his Qualification in 1989 and says it opened the doors to the companies he wanted to join, but he insists that it is just the starting point for those who want to get ahead.

'An ACCA Qualification gives you the knowledge to go into a company and ask questions. If you go into a big company as an accountant, do what you are told and go home at five o'clock then you're not using the full potential of what your ACCA Qualification has given you,' Wong says.

He advises accountants to be curious and look beyond the remit of the job. By asking questions outside of your immediate scope, you will come to understand the business more fully and be better able to advise on financial issues.

'If you only focus on finance you will only see the finance element,' Wong concludes. 'If you aspire to something broader than traditional accountancy, you need to think more broadly about the purpose of finance and act like a business manager, not just an accountant.' ■

Kate Whitehead, journalist

Success story

Patrick Wong talks about the role AECOM's Asian arm plays in the firm's success at **bit.ly/ACCA-playlist**

Continent at a crossroads

The project of European political and economic integration is facing its most serious challenge following the Brexit decision. Can Europe recover its mojo and public trust?

The European Union and the euro are relative newcomers to the global stage. But both had quickly come to be seen as permanent fixtures – much like the US and the dollar. Now the project of European political and economic integration faces the most serious challenge.

For the first time in the history of the EU, citizens of a large member state – the UK – have voted to leave. Pressure is mounting for similar referendums in France and Italy, and the approval ratings of the EU have been sinking. Tensions are high between debtor nations – such as Greece – and creditor states, including Germany. The economic record of the continent has been disappointing. (While the UK and US economies are 7% and 10% bigger respectively than in 2008, the eurozone has only just regained its former size after years of contraction and sub-par growth.) Even once-enthusiastic recruits in Eastern Europe have been souring on the project.

So what has gone wrong and can Europe recover its mojo, and public trust? 'The European project has achieved a great deal, promoting peace, prosperity and trade,' says Gary Hufbauer, a fellow at the Peterson Institute in New York. 'And there is much more it can do for its members and the world. But it needs to carry the citizens of Europe along or it will never fulfil its great potential.'

The public standing of European integration has suffered three major hits over recent years, according to Anthony Walters, ACCA's policy manager for Western Europe. 'The first is that GDP growth has been sluggish, undermining confidence that the project is delivering benefits to ordinary people,' he says. 'The migrant crisis has been adding to tensions and the rumbling debt crisis in Greece has also raised concerns. Add these together and you've had a pretty toxic cocktail.'

All appear to have played into the decision of the British voters to leave the EU, a decision that some fear will open a pandora's box in Europe. 'Brexit could have two contrasting effects,' argues Walters. 'It has the potential to strengthen unity among those that remain, since the UK was seen by some as a brake on integration. Alternatively, it could embolden separatist movements across Europe and make it harder to resist votes on EU membership elsewhere.'

Emmanuel Kapizionis FCCA, a senior financial accountant at Nereus Shipping in Greece and a member of ACCA's International Assembly, fears that the uncertainty itself will harm business investment and financial markets, since it will take years for the full implications of the UK vote to play out.

'We are in uncharted territory,' he says. 'The fear is that without the EU, the UK will be less powerful; and without the UK, the EU will be less powerful.' The UK was a powerful voice for economic liberalisation and reform. Without the UK, many economists believe that the EU will become even less willing to embrace bold measures that will boost longer term economic growth.

'On the flip side,' Kapizionis says, 'it is possible that the UK will be able to establish a close relationship with the EU and that the rebuff from UK voters will provide a spur for the EU to resolve some of its problems.'

Too many policy flaws

At the heart of many of the problems for the EU has been the failure of a large proportion of its members to generate sufficient economic growth. Jonathan Loynes, chief European analyst at Capital Economics, believes too main policy flaws have contributed to economic sluggishness in much of the eurozone. The first has been the lack of sufficient structural reforms to improve productivity among the peripheral nations – notably Italy, Portugal and Greece.

Between 1999 and 2016, unit labour costs rose by about 20% in Germany. By contrast, they rose by around 50% in Greece, and between 30%-45% in Italy, Spain, and Portugal. 'These countries have long had inferior productivity growth to Germany, leading to periodic currency devaluations to restore balance,' says Loynes. 'But within the eurozone they no longer have the option of restoring competitiveness through depreciation. Nor have they been willing to engage in the difficult reforms needed to improve economic efficiency.' The result has been slower growth and increasing imbalances within the zone.

> 'The fear is that without the EU, the UK will be less powerful; and without the UK, the EU will be less powerful'

The shock from Brexit may actually make reform less likely. 'Part of the reason reforms have been so hard to implement is that they challenge vested interests,' Loynes says. 'Now governments are likely to be even more fearful of stoking populism – even if reforms would be beneficial in the long

run.' The recent momentum in Europe backs up this worry. The French government has recently watered down labour market reforms that had the potential to significantly reduce labour costs for smaller companies in particular; and Portugal's government has reversed previous public sector wage cuts.

The second major policy defect, according to many economists, has been the reluctance of less indebted countries, such as Germany, to deploy fiscal stimulus. 'The nation has defied pressure not just from other nations but also from the European Central Bank [ECB] to boost growth,' says Loynes. 'Instead, the focus has been on setting an example of fiscal probity for the rest of Europe.'

Public debt to GDP in the eurozone is down from a peak of 80% to around 70% and is on track to fall below 60% by 2020, according to Capital Economics. Partly as a result, the overall fiscal stance has been restrictive, constituting a net drag on economic growth between 2011 and 2014. In 2016 and 2017 the stance is expected to be only marginally expansionary.

'The ECB has attempted to offset this through easier monetary policy,' he says. Even the ECB's unconventional easing, however, started later and has been less aggressive than similar measures adopted by the Bank of England and the US Federal Reserve. In the UK and the US the central banks purchased assets equivalent to nearly 25% of GDP. The ECB's bond buying has, as of May 2016, amounted to roughly 17% of GDP.

Slow economic growth has in turn increased social tensions over immigration, argues Simon Evenett, professor of international trade and economic development at the University of St Gallen in Switzerland.

'There is plenty of evidence that immigration and free movement of labour boosts growth overall and lifts government revenues,' he says. 'Still, it can be difficult to convince lower income families that this is the case. Especially in periods of economic stagnation, many can feel that they are having to compete for jobs and state benefits with immigrants.' Such worries were accentuated by the refugee crisis as Syrian refugees fled the nation's civil war.

Central European concern

There has even been pushback on integration from central European nations, who have been among the largest beneficiaries of funds from the EU since they joined the club in 2004. Just days after the outcome of the UK vote was known, the Visegrad countries of Poland, Hungary, Slovakia and the Czech Republic, blamed the European Commission for Brexit.

'The genuine concerns of our citizens need to be better reflected,' the prime ministers of these four countries said in a joint statement. 'National parliaments have to be heard. The institutions of the EU need to stick to their missions and mandates.'

Eastern European leaders are resisting deeper integration, despite billions of dollars of fiscal transfers from the EU and a surge in remittances as many of their citizens have well-paid jobs in richer nations such as Germany and the UK. A more nationalist spirit has been reflected in the election of more EU-sceptic parties, such as Poland's Law and Justice government and Hungary's Fidesz party. There has also been growing opposition to the fiscal austerity preferred by the core-EU nations, led by Germany.

In Hungary, prime minister Viktor Orbán has implemented tax cuts and raised the salaries of healthcare workers. The government in Poland is planning to boost benefits, a move that the International Monetary Fund has warned could cause the budget deficit to widen 'significantly'.

Meanwhile Marcel Coppini FCCA, a corporate governance, ethics and audit quality consultant in Malta and a member of ACCA's International Assembly, believes the European Commission needs to respond. 'They must convey that they are receptive and willing to adjust, as well as conveying their mission in terms that resonate more clearly to citizens,' he argues. »

▲ Testing times
An employee at a foreign exchange brokerage in Tokyo, Japan, flanked by the EU and UK flags, the day after the UK's referendum. News of the UK's decision to leave the EU triggered a fall in the pound to a 31-year low

'It is clear that the EU suffers from a reputational problem, often being perceived as bureaucratic, top heavy and spewing out "one-size-fits-all" regulation. Many contend that Brexit is a wake-up call to the EU. The truth is that the EU has been faced with a number of decisions it had to take, not only to maintain financial stability during the European debt crisis in late 2009, but also had to address other important socioeconomic problems facing Europe – for example, immigration and the environment.

'Clearly, some of the decisions then taken by the commission, although in the best interest of a unified Europe, did not go down well with a number of European citizens, including politicians of a number of member states. This has caused division, not only within the Establishment itself but, even more so, at individual member-state level.' The EU should, he says, focus on 'educating the citizen on what the commission is seeking to achieve'.

Still, most economists and trade experts believe that the EU and the world would be worse off if the European project rolls into reverse. 'If the EU were to fall apart, it would be a huge loss,' says Hufbauer. 'It is not that we would see obvious trade barriers or tariffs being erected again. Instead, you would see a lot of backsliding on issues such as subsidies and government procurement that are more covert and harder to combat.'

In addition, the EU has been working on a number of projects that have the potential to enhance the economic benefits of the union. For a start, the single market has still yet to reach full fruition, experts argue. 'There is still a lot more to be achieved,' says Hufbauer. 'If you compare the level of trade to the commerce between US states, admittedly a high bar, this 'trade density' is about twice as great in the US versus Europe. Not all behind-the-border barriers have been removed. In local markets there are still some cartels and progress still needs to be made making government procurement more equitable.'

The next obvious frontier for the EU has been to create a single market for services. 'Services sector jobs in areas such as healthcare, retail, universities and public administration, along with some parts of law, have been relatively immune to globalisation,' says Evenett. 'The economic benefits from opening up some of these sectors within the EU would be considerable.'

Under current political conditions, he says, the chances for significant progress look slim. Still, over the long run, the potential gains could be considerable, he argues. The UK, as a leader in services, would have been especially well placed to benefit from advances in services trade.

Digital drive

One of the most promising initiatives, according to Walters, is the Digital Single Market, which would make it easier for EU citizens to buy, sell or watch things online. The commission – the EU executive – has predicted that this could add €415bn to the bloc's economy every year and create hundreds of thousands of jobs.

The digital initiatives promise to eliminate 'unjustified geo-blocking', which prevents people from viewing content from foreign nations; harmonise tax rules; and even introduce more transparency on parcel delivery. 'This kind of initiative has the potential for huge benefits,' says Walters. 'It would give greater uniformity and certainty to businesses operating in this fast-growing part of the economy, which would ultimately drive growth,' adding that 'We face a conundrum in the UK where we top the global leader-board for e-commerce yet rank just 14th for company-level adoption of digital technology, so the Digital Single Market was hoped to go some way in bridging this gap by boosting digital uptake across the EU.'

It is not clear, however, how this initiative will now fare, given that the UK, along with the Nordic and Benelux countries, were among the major proponents of the Digital Single Market, while France and Germany have been wary of further liberalisation.

The EU has also been working on a capital markets union, designed to allow investment funds and traders to operate freely across Europe – a plan intended to increase access to funding for businesses, among other things. (While the EU economy is roughly the same size as the US, its equity markets are less than half the size – and the EU debt markets are less than one-third as large.)

How this initiative develops has also been thrown into doubt by the UK exit, since British negotiators favoured a lighter approach to regulation surrounding the capital markets union.

The upshot is that the entire European project is now in flux. The EU and euro were already struggling with slow growth, fading public approval and slow progress on further liberalisation. 'It is unclear how the situation will now develop,' says Walters. 'But the UK decision to exit the club could make it even harder for the EU to make positive changes that will stimulate sustained economic growth.' ■

Christopher Fitzgerald and Fernando Florez, journalists

On the right tack

China's policymakers must be sure to hold their nerve if its economy is to weather the current difficult patch and regain calmer waters, says Manu Bhaskaran

China now accounts for more than 10% of world output and imports and is a major source of foreign investment in both developing and emerging economies. Given this large footprint, it is crucial to understand how the growing challenges its economy faces will unfold.

The Chinese economy has slowed significantly since 2014 and, despite huge government efforts to boost demand, the deceleration is persisting. Moreover, the massive accumulation of debt has brought the ratio of China's total debt to its GDP close to an eye-popping 250%, the corporate sector alone accounting for 156% of this. With the country suffering persistently falling producer prices since 2012, the real burden of this soaring debt threatens the corporate sector's finances.

Investment amounts to close on half of the Chinese economy and, given over-capacity in many industries, excessive debt, and over-supply of real estate, it is virtually certain that private investment, which grew in May at the slowest pace since records began, will slow further or even contract. Since private investment is about two-thirds of total investment, it will take an impossibly huge surge in public investment to offset this deceleration.

Of course, the economy has the benefit of some positive drivers. Urbanisation generates growth. The online retail revolution is sparking off substantial investment in logistics and transportation. And China is also reaping tremendous supply-side efficiency gains from the massive rollout of new road and rail links.

Meanwhile there are two worries about the financial sector. First, corporate debt surged sharply over a short period in a system where the credit culture is still weak. Second, shadow banking has also expanded in the context of an incomplete regulatory framework. These are serious issues but we are not convinced that a Lehman-like financial crisis is likely. A combination of bank re-capitalisation and regulatory forbearance can probably take care of the mounting bad debts in the formal banking sector.

Manu Bhaskaran is CEO of Centennial Asia Advisors in Singapore

The risks in the shadow banking sector are difficult to assess given poor information. However, most of this risk appears not to have been repackaged in the form of the leveraged securities in the way it was in the US prior to 2008 – ie, in a manner which could lead to a chain reaction of financial shocks. The risk now in China remains principally with the banks where, as outlined above, the risks can be contained and where the banks continue to have a strong incentive to manage those risks by negotiating restructuring deals with those parts of the system which might be encountering stresses.

Clearly, effective policy is crucial if these risks are to be contained. If the economic and financial stresses are to be adequately managed, policymaking has to be anticipatory, carefully calibrated and implemented quickly. So far, the track record of Chinese policymakers has been remarkable. The system has already been stress-tested: the northeastern provinces have suffered an economic crash as the old industries there have taken the brunt of the economic slowing, while many parts of the real estate sector have deflated sharply as well. The economy and the financial system have held up reasonably well, indicating a degree of resilience in the system as a whole.

So, as long as policymakers continue to devise effective responses to China's ongoing economic and financial stresses, the Chinese economy is likely to weather this difficult patch. But if economic policymaking is disrupted, the risks to China's economy and hence to all of us will increase. ■

If you can't beat them...

Digital disruptors are here to stay, says Cesar Bacani, and market incumbents who fail to acknowledge and respond to the competition will find themselves left behind

Cesar Bacani is editor-in-chief of *CFO Innovation*

A key theme in the *CFO Innovation* conference series this year is the rise of digital disruptors and how finance chiefs across Asia should respond to them. At the flagship Asia Forum in Singapore in May, Serguei Netessine, professor of global technology and innovation at INSEAD, warned that no industry or company will remain untouched – yet many are 'in denial'.

But some are not. At the Philippines Forum in June, the CFO of a major non-life insurer said he was closely watching a mobile app developed abroad that offers motor insurance coverage only when the vehicle is on the road. That means lower premiums, since the motorist does not have to pay for coverage when the car is in the garage.

Of course, there are regulatory and other hurdles to be overcome, but this CFO is convinced that it's only a matter of time before this innovation, and others like it, disrupts the market incumbents. That's why he is pushing the organisation to take action now, although he admits it is not an easy task.

A finance professional in his 40s, this CFO was brought in fairly recently to modernise the finance function of an eight-decades-old firm. Veterans in finance and other departments are not always open to technology and change. But, he said, the company is aware of the risk posed by digital disruptors and is now looking at developing a similar mobile app of its own.

Taxi companies in the Philippines are well aware of new competition in their sector as regulators have allowed Uber and Grab to operate in Manila and other key cities. However, to protect the incumbents, the vehicles used by Uber and Grab drivers must not be more than three years old. Even so, there seems to be no shortage of new SUVs and sedans (and owner-drivers) taking away market share.

I never took a taxi during the week I was in Manila because of concerns about security and overcharging. Besides, my Uber account, which I had opened in Hong Kong, worked equally well in the Philippines, so it was simply a matter of opening the app and calling for a car. There were plenty of Uber vehicles available, the cars were brand new, and the drivers were whizzes at using technology aids to navigate the city's horrendous traffic. The fares – very reasonable in comparison to those in Hong Kong – were charged straight to my credit card and the use of e-receipts meant no worries about losing paper documents.

The head of a non-profit organisation told me recently that he has given up his company vehicle and signed up with the Uber for Business service instead. A dashboard allows the organisation to set policy limits on who in the organisation can use the service, and where and when. There's no longer a need to purchase and maintain a fleet of company vehicles, and regular e-reports on usage, cost and trip details help with accounting, compliance and governance.

It's an example of how the digital disruptors can be of benefit to companies, incumbent or not. Netessine, who co-wrote a report on how the world's leading companies are tackling the digital challenge, says that incumbents can partner with the disruptors, acquire them, empower innovators within the organisation to take them on – or cash out now.

The worst thing any business can do is to deny that they are under threat and continue doing what they have been doing for so many years. ■

The power of productivity

If government plans to boost productivity have the desired effect, Malaysia's goal of becoming a developed nation by 2020 may come within reach, says Errol Oh

Productivity has seldom been at the front and centre of the national conversation in Malaysia. That's hardly a good state of affairs given that a country's ambitions are inextricably tied to its efficiency in production. As World Economic Forum founder and executive chairman Klaus Schwab points out in his recent book, *The Fourth Industrial Revolution*, productivity is the most important determinant of long-term growth and rising living standards.

It is not that the Malaysian government has overlooked the importance of productivity. Its development strategy for the five years leading to 2020 is very much dependent on unlocking the potential of productivity. The 11th Malaysia Plan (11MP) points out that Malaysia's labour productivity level has some way to go to catch up with those of many high-income economies. The input-driven ways of the past, heavily supported by private and public investments, are no longer enough; there has to be greater emphasis on increasing productivity to achieve a more sustainable, inclusive and higher rate of economic growth.

Last year, Malaysia's labour productivity (amount of GDP per hour of labour) was RM75,538. The 11MP goal for 2020 is RM92,300 – an annual productivity growth of 3.7%. This demands close to a doubling of efforts, given that from 2010 to 2015, productivity grew by an average of 2%.

In his message in the *Productivity Report 2015/2016*, international trade and industry minister Dato' Sri Mustapa Mohamed said Malaysia needs to adopt 'some very radical approaches' to ramp up productivity growth.

In place of (often fragmented) government-led initiatives at the national level, the plan is to implement focused and comprehensive actions at national, industry and enterprise levels, spearheaded by industry champions and industry associations, with support from government.

Automation and upgrading of skills are to be intensified and there are plans to enhance the innovation ecosystem, which should yield better processes and technologies that can lift productivity.

Errol Oh is executive editor of *The Star*

But perhaps the most promising element of the plan is a nationwide productivity agenda and implementation plan. This encompasses the formulation of a five-year Malaysia Productivity Blueprint, the strengthening of the governance and institutional mechanism for implementation of productivity strategies, and the setting up of a dedicated national productivity portal.

According to Malaysia Productivity Corporation (MPC), a statutory body, the blueprint will address productivity-related issues and challenges in a comprehensive and cohesive manner, and design and develop improvement strategies, initiatives and programmes.

In addition, a National Productivity Council will be established to outline directions and formulate an action plan to boost productivity via the blueprint.

In the *Productivity Report 2015/2016*, MPC chairman Tan Sri Azman Hashim wrote, 'As the clock ticks steadily towards 2020, raising higher consciousness on productivity will be the key towards effecting a habit-forming culture among Malaysians.'

In the same publication, Mustapa expresses his hope that with the upcoming release of the blueprint, 'the spirit of productivity will continue to live and breathe amongst Malaysians'.

Given so much activity on the productivity front, there is plenty for Malaysians to talk about. And if the conversations translate into results, the target of becoming a developed nation by 2020 may well be within reach. ■

Together we're stronger

What better way to mark the end of her year as president than see ACCA move from strength to strength with its alliance with CA ANZ, says Alexandra Chin

In late June, ACCA announced our strategic alliance with Chartered Accountants Australia and New Zealand (CA ANZ). (See also page 60.) I'm really excited by this bold development, as it will offer real value to our respective members.

It's through inclusive partnerships that ACCA is able to extend the range of services and recognition available to members. Our alliance with CA ANZ will respect the strong heritage and values of both organisations while bringing value to our combined body of members and students across the world – 788,000 in total – and the alliance marks the initial step in a valuable long-term relationship.

Our announcement came when many around the world were trying to comprehend the next steps for the UK and the European Union, where a referendum vote narrowly decided the UK's departure from the EU. A sense of alienation blamed on globalisation was identified as one of the possible reasons for the Brexit vote.

Globalisation is a force that cannot be denied. In our research *Professional accountants – the future*, many respondents saw this as one of the main drivers of change. It requires local and international knowledge of emerging trends in business, technology and society; corporate governance and risk management frameworks; diverse cultures and business practices; and of course an understanding of multiple languages. Globalisation is about seeing the bigger picture and understanding where you fit in.

Our alliance with CA ANZ is all about seeing this bigger picture. It adheres to our values of accountability, diversity, innovation, integrity and opportunity. I was reminded while in Singapore for the inaugural ASEAN Conference 2016 that the profession is truly global and thrives by working together with partners. The event, attended by more than 500 delegates, was themed 'Transforming the face of accounting and finance talent'. I was honoured to speak at the event and welcome guests from ACCA's Council and the ASEAN Federation of Accountants, as well as local and regional members, guests and partners. I spoke about the need for people and business to work together for the benefit of society. I said that over the years we have had many transformations, and there will be more to come. After all, as the UK Brexit vote has shown, we live in uncertain, complex and ambiguous times. It's my belief that stability can be achieved by forging strong working relationships and partnerships. Indeed, ACCA's growth has been achieved because we have forged strong partnerships with other bodies, employers and learning providers.

ACCA is deeply committed to its many partnerships around the world. They are what make the profession thrive and they are always entered into with members and student value at their heart. Together, we work to grow the profession so that these partnerships will continue to transform the face of accounting and finance talent. We are a global family, and we can and do transform societies.

As I hand over the reigns of presidency after what has been an amazing year, despite the turbulent times we live in, I want to thank members for their fantastic support and for sharing their stories with me of how ACCA has changed their lives. I am proud to have served you. ■

Alexandra Chin runs her own practice in Sabah, Malaysia

For more information:

See *Professional accountants – the future* at accaglobal.com/thefuture

The view from

Anne Copeland, sustainability adviser and founding director of Copeland & Partners, Hong Kong

I began my now 28-year career in Canada, designing and facilitating stakeholder engagement processes. Moving to Hong Kong and working throughout Asia, I began to expand my work to environmental, health and safety management, sustainability strategy development and implementation, auditing, reporting and assurance. Since founding my own firm in 2008, I have continued to focus on sustainability risk management and strategy, performance improvement and reporting for the financial and corporate sectors.

An appreciation for nature has played a big part in my life. Sustainability is about understanding that everything is linked and that decision-making must be holistic and integrated for results that are in the best interests of society and the environment, today and for tomorrow.

> Sustainability is about understanding that everything is linked and that decision-making must be holistic and integrated

Realising that governments weren't living up to their stewardship responsibilities and that the majority of the corporate world wasn't operating in a responsible manner was eye-opening. I believe this has pushed the Earth beyond its carrying capacity. Our economic and financial systems do not internalise externalities, which is critical to drive sustainable decision-making, investments and actions. This is rooted in the failure of governments to set level playing-fields for investors, business and consumers to adopt sustainable behaviour.

On the one hand, the impact of expanded business activity and consumerism has significantly and adversely impacted the environment and increased the exploitation of labour throughout Asia. On the other, business and consumers are more aware of sustainability issues. A growing number of businesses, in APAC and globally, are now integrating sustainability into their operations and value chains, achieving resource efficiencies, reduced environmental impact and improved working conditions and livelihoods, and providing real examples that demonstrate how sustainability is a driver for innovation, building a sustainable business and creating public good.

Raising awareness and concern will generate the groundswell for change in Asia. To achieve that, we need to focus on what a brighter future could and should look like in a way that people can visualise, as well as the change that can and should be taken.

My aspiration is to live in a world that is as incredible as it should be, where environmental and social justice is the norm. I am passionate about doing the right thing and making this world more sustainable. ■

Snapshot: telecoms

In global communications, consolidation is a key issue. Operators argue in favour of it because it allows greater investment in infrastructure, and governments endorse it because it facilitates improved access for consumers. However, there has been a hardening of attitudes among regulators concerned that it may lead to rising prices and more limited choice.

Another issue is data privacy and protection. How and under what circumstances customer data may be accessed or repurposed, and the measures required to protect customer data, have been widely debated. The EU's new General Data Protection Regulation directive is an ambitious move to harmonise data protection measures across the EU.

In commercial terms, the sector is generally resilient in the face of economic uncertainty. However, operators are under pressure to keep pace with start-up innovators, such as app developers who might make inroads into legacy revenue, something some players look to avoid by pursuing collaboration or by participating in incubators.

Finance professionals in this evolving sector need to have a flexible mindset and the ability to collaborate across departments and disciplines. The ability to bring in and work with people who have different perspectives is highly prized.

Adrian Baschnonga, global lead telecommunications analyst, EY

Costing the earth

As water becomes an ever more scarce resource, the public and private sectors must develop an appreciation of its value and create sustainability structures for the future

▲ Cruel diversion
Vietnam has been badly hit by drought, exacerbated after Thailand diverted more than 47 million cubic metres of water

► Long wait
India is in the grip of one of the nation's worst droughts since independence, following two years of poor rainfall

Record droughts across Asia over the past year have highlighted the need for societies to save water, for governments to price it properly and for companies to develop strategies to cut rapidly rising water costs.

For companies, water risk is on the rise. In the World Economic Forum's *Global Risks 2015* report, businesses rated 'water crisis' as a top risk for this year and said it will remain a chief concern over the next decade.

In a report last year, investor-led data transparency organisation CDP found that almost two-thirds of the 405 companies it surveyed had some exposure to water risk. The financial impact of this risk topped US$2.5bn. CDP's report was published on behalf of 617 institutional investors with US$63 trillion in assets.

'The biggest problem we have is the water issue. I said 10 years ago that we will run out of water long before we are out of oil. At that time, everybody smiled. People have stopped smiling now,' Peter Brabeck-Letmathe, chairman of giant multinational Nestlé, told delegates at the Asian Financial Forum in Hong Kong in January, adding that this year water usage has increased by 20%.

Water security concerns are increasingly prevalent around the globe. Companies are stalling projects because of supply concerns or because they don't meet new standards. As the issue gains more attention, investors are asking companies what action they're taking to prevent a full-blown water crisis.

Some of the most dramatic water shortages have been felt in India, where millions have been waiting for two years for rains that have yet to come. Crops have failed and debts have piled up. P Chengal Reddy, secretary general of the Consortium of Indian Farmers' Associations, stresses how frustrating the situation is: 'More than 60% of India's agriculture depends on the monsoon season,' he says. 'Currently we are seeing 30% to 40% of farmland receiving less than normal rain since last year.'

In Thailand, the Mekong river hit record low levels until China took the unusual step of opening dams upriver to alleviate the situation. The aim of the release was to aid farmers not only in

Thailand but also downriver in Cambodia, Laos and Vietnam. Unfortunately, Thailand made the unilateral decision to install four large pumps and divert more than 47 million cubic metres of water, which left Vietnamese farmers dry.

Boost charges

In China, where water is very cheap, there have been calls to boost charges. Research by Global Water Intelligence shows that the average water price in 25 major Chinese cities was US$0.46 per cubic metre in 2011, compared with a global average of US$2.03 per cubic metre. Water rates in China are less than one-tenth of those of many developed countries such as the US, Germany and France.

'Low price is, of course, one of the many factors that lead to water waste, especially in those water-scarce regions like the North China Plain,' says Liu Hongqiao, a researcher at advocacy group China Water Risk.

'Water prices cannot reflect the value and scarcity,' adds David Chen Yongqin, professor of geography and resource management at the Chinese University of Hong Kong. 'People take it for granted as it is a basic need.' He adds that the demand for water is particularly large in developing countries, with make up most of Asia.

One example of how effective water management can go a long way towards alleviating even the most dire conditions comes from Israel, which has very limited freshwater resources.

'Israel adopted sustainable development guidelines and legislation to maximise the utilisation of existing water resources,' explains Neil Wang, global partner and Greater China president at Frost & Sullivan, an international business intelligence provider. 'Meanwhile, it reshaped its pricing structure, reflecting the true value of water. Differentiated prices are set up for different user groups. For instance, for agricultural use, the prices are much lower than those for household use.'

In addition, Israel has built up one of the largest and most advanced desalination systems in the world and has established massive water recycling facilities, boosting the recycling rate of wastewater to above 80%, compared with just 10% in US, according to Wang.

Companies should take note, according to William Ambrose, global head of ownership strategies at Norges Bank Investment Management. 'We expect that boards should incorporate water management into strategy, investment planning and risk management,' he says. 'We emphasise transparency and disclosure. We use such information to identify how water challenges may affect companies' performance and prospects. We assess, as relevant, whether the company board and management are taking steps to develop a long-term business strategy addressing such challenges. As an investor, we analyse opportunities and risks to our investments.'

> 'Water prices cannot reflect the value and scarcity. People take it for granted as it is a basic need'

Multinational drug maker Bayer, for example, includes water issues in its planning. The company has introduced a number of initiatives to reduce water use, including awareness campaigns, more stringent monitoring of water consumption and leaks, and recycling cooling water. Admittedly, part of the focus is cutting costs.

'Our Ansung site in South Korea has been exposed to increased water and wastewater prices, which have averaged 5% per year for the past decade,' says Bayer, quoted in the *CDP Global Water Report 2015*.

With one in 10 people worldwide – almost twice the population of the US – lacking access to clean water, conserving the resource is more important now than ever. There is increasing understanding that water is not inexhaustible. Current levels of water use are significantly in excess of what is sustainable in the long run and estimates suggest that the shortfall will get much worse by 2030.

'Water impacts business beyond the agriculture sector because it is required for the production of goods, such as textiles, and subject to increasing »

▲ Burnt out
California in the US has suffered from severe drought since 2010, costing the agricultural industry around US$5bn

Global concern

California has been combating severe drought since 2010, with the agricultural industry losing roughly US$5bn in revenue as a result of the water shortages. In 2015 alone, according to an economic update from researchers at the University of California at Davis, the drought was expected to cause losses of US$1.8bn in farm revenue and 8,550 job losses.

What is happening in California may be just the tip of the iceberg and that is just a microcosm of a global water crisis.

Asia, which is home to many developing countries, has been suffering particularly acute droughts since last summer. In India, for example, 22 out of 32 of the bigger cities face daily water shortages. Figures by the international charity WaterAid suggest that 75.8 million Indians, or 5% of a total population of 1.25 billion, have to buy water at high rates or use supplies contaminated with sewage or chemicals.

In East Asia, the Mekong, a source of water for hundreds of millions of people, is at its lowest level since 1926. Japan has also been affected by dry conditions, and the problem is increasingly serious throughout large parts of Pakistan, North China and South-East Asia. 'This is because increasing levels of agricultural production, a major consumer of water, will be needed to feed growing populations,' Nestlé chairman Peter Brabeck-Letmathe told delegates at the 2016 Asian Financial Forum in Hong Kong. 'This challenge is being compounded by dietary changes shifting to more water intensive products, such as meat.' energy related demands,' Brabeck-Letmathe said at the Asian Financial Forum. 'Nestlé has successfully introduced "shadow pricing" to set a cost for water use in its facilities that is tied to the local availability of water,' he added. 'The artificial price provides an incentive for factory managers to monitor usage more closely and use resources more efficiently.'

Lack of knowledge

While awareness about water scarcity has risen among companies and governments in the past decade, inefficient usage in agriculture and other areas is still a global issue, in part due to lack of knowledge.

'Politicians often favour more high-profile, short-term solutions that are often very inefficient, such as damming rivers and building canals, rather than addressing lower profile, long-term solutions such as working with local farmers on water conservation methods,' Brabeck-Letmathe said.

One example is the case of India. 'We blame the government, which has not prepared for it,' says Cecilia Tortajada, senior research fellow at the Institute of Water Policy at the National University of Singapore. 'Farmers do not get long-term funding support as well as technical assistance, like they would get in other countries.'

> 'Politicians often favour more high-profile, short-term solutions that are often very inefficient, such as damming rivers'

Better water management systems, including funding and improved infrastructure, as well as a stronger focus on education could help.

'Governments do not prioritise water infrastructure, such as waste water management vital to keeping rivers clean, in their infrastructure investment projects. Water is also typically not priced in a manner that reflects its true value,' Brabeck-Letmathe said. 'This creates a lack of financial incentive to implement the investment and practices needed for efficient management. In many cases, water is often seen as a very low cost or even free resource, leading to widespread waste.' ■

Pearl Liu, journalist

The view from

Charles Yang ACCA, audit manager, EY, Malaysia and people development enthusiast

I began my career in audit with KPMG Malaysia in 2010. I then moved to EY Malaysia in 2011 and I've been there ever since. I moved to EY because I wanted to specialise in the oil and gas industry, and EY has been able to provide me with that sort of opportunity. Back when I was a fresh graduate, audit seemed a clear choice as I hoped it would allow me to understand the key risks and operational overview of multiple industries in a short space of time, which it has – notwithstanding the investment of additional hours due to a much steeper learning curve compared to the commercial sector.

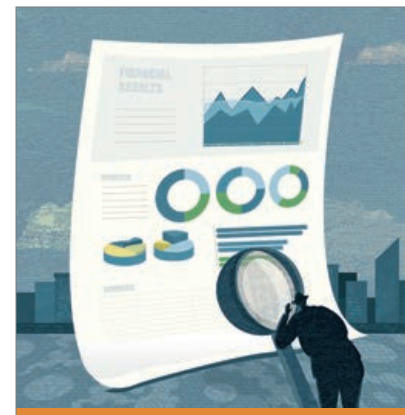
As an audit manager, my role is to oversee and facilitate the entire audit cycle to ensure engagements are completed on a timely basis, and our clients are happy with the services rendered. This includes providing solutions to address key issues and audit findings, developing and maintaining positive client relationships and generating new business. I am also actively involved in talent acquisition, as one of the interview-panel members for assurance entry level, ie fresh graduates. Lastly, I provide on-the-job feedback to ensure that team members are consistently developing strengths and improving weaknesses. I also provide training sessions to juniors and seniors. What I enjoy most is the intrinsic satisfaction gained from seeing how team members grow into all-rounders and experienced individuals.

> My aspiration in life is never to settle for complacency: life's not what happens to you, but what you do about it

Over the years, providing assurance services has become more challenging due to the constant updates and improvement of accounting standards. Hence, it is vital to ensure that we are aware of such changes. Also, staff retention and succession planning have become more challenging due to the decline in the Malaysian exchange rate – many people have chosen to continue their career in audit in Singapore.

What makes Malaysia an interesting place to do business is its cost of doing business and its cost of living, which are both moderate. The government is also encouraging foreign direct investment by promoting tax incentives for companies that fulfil certain criteria. The country also possesses abundant natural resources that facilitate manufacturing activities.

My proudest achievement has to be playing an active role in developing our people and seeing them realise their maximum potential. This involves giving them different opportunities and challenging them to achieve greater success and not be complacent. My aspiration in life is never to settle for complacency: life's not what happens to you, but what you do about it. ■



Snapshot: tax reporting

Tax practitioners are always on standby for regulatory change. In financial services, the Capital Requirements Directive (CRD IV), is having an impact on banks' tax strategy and reporting arrangements, while Solvency II compliance is still affecting the insurance sector.

The shift to country-by-country reporting is one of the biggest challenges facing tax functions. Corporates are being asked to disclose more and more, in all likelihood with less resource.

Other challenges include the requirement for companies to publish their tax strategy – new in the UK but already implemented in other countries such as Spain. This is likely to be enacted elsewhere, too, so it's only sensible for businesses to work on a global approach that they can apply locally.

Add in the OECD's Base Erosion and Profit Shifting (BEPS) initiative and other measures designed to expose harmful tax practices, and you have considerable strategy and compliance burdens – on top of operational issues such as how and when to implement new systems.

The best tax practitioners look to understand the business as broadly as possible. Data analytical skills are at a premium, as are change and project management capabilities, and the capacity to grapple with complexity and make technical issues accessible to others.

Giovanni Bracco, tax reporting and strategy partner, PwC

Cloud control

The Big Four are leading the way in creating their own cloud accounting platforms, with SMEs playing a key role as the innovative approach goes mainstream

Accounting software companies are increasingly encouraging businesses to move their finance functions to the cloud. But what's in it for accountants? Why are they, too, now promoting the likes of Xero, MYOB, Saasu and Reckon, when such programmes effectively enable SMEs to take care of their own bookkeeping drudgery – tasks usually outsourced to accountants?

The charge is being led by Australia and New Zealand, with even the Big Four on board – stepping, seemingly, into the deep yet relatively uncharted pool of small and medium-sized enterprises. Enter the likes of PwC's Next, KPMG Agile and Deloitte Private Connect, with EY preparing a platform of its own.

PwC's Next was launched in February 2016 as a new business solution combining multiple cloud accounting tools and integrated cloud applications on an open platform, with customisable dashboards. A collaboration between member firms in New Zealand and Australia and a handful of Australasian start-ups and emerging technology companies, PwC's Next is currently being used by private businesses, families and individuals, and is expected to filter up the chain to the more traditional Big Four territory of larger clients.

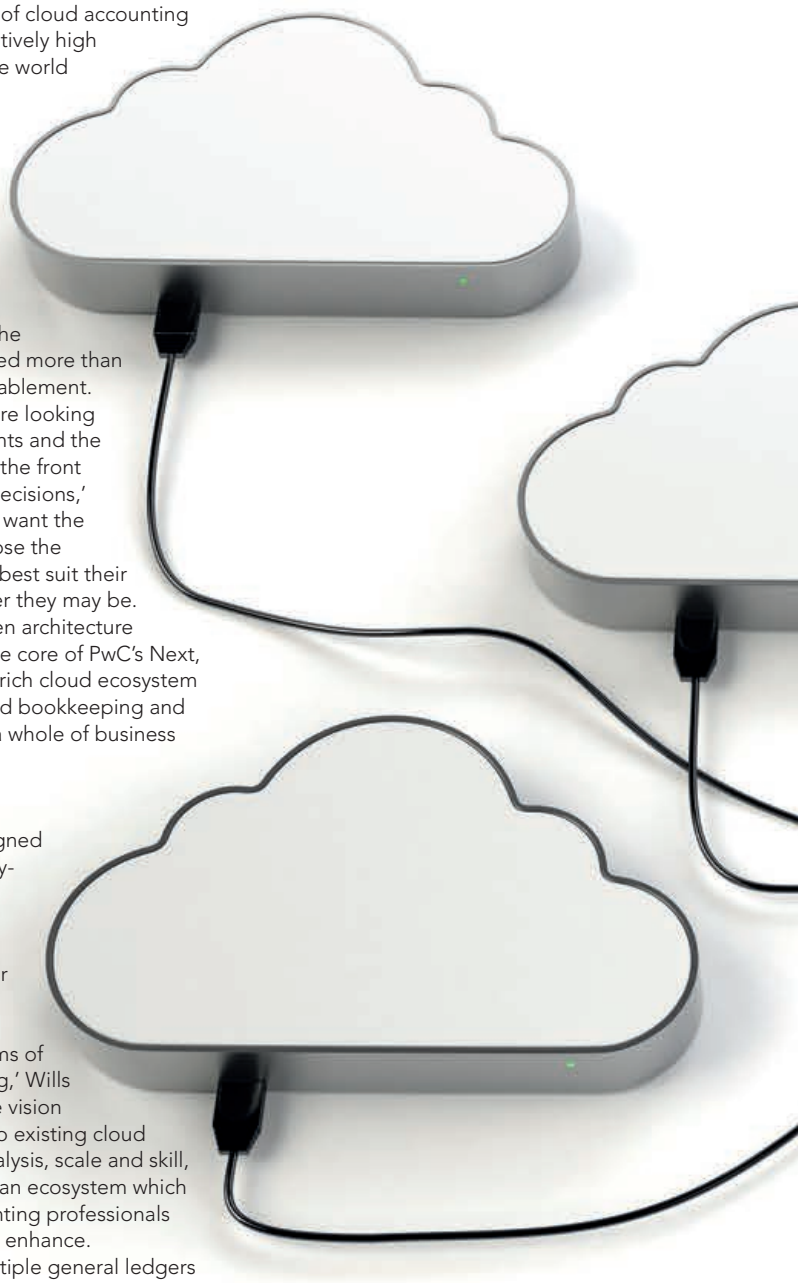
'We've tended to start at the small end of SME business because that's where [cloud] penetration is taking hold,' David Wills, PwC's private clients' leader, explains. 'That's also the part of the market that's being most disrupted.' As more and more add-ons enable a more sophisticated analysis of what the basics do, the platform will become more relevant for the medium-sized business. 'You start with a minimum viable product and you then evolve it in its sophistication and complexity to other parts of the market,' Wills says.

He admits to being a bit surprised that the push is coming from 'Down Under', while noting that countries such as Singapore, China and Hong Kong are 'really watching with interest' the Australasian experiment. He guesses it's because uptake of cloud accounting tools is comparatively high in that part of the world – around 20% of businesses in New Zealand and 10% in Australia.

Next evolved as a result of PwC partners' realisation that the market demanded more than merely cloud enablement.

'Our clients are looking for deeper insights and the ability to get on the front foot in making decisions,' Wills says. 'They want the freedom to choose the cloud tools that best suit their needs – whatever they may be.

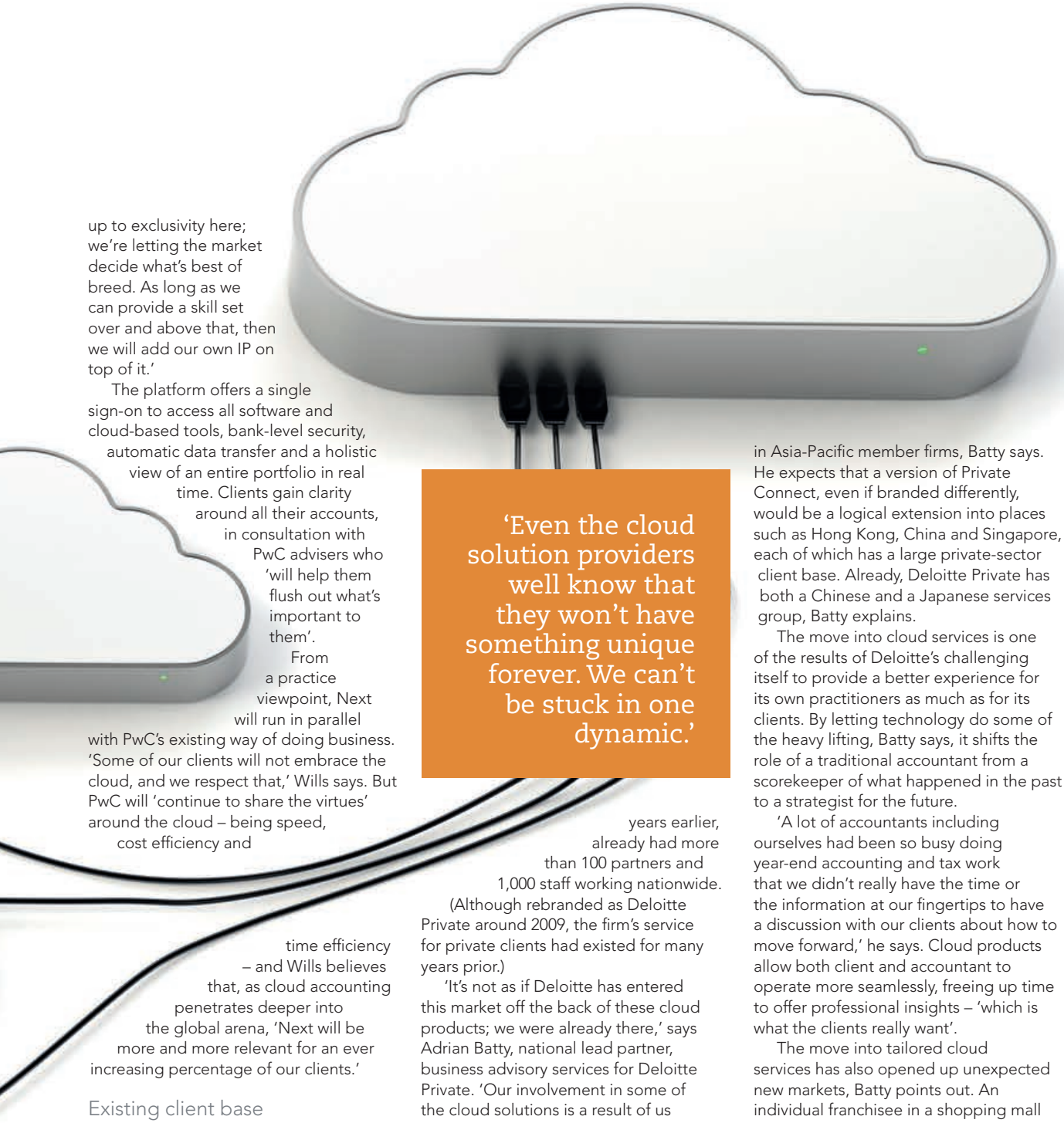
'By using open architecture technology at the core of PwC's Next, we've created a rich cloud ecosystem that goes beyond bookkeeping and accounting; it's a whole of business solution.'



Add value

Next is not designed to be a 'made-by-PwC product'. ('Our market reality is that there are nimbler organisations already well advanced in terms of cloud accounting,' Wills says.) Rather, the vision is to add value to existing cloud products, via analysis, scale and skill, and wrap it into an ecosystem which the firm's accounting professionals can support and enhance.

Next has multiple general ledgers (including MYOB and Xero), with the capacity to bring in others. Letting the client use tools they are already familiar with is an important design feature, Wills says. 'Even the cloud solution providers well know that they won't have something unique forever. We can't be stuck in one dynamic. We're not signing



up to exclusivity here; we're letting the market decide what's best of breed. As long as we can provide a skill set over and above that, then we will add our own IP on top of it.'

The platform offers a single sign-on to access all software and cloud-based tools, bank-level security, automatic data transfer and a holistic view of an entire portfolio in real time. Clients gain clarity around all their accounts, in consultation with PwC advisers who 'will help them flush out what's important to them'.

From a practice viewpoint, Next will run in parallel with PwC's existing way of doing business. 'Some of our clients will not embrace the cloud, and we respect that,' Wills says. But PwC will 'continue to share the virtues' around the cloud – being speed, cost efficiency and time efficiency – and Wills believes that, as cloud accounting penetrates deeper into the global arena, 'Next will be more and more relevant for an ever increasing percentage of our clients.'

> 'Even the cloud solution providers well know that they won't have something unique forever. We can't be stuck in one dynamic.'

Existing client base

When Deloitte launched Private Connect, its cloud-based technology platform targeting small businesses, in mid-2014, it was tapping an existing client base of SMEs – privately owned enterprises, individual and family wealth and not-for-profits. Deloitte Private, a parallel business established in Australia years earlier, already had more than 100 partners and 1,000 staff working nationwide. (Although rebranded as Deloitte Private around 2009, the firm's service for private clients had existed for many years prior.)

'It's not as if Deloitte has entered this market off the back of these cloud products; we were already there,' says Adrian Batty, national lead partner, business advisory services for Deloitte Private. 'Our involvement in some of the cloud solutions is a result of us understanding what the marketplace wants us to do and streamlining our own business to operate more proficiently in that chosen market.'

The service began in Australia – quite possibly because of the sheer weight of SME numbers there – but elements of the private client concept are being replicated in Asia-Pacific member firms, Batty says. He expects that a version of Private Connect, even if branded differently, would be a logical extension into places such as Hong Kong, China and Singapore, each of which has a large private-sector client base. Already, Deloitte Private has both a Chinese and a Japanese services group, Batty explains.

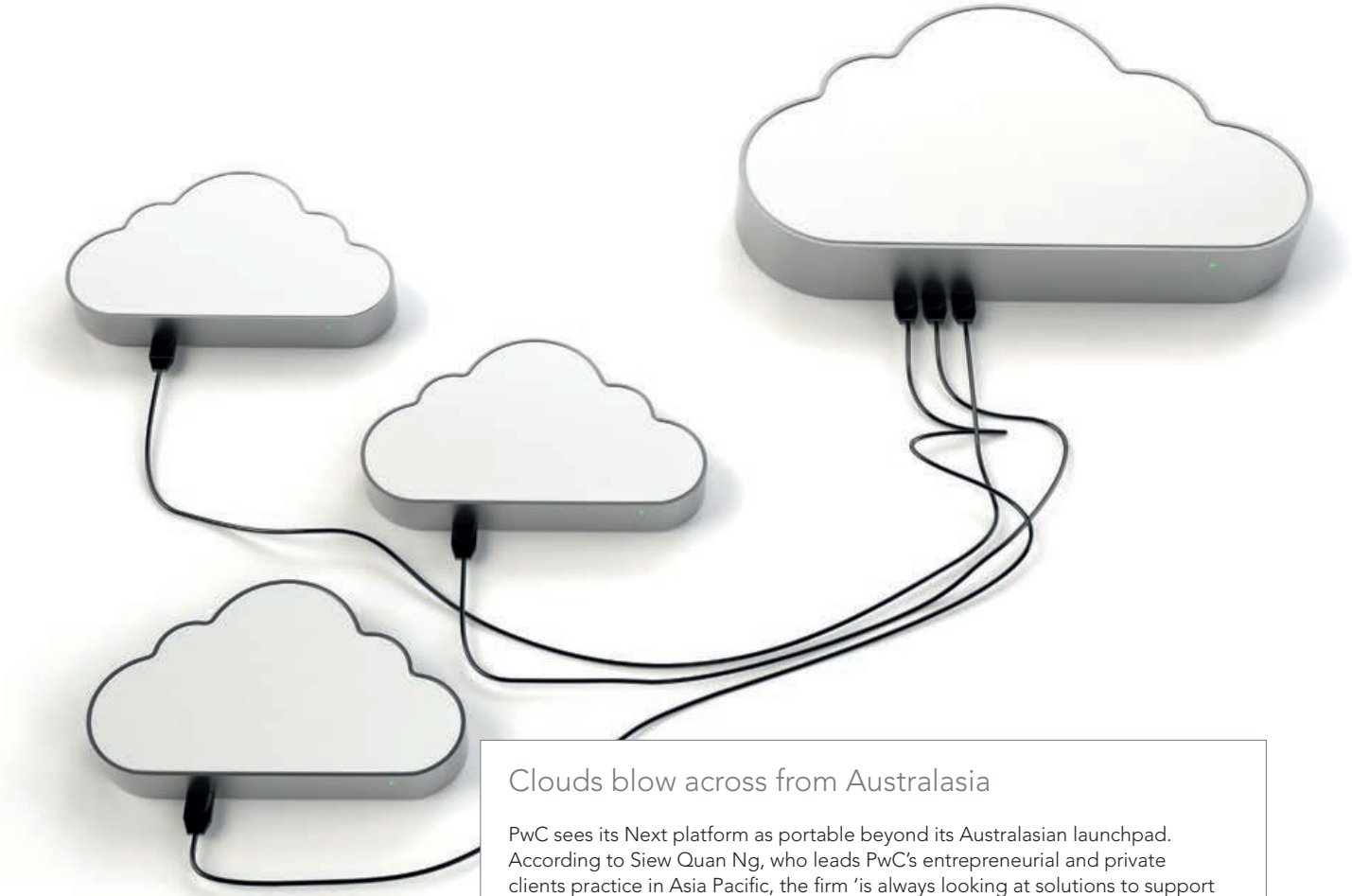
The move into cloud services is one of the results of Deloitte's challenging itself to provide a better experience for its own practitioners as much as for its clients. By letting technology do some of the heavy lifting, Batty says, it shifts the role of a traditional accountant from a scorekeeper of what happened in the past to a strategist for the future.

'A lot of accountants including ourselves had been so busy doing year-end accounting and tax work that we didn't really have the time or the information at our fingertips to have a discussion with our clients about how to move forward,' he says. Cloud products allow both client and accountant to operate more seamlessly, freeing up time to offer professional insights – 'which is what the clients really want'.

The move into tailored cloud services has also opened up unexpected new markets, Batty points out. An individual franchisee in a shopping mall or a small start-up, for example, might not have been on the radar of the Big Four firm, nor most likely could it offer services at a price point they would expect.

Replicable design

That scenario changes with Deloitte Private Connect. The franchisor can »



aggregate data across its whole fleet of stores while the franchisee gets on with its business. Dealing with the operators of co-investment start-up hubs has also enabled the firm to more deeply penetrate the start-up space. The model could easily be replicated overseas, particularly in South-East Asian countries, which have big franchise and start-up communities. From a fee perspective, Deloitte Private Connect is a subscription service, allowing Deloitte to compete on price with smaller accountancy firms. 'We've embedded so much technology and process to do a lot of the manual effort that we can compete on price with any firm in the Australian marketplace,' Batty explains.

Meanwhile, KPMG Agile, a cloud-based service for processing, payroll, accounts payable and GST compliance, works in partnership with Xero. Like Deloitte, KPMG already had an established, SME-focused business in Australia, so KPMG Agile was a natural progression, according to Michael Hine, a partner and practice lead in KPMG's Enterprise team.

Hine stresses that KPMG Agile is not about selling cloud services – it's leveraging technology to enable its business processes to be done more efficiently. 'This effectively allows us to offer to the client an end-to-end business administration service, right though to the final compliance product,' he says.

The cloud will, however, impact on accountancy firms' business, Hine adds, including culling some of profession's traditional roles. 'That's the inconvenient truth of the cloud,' he says. 'Ultimately it will lead to a high degree of cannibalisation of what a lot of accountants actually do at the moment.'

Does that worry him? 'It would if we weren't responding to it,' Hine replies. 'As long as we can find other ways of adding value to our clients well beyond compliance, KPMG will continue to have a different business. If we were relying purely on compliance fees to generate our revenue stream, then yes, it would be very concerning about what's likely to happen moving forward.' ■

Peta Tomlinson, journalist

Clouds blow across from Australasia

PwC sees its Next platform as portable beyond its Australasian launchpad. According to Siew Quan Ng, who leads PwC's entrepreneurial and private clients practice in Asia Pacific, the firm 'is always looking at solutions to support our fast-growing entrepreneurial and private clients, and will be looking at the development of Next in Australia with interest'.

David Wills, PwC's private clients' leader in Melbourne, concurs that he's fielding calls from various network territories – from Poland to China to Canada – who 'love the vision' and are 'very happy for us to develop it and for us to share'.

While Australia and New Zealand are at the front end of the development process, Wills has no doubt about the growing global appetite. 'All praise to the Australian innovators that have had a crack at this,' Wills says. 'It's great to be on board at a time when they are breaking new barriers.'

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▲ Top choice
Tokyo beat a number of other contenders to be selected as the location for IFIAR's permanant secretariat

Tokyo calling

The International Forum of Independent Audit Regulator's decision to create a permanent secretariat in Japan will enhance the organisation's global oversight abilities

The International Forum of Independent Audit Regulators (IFIAR) has announced that it will open a permanent secretariat in Japan in 2017 as part of the organisation's efforts to enhance its capabilities and improve the quality of auditing around the world. The decision has been welcomed in Japan, where the proposal had the direct support of the office of Prime Minister Shinzo Abe, government officials confirmed.

Discussions among members of the forum, which presently number independent regulators from 51 states, had been ongoing for some time, but it was not until 2013 that a decision was taken to carry out a full examination of the feasibility of the proposal for a permanent secretariat, IFIAR officials said.The membership expressed support for the plan in April 2015. The following April, at IFIAR's 2016 plenary meeting in London, members voted in a secret ballot in favour of the permanent secretariat and confirmed that it would be established in the Japanese capital.

'Since its inception in 2006, IFIAR has rapidly matured,' says Janine van Diggelen, IFIAR chair and head of international auditing and accounting, policies and standard setting at the Netherlands Authority for the Financial Markets.

'Audits are also becoming increasingly crossborder in nature, with an audit engagement of consolidated financial statements often involving audit firms from multiple jurisdictions,' she adds.

Inevitably, audit oversight regulators are gradually coordinating with each other in response to the modern-day crossborder realities of auditing. 'Given IFIAR's position as the leading international organisation on auditing matters and the expected geographical expansion of this organisation, IFIAR needs a governance structure and a permanent secretariat to

react effectively and efficiently to global issues relating to audit oversight,' van Diggelen says.

Sophisticated business environment

The organisation confirmed that a number of other cities were considered to host the permanent secretariat – it declined to identify the other candidates – but Tokyo won out for several good reasons.

'Tokyo is a city which provides excellent livability,' van Diggelen says. 'It has solid infrastructure and a sophisticated business environment, with political and economic stability.

'Moreover, Tokyo can serve as a gateway to many non-IFIAR member jurisdictions,' she adds. 'At present, most IFIAR members are from Europe. By locating a permanent secretariat in Tokyo, IFIAR can more easily geographically expand to the African and Asia-Oceania regions as well.'

The Japanese government and financial regulators have supported the proposal from the outset, with finance minister Taro Aso saying in late April that Tokyo acting as host 'is extremely important for Japan to enhance its global presence and the position of the Tokyo market as an international financial centre'.

Kiyotaka Sasaki, who assumed the position of secretary general of the Japanese Securities and Exchange Surveillance Commission in July 2015, concurs with that assessment, telling *Accounting and Business* that the decision to set up an IFIAR secretariat in Tokyo is 'very important'.

'Look at the Toshiba situation,' Sasaki continues. 'A case like that [makes it] very important for us to continue and encourage our engagement with IFIAR.'

In December, Japanese regulators imposed a record 7.37 billion yen (US$60m) fine on a company that had previously been considered a pillar of Japan Inc. An internal panel of accountants and lawyers determined that Toshiba had overstated its operating profits over a number of years, with the accounting irregularities totalling 152 billion yen (US$1.2bn) and involving senior management.

The scandal has been a body blow to the company, which booked an operating loss of 719.1 billion yen (US$6.6bn) for the financial year to 31 March 2016. The crisis also forced it to cut 3,000 jobs and sell its medical equipment business to Canon and its white goods division to Chinese appliance giant Midea Group.

Having improved audit quality through enhanced IFIAR activities in Japan may help to prevent deliberate manipulation of corporate finances in the future, Sasaki suggests. And he believes that Tokyo is the ideal location as IFIAR looks to raise its profile further afield.

'There were probably three major factors in Tokyo being selected: the high-quality infrastructure, the security of the business community here and a highly educated work force and our hospitality – all of which are going to help to attract excellent international staff,' he says.

Understanding IFIAR

* The International Forum of Independent Audit Regulators (IFIAR) was established in September 2006 by 17 members.
* Currently, it has 51 members.
* IFIAR has 14 members from the G20 member jurisdictions. The European Commission is an observer.
* The current chair is Janine van Diggelen, of the Netherlands Authority for the Financial Markets, who will serve until April 2017.
* The present vice chair is Brian Hunt, CEO of the Canadian Public Accountability Board.
* IFIAR operates six working groups and an outreach team. The working groups include units dedicated to investors and other stakeholders, global audit quality, standards coordination, inspection workshops, international cooperation and enforcement.
* A global survey of inspection findings has been released annually since 2012.
* The *IFIAR Global Survey of Inspection Findings Report for 2015*, released in March 2016, examined the six largest global network audit firms: BDO International, Deloitte, EY, Grant Thornton International, KPMG and PwC. It indicates that 43% of inspected audits of listed public interest entities had at least one inspection finding during the survey period.

Thirty of the organisation's 51 members are presently from Europe but with Asia's economies booming there is an added urgency to ensure that auditing standards are up to scratch, Sasaki adds. And with countries such as China, India and other emerging states providing the impetus for rapid economic growth in the region, Japan is perfectly positioned to ensure that IFIAR's reach grows.

Enhanced outreach

'We must also not forget that Japan is still the third largest capital market in the world,' Sasaki says. 'And IFIAR's principle is to ensure high-quality audits for all the stakeholders, from investors through audit companies and financial institutions.The organisation can take advantage of enhancing its outreach to ensure quality and Japan can help to provide that platform.'

Attracting IFIAR to Tokyo is also in line with the Abe administration's ambitions to make the city into a more important global financial centre, in part by ensuring more effective corporate governance, Sasaki continues.

'Having the permanent secretariat in Tokyo will also enable Japan to make a »

Next step

IFIAR chair Janine van Diggelen on the work of the organisation and improving audit quality: **bit.ly/ACCA-playlist**

▲ Prime location
IFIAR is considering locating the permanent secretariat in Tokyo's main financial and business district, Marunouchi-Otemachi, which is close to Tokyo Station, international organisations' offices and government buildings

more substantial contribution to IFIAR, which will be beneficial to global economic activity,' Sasaki says, adding that it will also permit Japan to play a bigger role in setting standards in auditing and the broader financial sector.

A permanent secretariat will have a number of benefits for members, van Diggelen believes. With IFIAR's positions of chair and vice chair changing every two years, a permanent secretariat would enable the organisation 'to execute ambitious work plans, regardless of the resources available with the officers' organisations for secretariat staff', she says.

'A permanent secretariat also provides for a highly specialised and professional staff dedicated on a full-time, long-term basis solely to advancing the mission and interests of IFIAR,' she adds. 'In addition, it provides stability and continuity, as well as more effective outreach and interaction by IFIAR with its members and outside stakeholders.

'Finally, it provides a solid institutional basis for the organisation with respect to the day-to-day administrative matters that are necessary to maintain IFIAR as an effective and efficient organisation over the longer term.'

The process of establishing the permanent secretariat has moved on to determining the most appropriate site for its headquarters. As Tokyo's main financial and business district, Marunouchi-Otemachi is considered an ideal location, the organisation confirms. It is also the Japanese hub for numerous multinational corporations, law firms and audit companies, while the regional offices of international organisations, such as the World Bank and the International Monetary Fund, are also nearby. An added bonus is that it is close to the Kasumigaseki district, the location of all of Japan's ministries, and Tokyo Station, which offers rapid and easy transportation links.

IFIAR anticipates that the secretariat will initially be comprised of five full-time staff, including an executive director and a locally hired administrative assistant. ■

Julian Ryall, journalist

BEPS readiness

European companies are more intensely focused on BEPS planning than their global peers, finds a new Thomson Reuters survey of global readiness for action points

On your marks…

The world's tax authorities are rapidly moving towards implementation of the OECD's Base Erosion and Profit Shifting (BEPS) project recommendations to tackle tax avoidance globally. Thomson Reuters' latest BEPS survey reveals that over half of multinationals have changed their transfer pricing and reviewed their business's value chain.

Proactively taking steps | Waiting for countries to implement | Waiting for all action points to be finalised | Waiting for peers to make a move | Not doing anything

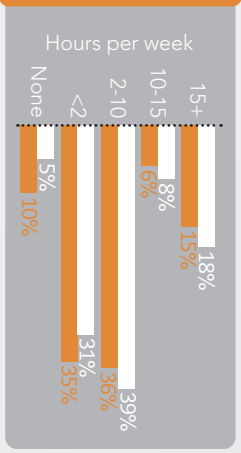
Country-by-country concern

With tax authorities due to start exchanging country-by-country reports as early as 2018, respondents were asked which tax authorities caused them the most concern. The UK and the US topped the list, while countries including Norway and South Africa were cited as being of the least concern.

Australia 19%	Germany 28%	Luxembourg 7%	Poland 7%	South Korea 7%
Brazil 22%	India 29%	Mexico 16%	Russia 9%	Spain 13%
Canada 13%	Italy 23%	Netherlands 10%	Singapore 6%	UK 33%
France 23%	Japan 5%	Norway 4%	South Africa 4%	US 31%

Time flies

Respondents from the UK are spending the most time on BEPS preparation, with 28% saying their departments invest more than 15 hours a week on the project.



For more information:

Thomson Reuters' *2016 Global BEPS Readiness Survey Report* is available at bit.ly/tr-beps

Reshaping the role

As part of our series of articles exploring the trends most likely to shape technical areas of the profession over the next decade, we look at forces impacting financial management

Across the private, public and third sectors, financial management is essential for organisational success. Creating and protecting value depends on efficient and effective financial planning, control and decision-making. Professional accountants working in financial management roles need to take account of both internal factors and external events in the wider economy as they prepare financial information to support decision-making in areas such as investment appraisal, tax and risk management, treasury and working capital management.

As highlighted in ACCA's recent report, *Professional accountants – the future*, the current business environment makes financial management particularly challenging. Organisations have to operate in a world of widespread political instability, volatility in currency and commodity markets, growing emerging markets, constrained credit availability, rapid technological change, broadening business risks and heightened stakeholder focus on sustainable wealth creation. Strong financial management is vital but increasingly difficult to ensure.

Responding to change

According to extensive ACCA research, including detailed workshops with members across the world, financial management will become more difficult over the next decade. Future developments in local and global economies, the business environment, politics and law, society and technology are expected to reshape the roles and responsibilities of accountants in financial management.

The way that financial managers work will also continue to evolve, with more centralised shared-service centres and more outsourcing and offshoring enabled by globally mobile labour

Expert views

'Finance people will focus increasingly on the future. We need to be able to give reliable forecasts based on understanding the business, not statistics.'
Marek Krejčí FCCA, finance director, Rautaruukki Oyj, Czech Republic

'More and more non-quantifiable factors are involved in investment and financial performance valuation. Decisions are not merely based on net present value or a similar financial model but on the balance of the whole portfolio.'
Xi Xiaohui FCCA, Changbei finance manager, Shell, China

'As businesses look to exploit new opportunities, respond to new markets and adjust to the changing dynamics of a global economy, the strategic planning role of finance executives will become more important.'
Survey respondent, Kenya

'We are becoming less focused on the numbers and more focused on performance and delivery.'
Frances Carter FCCA, retired civil servant

'By 2020 we expect accountants to have the skill to build up an enterprise risk management model that could give an early signal to assess the risk and find means to contain it.'
Paul Mok FCCA, group FC, OOCL, Hong Kong

Top 10 competencies in financial management

* Communication
* Emerging issues
* The role of senior financial executives and advisers
* Advanced investment appraisal
* Regulatory frameworks and processes
* Financial strategy formulation
* International trade and finance
* Mergers and acquisitions and other growth strategies
* Treasury
* Ethical issues in financial management

and increasing process automation. Senior financial managers will need to provide strategic insights to enable optimal structures across multiple parts of the business and multiple geographies, building the relationships needed to manage resources and risks.

Workshop participants generally agreed that the treasury function will become more important, with increased use of active and electronic cash management. Commodity and foreign exchange hedging is also expected to become commonplace in small and medium-sized organisations, requiring all financial managers to have a basic understanding of investment valuation and derivative-based hedging methods. Demand for experts will increase, too; by 2020 all financial managers are likely to need a basic knowledge of Islamic finance, including an understanding of sharia compliance, Islamic capital markets and risk issues.

As compliance with global regulation becomes more automated, financial managers will be able to focus more on business partnering: interpreting numbers, providing advice and clarifying risks. Data analysis expertise will be vital, although historical data analysis will become less important. Financial managers will need to provide reliable, forward-looking forecasts, based on an understanding of the business and its environment.

Financial managers of the future will also need to be equipped to address ethical issues. They will require the skills to manage conflicting expectations and priorities of those inside the organisation and of shareholders, investors, customers and governments. Non-financial performance will increasingly need to be factored into financial planning, control and decision-making. This means that financial managers will need to understand and articulate the links between corporate objectives and strategy, stakeholder expectations, the financials and all associated risks.

Planning for action

The changing world in which financial managers operate has implications for the skills and competencies they must develop. Communication skills will become even more important over the next decade. Tomorrow's financial managers will need to be able to work in teams, collaborate, influence, persuade and present to others inside and outside finance. Language skills and multicultural awareness and experience will therefore also be vital.

Communication ability was identified by workshop participants as one of the 10 competencies expected to be most important in the financial management arena (see box). Those identified reflect the expectation that more financial executives will need to think, and sometimes behave, like chief executives. This means having a good grasp of emerging issues, including developments in global trade, markets and alternative finance. They will also need an up-to-date knowledge of major trade agreements and understand how regulatory frameworks for tax, capital movement and other areas influence decision-making.

Career progression will also depend on demonstrating a more strategic view of financial management – both holistically of the business and globally of the wider business environment. That strategic viewpoint will also be evident in professional accountants' ability to appraise capital projects and investment opportunities, and to discuss arguments for and against mergers and acquisitions and other growth strategies. In addition, executives will need a sound grasp of risk and risk management, and the ability to assess the implications. By 2020, some business people expect senior financial managers to have the skills to build up an enterprise risk management model capable of giving an early warning to a company concerning emerging risks.

The top 10 competency list does not represent the only skills that financial management professionals will need. Based on workshop participants' views, other areas where skills will be increasingly important over the next five to 10 years include environmental issues and integrated reporting, IT knowledge and IT application, critical analysis thinking and interpretation, restructuring and reorganisation. ■

Sarah Perrin, journalist

Deep dives

Key technical areas highlighted in *Professional accountants – the future* to be explored in this and future editions of *AB*

Introduction (*AB* June 2016, page 12)

Audit and assurance (*AB* June 2016, page 36)

Corporate reporting (*AB* July 2016, page 38)

Financial management

Risk and ethics (*AB* September 2016, page 38)

Strategic planning and performance management (*AB* October 2016)

Tax (*AB* October 2016)

For more information:

See more on *Professional accountants – the future* at accaglobal.com/thefuture

An ethical approach

As part of our series of articles exploring the trends most likely to shape technical areas of the profession over the next decade, we look at the impact on governance, risk and ethics

Good corporate governance is now widely accepted to be vitally important for creating market confidence and business integrity, enabling companies to access equity capital for long-term investment. It aims to improve shareholder value by achieving growth and profitability within appropriate risk and control boundaries, while balancing the need for organisations to be accountable to a growing range of stakeholders.

Professional accountants carry out a range of roles in relation to governance – for example, in external or internal audit, in managing risk and developing internal controls – while also abiding by professional and corporate ethical frameworks. These roles will continue to be vital for organisational success in future, according to ACCA's research report, *Professional accountants – the future*, which draws on extensive feedback from ACCA members gained through workshops held across the world.

Responding to change

Interest in what makes for good corporate governance has been high since the 1990s. Financial fiascos and corporate failures such as Arthur Andersen and Enron in the US revealed the weaknesses in existing governance procedures and frameworks. Globalisation, economic volatility and the rise of data-driven stakeholder activism have only served to increase the focus placed on corporate governance and risk management.

Professional accountants in the governance field face many challenges as organisations and workforces become increasingly global and mobile. Individuals sometimes encounter a gap between ethical theory and reality. Professional accountants face particular challenges when working in countries where bribery and corruption are widespread or where local cultural traditions

Expert views

'In the old days, you could set simple ethics rules that applied across your organisation. Now you have to develop a set of ethical core values that you can apply everywhere in the world.'
Arthur Lee FCCA, assistant president, CGN New Energy Holdings, Hong Kong

'As complexity increases, better ethical behaviour is needed and the principles come into play rather than the procedures around them.'
Rashika Fernando, director, enterprise project portfolio management office, CIBC, Canada

'The board of directors and board committees are where all policies are made and people are nominated. If the root structure goes wrong, the upper part cannot be sound.'
Marisa Wu, head of finance and senior VP, DBS Bank, China

'How ethics is handled has a bearing on the long-term sustainability of the company. A CFO, as risk manager, must understand how it affects the company.'
Yee Wing Peng FCCA, MD, Deloitte, Malaysia

'Things change, people change, values change and a lot of external factors affect a person. But when it comes to ethics, the profession needs a gold standard.'
Wayne Soo, managing partner, Fiducia, Singapore

Top 10 competencies in governance

* Corporate governance
* Risk management
* Professional and corporate ethics
* Technology awareness and application
* Communications
* Board directors and committees
* Professional scepticism and critical thinking skills
* Internal control, review and compliance
* Global perspective
* Long-term and holistic perspective

in relation to religion, ethnicity and politics can conflict with otherwise widely accepted governance practices.

Emerging frameworks for corporate social responsibility and integrated reporting might help close the theory-reality gap and help to improve corporate governance and risk management. The management of non-financial risk in areas such as strategy, operations, technology and reputation is also becoming more important for professional accountants. Individuals are expected to develop a broader perspective of risk, with ACCA's research finding strong support for the Enterprise Risk Management (ERM) Framework of the US Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Developments in technology are also having an impact, changing the way that professional accountants can work by creating new opportunities for virtual collaboration and data analysis. At the same time, the spread of social media is supporting increased stakeholder engagement and activism, which needs to be monitored and managed. Virtual and crypto-currencies are also creating new challenges. For example, how should companies that accept bitcoin payments conduct compliance checks on the sources of the funds?

Planning for action

Participants in ACCA's workshops believe that professional accountants in governance, risk and ethics-related roles will need new skills to meet the changing demands made of them. In general they will need to hone the technical and critical-thinking skills that underpin their professional scepticism.

Not surprisingly, corporate governance tops the list of areas where specialist skills are expected to be most important over the next five to 10 years (see box). Individuals will need a sound understanding of what makes for good corporate governance both at the macro and company level. They will need to keep up with evolving codes and be able to apply best practice.

Competency in professional and corporate ethics will also be vital. ACCA workshop participants saw value in professional bodies embedding ethics throughout their syllabuses and in employers supporting the development of personal and corporate ethics through more on-the-job training and guidance.

Given the increasingly high-tech world, awareness of new technology and the capability to apply it will also be increasingly important to professional accountants in governance, risk and ethics-related roles. Expertise in business intelligence and data analytics could improve risk identification and mitigation, for example. The ability to use sophisticated graphics, video and other visual and interactive online tools could improve the reporting and presentation of important information.

Other key competencies considered of high importance over the next five to 10 years include communication ability (to help professional accountants manage relationships and balance conflicting interests), professional scepticism, critical thinking and the ability to take a global as well as a long-term and holistic perspective. Professional accountants in governance, risk and ethics-related roles are also expected to need expertise in establishing, maintaining and reviewing internal control systems for financial and non-financial risks and reporting, as well as a clear understanding of the role of board directors and committees.

Alongside the top 10 competencies, workshop participants identified multiple additional skills and attributes that professional accountants working in governance, risk and ethics-related roles will need to develop over the next five to 10 years. These include the ability to prioritise and simplify complexity, innovation, a more forward-looking perspective, presentation skills, engagement with stakeholders, legal skills and the confidence to challenge. They will also need to understand existing and emerging concepts of risk and approaches to risk management, keeping a particular eye on ERM developments. ■

Sarah Perrin, journalist

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Finding the right path

A plethora of different guidance for reporting on sustainability has left CFOs floundering. What could make them take ownership of this important issue? Ramona Dzinkowski reports

Given the central role of the finance function in measuring, reporting and managing the value of a company, it's not surprising that the role of the CFO in managing and reporting on corporate sustainability is growing, albeit, some may argue, at too slow a pace. In its 2013 survey, *CFOs and Sustainability*, Deloitte reported that 73% of the CFOs polled saw a strong link between sustainability performance and financial performance.

When asked about their own roles, however, only 43% were called upon as a matter of course to help set sustainability strategy, and only 45% were always involved in strategy execution. These results show a marked increase in involvement compared to the previous year – in 2012 27% of CFOs were always involved in setting sustainability strategy, and 32% in its execution.

> A surge in sustainability reporting requirements has resulted in 383 instruments being applied in 64 countries

So what might explain the reluctance on the part of finance chiefs to embrace sustainability reporting as their domain? First, we recognise that the office of the CFO has a very broad and expanding range of accountability. Aside from already having enough to do, the answer may lie in the fact that when it comes to standards for sustainability reporting, there are just too many cooks in the sustainability standards kitchen.

Originally, sustainability reporting meant 'accounting for the environment', beginning with estimating contingent liabilities associated with environmental damage. However, over the past 20 years, its scope has grown dramatically to include, for example, social and human rights issues (such as conflict minerals disclosure) and diversity factors. As KPMG has revealed in *Carrots and Sticks*, its latest review of evironmental, social and governance

Examples of duplicated requests for information

High-level disclosure subject	Specific disclosure requests	Requirement
The nature and activities of the business	The principal activities of the business during the course of the year	UK Companies Act, section 416(1)(b)
	The nature of the business, including its structure and how it creates value	IASB Management Commentary Practice Note, para 24a and 26
	The organisation's brand, products, services, locations, ownership, legal form, markets served, number of employees and operations, etc.	GRI G4 3-10
	What does the company do and what are the circumstances under which it operates?	IR Framework, para 4.4
	Please give a general description and introduction to your organisation	CDP CCO.1

Source: ACCA/CDSB, Mapping the sustainability reporting landscape: Lost in the right direction

▲ Inundated
The Wave sculpture by Wren Miller, made using 2,200 plastic bottles, was commissioned to launch BRITA's sustainability campaign

(ESG) reporting, there has been a surge in sustainability reporting requirements, guidance and frameworks, resulting in roughly 383 different reporting instruments being applied in 64 countries in 2016, 248 of them mandatory and 135 voluntary. This compares with 35 mandatory and 25 voluntary instruments in 2006.

These instruments include regulation and policies like sustainability reporting requirements issued by governing bodies or governments, financial regulators or stock exchanges; self regulation by industry following specific industry frameworks; guidance or recommendations for public reporting on a single topic like greenhouse gas emissions; voluntary standards and guidelines for sustainability reporting such as the Global Reporting Initiative (GRI) or the US Sustainability Accounting Standards; and standards on sustainability assurance.

Stock exchanges and financial market regulators have become increasingly active in issuing disclosure requirements, accounting for roughly one-third of all sustainability reporting instruments reported in the study. Between 2013 and 2016, the number of reporting instruments from this group has roughly doubled from 23 to 44. Overall, one in three instruments apply exclusively to large publicly listed companies, and the remaining two-thirds apply to either all companies or governments/state-owned enterprises. This includes instruments like the Guidance Regarding Disclosure Related to Climate Change issued by the US Securities and Exchange Commission in 2010. Over the same period, the number of instruments specifying disclosure in the annual report had increased by almost 100%.

A research paper recently released by ACCA/Climate Disclosure Standards Board (CDSB), *Mapping the sustainability reporting landscape: Lost in the right direction*, congratulates the many organisations weighing in on ESG reporting, but also reveals some unintended results of too many cooks in the kitchen.

More specifically, the report concludes: 'The disparate reporting practices that have arisen from a multiplicity of reporting requirements dilute or impair the usefulness of information for readers, and may lead to distorted views of corporate performance, inaccurate valuation and difficult decision-making.

'Some organisations complain that the many and various actions that are being taken to move corporate reporting into a new era have resulted in a patchwork, labyrinth or jigsaw of reports, frameworks, protocols, codes and standards that impose sometimes conflicting and sometimes duplicative »

▲ Drilling down
Goldcorp working the Cerro Negro project in Argentina inside the Eureka vein

A gold star in sustainability accounting

In June 2015, Goldcorp was named one of Canada's 50 Most Socially Responsible Corporations by Sustainalytics, an independent provider of environmental, social and governance (ESG) research to institutional investors and financial institutions. In 2014, Goldcorp (now headed by former Canadian CFO of the Year, David Garofalo) was awarded the Excellence in Corporate Reporting Award, and received an award for the best corporate sustainability report from the Finance and Sustainability Initiative.

Brent Bergeron, executive vice president of corporate affairs and sustainability at Goldcorp, notes that sustainability management and reporting has undergone a transformation at the company, evolving from what was mainly a PR exercise into one central to the group's value-creating capacity. 'When I first joined Goldcorp about five years ago, the impression was that our ESG reporting was a little bit geared towards our reputational strategy. Today we tend to think of sustainability factors as affecting the value of our assets.' For example, he adds, every project competes for capital within the company, so 'we have to be able to do this in a way that allows us to demonstrate how any investment on the sustainability side will be able to reduce the amount of risk that we have over the life of our mines. We have to make sure that the finance department is right with us, is able to quantify the level of investment we need to make, the related risks, and how those types of investments are going to benefit us over the long term.'

requirements on organisations but do not result in information that is any more useful for users. Companies feel that this presents them with undue reporting burdens and multiple dilemmas.'

The table on page 40 demonstrates the overlap of information requirements from several sources.

While the ACCA/CDSB report helps to illustrate why many CFOs might want to give sustainability/ESG reporting a wide pass, there is growing evidence to suggest that it is indeed the finance function that has the most to contribute to the sustainability agenda.

> There is growing evidence to suggest that the finance function has the most to contribute to the sustainability agenda

According to Brent Bergeron, executive vice president of corporate affairs and sustainability at Canadian based Goldcorp, one of the world's largest producers of gold, the finance function in his company is inextricably linked to its sustainability agenda. Site reclamation and 'externality management' is a significant liability/cost for responsible gold mining companies, he says, and the finance function naturally has a central role in planning for contingent liabilities. For example, in 2014 Goldcorp secured a bond in the amount of US$40.1m to cover 100% of the closure obligation related to its Elenore mine site in northern Quebec (see box, left).

As to how the finance function and sustainability interact, Bergeron explains that it's a collaborative effort. 'We integrate the finance team to access the metrics that we require to be able to make changes to our sustainability objectives. They are quite involved in working on the proposals for any type of new sustainability solution, basically letting us know how this new solution or project will actually derive value over the life of a mine.'

Whether or not the standards-setters/framework developers are getting closer to a specific roadmap for sustainability reporting, Bergeron says the GRI is heading in the right direction: 'I think it's on the right road, and it's just a matter of not having competing processes or competing organisations when it comes to doing this. Modernising some of the existing standards that have been adopted by a large number of industries right now is probably the focus that should be played out.'

▲ Force be with you
Activists of international civic NGO Avaaz dressed as Star Wars characters protest on the last day of the United Nations conference on climate change, COP21, in Paris in December 2015

With the creation of the Global Sustainability Standards Board (GSSB), an independent operating entity under the auspices of the GRI, work is in progress to transition from the G4 Sustainability and Reporting Guidelines to GRI Sustainability Reporting Standards (GRI Standards). According to Eric Hespenheide, chairman of the newly created board, what the GSSB hopes to accomplish is to make the transition from the G4 guidelines to an interrelated series of sustainability reporting standards.

Following an extensive public comments period, he explains, the GSSB will issue that initial set of standards by the third calendar quarter in 2016. Concurrently, it is preparing to begin its sector standards work, which will draw on what the US Sustainability Accounting Standards Board (SASB) and others have done. However, he adds, 'our sector approach will be appropriate for an international audience and the sector standards will be developed inclusively with input from a very wide range of stakeholders'.

Ultimately, the GRI predicts a new format for sustainability data exchange using search engines, and according to Nelmara Arbex, chief adviser on innovation in reporting at GRI: 'The next generation of reporting will be digital so access to this information will be much easier and users will be able to analyse it to make correlations and participate in discussions.'

As to how coherence might be achieved in the ESG reporting territory, ACCA recommends 'the development of a "model sustainability reporting convention". In the same way that financial reporting approaches have been standardised as International Financial Reporting Standards through the work of the International Accounting Standards Board, an equivalent approach to the development of sustainability reporting standards might promote reporting coherence through convergence on shared reporting requirements, measurement approaches and policy objectives.'

All of which may ultimately help to move the sustainability agenda to the office of the CFO. ■

Ramona Dzinkowski is a Canadian economist and editor-in-chief of the *Sustainable Accounting Review*

For more information:

Read the ACCA/CDSB report *Mapping the sustainability reporting landscape: Lost in the right direction* at bit.y/ACCA-Lost

Career boost

Moving swiftly up the promotion ladder demands more than simply doing a good job, says our talent doctor Rob Yeung; plus the perfect etiquette for requesting a pay rise

I recently gave a presentation at a conference and met someone I'll call James, an accountant who became finance director of a mid-sized tech company before he turned 30.

Why do such individuals get promoted so quickly while others languish in their careers? From my experience, I offer three observations.

Move up or move on. James has worked in five different companies over the course of his 10-year career to date – in consumer goods, pharmaceuticals, fund management, retail and now technology. He has been aggressive in his career moves. However, I recommend to clients as a general principle that they should be moving up the ranks or on to a different employer every two to three years.

Once you have learnt enough about a role or industry, push for further responsibility with that employer. Or at least move on to a new part of the business or a different client group.

Don't allow your career to stagnate if your current employer is unable to give you the development that you want. Speak to recruiters. Network to find other opportunities. Apply for other roles and move on.

Don't assume that simply doing a good job will get you promoted. It won't. Doing what is required of you is just the baseline, the minimum requirement for any role.

To get noticed, aim to work on projects that make a bigger impact. Look around you at the projects the people who have the next job you want are doing. Then make a plan to get involved and grow your skills.

For example, I work with a young lawyer who makes a career plan every New Year for the six months to June. Then she reviews her progress and formulates a plan to the end of the year.

Build your social capital. No doubt you have read about the importance of networking and heard the adage that success is more about who you know than what you know. Or you may have felt bruised when promotions seem to go to colleagues who play office politics.

All these observations point to the fact that relationships really matter. If you know more people within your own organisation, you will hear about exciting projects or worrying developments more quickly. If you meet with more people outside your organisation, you will discover new techniques or technologies too.

So make it a priority to build your social capital – your ability to ask for advice and favours from others. Spend at least a couple of hours every week meeting someone new or reinforcing a relationship. Set up breakfast or lunch meetings. Invite acquaintances to attend conferences and workshops with you. Remember that people can be more of an asset to your career than the knowledge you have in your head. ■

Get a leg up

Watch Dr Rob Yeung expand on these themes at **bit.ly/ACCA-Yeung6**

For more information:

talentspace.co.uk

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Big Four Brexit boost

Britain's exit from the EU means big business for the Big Four accounting firms as they advise their clients on the implications. KPMG appointed Karen Briggs, one of its most senior partners, to the newly created role of 'head of Brexit' two weeks after the referendum, with a range of experts to support her. Meanwhile, Deloitte, EY and PwC have also set up teams to help clients navigate the uncertainty that will accompany the UK's negotiations with the EU. The Big Four could also play a pivotal role in the trade negotiations between the UK civil service and Brussels. Jeremy Heywood, the cabinet secretary and the most senior civil servant in the UK, has held talks with EY and KPMG, and with consultancy firm McKinsey, to establish which skills and expertise the private sector could provide as trade talks unfold. The fees the firms earn from Brexit will help offset their likely reduced income from M&A advisory work. Thomson Reuters found that M&A volumes in Britain ahead of the June referendum were down by more than 70% compared with the previous year.

Singapore seeks temps

Finance and accounting professionals are among the most highly sought after contractors in Singapore, according to research by Page Personnel. Temps with knowledge of financial services, IT, and secretarial and office support are also in high demand, the recruiter found. Employers favour contractors because they have specialised skills, a high level of education and significant experience. They are also flexible and able to work autonomously. Overall, 56% of contract employees in Singapore have more than 10 years' qualified experience, while nearly half (49%) of employers are recruiting temps for positions that are usually filled by permanent employees. The study also found that employers are becoming more demanding of their contractors, expecting them to have good communication skills and the ability to get a lot of work done in a short space of time. Mellissa Mayne, associate director, Page Personnel Singapore, said: 'Due to the changing economic landscape, Asia has seen an increased demand for professional and qualified contractors. Expectations of contract staff have also risen. They're expected to do more in less time, have better educational qualifications and be able to work independently.'

The perfect: way to request a pay rise

Pay review season is the time of year when the expectation gap between employee and manager is most visible. Both sides have their own vision of how the negotiation should go and it's rare that they coincide.

'Some employees ooze confidence,' says Teresa Boughey, founder and CEO of Jungle HR. 'They breeze into your office and, in just a few words, highlight that as key performance indicators have been achieved and targets smashed, it's only right they be awarded a pay increase that far exceeds the agreed departmental budgetary percentage increase. And, while it may be hard to argue that they have achieved all financial targets set, they have meanwhile wreaked absolute havoc with colleagues and customers along the way.'

Then there are the those individuals who would campaign passionately for a pay rise for their team, but when it comes to themselves, remain almost mute. 'These are the individuals who expect their managers to be fully in tune with what a given percentage actually means to them in terms of recognition for their hard work and commitment. And what they seek rarely comes down to money in any case,' says Boughey.

'For a perfect pay rise request, take some charisma, a spoonful of bravery and stir with KPIs achieved. Cover with leadership behaviours and bake for at least six months.'

Promotion ≠ pay rise

Australian finance professionals who get promoted cannot assume that they will earn more as a result. In a survey of 300 CFOs and finance directors in Australia, recruiter Robert Half found that only 13% of business organisations always provide a pay rise following a promotion. Nearly a fifth (17%) of large companies are more inclined to increase pay as a matter of course when promoting an employee, compared with just 11% of SMEs. There are various reasons why a pay rise doesn't always accompany a promotion. Almost two out of five (39%) finance leaders say the primary reason for promoting without a salary increase is that they want to assess an employee's performance before increasing their pay. Three out of 10 argue that the business lacks the financial resources to increase salaries, while 10% say an employee who was overpaid in the first place won't receive a pay rise for taking on more responsibility. But it seems employers are taking a risk by not increasing pay in these circumstances. David Jones, senior managing director at Robert Half Asia Pacific, said: 'Being expected to complete more – or more complex – tasks, or having a more senior title without a corresponding rise in pay, can significantly impact an employee's motivation. This, in turn, can fuel an employee's desire to leave the organisation.' ■

Sally Percy, journalist

For more information:

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Latent patent

Most of us will have heard of Airbnb, but what lessons in funding and entrepreneurship can the upstart teach other potential disruptors, asks Tony Grundy

Why do I need a home office when 99% of my information is on my laptop? What can I do with my children's empty bedrooms while they're away at university for most of the year? Many of us have underutilised space at home that we could be using to generate cash, supplement our pensions and become part of the sharing economy. It's all the rage.

Airbnb is a leading example of how the sharing economy can transform lives and disrupt an entire sector. Searching the accommodation supplier's website for space to rent in my local area in south London, I found seven rooms and one flat within a mile of my house. At the average rental less the average Airbnb fee, my three rooms could bring in £100 a night. At an assumed 50% occupancy, that would be £350 a week or £1,500 a month.

As with operators in any open market, Airbnb is about matching supply with demand. But Airbnb is lean, keeping its overheads to an absolute minimum simply by providing a platform to facilitate that transaction and charging a commission on it. In addition, it has tapped into a supply and demand that is latent and where the value created is shared fairly between supplier and customer. It has also proved that it is possible to detect a new business model in everyday human experience.

It all started in 2008 when two friends, Brian Chesky and Joe Gebbia, decided to capitalise on the shortage of hotel rooms due to a big conference taking place near Gebbia's San Francisco flat. Struggling to meet their own rent on their loft room, they rented out space on airbeds (hence 'Air'; 'bnb' refers to 'bed and breakfast'). They were soon joined by Nathan Blecharczyk and so began the experience of exponential growth that has been eating into the hotel market.

Their means of obtaining some start-up capital was novel. After maxing out their credit cards, the founders decided to launch a cereal brand to chime with the times. This was during the 2008 US presidential campaign, and they sold 'Obama O's' and 'Cap'n McCain's' at US$40 a pack; they made over US$30,000.

Many others are rushing to embrace this business model of using latent supply – Uber (taxis), BlaBlaCar (car sharing – see *AB*, June 2016), Groupon (vouchers for leisure activities), Empty Leg (private planes) and Purplebricks (estate agency). The businesses themselves are often simply platforms to connect customers with the service supplier but are becoming increasingly sophisticated, enabling two-way feedback, which helps quality control and trust.

As can often be found with disruptors, they are not afraid to turn carnivore and make acquisitions. For example, in the German market Airbnb bought NabeWise, a business providing tourist information. For Airbnb, organic and acquisitive development are not mutually exclusive but complimentary.

As in all of these examples we also notice the dynamic nature of competitive advantage; these business are

constantly upgrading their functionality and adding value. And they need to. Recently there has been evidence of more established brands spotting an opportunity to take on the disruptors at their own game, such as Ryanair recently launching a service that allows air passengers to book hotels and private rooms; the airline says it aims to become the 'Amazon of the skies'.

What may be needed in the future to protect dominant market share and a healthy operating profit margin, and to promote further growth, are:

* continuous product and service innovation and new value creation to widen margins inch by inch
* improving customer service
* deep thinking to evaluate new strategies, and prioritisation and phasing of global development plans
* local tailoring of the service
* continued scanning for potential competition
* making the brand more familiar and meaningful
* reviewing the board to ensure that the business doesn't outgrow the skills of the original founders.

In terms of management theory, Airbnb's strategic situation is highlighted by the 'resource-based theory' (RBT) of competitive advantage. RBT suggests that strategic performance is improved by identifying the distinctive – and hard to imitate – resources and skills an organisation has. In Airbnb's case, that is:

* continuous product development
* low costs
* speed
* agility
* first-to-market advantage.

These might look a little brittle and, as we have seen with Ryanair's new proposition, this dominance will be challenged. But as a customer or supplier, or both, for now I will enjoy this cunning breakthrough. ■

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

For more information:

tonygrundy.com

For previous Tony Grundy articles on strategy and management theories, visit accaglobal.com/abcpd

Take one

Accounting and Business has produced a series of video interviews with ACCA members from around the world. See how they bring their professional skills to bear in their varied roles

* CFO of Singapore's Land Transport Authority **Alice Tan FCCA** on her career journey
* Senior vice president of finance at Atlantis The Palm **Conor Lawler ACCA** talks about life at Dubai's iconic resort
* Senior continuous improvement practitioner at Shell US and *ACCA USA* vice chairman **Siobhan Pandya FCCA** on thinking big
* CFO of England Rugby **Steve Brown FCCA** talks rock bands and the Rugby World Cup
* Partner at PwC Nigeria **Taiwo Oyedele FCCA** on making it to the top in Nigeria
* ACCA president **Datuk Alexandra Chin FCCA** describes her inspirational journey
* EY Singapore partner **Gajendran Vyapuri FCCA** talks about the global mobility that his role and the ACCA Qualification afford him

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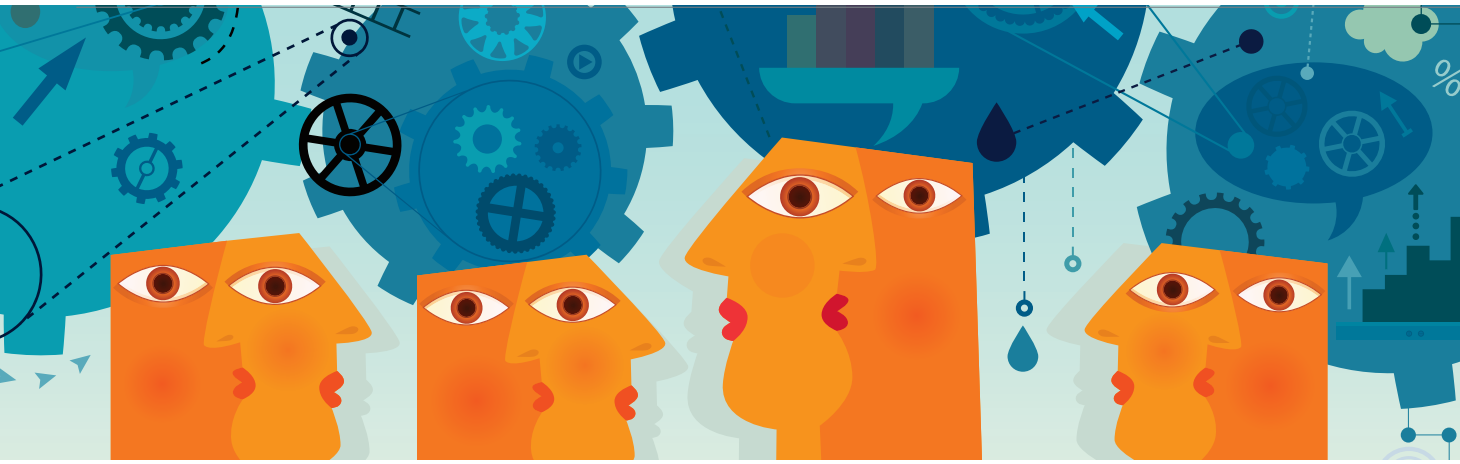


Beating the meeting

It's never too late to change the way you work in order to maximise your potential. In the first article in a series on winning work habits, David Parmenter shares some observations

There are a number of changes you can implement to make yourself and your team more effective. Some might seem counter-intuitive, but nonetheless the following are worth considering:

* Ban morning meetings for the finance team and avoid having meetings during your most productive time. I fail to see why CFOs feel the need to have meetings with their direct reports at 9am on a Monday; these are often are followed by more meetings as the debriefing is passed down the chain. Why not have this meeting at 4:30pm on a Friday? It would certainly be a quick one.
* Work in one-and-half to two-hour blocks. Book blocks of time in your diary so that you can work in multiple blocks of time on service delivery activities such as future-orientated tasks, client-focused activities, and projects to improve service levels and workload. Meetings to be held later in the day would be slotted into block time periods as well. This will create a more relaxed and successful goal-scoring day for you.
* Have 'action meetings'. Many meetings are totally flawed, held because they have become a ritual. Their fundamental purpose has long been forgotten. The problem has been that the training has not looked at all the core reasons for failure. The action meetings methodology (**actionmeetings.com**) addresses the real reasons behind dysfunctional meetings and suggests ways to bring about significant improvement.
* Get people properly into and out of the meeting. This is done through the introduction of a 'first word' and 'last word', where attendees briefly say what state they are in. The first words could be 'I am very time challenged and this meeting is last thing I need,' to a last word, 'This meeting once again promised little and delivered nothing' or 'I look forward to receiving Pat's report and working with the project team'. The key is that attendees can say anything about how they feel at that point; their comment should remain unchallenged.
* Have an agenda constructed around outcomes. This involves the use of precise wording about meeting outcomes, which should provide focus and the ability to easily check whether an item has in fact been completed. One major benefit of establishing meeting outcomes worded in this way is that requested attendees should not attend if they do not think they can add value or assist in achieving the outcomes.
* Allow meetings to be participant-owned, not chairman-owned. All attendees should be trained in the new methodology so meetings are owned and policed by all participants and are less reliant on the capability of the chairman.
* Once an outcome is closed, it remains closed. During the meeting, remind anyone who is opening a closed item that it has in fact been closed.
* Park non-related issues. Any issues raised that are not related to the outcome under discussion should be tabled for another, future discussion.
* Write action steps. These should be crafted carefully and shared on a platform that all can access so that everyone can follow the progress. ■

Next steps

1. Analyse all the meetings attended by finance team members in the last two weeks and cost out the time
2. Visit **actionmeetings.com** to discover more about this methodology
3. Email me (**parmenter@waymark.co.nz**) for more instructions on how to hold action meetings

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

For more information:

davidparmenter.com

CPD

Get verifiable CPD units by answering questions on this article at accaglobal.com/abcpd

In the spotlight

Graham Holt outlines some of the activities of ESMA and European enforcers when examining compliance with IFRS

Disclosure practices vary across industries and countries. There is debate about how to achieve transparency and international comparability, and the analysis of disclosure practices and the potential economic consequences is a major accounting issue.

This article provides an overview of some of the activities of the European Securities and Markets Authority (ESMA) and the European enforcers, when examining financial statement compliance with International Financial Reporting Standards (IFRS) by listed entities. ESMA identifies common enforcement priorities on an annual basis in order to guide enforcers.

European enforcers examined the interim or annual financial statements of around 1,200 issuers, representing around 20% of all IFRS issuers. As a result, European enforcers took actions addressing material departures against 273 issuers. The main deficiencies were identified in the areas of financial statements presentation, impairment of non-financial assets and accounting for financial instruments.

In 2015, ESMA analysed a sample of 189 issuers from 26 European Economic Area countries selected by European enforcers. The assessment related to:

1. the application of the accounting requirements on the preparation of consolidated financial statements
2. the financial reporting by parties to a joint arrangement and related disclosures
3. the recognition and measurement of deferred tax assets.

The sample was drawn from diverse sectors and from issuers with market capitalisations of less than €50m to greater than €750m.

> In 2015, ESMA analysed a sample of 189 issuers from 26 European Economic Area countries selected by European enforcers

Priorities

In its 2014 common enforcement priorities, ESMA included priorities relating to IFRS 10, *Consolidated Financial Statements*, and IFRS 12, *Disclosure of Interests in Other Entities*. The areas selected were those where the application of these standards was expected to cause issues for entities. These included sections where the use of judgment is required or where there were significant differences between the requirements included in IFRS 10 and the previous standard IAS 27, *Consolidated and Separate Financial Statements*.

ESMA looked at a sample of 103 issuers who had »

holdings in entities where the determination of control was highly judgmental and/or who had recognised material non-controlling interests in their 2014 consolidated financial statements. The results were interesting.

In 11.55% of cases, the issuers consolidated entities on which they had less than a majority of voting rights held. The existence of a shareholders' agreement or a majority in the board of directors were some of the justifications given for the consolidation of the entities. Other justifications were the commercial dependence of the investees, the ability to direct the relevant activities or a combination of different reasons. Where an entity is consolidated with less than a majority of the voting rights, the issuers should comply with IFRS 12 by providing entity-specific information on the significant judgments and assumptions used. The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cashflows.

Where the disclosures required by IFRS 12, together with those required by other IFRSs, do not meet the above objective, an entity is required to disclose whatever additional information is necessary to meet the objective. However, 43% of the sample did not provide the required information to justify power over the investee and 58% did not provide the required information on the ability to use their power over the investee to affect the amount of the investor's returns.

> In 13% of cases, the issuer did not consolidate a material investee in which they held more than 50% of the voting rights

Additionally, in 13% of cases, the issuer did not consolidate a material investee in which they held more than 50% of the voting rights. A significant number of these entities justified the non-consolidation on the grounds of the existence of a contractual agreement between shareholders establishing joint control or providing the control to other significant shareholders.

IFRS 12 requires a reporting entity to disclose information for each of its subsidiaries that have non-controlling interests that are material. Of the sample chosen, 56% had material non-controlling interests. However, there were disclosure elements missing from this sample such as information on the dividends paid and on the revenue and profit or loss of the subsidiaries.

Approximately one-third of the issuers changed their consolidation method on complying with IFRS 10 for the first time, but 30% of these issuers did not disclose the changes in their accounting policies in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Actions

Following the review, European enforcers took enforcement actions against 20 entities. The entities either made public corrective notes, mainly relating to the application of the notion of control or corrections in future financial statements, which were mostly related to omissions of disclosures required by IFRS 12.

As regards the first application of IFRS 11, *Joint Arrangements*, and IFRS 12, in 2015, the assessment of compliance with these standards was undertaken on a sample of 54 issuers for which joint arrangements were material. Around 40% of the issuers had material joint operations with a significant majority structured through a separate vehicle. As a result, these entities should have provided entity-specific information on material joint arrangements.

However, only 25% of the issuers disclosed sufficient information to enable the assessment of whether the parties had direct rights to the assets or direct obligations for the liabilities of the joint arrangement. In addition, the information needed to enable users to evaluate the nature, extent and financial effects of interests in joint operations was often found to be inadequate.

The majority of these issuers changed their accounting policies following the first application of IFRS 11 and disclosed the impact of these changes in accordance with IAS 8. In addition, 30% of the issuers in the sample disclosed changes in the classification of joint arrangements from a joint-controlled entity (IAS 31, *Interests in Joint Ventures*) to a joint operation (IFRS 11),

but only 25% of these issuers provided complete disclosure on the relevant factors, which caused the reconsideration of the relationship. Because of the examination of the 54 issuers, European enforcers took 10 actions, mainly related to the classification of joint arrangement or missing disclosures required by IFRS 11.

The assessment on the application of the IAS 12 requirements relating to deferred tax assets and uncertain tax positions was based on a sample of 73 issuers with material-deferred tax assets or uncertain tax positions.

Assumptions absent

A total of 66% of the issuers recognised material-deferred tax assets arising from unused tax losses but 31% of these did not disclose any information on the nature of the evidence supporting the recognition of the deferred tax assets. Even where issuers did, the assumptions used were not set out in 60% of cases. According to IAS 12, the existence of taxable temporary differences is merely an indicator, not actual evidence, that future taxable profits are probable. IAS 12 requires that there are future taxable profits. If the entity expects to incur further tax losses, the reversing taxable temporary differences will not give rise to taxable profit and the tax losses carried forward should not be recognised.

IAS 12, *Income Taxes*, states that the existence of unused tax losses is strong evidence that future tax profit may not be available. As a result, issuers should disclose the amount of the deferred tax asset and the evidence supporting its recognition where the entity has a recent history of losses. However, only 50% of the sample that had recognised deferred tax assets disclosed the main judgments used when assessing the time for recoverability. As a result of the examination of 73 issuers, enforcers took 10 actions. Actions have been taken against a quarter of the issuers included in the sample of 189. In many cases, actions cover several areas of the same set of IFRS financial statements.

ESMA and European enforcers identified enforcement priorities in advance of the preparation, audit and publication of the 2015 IFRS financial statements. These focused on the impact of the financial markets conditions, the statement of cashflows and related disclosure, and the fair value measurement of non-financial assets and related disclosures.

ESMA and European enforcers regularly discuss issues relating to the application of IFRS. Recently, they have discussed the application of the fair value measurement according to IFRS 13, *Fair Value Measurement*. Issues arose which related to the assumptions used when measuring non-financial assets and the determination of the notion of 'highest and best use'. The number of accounting issues discussed by the enforcers before taking decisions increased significantly to 65 in 2015 as opposed to 47 in 2014. ■

Graham Holt is director of professional studies at the accounting, finance and economics department at Manchester Metropolitan Business School

For more information:

www.esma.europa.eu

Technical update

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

Singapore

AML crackdown

The Monetary Authority of Singapore (MAS), the country's central bank, has announced that it will establish dedicated departments to combat money laundering and strengthen enforcement. The reform came into effect on 1 August and will see a dedicated anti-money laundering (AML) department streamline the bank's existing AML and illicit financial risk responsibilities. More at **bit.ly/aml-mas**.

SCF support

The Monetary Authority of Singapore (MAS) has announced that it will help start-ups and small-and-medium-sized enterprises to access securities-based crowdfunding (SCF) – for instance, by reducing financial requirements for SCF-platform operators wanting to be licensed as dealing intermediaries. Find out more at **bit.ly/mas-crowd**.

Register extension

The Accounting and Corporate Regulatory Authority of Singapore has given private companies more time to update shareholder information within an electronic register of members. This was supposed to be completed by 4 July but can now be completed when companies file annual returns – until 3 January 2017. See **bit.ly/acra-erom**.

How to avoid avoidance

The Inland Revenue Authority of Singapore has released an e-tax guide advising companies on what it regards as tax avoidance, giving examples of arrangements that incur the risk of breaking section 33 of Singapore's Income Tax Act. Find out more at **bit.ly/iras-avoid**.

AEOI on horizon

Singapore's finance ministry, the Monetary Authority of Singapore and the Inland Revenue Authority of Singapore have proposed regulations allowing the city state to implement the Organisation for Economic Co-operation and Development's Standard for Automatic Exchange of Financial Account Information in Tax Matters (AEOI) from 1 January 2017. The ministry is consulting businesses and accountants on the issue. See **bit.ly/oecd-aeoi**.

ACRA interprets

The Accounting and Corporate Regulatory Authority of Singapore has issued its first set of 'Registrar's Interpretations', providing its interpretation of how Singapore's Companies Act and other business legislation should be applied in practice. This initial advice covers issues regarding the amalgamation of foreign companies, taking up unissued shares, societies being unable to hold company shares and dormant company financial statements. Find out more at **bit.ly/acra-ri**.

New ASC advice

Singapore's Accounting Standards Council has released advice on financial statements regarding leases, and on recording revenue from contracts with customers. See **bit.ly/frs-change**.

Hong Kong

Mainland extension

The Hong Kong Institute of Certified Public Accountants has announced that Hong Kong CPAs can now become partners in mainland China firms, extending nationwide a right that had previously only applied to Guangdong province. Henceforth, Hong Kong CPAs can become mainland partners if they obtain a Chinese Institute of Certified Public Accountants qualification, have a mainland home and live in mainland China for more than six months annually, and work at a firm controlled by mainland partners. Full details are at **bit.ly/hkicpa-main**.

CPA partnership boost

Residents of Hong Kong and Macau who are registered in mainland China as Chinese certified public accountants can also now work in the mainland as partners of local accountancy firms, according to China's ministry of finance. However, there are some requirements, including that the local firm be owned by mainland Chinese citizens and the Hong Kong or Macau accountant has a permanent mainland address. The new policy took effect on 1 June and follows two agreements signed with Hong Kong and Macau in November 2015, deigned to build closer economic relations between mainland China and the two special administrative regions.See **bit.ly/cpa-ext**.

New ordinance passed

Inland Revenue (Amendment) (No 3) Ordinance 2016 has come into effect in Hong Kong. This authorises the automatic exchange of financial account information in tax matters, following the Organisation for Economic Co-operation and Development's rules on tax transparency. The law instructs financial institutions to identify accounts held by tax residents of reportable jurisdictions and file this information with the Hong Kong Inland Revenue Department. See **bit.ly/ira-no3**.

SFC and HKEX consult

The Securities and Futures Commission (SFC) and the Hong Kong stock exchange (HKEX) are consulting on proposed changes to decision-making for listings. The consultation includes creating two new committees on which the SFC and the exchange would initiate, steer and decide listing policy. Find out more at **bit.ly/hkex-sec**.

HKEX criteria change

The Hong Kong stock exchange (HKEX) has revised the criteria for its designated securities eligible for short selling. It has increased the required aggregate market capitalisation ratio to 60% from 50% for stocks with market capitalisation of HK$3bn or more. It has also set minimum aggregate

turnover at HK$500m – up from HK$200m – for stocks listed in Hong Kong for not more than 60 trading days, which must also have a public float capitalisation of HK$20bn or more – up from HK$10bn. See **bit.ly/short-sell**.

Amendment gazetted

The Hong Kong government has gazetted Inland Revenue (Amendment) (No 2) Ordinance 2016, which authorises the tax deduction of some interest payable on money borrowed by a corporation operating an intra-group financing business in the territory. It also creates an 8.25% concessionary profits tax rate for qualifying corporate treasury centres. See **bit.ly/ira-no2**.

Top spot for HK

Hong Kong has been ranked the world's most competitive economy, moving up from second place last year, according to the International Institute for Management Development *World Competitiveness Yearbook 2016*. See **bit.ly/imd-score**.

Mainland China

Security focuses on SAT

China's ministry of public security has set up a permanent office inside the state administration of taxation (SAT). The office focuses on export tax fraud, tax evasion and false invoicing. China had regularly placed police liaisons in the tax office over the past 10 years but the new office marks a further collaboration between the law enforcement team and tax officials to combat major tax crimes. In 2015, Chinese investigations detected 144 major tax crimes, recovering Chinese 4.6 billion yuan. See **bit.ly/sat-sec**.

Tackling tax
BEPS's four minimum standards will be enacted in Singapore

Singapore gets on board with BEPS

Singapore has promised that it will implement the base erosion and profit shifting (BEPS) project developed by the Organisation for Economic Cooperation & Development (OECD). The Inland Revenue Authority of Singapore (IRAS) has said it accepts profits should be taxed where real economic activities generating them are performed and where value is created. IRAS said Singapore would enact BEPS's four minimum standards, namely those countering harmful tax practices, preventing treaty abuse, transfer pricing documentation and enhancing dispute resolution. It will implement country-by-country reporting for Singapore-headquartered multinational enterprises for financial years beginning during 2017. More at **bit.ly/iras-beps**.

Malaysia

Bonds alert

The Securities Commission Malaysia (SC) has warned of a proliferation of bogus bonds investments schemes, sometimes linked to fictitious foreign bonds. The schemes offer profits as high as 40% per month. The SC said investors should check its website, **sc.com.my**, to check a bond's approval.

MFRS 15 clarification

The Malaysian Accounting Standards Board has released clarifications to Malaysian financial reporting standard MFRS 15 on revenue from contracts with customers. Clarifications shall apply to financial statements of annual periods beginning on or after 1 January 2018 but earlier application is permitted. See **bit.ly/masb-mfrs15**.

Ringgit reassurance

Malaysia's central bank, Bank Negara Malaysia (BNM), has said that it will guarantee ringgit foreign exchange liquidity to deal with higher than usual volatility as a result of the UK's European Union referendum result. The bank has confirmed that it will continue to monitor developments and will work with members of the Financial Markets Committee, which includes BNM, financial institutions, corporations, financial service providers and other institutions or stakeholders. Find out more at **bit.ly/bnm-brexit**.

Bond fund closes

The Bank Negara Malaysia, the Monetary Authority of Singapore, the Hong Kong Monetary Authority and the People's Bank of China are among a number of institutions that have closed the Asian Bond Fund 1, a US-dollar denominated bond fund, transferring the investment to a local currency bond fund. The goal is enhancing a local currency bond market. Find out more at **bit.ly/bnm-abf1**. ■

Keith Nuthall and Wang Fanquing, in Shanghai

▶ The panda and the pocket money

Quin Thong, co-author of a wealth management book for children, with Cha Cha the panda – the mentor who helps children learn how to save, what to share and when to spend their pocket money

Cha Cha takes a bow

A book promoting financial literacy for children is the result of a collaboration between two ACCA members from different parts of the world

During a visit to the Korangi area of Karachi, Pakistan, in 2013, Hong Kong-based CFO Quin SQ Thong FCCA was teaching a class of children about financial literacy when a boy raised his hand and gave her a 'eureka' moment.

'As part of my lesson, I asked children what they needed and what they wanted. So this tiny boy, maybe eight years old, put up his hand and said: "Miss, I want a sweet, though I need a book." I'd never heard the contrast put so well. But it also made me think: what book could I give him to transform his life?'

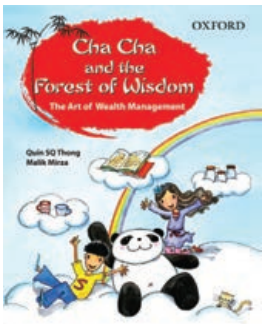
There weren't many foreigners going to impoverished places like Korangi, not least to teach children about managing finances, and her visit made a splash. The following day the CEO of one of the country's biggest banks got in touch to suggest she write a book on financial literacy for children.

The seed was sown, but Quin wasn't a writer, though she had authored an illustrated book called *Weaving Rainbows in the Himalayas – The Art of Bhutanese Scarf Tying* for her social enterprise in Bhutan, Ana by Karma, which helps women scarf weavers make a living from their work (see the March edition of *AB International*, page 12).

While Quin mulled it all over back in Hong Kong, a friend introduced her to fellow FCCA Malik Mirza, a CFO based in Islamabad. They had much in common, not least a shared passion for communicating and educating. Mirza had also worked on social programmes and was the author of a book on time management: *Time Flies – Do You Want to Take a Ride?*

It made perfect sense to collaborate, but that's easier said than done when you've never met, barely know each other, and not only live in different countries but in different time zones.

Still, encouraged by a chance meeting with Ameena



Cha Cha and the Forest of Wisdom: The Art of Wealth Management is written by Quin SQ Thong and Malik Mirza, and published by Oxford University Press. It teaches money management, is aimed at children over eight and costs PKR450 (US$4). For more, go to **bit.ly/FinancePanda**.

Saiyid, Oxford University Press Pakistan's managing director, they set out on a journey to write *Cha Cha and the Forest of Wisdom: The Art of Wealth Management*, a book on financial literacy for children.

They say that ACCA membership was key in getting the project off the ground. 'I realised for the first time that having a global qualification matters,' says Mirza. 'It meant that Quin could relate to me, which was the first step to us working together – this was truly exciting. Knowing he's an accountant, an ACCA, I felt a fraternal bond, as though we went to the same school,' says Quin.

Sharing, spending, saving

Little had been written in the way of material for financial literacy for children, says Mirza. 'We realised that we should produce something that takes children through the key concepts of sharing, spending and saving.'

Via early morning Skype calls, emails and WhatsApp messages, they plugged away. Quin's teaching experience gave the book its direction, while Mirza developed and wrote the stories.

First they developed the characters. According to Chinese folklore, a Ming dynasty empress used pandas as diplomats, and Quin had successfully used the animal during lessons to represent a level-headed 'guide' figure. They decided on the name Cha Cha for the panda, which means uncle in Urdu and wise man in Chinese.

They also felt the book should have a boy and a girl, to make it relatable to as many children as possible. They called the girl Aimee and the boy Sam – names that are not culturally or linguistically exclusive.

The book follows Cha Cha as he guides the pair through the key principles of financial literacy: wealth is more than money; the difference between need and want; saving, spending and sharing; and setting goals.

After 18 months of work, the book was launched at the Children's Literature Festival in Karachi in February 2016 and published by Oxford University Press. The concepts that it uses are aligned with the World Bank's vision of financial inclusivity – UFA 2020, which stands for Universal Financial Access by 2020.

According to the World Bank, 'UFA 2020 envisions that adults worldwide – women and men alike – will be able to have access to a transaction account or an electronic instrument to store money, send payments and receive deposits as the basic building block to manage their financial lives.' The plan targets giving access to a transaction account to a billion people in 25 countries where 73% of all financially excluded people live.

'In Pakistan only about 12% to 13% of people have a bank account,' says Mirza. 'So the idea is to do something that contributes to changing this. If we want adults to have bank accounts, the right »

▼ Spreading the word

Quin Thong and Malik Mirza at the Karachi Children's Literacy Festival in February 2016 showing a group of teachers how to use the book in class

The foundations of financial literacy
Primary school children getting to grips with the key money management concepts of sharing, saving and spending by using an illustrated book written by accountants Quin Thong and Malik Mirza

time is to start early. That's how we came up with the idea that there should be something to educate children.'

So how do children respond to concepts that many adults find difficult to grasp? 'Very well,' says Quin. 'They go home and teach their parents.'

> 'The book helps children respond to concepts that many adults find difficult to grasp. They go home and teach their parents'

The core message of the book revolves around the concept of wealth being more than money, and encapsulates time and knowledge, and that these are equally valuable and equally tradable. 'It's not just about donating your money – time is wealth,' says Quin. 'You can share your toys or your books, or if you're good at maths, share that knowledge with a friend at school. The concept of sharing is global and you can see a lot of kids can share a lot of their wealth.'

Universal message

The authors see the book as having a global statement that can be understood across cultures, borders and economic standing. While the idea may have been sown in an emerging economy, the scope is international.

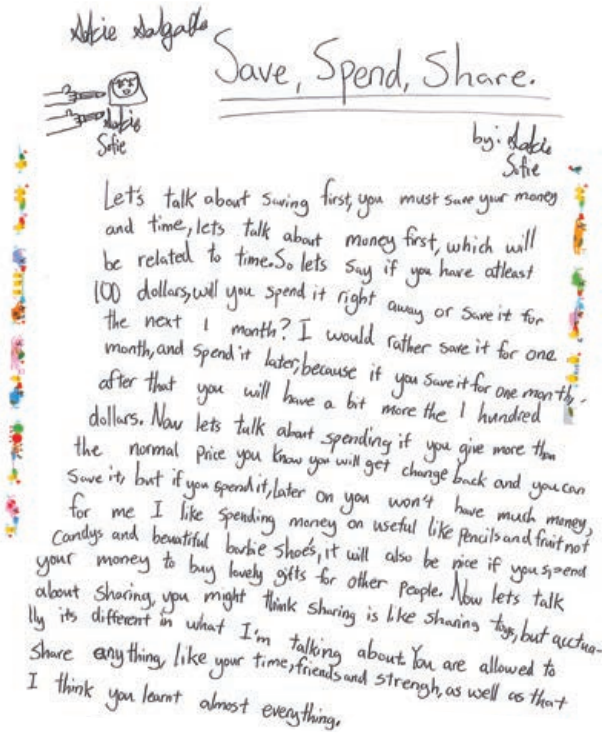
'We're developing this as a message, not solely as a book,' says Quin. 'There should be a financial literacy workbook for children, and a training programme for teachers to teach the subject in the classroom. We're at the stage of engaging financial institutions, governments and corporations, as they're the people to go to schools and get the children opening accounts. The book is just the first stage.'

'It's been received well,' says Mirza. 'Parents I speak to say that these are concepts they want their children to learn and now they have something. I'm aiming for five million book sales and covering around 500 schools with the programme, spreading the message as far as possible, getting as many children with bank accounts and seeing how the international market reacts.'

If the crux of their programme is about sharing wealth, then the book itself is testament to this, with the collaboration involving a sharing of skills, strengths and vision to create something of singular value.

And the whole thing grew out of a boy putting his hand up in class. 'One day I want to give that little boy in Korangi his own copy of the book,' says Quin. ■

Neil Johnson, journalist



Save, Spend, Share.

by: Sofie

Let's talk about Saving first, you must save your money and time, lets talk about money first, which will be related to time. So lets say if you have atleast 100 dollars, will you spend it right away or Save it for the next 1 month? I would rather save it for one month, and spend it later; because if you Save it for one month, after that you will have a bit more the 1 hundred dollars. Now lets talk about spending if you give more than the normal price you know you will get change back and you can Save it, but if you spend it, later on you won't have much money, for me I like spending money on useful like pencils and fruit not Candys and beautiful barbie shoes, it will also be nice if you spend your money to buy lovely gifts for other People. Now lets talk about Sharing, you might think Sharing is like sharing toys, but actually its different in what I'm talking about You are allowed to Share anything, like your time, friends and strengh, as well as that I think you learnt almost everything.

Quin SQ Thong FCCA

Quin SQ Thong FCCA is the Greater China CFO for Baronsmead Consulting, where she specialises in corporate strategy, operational excellence and performance transformation. Originally from Malaysia, she worked at PwC before moving to Hong Kong in 1998 to work as FD for TNS Global, a market research business now owned by WPP. As part of a 'corporate doctor' team, she then helped to revive the fortunes of then UK footwear company Texon International Group.

Following this, she moved to property company DTZ as its north Asia chief operating officer. Having impressed by engineering a five-year business plan to strengthen the company's growth, she was seconded to DTZ's London HQ as head of strategy, followed by a posting to Shanghai.

In 2012 she returned to Hong Kong, holding interim finance roles before taking up her current position in 2014. She also runs the social enterprise Ana by Karma.

Malik Mirza FCCA, FCA

After doing his accountancy training with PwC network firm AF Ferguson in Islamabad, Malik Mirza's career in Pakistan took off. He moved from managing assurance and advisory services at AF Ferguson to a multinational manufacturing company as an internal audit manager.

Since 2004, the banking sector has been his stomping ground. Focusing on microfinance, he joined First Microfinance Bank as head of finance and company secretary. In 2007 he moved to Transworld Associates as a senior finance manager.

In January 2013, he moved to U Microfinance Bank as CFO and company secretary, developing the financial system to support a branchless banking system. He has recently moved to Finman Group as managing director, providing advisory, training and recruitment services.

He has created a blog for mentoring and sharing ideas from management and business books. He also runs professional skills training sessions for young people, and conducts financial analysis and management workshops.

All eyes on Europe

The UK's decision to leave the European Union and the progress of the 13th Five Year Plan were the main topics of discussion at *ACCA Hong Kong*'s Annual Conference 2016

The shocking result of the UK's referendum in June, which will trigger the country's 'Brexit' from the European Union (EU), has added a number of uncertainties to the outlook for Asian markets as well as global politics and the world economy.

The day after the referendum result was announced, and with a new economic, financial and political landscape on the horizon, more than 440 accounting and finance professionals, C-suite executives, entrepreneurs and government officials gathered for *ACCA Hong Kong*'s Annual Conference 2016. Their aim was to discuss risks and opportunities in today's economy, share ideas and experiences, and discuss the best approaches to maintain or improve Hong Kong's status as a financial centre.

Keynote speakers shed light on how Brexit will affect global equity markets and how China will work to resolve structural issues that threaten reforms in the years after the current 13th Five Year Plan that ends in 2020.

For Hong Kong, a key priority will be reacting swiftly to derive the most benefits from the new economic order while hedging risks. 'Hong Kong is a global financial centre. We are doing business with companies all around the world. Every change happening outside affects us,' said George Leung, Asia Pacific adviser at HSBC.

'The result basically means that the US Federal Reserve has to hold on its interest rate hike this year. Next year, there is a possibility that we will see interest rate cuts,' Leung continued. 'We may see monetary policies across the world going back to a couple years ago.'

The US dollar rose as much as 2% against a basket of currencies after the Brexit vote as investors rushed to safety. The increases may put a drag on exports and job growth, making it difficult for the world's largest economy to hit its inflation target. For its part, the British pound touched a 1985 low against the greenback.

'The Brexit referendum could have a knock-on effect throughout Europe,' Leung said. 'Capital flowing into Europe will be divided or even reduced. It is a lose-lose situation for both the EU and Britain. In the short term, it will be a burden to the rest of the world, including Asia. The EU is a major trade partner of Asian countries. This will lead to smaller trading volume and even if Britain will come out with new trade agreements later, companies will have to wait at least a couple years.'

'This is a structural change, not a cyclic variation, which means it is irreversible. We cannot see the British pound to US dollar currency exchange rate go back to 1.5 or 1.6 in the foreseeable future,' said Mark Wan, chief analyst at Hang Seng Investment Services. 'The possibility that the EU will be further divided should not be ruled out, and it will keep investors' money away from the continent. The euro will continue to perform weakly.'

▲ Push forward
Leo Lee, ACCA's vice president, told delegates that finance professionals must use change to their advantage

Economic transformation

In the long term, though it's not all bad news. Asia, particularly China, is expected to be the main driving force of the global economy.

'We hope that China can keep opening its borders and capital market, plugging itself into the global economy,' said Wilson Tang, senior equity analyst and treasury private clients investment head at DBS Bank (Hong Kong). 'In that way, we can expect the situation to be better.'

China is currently undergoing a significant economic transformation, with Premier Li Keqiang pointing to five goals that lie ahead: cutting excessive industrial capacity, destocking, deleveraging, lowering corporate costs and improving weak links in the economy. Overcapacity and debt levels have emerged as key concerns; some fear that China's level of debt as a percentage of GDP is far too high.

'There is no official number for China's debt rate. It should be around 260% and a large proportion is contributed through corporate debt. This is related to their over capacity problem,' said Tse Kwok Leung, head of policy and economic research at Bank of China (Hong Kong). 'Those zombie companies, many in manufacturing industries, cannot draw new investment and have become obstacles to deleveraging.

'However, I do not think China will see a debt crisis since China's debt is mainly domestic, and debt between state institutions could simply be written off by a government document,' he continued. 'But if it cannot be solved properly, it will have an adverse impact on the banking industry, slow down the process of capital market opening and ultimately undermine economic competitiveness. China's debts still need to be taken seriously.'

According to Samuel Yung, executive district director at AIA International, 'The atmosphere and environment in mainland China now is quite encouraging to innovation and startups. There is much room for novel things, which is a good signal.'

Prof Terence Chong, associate professor of economics and executive director of Lau Chor Tak Institute of Global Economics and Finance, agreed, noting that 'moving forward on the way of innovation is not just about techniques. China's problem is about quality, and gaining confidence among customers, domestic as well as overseas. We may only have less than 10% that are defective, but that is enough to spoil the credibility of made-in-China products. The supervision of quality is critical.'

Chang Ka-mun, managing director at Li & Fung Development (China) and Fung Business Intelligence Centre, says that China's current leadership has developed the plan based on widespread feedback.

'I disagree with the saying that China is strong now only because of its economy. There is progress in many different aspects,' Chang said.

Sagging economy

For its part, Hong Kong faces some serious challenges to revive a sagging economy, in particular struggling sectors like retail and tourism.

'There are more options for mainland travellers since it is much easier to get visas for foreign countries,' said Matthias Li, chief executive at Ocean Park Corporation, which operates a large amusement park. 'Hong Kong has seen a sharp drop in travellers, mainland tourists in particular. This has impacted Ocean Park. But we have been focusing on upgrading our facilities, including launching a new waterpark, and our first Ocean Park hotel will open in 2017. I think we are in the right direction.'

Jason Wong, director and general manager of Hong Thai Travel Services, suggested that Hong Kong needs to look for new customers. 'Travellers from emerging markets in Asia, like Indonesia and India, are quite interested in Hong Kong,' he said. 'We could put more effort into promotion campaigns in those markets.'

Cally Chan, managing director of Hewlett Packard Enterprise, Hong Kong and Macau, noted that local companies should learn to adapt and innovate, describing how the company benefited from the use of data analytic software. 'We got a better insight on what is attracting tourists coming to the city,' she explained. 'Hong Kong's blue sky is the top attraction but most travellers are critical of the wi-fi coverage at Hong Kong International airport, which indeed delivers the first impression to them. We now know where to put our efforts and this shows how big data can help our business.'

'We have to make sure that our companies can closely follow our target clients' lifestyle and behaviour, which keep changing due to emerging novel technologies,' said Jennifer Tan, chief operating officer at Hutchison Telecommunications Hong Kong. 'It does create more challenges, but at the same time it provides more solutions and actually expands our markets.'

The upshot is that there is no single path that can ensure economic growth or successful reforms, so companies and individual investors in Hong Kong should position themselves as best they can to grasp any opportunities they see in the changing environment.

'We can see huge change in the future and we should prepare to adjust expected returns from investment,' said Shih Wing-ching, chairman and CEO of Centaline Group, a real estate company. 'Before, if people did not see two-digit rates of return, they would not pour their money in. Now we have seen people rushing to buy insurance with only 3% interest rates. The environment has changed.' ■

Pearl Liu, journalist

Find out more

Watch a video of the highlights of the *ACCA Hong Kong* conference (in Cantonese) at **bit.ly/ACCA-conf**

What does the future hold?

The accounting profession is changing rapidly as competition between companies increases and the number of uncertainties in the global economy grows. So accountants should adopt new concepts and technologies and prepare themselves for the challenges and opportunities that lie ahead.

This is one key finding outlined in an ACCA report, *Professional accountants – the future* (see **accaglobal.com/thefuture**), which suggests that audit and assurance, corporate reporting, financial management, governance, risk and ethics, strategic planning and performance management and tax are the six main areas that will help cultivate accounting professionals in the near future.

'We have talked to more than 2,000 accounting professionals as well as senior finance talents across the world to define the perfect professional in the future,' ACCA vice president Leo Lee told delegates at the *ACCA Hong Kong* Annual Conference in June.

Through the survey, seven qualities were identified as key for future finance professionals: intelligence, creativity, digital savvy, emotional intelligence, experience, vision, and technical capabilities and ethics.

'Jack Ma of Alibaba said that if we want to change the world, we must first change ourselves,' Lee said. 'As accounting professionals, we should leverage on changes to excel ourselves, keeping an eye on the development of industry, society and the world in order to better exert our knowledge and skills in delivering public value.'

Alliance in action

Helen Brand, ACCA chief executive, and Lee White, chief executive officer of Chartered Accountants Australia and New Zealand (CA ANZ), explain the new strategic alliance

Following the announcement in July that ACCA and CA ANZ have entered into a strategic alliance (see page 9), we talk to the chief executives of the two bodies to find out what has driven the move and how it will affect their respective members.

Why have ACCA and CA ANZ formed a strategic alliance?
Helen Brand (HB): The alliance between ACCA and CA ANZ is about putting the organisations side by side so we can deliver tangible and meaningful value to our members. That is very much our collective focus.

Why now?
Lee White (LW): This move has business at its heart. It is about expanding the opportunities for our members and future professional accountants, ensuring they have the right skills and insight to make a difference and be a truly valuable business partner.

Business is affected by drivers such as globalisation, facilitated in significant part by technology. Where the business is physically located is less important to customers and suppliers. So businesses need to rethink their relevance to their customers, and we as professional bodies need to rethink our relevance to our members. They are right at the heart of business. If business is affected, so is the way our members operate. It is incumbent on leaders of the profession to ask: 'What do we need to do to remain relevant and deliver maximum value for our members?'

HB: That wider context informed the creation of the alliance. It is about how we can do things better, how we can innovate, how we can disrupt the environment so we have a stronger proposition on behalf of current and future members.

> The alliance is about delivering tangible and meaningful value to our members

▶ Meet the family
Helen Brand and Lee White (right) discuss the alliance with employees at ACCA's headquarters in London

How will members benefit?
HB: There are huge benefits from bringing together two brands that are very strong in their own right. The alliance may come as a surprise because people can see the successful paths both bodies are already on. It's about combining our huge strengths for the benefit of members. Ultimately, our members have to be delivering value to their clients or employers, by bringing the best skills and insights. We know these challenges are increasing – and that they are increasingly global. ACCA recently published *Professional accountants – the future,* which takes a long-term look at the capabilities accounting professionals will need to deliver. Together we are more likely to address those broader and deeper skills expected of our members.
LW: The key is 'relevance'. Members need to be relevant to their clients and in the way they operate within businesses. And we need to ensure we remain relevant to them.

Straightaway there will be a boost to both brands, and we will bring together our thought-leadership and advocacy to provide a stronger voice on behalf of our combined 308,000 members and 480,000 students around the world.

The influence members can expect comes not only through our combined size but from the thinking that this will produce. And we are also very excited about the educational and CPD offerings of both organisations.
HB: The other element is the global network to support members and prospective members, wherever they are in the world.

What does the alliance mean in practice for members?
HB: It will allow for dual membership, with pathways for both sets of members. We have dual members already: for ACCA members living and working in Australia and New Zealand, for instance, there is an attraction in also being a member of the national body. We are both looking at what we have that will be of direct interest and benefit to both sets of members, such as CPD, technical and policy work. By doing this jointly we will deliver a richer, more impactful offering and a whole raft of new support.
LW: The initial piece is sharing, where it makes sense to do so, which will quickly provide momentum for further exploration of how we can work together for the benefit of members. We are being careful not to rush; a natural pace will energise our teams to deliver even better value.

How did the alliance happen?
LW: It was a natural coming together rather than one body approaching the other. It starts with a common set of values and adherence to ethics in our value propositions. Connectivity through values allows for a foundation discussion over what this alliance can be.
HB: It has been clear over recent years that Lee and I share a passion for the global profession, both our organisations being actively outward-looking. Our shared history of the Royal Chartered status resonates very strongly with members across the world, coupled with a very forward-looking ethos.

What are the challenges?
LW: The excitement among the teams as to what can be delivered is great, but that has to be balanced against ensuring that we have the right processes and systems in place to support those deliverables.
HB: Keeping the focus going is going to be really important. But the excitement generated among our teams and our members is all to the good.

How will you work together?
HB: You get used to late evening and early morning calls! But we work well together because a tremendous amount of trust and admiration has already been built up at executive level, among our governance leaders and across our teams.
LW: I have been Helen's early morning alarm call! It's early days still and there will be challenges, but those challenges will be dealt with given that the trust is there. ■

Peter Williams, journalist

For more information:

Watch the two chief executives on video and find out more about the alliance at accaglobal.com/alliance

See *Professional accountants – the future* at accaglobal.com/thefuture

On tour in Asia

ACCA's biennial Council meeting, held in Singapore, gave attendees an opportunity to visit other countries in the region and meet members, partners and other key figures

◀ Bigger picture
The ACCA ASEAN Conference 2016, held in Singapore, was themed 'Transforming the Face of Accounting and Finance Talent'

ACCA's biennial Council meeting – hosted outside the UK – took place in June in Singapore. While in Asia, ACCA's executive team, officers and Council members made short visits to Malaysia, Indonesia, Myanmar and Vietnam to meet members, government representatives, regulators, education providers, and approved employers. Here are some of the highlights of the Council tour of Asia. ■

◀ Elegant moves
In Indonesia, Council members enjoyed a presentation of Balinese dancing at a joint meeting with the Indonesian Institute of Certified Public Accountants

▲ Warm welcome
Datuk Alexandra Chin welcomed new members at an event in Hanoi, Vietnam. So far in 2016 the country has gained 159 new members – the highest number in recent years

▲ Strength in numbers
The new member ceremony in Hanoi, Vietnam was attended not only by the country's most recent members but also by government representatives, employers, universities and other learning providers

◀ In partnership
Dato' Mohammad Faiz Azmi (front, left), president, Malaysian Institute of Accountants (MIA), with Helen Brand (front, right) and Datuk Alexandra Chin (centre) among ACCA Council officers and the MIA management team

▼ Plenty to celebrate
Council members joined Datuk Alexandra Chin and Helen Brand for a toast at ACCA Singapore's 80th anniversary dinner

Council highlights

Member value, pricing, governance and nominations were just some of the issues discussed at Council's June meeting, which was held in Singapore

Council met on Saturday 18 June in Singapore. The Council meeting featured discussions and decisions on a number of important matters.

* Council agreed to enter into a bold and exciting new alliance between ACCA and Chartered Accountants Australia and New Zealand (CA ANZ) for the benefit of current and future members, and with a shared emphasis on delivering public value. (See more on page 80.)
* Council welcomed to the meeting Kishore Mahbubani, professor in the practice of public policy and dean of the Lee Kuan Yew School of Public Policy at the National University of Singapore, and heard a presentation from him on the development of ASEAN and the opportunities and challenges it faced as an economic region.
* ACCA president Alexandra Chin updated Council on her and the officers' activities since March, including representational visits to Malaysia, South Africa, Zimbabwe, Zambia, China, Czech Republic, Hungary and the UK.
* Council heard a presentation from the chief executive, focusing on strategic performance for the year ended 31 March 2016 and priorities for 2016-17.
* The chairman of the Market Oversight Committee made a presentation to Council, which then broke into discussion groups to consider ACCA's approach to member value, including the key drivers for member value and member satisfaction.
* The chairman of the Resource Oversight Committee made a presentation on strategic pricing, and Council agreed proposals on student subscriptions, member pricing and affiliate pricing.
* Council considered the implementation of the EU Statutory Audit Directive and Regulation (EU ADR), which came into force on 17 June 2016, and the impact of the new directive on ACCA's regulatory framework; it agreed recommendations in respect of its implementation.
* Council received a report from the Governance Design Committee and noted the agreement by the committee to establish a time-limited task force of the Governance Design Committee to lead a review of the governance arrangements for ACCA, principally at Council level, to propose appropriate transformational change to ensure that those arrangements are fit for the long-term future success of ACCA.
* Council considered a report from the Nominating Committee and agreed the nominations to standing committees, the International Assembly and the public interest oversight boards for 2016-17. Council also agreed the appointment of a lay member of the regulatory board and appointments to the UK CCAB board.
* Council approved the accounts for the financial year ended 31 March 2016, the summary accounts for the same period and the letter of representation to the auditors. It also approved the content of the integrated report for 2015-16 and agreed to recommend to members at the 2016 AGM the reappointment of Grant Thornton as ACCA's external auditors.
* Council noted a report from the Qualifications Board, including the review of the March 2016 examination results, noting that the board had ratified the results and no major issues had been raised.

Council's next meeting will be in London on 15 September 2016. ■

> Council agreed to enter into a bold new alliance between ACCA and Chartered Accountants Australia and New Zealand

▲ Branching out
Singapore's Supertree Grove. The city-state hosted Council's June meeting

It's time to vote

ACCA has published its AGM booklet and annual integrated report ahead of this year's meeting on 15 September. Members are encouraged to cast their votes by 8 September

ACCA's annual general meeting (AGM) takes place every year in September, presenting members with the opportunity to have their say. This year, the 111th AGM takes place at 1pm on 15 September at ACCA's head office at The Adelphi, 1-11 John Adam Street, London WC2N 6AU.

The AGM includes summary of accounts; statements from 53 candidates standing for election to Council for 15 places; and the resolutions before the meeting. Online and postal voting on the resolutions ends on 8 September at 12.00 GMT (13.00 BST), and attendees at the AGM will be able to vote as part of AGM business.

This year, there are 15 special business resolutions submitted by one member, with supporting signatures from 22 members. These special business resolutions, Council's feedback to them and the supplementary supporting statements for each of the special business resolutions can be found on ACCA's website.

Your vote is of paramount importance, as it informs how your professional body is governed. Please do take the time to review the materials before you cast your vote.

To coincide with the opening of voting, ACCA is also publishing its integrated report for the year ended 31 March 2016. This report – produced in accordance with the International Integrated Reporting Framework – is designed to provide an insight into ACCA's strategy, governance and performance, and how it creates public value on behalf of members.

ACCA also publishes detailed financial statements and a corporate governance statement as part of its reporting suite to give members a complete insight into how ACCA has performed and been led over the past year. This year's focus has been on putting in place some of the essential building blocks ACCA will need to excel to 2020 and beyond.

Key developments in education and learning – which include moving to four exam sittings a year, the launch of our revolutionary ACCA-X online learning solution and our unique global partnership with the University of London on a master's in professional accountancy – show how we are future-proofing the ACCA Qualification and how it is delivered.

Another key focus in 2015-16 has been on listening and acting on member feedback, more than ever before, with a range of new and improved services, including the brand-new ACCA Careers job board, improved members' web services and new *Accounting and Business* apps. Please do read our integrated report on the website to see what we've delivered and what we have planned. ■

> Your vote is of paramount importance, as it informs how your professional body is governed

For more information:

See ACCA's AGM booklet, including the special business resolutions, at accaglobal.com/agm

Find ACCA's integrated report at annualreport.accaglobal.com

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ACCA member benefits

Employability
Membership improves earning power and job prospects on a global scale.

Influence and representation
Members play key roles in representing and developing the profession, backed by cutting-edge research.

Knowledge and connections
Keep up to date with our publications and social media feeds. Our events let you network with a large peer group.

Personal development
CPD, training and career progression support.

ACCA Careers
Our careers portal gives guidance and lists job vacancies worldwide.

Customer care
Fast and efficient support around the clock, by phone, email and webchat.

Go to **accaglobal.com/memberbenefits**

Popular choice

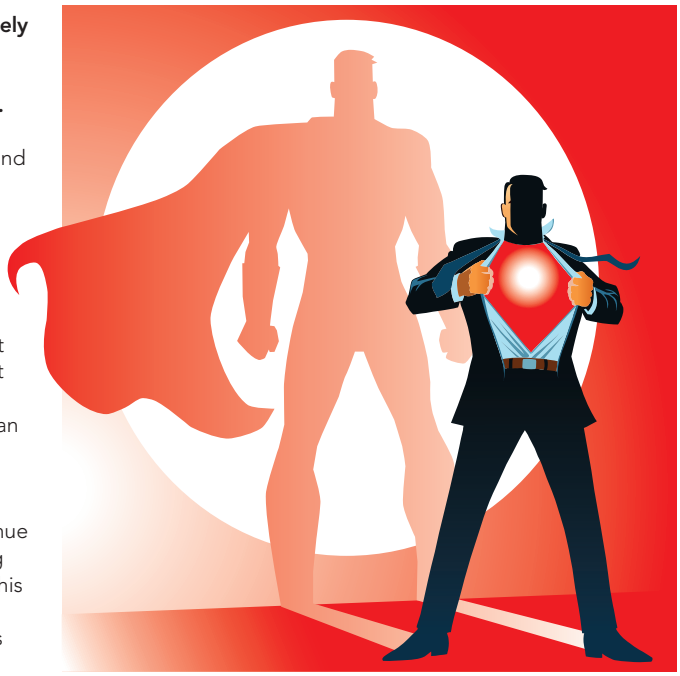
Employers rate ACCA highly for the business and technical skills that members bring to the workplace

ACCA has received extremely positive feedback from employers about the value that ACCA members bring.

ACCA conducts regular research among members and students to hear your views on what ACCA does well – and not so well. It also surveys major employers of accountants to hear about their experiences of ACCA in order to check that they are getting the support they need and to find out about the value members can bring to their organisations.

The latest survey, conducted earlier this year, found that employers continue to rate ACCA as the leading global accountancy body. This means they appreciate the global knowledge members bring to their organisations, and they are confident that ACCA members work to best practices and to high ethical standards. They also see ACCA as an innovative and forward-thinking body.

Not only do employers have a positive view of the brand, they increasingly agree that the ACCA Qualification provides the relevant skills for their business (88%). After the recent move to four examining sessions, the proportion of employers who agree that the flexibility of our exams meets their needs has risen by 12%, to 80%; they also increasingly agree that the Qualification provides a rigorous assessment (86% as against 82% in 2015).



Employers also tell us that the ability to demonstrate the right business skills and technical knowledge is a key differentiator of ACCA employees – skills such as business partnering, connecting technical knowledge with financial implications, decision making and problem solving, writing and presentation skills, performance management, and leadership and teamwork. ■

For more information:

See ACCA's CPD programme for help in developing your professional skills at bit.ly/acca-cpd

Thanks for your views

Thank you to everyone who completed the *AB* readers' survey – your feedback is really valuable. To reflect your views, we will be making some changes to the magazine over coming months. In the meantime, we are always interested to receive your comments, so do send them in, to **abeditor@accaglobal.com**. Meanwhile, we are delighted to announce the winners of the competition for filling in the survey: congratulations to Nadeem Ghumro ACCA in Pakistan and Carol-Ann Kirk ACCA from the UK – your iPads are on their way.

Think Ahead ACCA

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