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BDO CONNECT

MANAGING PARTNER'S MESSAGE

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BDO Singapore

The recently announced GDP figures paint a gloomy picture ahead for the economy. While these numbers and the market outlook is beyond our control, it is apparent that the continuing global economic slowdown amid the uncertainty may take a little longer to shake off.

For now, all eyes are set on the upcoming US Presidential election. It is surreal to think that the focus of the upcoming election is on two very different and polarising candidates, so much so that "real issues" are not discussed as often as they should. Closer to home, the world's second largest economy, China will also see leadership changes soon. On November 8th, the Chinese Communist Party will convene their 18th Party Congress where we can expect to see changes as well. And in the background, the indefinite march towards Brexit has also begun. We will have to wait and see how these major political events alter the global economic and political climate.

Despite the weak outlook and what some quarters may say, a recession is unlikely. It is comforting to know that the Singapore Government has assured its people that they stand ready to respond if the economy takes a downturn just like it did in the previous recession.

On October 6th, we concluded a very successful BDO Financial Reporting Standards Update Seminar with more than 100 participants in attendance. Encouraged by such keen interest in our accounting standards seminar, I am pleased to announce that BDO will be organising a series of complimentary seminars at our new office on relevant financial reporting topics to help you with the FRS changes.

In this issue, we feature articles on the updates on the Singapore FRS and IFRS including an article on GST. We hope you find the article useful.

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Preparing For Full Convergence With IFRS in 2018 for Companies Listed on SGX

Are you prepared for full convergence with IFRS in 2018? Do you have the information available and systems ready to prepare an opening balance sheet as at 1 January 2017? Do you know whether any of the differences between Singapore FRS and IFRS are applicable to your company. Are you aware that there are a number of decisions and elections about transition to be made before then and that you may be able to make fresh choices of accounting policies? How will the transition affect the adoption of the new standards effective in 2018?

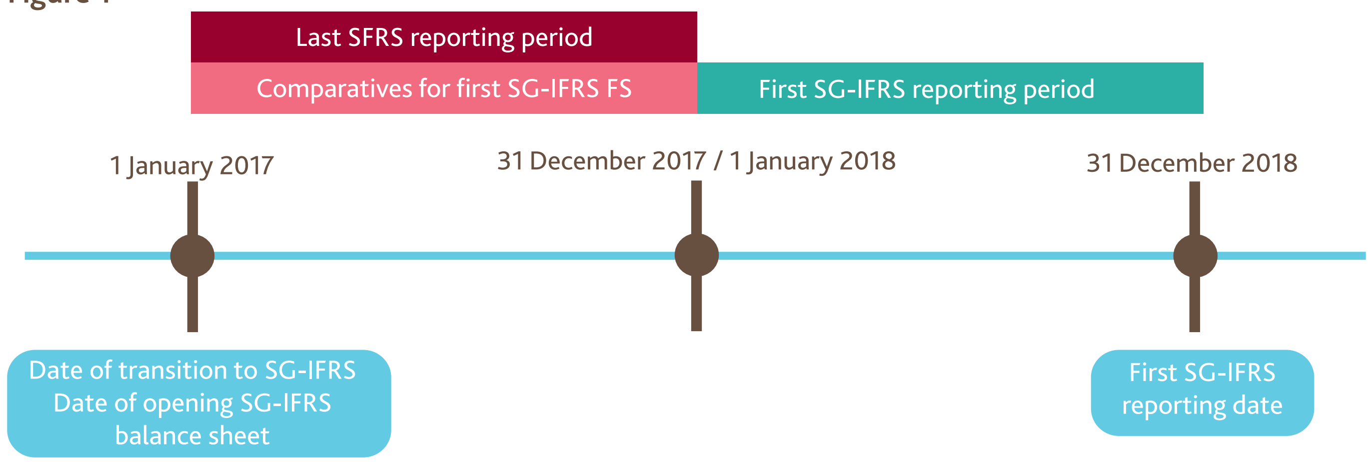
These are some of the questions listed companies should be looking into as part of their IFRS convergence efforts. We will highlight some of the key considerations in this article.

On 29 May 2014 the Singapore Accounting Standards Council (ASC) announced that Singapore-incorporated companies listed on the Singapore Exchange (SGX) will move to a new financial reporting framework identical to International Financial Reporting Standards (IFRS) for annual periods beginning on or after 1 January 2018. Non-listed Singapore-incorporated companies will be able to adopt this framework on a voluntary basis.

While the new framework (which we call 'SG-IFRS' in this article) has not yet been released by the ASC, the transition will involve application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* (IFRS 1). In order to report 31 December 2018 financial statements under SG-IFRS, IFRS 1 requires presentation of comparative information for 2017 and an opening balance sheet as at 1 January 2017 that comply with SG-IFRS, as illustrated in Figure 1. The basic principle in IFRS 1 is that the latest version of each IFRS must be applied retrospectively, unless a specific exemption or relief is provided in IFRS 1.

A key part of the convergence process involves identification of the differences between Singapore FRS and IFRS that may affect the company's financial

Figure 1



statements, and understanding how to apply IFRS 1, which may result in restatements to the financial statements even if existing accounting policies under Singapore FRS are consistent with IFRS.

Since 1 January 2017 is only 3 months away, it is high time to make sure you understand IFRS 1 and start with your impact assessment and IFRS convergence planning.

Differences between Singapore FRS and IFRS

Although Singapore FRS have been substantially aligned with IFRS, there are certain differences. Certain standards were adopted as part of Singapore FRS with a different effective date (e.g. IFRS 2, 7, 10, 11 and 12) and some localisation amendments were also made to certain standards at the time when they were initially adopted as part of Singapore FRS. The following are two examples of the differences that could affect transition:

Applying IFRS 1 – basic principles

As noted above, IFRS 1 is the transition standard to be used in preparing the first set of IFRS-compliant financial statements. More specifically, applying IFRS 1 involves the following steps:

1. Include in the first set of IFRS financial statements an explicit and unreserved statement of compliance with IFRS.
2. Prepare an opening IFRS balance sheet at the date of transition e.g. 1 January 2017 for a company with a 31 December year-end.
3. Select and apply the same accounting policies in the opening IFRS balance sheet and throughout all periods presented in the first IFRS financial statements (as if IFRS have always been applied). Those accounting policies:
   a. have to comply with each IFRS effective at the end of the first IFRS reporting period (e.g. 31 December 2018), or IFRSs that are not yet

Standard	Difference	Possible impact and considerations for transition to SG-IFRS
SFRS 12 / IAS 12 *Income Tax*	SFRS 12 is supplemented by Recommended Accounting Practice (RAP) 8 *Foreign Income Not Remitted to Singapore* which recommends that no deferred tax should be recognised on foreign-sourced income not remitted to Singapore if an entity is able to control the timing of remittance and it is probable that the income will not be remitted to Singapore in the foreseeable future. This is similar to the IAS 12 treatment for temporary differences on investments in subsidiaries, however IAS 12 does not specify this exception for unremitted foreign income.	On transition to SG-IFRS, a deferred tax liability may need to be recognised for such foreign-sourced income not remitted to Singapore.
SFRS 16 / IAS 16 *Property, Plant and Equipment*	SFRS 16 has a transitional provision permitting one-off revaluations of assets performed between 1984 and 1996, and revaluation of assets prior to 1984 without the ongoing use of the revaluation model, as required by IAS 16.	On transition to SG-IFRS, any such past revaluations may need to be reversed. Alternatively, exploring the optional IFRS 1 exemptions for deemed cost may allow fair value at the transition date to be used instead.

effective, if those new IFRS permit early adoption; but

b. need not be the same as the previous Singapore FRS accounting policy in the case of standards that allow a choice of accounting policy.

4. Recognise/derecognise, reclassify, remeasure and restate assets, liabilities and components of equity as necessary so as to comply with the latest IFRSs unless either mandatory exceptions or optional exceptions apply. Make adjustments if transitional provisions in the respective IFRS are different from the IFRS 1 first-time adoption rule.

5. Record any resulting adjustments within equity.

6. Present a reconciliation of:
   (i) equity reported under Singapore FRS to equity under IFRSs:
      - at the date of transition to IFRSs (e.g. 1 January 2017)
      - at the end of the latest period presented in the entity's most recent annual financial statements under Singapore FRS (e.g. 31 December 2017).

   (ii) total comprehensive income reported under Singapore FRS to total comprehensive income under IFRSs for the entity's most recent annual financial statements under Singapore FRS (e.g. year ended 31 December 2017).

   Any errors made under the previous accounting framework must be separately distinguished, and further disclosure requirements are set out in IFRS 1.

It is important to note that IFRS 1 also applies to any interim financial statements prepared under IAS 34 *Interim Financial Reporting* for a period covered by those first financial statements that are prepared under IFRSs, and SGX-listed companies are expected to provide IFRS-compliant comparatives and disclosures about the transition in their 2018 quarterly and half-yearly announcements. Companies need to be ready to articulate the impact by the first quarter announcement or half year announcement, whichever is applicable.

Applying IFRS 1 – mandatory exceptions to retrospective restatement

In order to prevent companies from using hindsight in their transition adjustments, IFRS 1 restricts retrospective application and provides specific guidance

in certain situations, including the following:

- Accounting estimates;
- Derecognition of financial assets and financial liabilities;
- Hedge accounting;
- Classification and measurement of financial assets;
- Impairment of financial assets; and
- Non-controlling interests.

Companies will need to familiarise themselves with the specific guidance on these areas, as relevant to them, in order to fully comply with IFRS 1. In the case of financial instruments, these requirements also interact with the specific transition provisions under IFRS 1 for IFRS 9 *Financial Instruments* (see below).

Applying IFRS 1 – optional exemptions

IFRS 1 also includes a large number of optional exemptions from full retrospective restatement. Although it is not mandatory to apply any of these exemptions, it is important for companies to assess these carefully in order to decide whether electing any of them would be worthwhile in their circumstances.

For companies expecting or hoping for minimal adjustments to their Singapore FRS financial statements, it may in some cases be necessary to take up some of the exemptions to reduce the impact of transition. On the other hand, other companies may be able to achieve a more favourable financial outcome by applying these exemptions. The following are examples of the choices available:

	Nature of exemption	Considerations
Business combinations	An election is available to not restate past business combinations before the date of transition or any chosen date prior to transition, and apply a simplified recognition and measurement approach at the date of transition.	If not adopted, all past business combinations need to be restated applying the latest version of IFRS 3 and the definition of control under IFRS 10. This is potentially useful for companies with material business combinations in the past originally accounted for under earlier versions of SFRS 27 and 103.
Fair value or revaluation as deemed cost	Regardless of the previous accounting policy, fair value or revaluation can be used as deemed cost on transition for property, plant and equipment, investment property under the cost model and intangible assets. There are certain criteria for revaluations.	May be useful for any companies with revaluations made prior to adoption of SFRS 16 under the Singapore local transition rules (see above).
Cumulative translation differences	Choice to reset cumulative translation differences recorded in the foreign currency translation reserve to nil and transfer the balance to retained earnings at the date of transition. Must be applied to all foreign operations consistently.	The alternative is to apply IAS 21 retrospectively to each subsidiary. For Singapore companies, adjustments to the translation may arise on transition if business combinations are restated (see above). The choice will affect the level of future gains or losses on disposal of subsidiaries as such cumulative translation differences are recycled to profit or loss on disposal of the subsidiary.
Investments in subsidiaries, associates and joint ventures	For investments measured at cost, option to use fair value at the date of transition as deemed cost. Available on an investment-by-investment basis.	If a fair value higher than the previous carrying value under FRS 27 is used as deemed cost, this will increase assets in the balance sheet, but may also result in higher future impairment charges.

New standards effective in 2018 and differences in transitional provisions for first-time adopters

Two of the major new IFRSs, IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* also have the same effective date (1 January 2018) as convergence with IFRS. Additionally, although IFRS 16 *Leases* is effective in 2019, it is available for early adoption. Some listed companies may consider adopting IFRS 16 at the time of transition to IFRS to avoid further changes in accounting policies in the second year of IFRS reporting.

Each of these new IFRSs contains detailed transition provisions, including choices between different methods of transition, reliefs and practical expedients. However, it is important for listed companies moving to SG-IFRS in 2018 to note that they have to apply the transition provisions in IFRS 1 instead of those in the respective new IFRSs. IFRS 1 includes specific transition guidance in the Appendices for each of the major new IFRSs, but the effect is not exactly the same. For example, IFRS 15 allows a choice between a fully retrospective approach and a modified retrospective approach with various practical expedients, whereas under IFRS 1 only retrospective restatement following IFRS 15 is allowed but certain reliefs are available.

Action required before 2018

In order to achieve a smooth transition to SG-IFRS, BDO recommends preparing early for convergence, including the following steps and considerations:

- Understand IFRS 1, including the basic rules, mandatory exceptions and optional exemptions relevant to the company.
- Evaluate the transition choices available and model the impact of each option.
- Identify any required changes to systems or processes resulting from the approach chosen.
- Consider compliance with loan covenants and remuneration arrangements.
- Consider potential tax implications of transition choices and adjustments and look out for any pronouncements that may be made by IRAS about the tax treatment.
- Consider implications for distributable reserves and dividend payments.
- Seek Board of Directors and Audit Committee input and approval.
- Gather information required for transition adjustments and calculate final adjustments.
- Communicate the impact with all stakeholders.

For more information about IFRS convergence and IFRS 1

- Download a copy of BDO's **IFRS at a Glance IFRS 1** for a summary of the standard.
- Join us on 8 December 2016 for a **seminar** at our offices - *Convergence with full IFRS and Overview of IFRS 1.*

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Singapore Financial Reporting Updates

ASC ADOPTS IFRS 16 *LEASES* AS FRS 116 *LEASES*

On 30 June 2016, the Singapore Accounting Standards Council (ASC) adopted IFRS 16 *Leases* as FRS 116 with the same effective date as the IFRS i.e. annual periods beginning on or after 1 January 2019. Early adoption is permitted, provided FRS 115 *Revenue from Contracts with Customers* is adopted too.

FRS 116 introduces a new model for lease accounting to replace FRS 17 *Leases* and related interpretations.

For more information about FRS 116/IFRS 16:

- Refer to the article in the March 2016 edition of BDO Connect.
- Download BDO'S Need to Know IFRS 16 *Leases*
- Join us for a seminar on 26 October 2016 to understand the changes to lease accounting introduced by the standard and key considerations for practical implementation.

ACRA FINANCIAL REPORTING SURVEILLANCE PROGRAMME SECOND REPORT 2016

On 27 September 2016, ACRA published its second annual report of findings under the Financial Reporting Surveillance Programme (FRSP) entitled *Working Together to Raise the Bar on Financial Reporting.*

Through the FRSP ACRA, as the national regulator of companies in Singapore, enforces directors' duties to prepare financial statements in accordance with the prescribed accounting standards so as to ensure the quality of financial reporting in Singapore. As part of the second review cycle, 50 sets of FY 2014 financial statements of listed companies incorporated in Singapore were reviewed by ACRA.

ACRA noted that overall, a good level of quality in financial reporting was observed among those listed companies reviewed. Their Boards also took ownership over financial reporting with many taking steps to document their deliberations on complex accounting matters. Companies are responding positively to measures taken to improve the quality of financial reporting through the FRSP, and most took quick action to rectify issues highlighted under the FRSP.

Nonetheless, the report identified certain areas for improvement. Four areas with the highest number of findings were also the areas originally identified by ACRA as their focus areas for the FY 2014 financial statements reviews: the new consolidation standards, business acquisitions, impairment of long-lived assets and fair value of properties. ACRA reported their observations on these four areas as well as financial statements presentation with general findings and case studies.

	Area of focus	General findings	Case studies
1	New consolidation standards	• Good application in first year. • Sound judgements but boilerplate disclosures.	• Control could exist even when no equity share was owned. • Contractual rights could lead to control.
2	Business acquisitions	• Application gaps remain for unique arrangements. • Valuers arranged for PPAs but scope sometimes restrictive.	• Accounting gain should be aligned with commercial reality.
3	Impairment of long-lived assets	• Assumptions could benefit from more scrutiny. • Some assumptions not updated to reflect market conditions.	• Key assumptions should be scrutinised when headroom is small.
4	Fair value of properties	• Smaller companies could do more to bridge the application gap in their chosen measurement accounting policy.	• Properties under construction can be reliably measured at fair value.
5	Presentation	• More care and diligence required. Revenue should reflect the nature of the business. • Cash flow statements continue to have errors.	• Net instead of gross gain from divesting AFS investments should be presented as revenue.

ACRA's report considered the root causes for the findings and also suggested some best practices for directors to raise the quality of financial reporting:

1. Apply rigour to complex and material judgements, including consideration of alternative treatments and sufficient documentation to withstand future or external scrutiny.
2. Cater time for discussions on accounting issues, including sufficient time for the whole Board and not just the Audit Committee to walk through critical judgements and estimates made by management for significant transactions.
3. Ensure CFOs give sufficient time and priority to financial stewardship role.
4. Evaluate competency of finance team and fill the gaps.
5. Engage external experts upfront with the right scope.

Now that the first two review cycles have been completed, ACRA is currently reviewing the FRSP's policies and processes taking into account feedback received. ACRA will release their areas of review focus for FY 2016 financial statements before the end of 2016.

To read the report, download a copy from ACRA's website here.

International Financial Reporting Standards (IFRS) Updates

EXPOSURE DRAFT 2016/01 DEFINITION OF A BUSINESS AND ACCOUNTING FOR PREVIOUSLY HELD INTERESTS

On 28 June 2016 the IASB issued Exposure Draft ED/2016/01 *Definition of a Business and Accounting for Previously Held Interests*.

In this ED the IASB proposes to amend IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements to clarify:*

a) the definition of a business; and

b) the accounting for previously held interests when an entity obtains control of a business that is a joint operation and when it obtains joint control of a business that is a joint operation.

The proposed changes are a result of feedback received by the IASB in its post-implementation review of IFRS 3 *Business Combinations*.

IFRS 3 Accounting for previously held interests

The IASB proposes to clarify that, when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including **remeasuring** previously held interests in the assets and liabilities of the joint operation to fair value.

IFRS 3 Definition of a business

The proposals about the definition of a business include:

a) to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together have the ability to contribute to the creation of outputs;

b) to remove the statement that a set of activities and assets is a business if market participants can replace the missing elements and continue to produce outputs;

c) to revise the definition of outputs to focus on goods and services provided to customers and to remove the reference to the ability to reduce costs; and

d) to consider a set of activities and assets not to be a business if, at the transaction date, substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

IFRS 11 Accounting for previously held interests

The IASB proposes that, when an investor obtains joint control of a business that is a joint operation, the entity **should not remeasure** previously held interests in the assets and liabilities of the joint operation.

For more information, refer to BDO's IFR Bulletin 2016/07 ED 2016/01 Definition of a Business and Accounting for Previously Held Interests.

AMENDMENTS TO IFRS 4 - APPLYING IFRS 9 FINANCIAL INSTRUMENTS WITH IFRS 4 INSURANCE CONTRACTS

On 12 September 2016 the IAASB issued amendments to IFRS 4 *Insurance Contracts*: Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* to address concerns about temporary volatility in results arising from implementing the new financial instruments standard, IFRS 9, before implementing the new insurance contracts standard being developed to replace the existing IFRS 4. The new insurance contracts standard is currently being drafted and will have an effective date no earlier than 2020, whereas IFRS 9 is effective from 2018.

The amendments to IFRS 4 introduce:

a) an optional **overlay** approach that permits insurers to recognise in other comprehensive income, rather than profit or loss, the difference between the amount reported in profit or loss when applying IFRS 9 to certain financial assets and the amount that would have been reported in profit or loss if the insurer had applied IAS 39; and

b) an optional **temporary exemption** from IFRS 9 for insurers whose activities are predominantly connected with insurance.

For more information, refer to BDO's IFR Bulletin **2016/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4).**

LATEST BDO IFRS PUBLICATIONS

BDO publishes a range of publications on IFRS, which can now be found at a new address on the recently refreshed BDO global website: IFRS - BDO. Do take a look at our latest publications, including:

- IFRS at a Glance – 'one page' and short summaries of all IFRS standards.
- IFR Bulletins - one of BDO's regular publications, focusing on the latest developments in IFRS, typically issued when a new standard is released. Recent IFR Bulletins include:
  - 2016/07 ED 2016/01 Definition of a Business and Accounting for Previously Held Interests,
  - 2016/08 ESMA's 19th Extract from the EECS's Database of Enforcement
  - 2016/09 IFRS Interpretations Committee Agenda Rejections (May 2016)
  - 2016/10 IFRS Interpretations Committee Agenda Rejections (July 2016)
  - 2016/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4), and
  - 2016/12 IFRS Interpretations Committee Agenda Rejections (September 2016).
- Need to Know – updates on major IASB projects and highlights practical implications of forthcoming changes to accounting standards. Recent Need to Knows include IFRS 16 *Leases* (July 2016).
- IFRS in Practice – practical information about the application of key aspects of IFRS, including industry specific guidance. Recent IFRS in Practice include updated versions of IFRS 15 *Revenue from Contracts with Customers: Transition* (July 2016) and IFRS 15 *Revenue from Contracts with Customers* (July 2016).
- Comment letters on IFRS standard setting - includes BDO comments on various projects of international standard setters, including Exposure Drafts and other Discussion Papers, when it is considered that the issue is significant to the BDO network and its clients.

Financial Reporting Standards (FRS) Updates Series

BDO LLP Singapore is pleased to present complimentary seminars to provide you with up-to-date information on the latest developments and updates on various financial reporting topics. Seminars available are:

When	Time	Topics
26 October 2016	9 am to 12.30 pm	**FRS 116 *Leases*** Understand the changes to lease accounting and some of the wider business impact considerations (including accounting systems and tax) for practical implementation of the new leases standard.
Register at http://www.bdo.com.sg/en-gb/events/frs-updates-series-frs-116-i-leases-i		
23 November 2016	9 am to 12.30 pm	**2016 Reporting Season Update** • Amendments to FRSs effective from 1 January 2016 • Common errors in the application of FRS • ACRA's Financial Reporting Surveillance Programme Second Report 2016
Register at http://www.bdo.com.sg/en-gb/events/frs-updates-series-2016-reporting-season-update		
8 December 2016	9 am to 12.30 pm	**Convergence with full IFRS and Overview of IFRS 1** Insights into preparing for the transition from Singapore FRS to full IFRS and an overview of IFRS 1 *First-time Adoption of International Financial Reporting Standards*. Targeted at Singapore-incorporated companies listed on SGX required to prepare financial statements under IFRS from 2018.
Register at http://www.bdo.com.sg/en-gb/events/frs-updates-series-convergence-with-full-ifrs-an		

REGISTRATION FULL

The seminars will be held at Nanyang Room, BDO LLP, 600 North Bridge Road, #17-01, Parkview Square, Singapore 188778.

Note:

- The organiser reserves the right to change the venue, date and programme due to circumstances outside our control.
- Registration is on a first-come first-served basis. Maximum of 2 persons per organisation.
- Actual time and duration may differ slightly.

www.bdo.com.sg

"Belonging" Status of Suppliers and Recipients of Services For GST Purposes

Businesses supplying or receiving services in Singapore should pay attention to the new GST rules recently published by the Inland Revenue Authority of Singapore (IRAS). Unlike goods, where the taxability is dependent on the location of the goods at the time of supply, the "belonging" status – a term defined in the GST Act affects the GST treatment of services supplied or received.

Determining the Belonging Status of Suppliers and Customers

In May 2016, the IRAS introduced a new guide that aims to provide greater clarity to businesses that make supplies of services to Singapore, or in Singapore, with regard to their GST obligations.

The place where the supplier "belongs" will affect whether a supply of services is within the scope of Singapore GST, while the place where a customer "belongs" will affect whether a supply of services can be zero-rated (i.e. GST @ 0%) for GST purposes. The place where a person "belongs" depends on where the person has his "business establishment" or "fixed establishment".

Meaning of "Business establishment" or "Fixed establishment"

Business establishment (BE) is the place from which the business is run. If the supplier carries on a business through a branch in Singapore, the supplier is treated as having a BE in Singapore.

A fixed establishment (FE) is an establishment, other than a BE, that has both the technical and human resources necessary to provide or receive services on a permanent basis.

The IRAS has mentioned several factors that businesses should consider in determining the belonging status when applying the place of supply and zero-rating rules.

What do the newly published guidelines mean to businesses?

- Overseas service providers need to determine if they must register for GST in Singapore. Determining the liability for GST registration requires consideration of which establishment is most directly concerned with the supply. Note that the concept of tax residency for income tax purposes is different from the concept of belonging for GST purposes. An overseas company that is a tax resident in Singapore may not necessarily belong in Singapore for GST purposes.

- GST-registered service providers need to determine if the services supplied by them qualify as "international services" as defined under section 21(3) of the GST Act. This is to allow them to decide if they can zero-rate (i.e. charge GST at 0%) the supply of services. In many situations, two factors are often considered when determining if the services supplied qualify as "international services". Specifically, whether the services are supplied under a contract with and "directly benefit" a person who "belongs" in Singapore. Hence, it is important to assess where the customer "belongs" to ensure that the correct GST treatment is applied on the transactions.

How BDO can help?

BDO can help businesses:

- Review the business arrangement and belonging status of suppliers and/or customers to assess the GST treatment of transactions and advise on an apportionment basis (if the services supplied do not qualify for zero-rating); and

- In the case of overseas suppliers, determine whether compulsory registration applies and assist in submitting the requisite application for GST registration/exemption to the IRAS.

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The Employee Performance Trap

Identifying high potential employees can be very challenging, and mistaking a high performing employee for a high potential one can be even more costly. If the organisation is not able to differentiate between performance and potential, it will face the long-term challenge of retaining talent. Working frequently with Small- and Medium-sized Enterprises (SMEs), a constant gripe from management and owners is that their employees do not have the potential to bring the organisation to new heights.

For example, a client faced the challenge of increasing revenue. The client promoted his top-performing salesman to sales manager to be in charge of a sales team, and hired junior sales people. The newly-minted sales manager struggled to move from hitting his impressive sales targets to helping his sales team hit theirs. Conversely, in another example, a client's junior salesman who supported the sales team's success kept being passed over for promotions. Ultimately, he decided that it was time to look for better opportunities and growth elsewhere and left. In both scenarios, revenue for the organisation declined and hurt employee morale.

Performance and potential are not mutually exclusive. Rather, employees possess a combination of both. Organisation leaders who understand the difference will be significantly more successful at engaging and retaining both high performing and high potential employees, and often achieve industry-leading performance.

So how do we differentiate between high performers and high potentials?

High Performers

High performers are the easiest to identify because they simply stand out in any organisation. They constantly exceed expectations and are often the "go-to" people for difficult projects and problems as a result of their track record of getting things done. These individuals are very proud of their accomplishments, and with good reason; they are simply great at their jobs. However, they may not have the potential to succeed in a higher-level role or a job different from their current role.

High Potentials

High potentials are significantly harder to identify because these individuals demonstrate both nascent aptitude with their technical abilities and less obvious attributes and behaviours like people or change management skills. They often demonstrate nuanced capabilities that are not captured by organisational performance metrics. Few organisations formalise the competencies and attributes of high potential employees, further increasing the difficulty for managers to identify high potentials as the managers do not know what to look for and assess. One caveat: high potentials who are consistently low performers are rarely suitable candidates for higher-level roles.

Because most organisations do not know precisely how to identify and evaluate high potential employees, they often focus only on performance. According to Dr. Wu Pei Chuan, Senior Lecturer at NUS Business School, "...*if performance is the only metric that an organisation's employees are assessed by, then then your top performers will be the only ones being promoted and your high potential employees will leave*".

If your end goal is to build an agile, robust organisation, then performance should not be the only metric of evaluation. It is imperative that the organisation's leadership identify the attributes that would allow an individual to excel in key roles, or work with management consultants to do so, and communicate these attributes to your managers so that they can effectively identify these high potentials.

Ask yourself, in your organisation, can your managers identify high performers? Can your managers identify high potentials? Can your managers differentiate between the two? Few organisations can answer all three questions, but if your organisation cannot answer with an emphatic "yes" to at least being able to differentiate between high performers and high potentials, then perhaps it's high time that you may want to consider your organisation's future prospects.

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