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BDO CONNECT

MANAGING PARTNER'S MESSAGE

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BDO Singapore

In this issue, we feature an article on the recent updates on Singapore's Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regulation. The enhanced regulation further tightens the existing one to stepped up its efforts to further protect Singapore's reputation as a global financial centre.

The changes came not as a surprise to the market watchers as the regulator has to respond swiftly to regulatory breaches, ordering the closure of two banks last year - showcasing a no nonsense approach. Other notable changes include harsher penalties for non-compliance and regulations affecting professional accountants. Professional accountants now will have to abide by an even stringent rule concerning client acceptance and customer due diligence.

All of us in the financial system, be it business entities or professional accountants, have an important role to play to safeguard Singapore's reputation as a major global financial centre and trading hub. Here at BDO, we can help our clients in the implementation, and ongoing compliance with the AML/CFT requirements.

Have a good read of the article as well as the other articles that we have for you in this issue. We hope you find the articles useful and beneficial. Enjoy!

CONTENTS

Gearing Up Efforts to Combat Money Laundering and Terrorist-Financing

As a member of the Financial Action Task Force (FATF) since 1992, Singapore has been committed towards building a strong regulatory regime with respect to anti-money laundering and counter-terrorism financing (AML/CFT), which are benchmarked against the FAFT's recommendations and other international best practices.

The FATF Mutual Evaluation Report of Singapore issued in September 2016 – essentially a scorecard of Singapore's AML/CFT regulatory regime – is testament to Singapore's efforts in combating money laundering (ML), terrorist financing (TF) and other related threats to the integrity of its financial system. The results are generally positive as FATF acknowledges Singapore's strong legal and institutional AML/CFT framework as well as the highly sophisticated coordination among all its relevant authorities to address AML/CFT issues. Nonetheless, the Report also highlighted some loose gaps in the current system that can be further tightened and FATF has proposed some recommendations in this regard.

In response to FATF's recommendations, Singapore has since taken swift actions and introduced a slew of measures to further bolster its AML/CFT regime. Two of the key changes are highlighted below:

Transparency of Beneficial Ownership

What has changed?

With effect from 31 March 2017, all companies incorporated in Singapore, foreign companies and all limited liability partnerships (LLPs) registered in Singapore, unless exempted, are required to maintain registers of registrable controllers. The registers and the information therein must be made available to the Registrar and public agencies upon request and are not available to the public.

To facilitate implementation by existing companies and LLPs, the Accounting and Corporate Regulatory Authority (ACRA) has given a transitional period of 60 days from 31 March 2017, i.e. by 30 May 2017, for these business entities to set up the registers. ACRA has also issued a series of guidance in April 2017, and further updated in July 2017 (ACRA's Guidance), to help the various business entities understand and comply with the requirements pertaining to the registers of registrable controllers.

Why change?

The changes aim to make the ownership and control of business entities more transparent. Recognising that business entities created in Singapore, and those registered or operating in Singapore from foreign jurisdictions, can be used to facilitate predicate crimes and ML/TF offences, it is critical to implement preventive measures, including the collection of beneficial ownership information, so as to prevent the misuse of legal persons for ML and TF.

Identifying Registrable Controllers

Amongst the revisions, what business entities may perhaps find most challenging would be the new requirement of having to take reasonable steps to identify their registrable controllers. This includes sending notices to any person whom the business entity knows or has reasonable grounds to believe is a registrable controller, or has knowledge of someone who is a registrable controller or is likely to have that knowledge.

Who are the Controllers?

From a company's perspective, a controller is defined as an individual or a legal entity that has a "significant interest" in or "significant control" over the company.

Clearly, the application of certain elements in the definition may be less straightforward and requires interpretation and the exercise of judgement. In this regard, ACRA's Guidance provides an explanation of each element in the definition and seeks to establish some principles, factors and examples that may help companies in identifying their controllers.

As a starting point, ACRA's Guidance recommends that companies should review their registers of members and constitution which are likely to set out information regarding:

(a) the voting rights attached to the company's shares;

(b) the distribution of the capital and/or profits of the company;

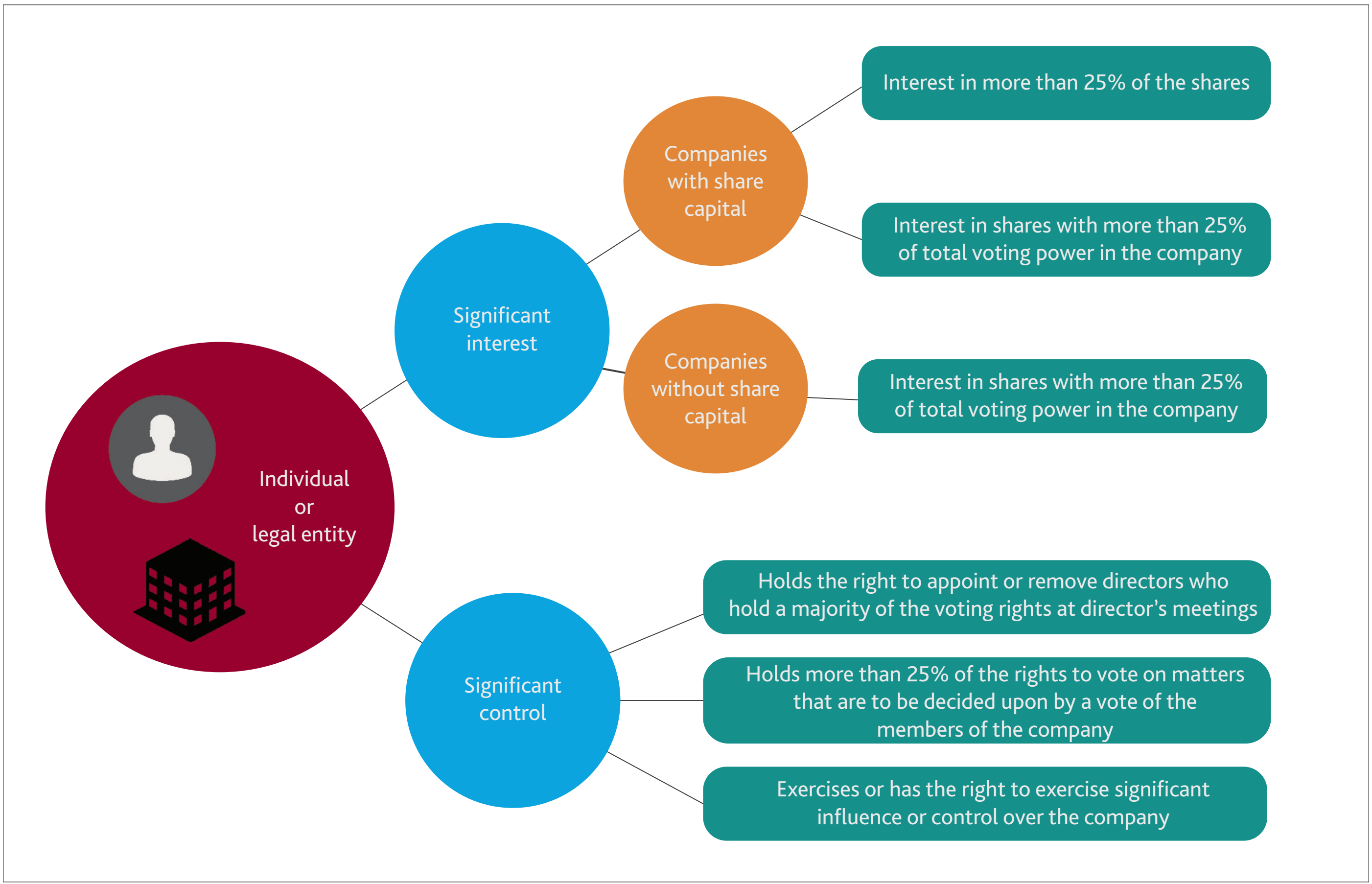
(c) how directors are to be appointed and/or removed and the voting rights of directors at meetings of the directors; and

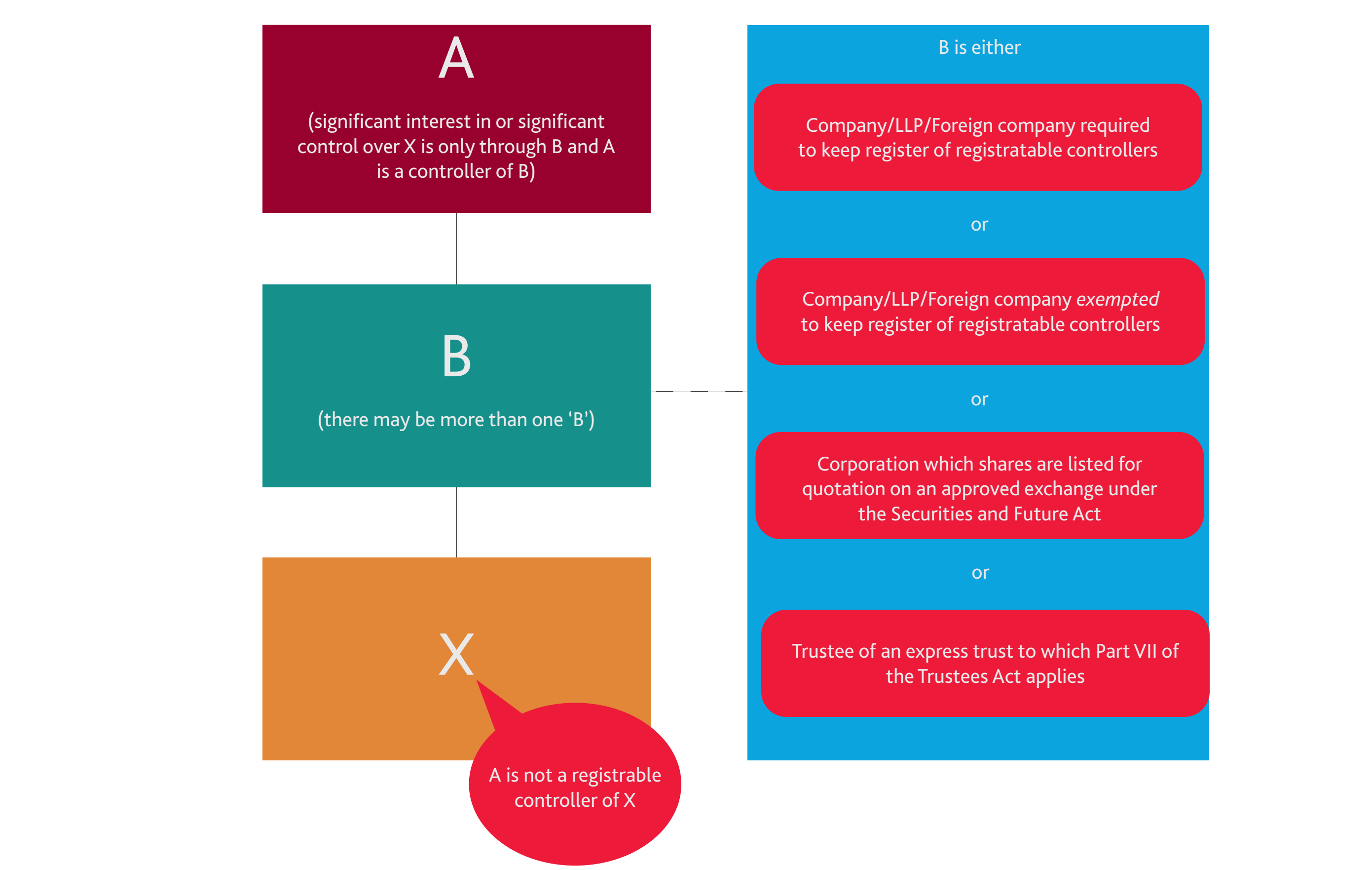
(d) specific matters that are to be decided upon by the members of the company and how the right to vote may be exercised in different ways (e.g. at general meetings or through written resolutions).

Such information will help the company to determine whether any individual or legal entity fulfils any element in the definition of controllers.

When are the Controllers "Registrable"?

Effectively, controllers must be "registrable"





before their particulars are captured in the register of registrable controllers and all controllers are registrable unless the following scenario applies:

To illustrate,

- Company X is wholly-owned by B (or more than one "B")
- B is a locally-incorporated company maintaining the register of controllers (or any of the entity stated in the "Blue" box below)
- A is B's controller and A's significant interest in or significant control over Company X is only through B

In this case, A is not a registrable controller of Company X and Company X will only be required to provide information about B and need not go further to provide B's beneficial ownership information i.e. A. A's particulars would instead be captured in B's register of registrable controllers.

Essentially, this seeks to avoid duplicative reporting and enables business entities to "stop" the tracing of controllers once the tracing reaches a locally incorporated business entity that will also be maintaining the register of controllers or is exempted from the regime.

With the exception of the scenario above, it is important to note that individual controllers who have significant interest in, or significant control over, a business entity indirectly through a legal entity or a chain of legal entities must by default be recorded in the register of registrable controllers.

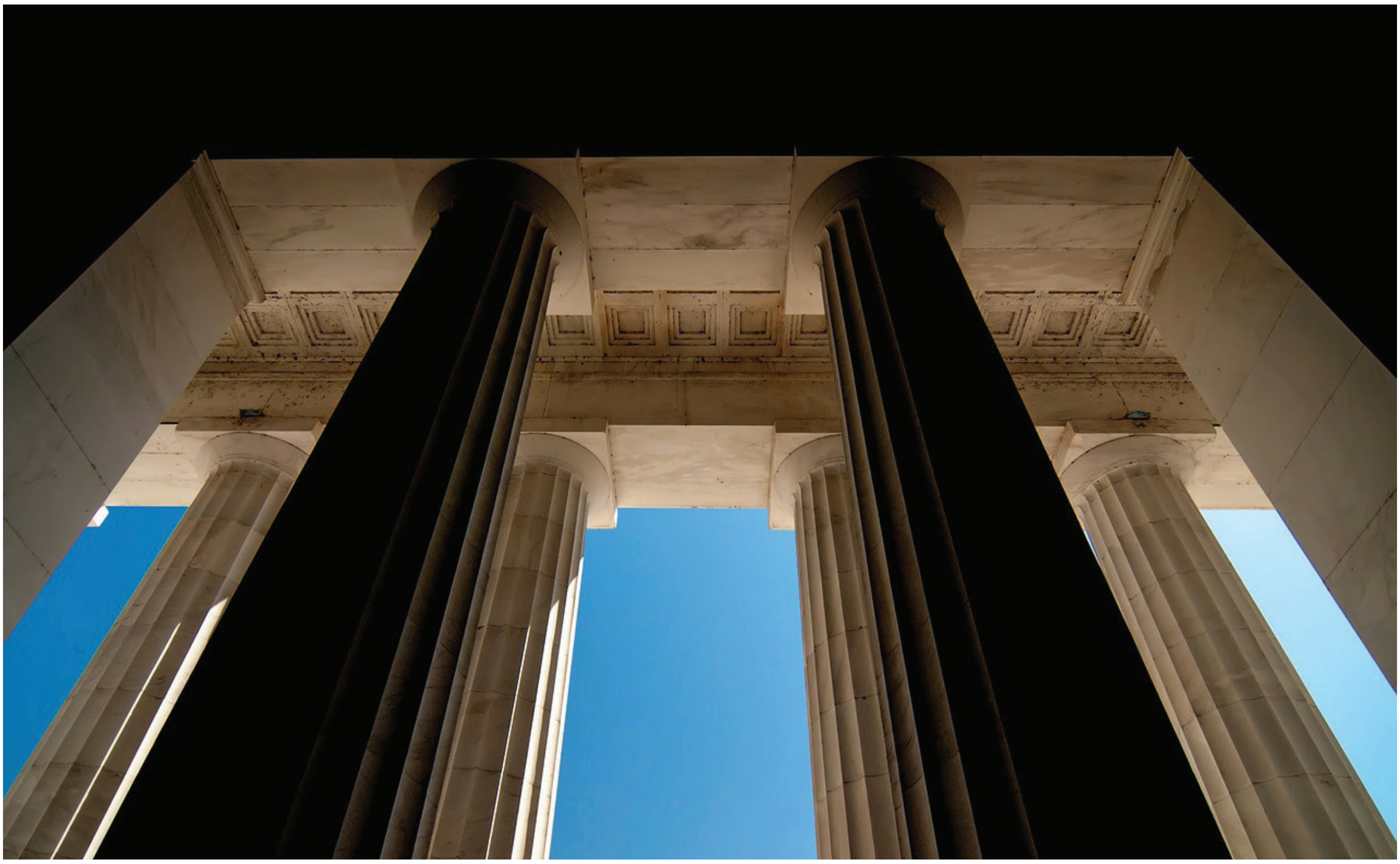
For more information

- Click HERE for more details on the requirements to maintain registers of registrable controllers
- Click HERE to access and read ACRA's Guidance

Enhanced AML/CFT Requirements for Professional Accountants

What has changed?

With effect from 1 June 2017, professional accountants in Singapore have to abide by more stringent AML/CFT requirements that are set out in the revised Ethics Pronouncement 200 Anti-Money Laundering and Countering the Financing of Terrorism – Requirements and Guidelines for Professional Accountants in Singapore (EP 200), issued by the Institute of Singapore Chartered Accountants (ISCA) and adopted by ACRA.
The key changes, which generally surround



strengthening the customer due diligence process that professional accountants undertake before entering into business relationships with new clients, include the following:

(a) Removing the current exemption for identification and verification of beneficial owners for government entities;

(b) Extending screening requirements to cover the beneficial owners of the client, natural persons appointed to act on behalf of the client and connected parties of the client;

(c) With respect to trusts: Requiring the identification of the settlor, the trustee(s), the protector, each beneficiary or class of beneficiaries (including ultimate beneficiaries), and any other natural person exercising ultimate effective control over the trust;

(d) With respect to certain designated accountants who act as trustees: Requiring the disclosure of their status to identified financial institutions and designated non-financial businesses and professions when forming a business relationship; and

(e) With respect to professional accountants who are auditors: Making the existing Supplement A of EP 200 mandatory.

Why change?

The changes aim to deepen professional accountants' understanding and awareness of ML/TF risks such as those posed by illicit flows of funds into and out of Singapore. Professional accountants, together with lawyers and corporate service providers, are categorised as designated non-financial business professions (DNFBPs) i.e. a group of non-financial institutional professions who play an integral role in the financial system. These changes would also lift the existing AML/CFT regulatory requirements in the non-financial sectors and bring them up to par with the financial sector.

BDO's AML/CFT Commitment

At BDO, in line with the issuance of the revised EP 200, we have also tightened our internal policies and procedures and introduced more rigorous measures, particularly with respect to client acceptance and customer due diligence. Being a key player in the financial eco-system, we are committed to ensuring that the Firm and our people are not associated, knowingly or unknowingly, with ML/TF activities and to protect the integrity of our financial system.

Partnering with BDO in your AML/CFT Journey

All of us in the financial system, be it business entities or professional accountants, have a role to play as Singapore continuously strengthens its AML/CFT framework to preserve its standing as a major global financial centre and international trade hub. To detect, deter and prevent ML/TF, there may be increasing inspections and tougher enforcement actions for serious AML/CFT breaches from the regulators.

At BDO, we can help you in your implementation and on-going compliance with the AML/CFT requirements set out in various laws and regulations.

Our experienced Corporate Secretarial team provides comprehensive corporate secretarial services, including the maintenance and up-keeping of the registers of registrable controllers, to assist companies and other business entities in complying with the various local legislation.

Under the Regulatory and Compliance Advisory arm of our Financial Services Group, we also provide services to help our clients, particularly the financial institutions, on AML/CFT matters such as:

- Developing and implementing a robust regulatory and compliance framework
- Developing policies and procedures and performing gap analysis of existing policies and procedures
- Performing compliance outsourcing function such as comprehensive customer due diligence process
- Providing training on new/revised AML/CFT regulations

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Proposed Philippines Tax Amnesty

Philippines' Tax Amnesty Laws and Pending Legislation

Proposed legislation for a tax amnesty is working its way through the Philippines Congress. Both the House and Senate have passed bills providing for tax amnesties on estate taxes and income taxes. While the details of the bills vary slightly, the terms are broadly similar. This tax alert aims to introduce the proposed changes and provide some thoughts on how they might affect you.

General and Estate Tax Amnesties

The estate tax amnesty is likely to be in the terms set out in House Bill 4814 (HB 4814), approved by Congress earlier this year. HB 4814 provides for estate tax at a rate of 6% of the decedent's net estate, which is towards the lower end of the spectrum of the prevailing estate tax rate, which applies at a graduated rate of 5 – 20%.

At the same time, both the House and Senate have introduced several bills relating to a general tax amnesty. While the details differ slightly, the proposed bills provide that a rate of 5% or PHP 50,000, whichever is higher, would apply to unpaid taxes. This is the lowest tier of the individual income tax rate, which applies at a graduated rate of 5 – 32%.

An important aspect under the proposed tax amnesties is the provision of immunity from civil and criminal penalties. The penalties for filing late returns consist of a 25% surcharge and a 20% deficiency interest per annum, as well as criminal penalties, which include a term of imprisonment of between 1 – 10 years.

When combined with the waiver of penalties for late payment, the proposed tax amnesties may be a good opportunity for taxpayers that have not previously paid taxes to declare their assets without facing a large tax bill or criminal penalties.

The Tax Amnesties and Automatic Exchange of information (AEOI)

An important reason for considering the tax amnesties is the development of the AEOI regime.

Under this regime, tax authorities of participating countries send an individual's information to the country of tax residence of that individual. This means that the individual would no longer be able to avoid having his assets scrutinised by the tax authorities of their resident country by holding his assets offshore.

Unlike Indonesia, which recently conducted a successful tax amnesty program, the Philippines is not part of the AEOI regime. Due to its banking secrecy laws, the Philippines is not a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, which was entered into by 70 other countries on 7 June 2017.

This means that there is no obligation for other countries to share information with the Philippines on the assets held by its tax residents in their jurisdictions. This significantly reduces the incentive for non-compliant tax residents to take part in the tax amnesties.

However, this does not mean the Philippines will not take part in the AEOI. The Philippines has already shown its desire to co-operate with other countries by signing the Convention on Mutual Assistance in Tax Matters in 2014.

Tax residents should therefore look beyond the current landscape in deciding whether or not to take part in the tax amnesties. By proposing the tax amnesties, the government shows commitment that it will make the necessary changes to raise the necessary tax revenue. Changes to banking secrecy laws to enable participation in the AEOI no longer look far-fetched.

How to apply

While details on the mechanism for applying for the proposed tax amnesties vary in the bills, they generally consist of making a tax amnesty return to the tax authority and a tax amnesty payment within a limited time. The earliest deadline in the proposed bills is 31 December 2017.

There are conditions attached to the amnesty. Notably, an understatement of the gross assets by 30% would result in the cessation of the privileges and subject the taxpayer to penalties for perjury. It is therefore important that the returns are properly prepared and submitted within the stipulated time frame.

What can I do?

The terms of the tax amnesties and whether they will even take place have not been confirmed. However, it is not too early to undertake a review of your holding structure to identify risk areas, as well as develop a sound strategy on how to comply with the new laws should they be introduced.

How we can help

At BDO, we have the expertise and experience in a broad range of services including but not limited to managing tax amnesty applications, reviewing structures and resolving tax disputes. We are also in a position to assist you should you wish to avail of the amnesty once the law has been passed. We can evaluate the estate's assets, prepare the tax amnesty return or estate tax return, as the case may be, prepare and file the application for amnesty and assist in meeting with the revenue examiners to discuss the filing of amnesty, when necessary. Please feel free to contact us and let us know how we can assist you.

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The Balanced Scorecard - A Strategic Management Tool

Executives and managers have long recognised the limitation of solely relying on financial data as the basis for decision-making and as a performance measurement system. As the economy and industrial landscape continues to change, this short term and singular perspective of performance measurement could give misleading signals on the organisation's long term growth, hindering its continuous improvement and innovation.

In the late 20th century, intangible assets became more prominent, but it also introduced a different level of challenges as to how to manage and value an intangible asset. Undoubtedly, intangible assets can create value for organisations, but they seldom have value attached by themselves. For instance, what do your customers want from your company? The answer could be measures such as value-for-money products and services, shorter lead time, or an enjoyable customer journey. Next, what are the key processes in your company? It is of paramount importance to be able to identify the key processes within the supply chain that an organisation must excel in, and its internal core competencies with considerations of measures such as process cycle time, machine down time and productivity. Many of these connected internal processes are critical to create value for these intangible assets, which subsequently transform into product and services that have a tangible value attached to it.

As intangible assets have gained popularity, senior executives have started realising that no single measure can provide a clear performance target or a focus on critical areas of the business. Senior executives now want a balanced exhibition of both financial and operational performance measures.

According to Robert S. Kaplan and David P. Norton (2001), the Balanced Scorecard concept could reflect the changing nature of technology and competitive advantages. In an industrial age economy that is dominated by tangible assets, financial measures such as Returns on Investment (RoI) or Returns on Asset (RoA) generated through

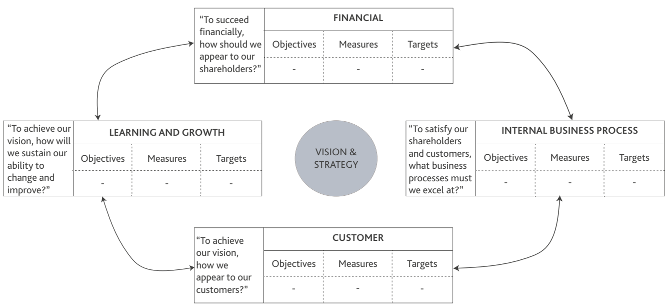
these tangible assets can be easily measured and derived from an organisation's Balance Sheet and Profit and Loss statements.

The Concept of Balanced Scorecard

The concept of Balanced Scorecard (BSC) was first introduced by Kaplan and Norton in 1992, to supplement traditional financial performance measures with additional emphasis on the Customer, Internal Processes, and Learning and Growth pillars. Since its inception, it has been widely adopted by commercial companies, not-for-profit organisations and government agencies.

Unlike traditional financial performance measures which only report on historical events, this scorecard is an innovative tool which aims to allow senior executives review the performance of an organisation in a single management report from different critical perspectives namely, Financial, Internal Business Process, Customer, Learning and Growth.

The scorecard approach allows senior executives to communicate the organisation's strategies by linking them to departmental and individual objectives. Conventionally, companies evaluate a department's performance based on their financial performance and individual incentives are tied to the achievement of short term financial goals. The BSC allows managers to communicate to all levels the organisation's long term strategy and how it will align with the department and individual objectives.



Transformation of Vision and Strategy to Balanced Scorecard

An organisation's vision statement is often broad in nature to outline its purpose for its existence, a statement of its philosophy and values. A vision statement provides directions to the business and it acts as a framework for decision making, while serving as a guiding principle to senior executives in making sound and economically decisions. While there are many advantages of a vision statement, we should be mindful –that a vision statement can be vague and lack substance, which subsequently can lead to individual interpretations that could hinder the growth of the organisation. For instance, a vision statement "to be the number one in providing excellent customer service", at a glance, works fine. Upon further analysis, what it really mean to become the "number one"? What is the definition of "excellent customer service"?

The BSC approach brings senior executives back to their drawing boards to rethink and provide clarity to the organisation's vision statement before arriving at a common consensus to translate its vision into meaningful terms for people to follow. The objective of having a BSC is to guide, control and challenge the entire organisation in realising a shared conception of the future. A vision is expressed as a number of more specific objectives. Measures and targets are established and the organisation can put in place action plans to meet the set targets. As part of the process, it is important to communicate and align employees to the agreed strategy on how to achieve the overall organisation's vision, setting realistic goals and linking individual performances to rewards system.

Balanced Scorecard: Four Perspectives

Financial Perspective

Financial performance measures indicate whether an organisation's corporate strategies have successfully been implemented and its execution has contributed to a positive bottom line improvement. For instance, Company A's vision is to provide renewable energy at a competitive and affordable prices to everyone. Fundamentally, for any profit-seeking organisations, their aim is increase shareholder value. Shareholder value is essentially the enterprise value excluding debts and liabilities. This value can be increased through increase of cash flow by revenue growth and reduction of expenses, or better management of an organisation's cost of capital.

In addition, Company A also stated its financial objectives which is simply to have a better cash flow management, capital allocation for maximum returns and maximise project profitability. Given the nature of Company A's business activity, most of its projects are large scale and long in duration. Thus, the management team of Company A are particularly concerned about capital allocation and interest coverage, so they have devised a number of metrics to measure this together with cash flow management metrics.

Customer Perspective

The Customer Perspective defines how an organisation distinguishes itself from its industry peers to attract and acquire new targeted customers, retain and deepen its relationship with them. In today's business environment, many organisations have their corporate vision statement or value that focuses on customers. In another word, the customer value proposition is critical to a business' success.

Company A recognised that they have two distinct group of customers: a group that focuses on government projects that are motivated by high value added relationships. As a result, Company A conducts a biannual Customer Satisfaction Survey to solicit customers' perceptions towards Company A's service level and performance rating. In order to satisfy the needs of this group of customers on technological advancement and product innovation, Company A has incorporated another metric to measure economically feasible new products and/or technology launches in a year.

On the other hand, the other customer group deals with commercial projects for e.g. MNCs or private institutions. This group of customers are driven by price, as they are highly price sensitive and looking for best value for money. Company A acknowledged this by providing value for money products and services that are measured by cost savings in their utilities bill.

Internal Business Perspective

Through evaluation from the Customer Perspective, a more externally geared performance measure, organisations should now look internally to understand its internal business processes, to realise what the organisations must excel at in order to achieve both Financial and Customer objectives. Internal business processes are crucial to allow an organisation to deliver the expectations of customers and satisfy shareholders' expectations of high financial earnings.

As established earlier, internally connected processes are critical as these will create value for intangible assets, which then transform into tangible values of a product or service. In order to create impactful customer satisfaction, senior executives should first identify the organisation's core competencies and key processes within the whole value chain, then formulate internal measures around key business processes that have a direct and indirect influence on customers' satisfaction.

In Company A, the management team acknowledged that success of the organisation largely dependent on its closely knit relationship with its stakeholders. They have therefore decided to work closely with their stakeholders who play an important role in project execution:

1. Company A's customers – to ensure precise project specifications and timelines are obtained
2. Company A's suppliers – to ensure quality products and shorter lead time
3. Company A's investors (financial institutions) – to ensure sufficient cash flow is allocated to project execution

As project management is the heart and soul of Company A's main business activity, Company A have formulated relevant measures for project management and procurement process.

Innovation and Learning Perspective

In order to keep ahead of competition, organisations need to make a continuous effort in improving their current products and/or services, to surpass their competitors or innovate and develop a new product or service with expanded features or capabilities. As the last quadrant in the BSC is Learning and Growth, Company A makes continuous improvements to operational processes by challenging the status quo. Company A improved on current internal processes that made it more efficient, that ultimately increased values to shareholders and customers. In consideration of technological advancement, as customers in general are getting more sophisticated, keeping up with customers' needs and requirements have become a key focus of the senior executive of Company A.

As a result, the management team in Company A have developed key metrics to measures product innovation and operational excellence for Company A.

Adoption of Balanced Scorecard and Moving Forward

Over time, the BSC grew from a performance measurement system to a performance management system. Through the early adoption of performance measurement systems, organisations achieved tangible yet narrow results. However, in recent years, organisations are using the BSC to clarify and communicate strategy to all employees within the organisation, to align individual departments or business units and individual goals with the overall organisation strategy and linking them to reward systems. Organisations also uses the BSC to string strategic objectives to long term target and annual budgets.

In summary, a BSC should be tailored for each part of the organisation to allow for each part to contribute in a holistic way to meet corporate objectives. It is a framework that manages strategy implementation and provides the flexibility for strategy to evolve in response to changes in this highly competitive market and a fast pace technological advancement environment.

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BDO Accounting Seminar Series 2017

Seminar on Accounting Standards

BDO LLP Singapore is pleased to present two upcoming BDO Seminars on the Accounting Standards that will have impact on you. As the effective dates of the standards are drawing near, this year we will focus on the implementation challenges and practical considerations of these new accounting standards in this series.

We will be organising the following seminars:-

When	Time	Topics
20 September 2017	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.

Venue: Nanyang Room, BDO LLP, 600 North Bridge Road, #17-01, Parkview Square, Singapore 188778.

Fee: S$50 (BDO Client/Alumni) / S$80 (Public)

To register at https://www.bdo.com.sg/en-gb/events/convergence-with-full-ifrs-and-overview-of-ifrs-1

When	Time	Topics
4 Oct 2017	9 am to 5.30 pm	**FRS Update Seminar 2017** Join us in this one-day seminar to gain more insights on the key practical considerations for the upcoming new accounting standards, focusing on FRS 115 and FRS 116.

Venue: Mandarin Ballroom 2 & 3 (Main Tower, Level 6), 333, Mandarin Orchard Hotel. Singapore 238867

Fee: S$320 (BDO Client/Alumni) / S$360

To register at https://www.bdo.com.sg/en-gb/events/bdo-financial-reporting-standards-seminar-2017

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.

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