AB Accounting and Business
06/2015

Sanction angst

Fast-moving politics and business risk

Fashion forward

Interview: Judith Fei, CFO of Balmain Asia

Trading places Improving international arbitration
CPD technical Is there a need for change in cashflow reporting?

Think Ahead ACCA

Welcome

From sanctions infringement to eurozone bounce

***Accounting and Business* went to press just as the exciting news broke about ACCA's move to new premises in London. The decision marks a new chapter in ACCA's history. HQ has been 29 Lincoln's Inn Fields since the 1970s and has become synonymous with ACCA, so it holds strong sentimental value for members and staff. But pressure on space and a need to consolidate has led us to the impressive Adelphi building on John Adams Street in Westminster, and, as president Anthony Harbinson says on page 22, the building has 'a mix of heritage and modernity that defines the brand' (see also page 9).**

Meanwhile, for our cover feature this month, we focus on economic sanctions, which are both complex and in a constant state of flux. How can companies avoid jeopardising business opportunities while staying on the right side of the law? It's not always easy, as the company director in the UK who was jailed for 30 months in March 2014 will attest.

While most embargoes involve arms and defence, it is often the economic sanctions that hit the headlines. Many companies can inadvertently find themselves on the wrong side of complex, fast-moving and multijurisdictional regulations. Go to page 38 to find out more.

This month we also ask whether the eurozone, in the doldrums for so many years, has finally finished its flirtation with recession. After years of decline, the eurozone economy is showing distinct signs of revival. But does the tentative recovery have the potential to turn into sustainable growth? Our focus on the issues begins on page 16.

Elsewhere, we turn to sub-Saharan Africa and examine the problems surrounding the lack of coherent strategic vision in planning infrastructure. The findings of a recent Brookings Institute paper throw a spotlight on the complex nature of infrastructure financing. Read our Africa columnist on page 21.

Also in this issue, we hear from Judith Fei FCCA, CFO of luxury brand Balmain Asia. She tells us what it's like to work in an exciting and fast-moving retail environment as the luxury goods market makes inroads into mainland China, buoyed by an expanding middle class. Find out more on page 12.

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AB International Edition June 2015

Volume 18 Issue 6

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Accounting and Business (ISSN No: 1460-406X, USPS No: 008-761) is published monthly except July/August and Nov/Dec combined issues by Certified Accountant (Publications) Ltd, a subsidiary of the Association of Chartered Certified Accountants, and is distributed in the USA by Asendia USA, 17B S Middlesex Ave, Monroe NJ 08831. Periodicals postage paid at New Brunswick, NJ and additional mailing offices.

POSTMASTER: send address changes to *Accounting and Business*, 701C Ashland Ave, Folcroft PA 19032.

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July 2013 to
June 2014
162,798

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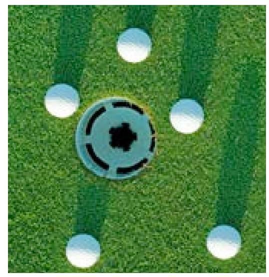
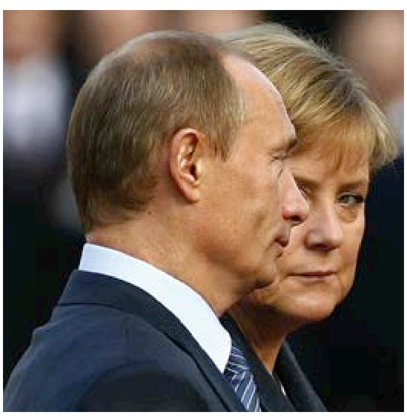
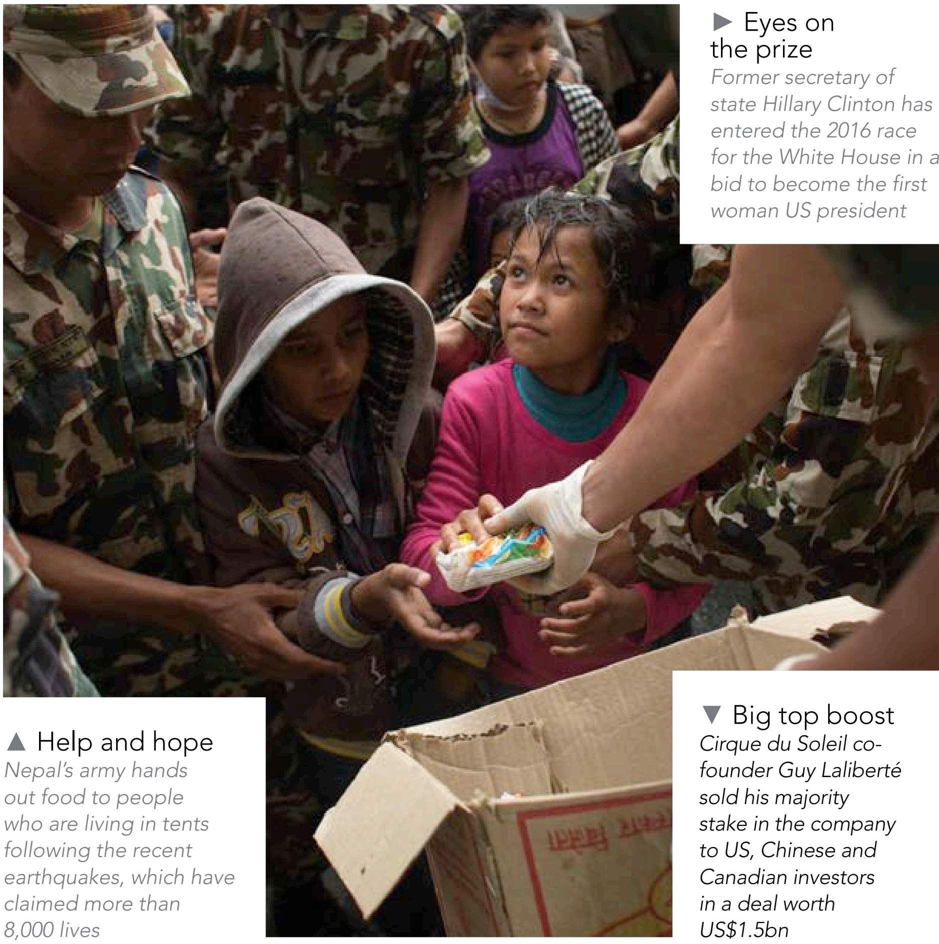






▲ **Help and hope**
Nepal's army hands out food to people who are living in tents following the recent earthquakes, which have claimed more than 8,000 lives

► **Eyes on the prize**
Former secretary of state Hillary Clinton has entered the 2016 race for the White House in a bid to become the first woman US president

▼ **Big top boost**
Cirque du Soleil co-founder Guy Laliberté sold his majority stake in the company to US, Chinese and Canadian investors in a deal worth US$1.5bn

▲ **Game over**
Ramalinga Raju, founder of Indian software giant Satyam, was jailed for seven years after being found guilty in the country's biggest accountancy fraud case

▶ They're happy and they know it

Switzerland topped the UN's third annual World Happiness index, which looks at life expectancy, corruption levels and social freedoms

▼ Raise a glass

China has become the second-largest wine growing region in the world, with 799,000 hectares, although France remains the biggest producer

▼ Long-term goal

Africa's richest man, Aliko Dangote, still wants to buy Arsenal FC, five years after first expressing an interest. The Nigerian is thought to be worth £10.4bn

News roundup

This edition's stories and infographics from across the globe, as well as a look at the latest developments and issues affecting the finance profession

Female CEO for KPMG

KPMG has followed Deloitte by electing a woman CEO for its US firm for the first time. Lynne Doughtie becomes CEO and chairman for five years from 1 July. She currently leads KPMG's advisory practice. Doughtie succeeds John Veihmeyer, who has been US CEO and chairman since 2010. He continues in his other role as global chairman. Veihmeyer said of his successor: 'She has been a key member of our team during a period in which we have built a strong culture within KPMG that promotes integrity, high performance, and diversity and inclusion.'

End to 'tax terrorism'

The Indian government has promised to end what it calls the 'tax terrorism' approach it claims was adopted by the last administration. Writing in the *Financial Times*, finance minister Arun Jaitley said: 'Rule of law and the sanctity of contract are the essential underpinnings of a market economy, but they had been called into question, most damagingly by a bill on retrospective taxation passed in 2011. We intend to repudiate this past.' The minister added that demands on international investors for large amounts of minimum alternative tax were the result of actions taken by the previous government.

Auditors told to read

Auditors need to thoroughly read clients' annual reports given the greater investor focus on qualitative disclosures, the International Auditing and Assurance Standards Board has stressed. Its new audit standard, ISA 720, aims to clarify auditors' responsibilities in relation to 'other information' provided by companies to investors. 'It is in the public interest that an auditor undertakes an intelligent read of an annual report, in the context of the knowledge obtained in the audit, and perform certain procedures to ensure the annual report is not materially inconsistent with the audited financial statements,' explained IAASB chairman Arnold Schilder.

Information exchange

The International Forum of Independent Audit Regulators (IFIAR) has agreed a framework of information exchanges between its members. A text for a multilateral memorandum of understanding between IFIAR members has been agreed through negotiations taking place over the last two years. Members recognised that changes in the economic environment and the market for audit services have led to a greater need for disclosure regarding audit quality.

Adoption of ISAs ups

The Federation of European Accountants (FEE), has found an increased take-up of International Standards on Auditing (ISAs) across the EU. Its latest assessment found that only three member states have not yet adopted ISAs. FEE is calling for the adoption of ISAs for all statutory audits across the EU, saying that their global adoption will 'continue to increase audit quality' and 'enhance the reliability, comparability and consistency of financial statements in the EU and increase the acceptance of audit reports beyond their home jurisdictions'.

Competition for water 'a major business risk'

Potential water shortages have become one of the most severe business risks, PwC has warned in a new report, *Collaboration: Preserving water through partnering that works*. Competition for water is likely to increase by 55% by the middle of the century, according to the Organisation for Economic Cooperation and Development, assuming business as usual. In the interim, by 2030, there is likely to be a 40% shortfall between demand and supply, predicts the World Bank. PwC says that increased demand for water will mainly come from manufacturing (+400%), electricity (+140%) and domestic use (+130%). Expanding agricultural production also means a need for substantially more water.

EY settles over Lehman

EY has agreed to pay US$10m to settle a lawsuit concerning the firm's audits of Lehman Brothers, which the New York State attorney general has alleged was engaged in reporting fraud. The money will mostly go to investors in the bank, which collapsed in 2008. EY will pay a further US$99m to settle a private class action lawsuit, which was approved last year. The attorney general alleges that Lehman misled investors through its use of repo transactions and its recording of these as revenue. The case is the first lawsuit against an auditor of a public company under New York securities laws. EY did not respond to a request for comment.

McDonald's probed

McDonald's is facing an EU investigation into its tax arrangements with Luxembourg. European competition commissioner Margrethe Vestager said: 'We are looking if we should open a case on McDonald's.' This would be the latest in a series of investigations into so-called sweetheart deals entered into by Luxembourg, overseen by its former prime minister Jean-Claude Juncker, now president of the European Commission. The commission is examining arrangements between Luxembourg and Amazon and Fiat's financing arm, as well as those of Starbucks with the Netherlands and Apple with Ireland. McDonald's says its tax arrangements are fully compliant.

PwC pays MF Global

PwC has agreed to pay US$65m to settle a class action lawsuit relating to its audit of MF Global, which collapsed in 2011. The lawsuit claimed that MF Global improperly used client funds to support unsustainable bets on the value of European sovereign debt and that audits should have revealed this. PwC said: 'PwC is pleased to resolve this matter and avoid the cost and distraction of prolonged securities litigation. The firm stands behind its audit work and its opinions on MF Global's financial statements.' A second legal case is being pursued against PwC by MF Global's US administrator.

CFOs divided on BEPS

Multinational CFOs are split on whether the Organisation for Economic Cooperation and Development's Base erosion and profit shifting (BEPS) plan will lead to a more sustainable global tax system. The *Taxand Global Survey 2015* found 52% in agreement, with 48% disagreeing. The survey also found that while 80% of multinational CFOs think major international tax reform is desirable, just 55% believe it is achievable. More than half – 57% – support country-by-country reporting as proposed by BEPS. Some 83% expect tax competition to increase over next five years, while 76% believe BEPS will increase corporate tax competition.

ACCA announces move to new headquarters

ACCA is to relocate its headquarters to the Adelphi building in London, which will reflect the mixture of heritage and modernity that defines the organisation.

It will move from its current location in Lincoln's Inn Fields in London to newly refurbished office space within the historic Adelphi building on John Adam Street (see also the ACCA president's column, page 22).

This development, announced as *Accounting and Business* went to press, will enable ACCA to create an efficient, collaborative, future-proof workplace and allow employees to fulfil their potential. This will in turn help ACCA achieve its ambitious strategy for the future.

'Since 1996, our London operations have been spread across a number of locations in Holborn,' said ACCA chief executive Helen Brand. 'Over time, this arrangement has become increasingly unfit for purpose. The Adelphi, a historic building, will be undergoing a complete refurbishment over the coming months to provide us with the mix of heritage and modernity that defines the ACCA brand.'

The new office, said Brand, will provide a 'dynamic, inspiring and sustainable workplace to which we will be proud to welcome our staff, students, members, partners and other stakeholders from around the globe – it will be a world-class London headquarters that befits our world-class organisation'.

The move will take effect in December 2015, with staff being welcomed into the new building in January 2016. More details in the July edition of *AB*.

Med 'top FDI destination'

The 'greater Mediterranean region' has become one of the world's most attractive destinations for foreign direct investment (FDI), according to EY's *BaroMed 2015: The next opportunity* report. In 2013 the region outperformed China in attracting US$86bn of greenfield FDI. Global companies have been attracted by growth and investment opportunities, plus improvements to available skills and infrastructure. The major concerns for investors are economic instability and lack of transparency. The region is defined by EY as including the Middle East and the Gulf states.

Hacking puts off investors

Institutional investors are wary of putting money into businesses that have suffered hacking attacks, a survey of 133 major global institutional investors by KPMG has found. Some 79% of investors would be discouraged from investing in a business that has been hacked. Malcolm Marshall, global leader of KPMG's cyber security practice, said: 'Investors see data breaches as a threat to a company's material value.'

Toshiba investigates

Toshiba has established an internal committee of inquiry to investigate its own accounting practices. The committee is chaired by the corporation's chairman, Masashi Muromachi. Other members include a member of its audit committee and two vice presidents, as well as a Deloitte partner and a senior external lawyer. The committee will examine the calculation of estimates used for valuations related to uncompleted projects and suggest improvements to accounting practices.

Norway fund activates

Norway's sovereign wealth fund – the world's largest »

What global leaders earn

As the UK electorate went to the polls on 7 May, we reproduce research published in *Gulf News* in April on what global leaders earn. According to the report, Singapore's prime minister Lee Hsien Loong is the most highly paid head of state in the world, earning more than the leaders of France, Germany, Italy, Japan and the UK combined – even after a pay cut in 2013. In second place is US president Barack Obama. At the bottom are the leaders of China and India – two of the world's fastest growing economies.

- US$1,700,000 Lee Hsien Loong, Singapore
- US$400,000 Barack Obama, US
- US$260,000 Stephen Harper, Canada
- US$234,000 Angela Merkel, Germany
- US$223,000 Jacob Zuma, South Africa
- US$214,000 David Cameron, UK
- US$202,700 Shinzo Abe, Japan
- US$194,300 François Hollande, France
- US$136,000 Vladimir Putin, Russia
- US$124,600 Matteo Renzi, Italy
- US$30,300 Narendra Modi, India
- US$22,000 Xi Jinping, China

– has announced that it is to become a more active investor, issuing advance statements of how it will vote and using its shares to promote strong corporate responsibility policies. In an early reflection of its new stance, the fund backed shareholder resolutions demanding that BP and Shell reveal more about their responses to climate change. It also says that it will not invest in companies engaged in deforestation activities.

Revenue goes missing

More than US$2bn of oil revenues went missing at the state owned Nigerian National Petroleum Corporation, according to a forensic audit conducted by PwC. Reported revenues were US$67bn, but actual revenues were US$69.34bn, said PwC. As a result, nearly US$1.5bn of revenues due to the federal government were not transferred. PwC added that the business model operated by NNPC is unsustainable, with operational and subsidies costs much too high, at 46% of revenues. Subsidies have been provided for the domestic kerosene market, despite a presidential decree issued in 2009 that these should cease, said the PwC audit. Allegations of missing revenues were initially made by the former Central Bank governor Lamido Sanusi.

Russian capital moved

Some US$152bn of Russian capital was moved to tax havens last year, according to analysis by KPMG. The outflow was two-and-a-half times the level of 2013, in response to international sanctions. Many Russian companies use transfer pricing accounting to declare profits in tax havens, which are then held there to avoid tax and exposure to the falling value of the rouble, concluded the KPMG report, *Capital outflow from Russia*. It also found that domestic merger and acquisition transactions are often artificially structured to involve companies registered in other jurisdictions. Half of all Russian company dividends are paid to foreign companies, primarily those registered in tax havens, said KPMG.

US companies to expand

Some 61% of US companies are planning merger and acquisition (M&A) deals in the next year as they progress growth strategies, according to EY's latest *Global Capital Confidence Barometer*. EY says this is the highest level of deal planning it has recorded in its six years of reporting and is also higher than global dealmaking planning. US sectors most likely to see M&A transactions are oil and gas, technology, consumer products and leisure. Activity is being driven by smaller, more aggressive, businesses that are re-entering the M&A market.

IDB opens Egypt office

The Islamic Development Bank is to open an office in Cairo to oversee a programme of increased investment in Egypt. Projects supporting improvements to energy and transport infrastructure and supporting job creation, particularly for young adults, are likely to receive investments, said the IDB. It also wants to facilitate support from Egypt for programmes in its least developed member countries. The IDB has signed six accords with the Egyptian government, pledging total investments of US$3.9bn.

Petrobras declares loss

Brazil's national oil company, Petrobras, has declared a loss of R$21.6bn (US$7bn) for last year. The reported loss was a result of an asset impairment charge of R$44.6bn (US$15bn). It was also affected by a R$6.2bn (US$2bn) write-down caused by what the company called 'improper payments identified within the scope of the Federal Police's operação lava jato (operation car wash) anti-corruption investigation'. The scandal at Petrobras has led to calls for the impeachment of Brazilian president Dilma Rousseff, who was re-elected last October. ■

Compiled by Paul Gosling, journalist

‘Retail is a day-to-day operation. You can’t delay decisions for too long; you have to react quickly’

Life of luxury

Luxury fashion house Balmain's move into mainland China has brought successes and challenges as it narrows its focus under the leadership of CFO Judith Fei FCCA

Balmain Paris is a quintessentially Parisian fashion house; it has a long history, lashings of style and has gone down a storm in China since it opened its first stores in Beijing and Shanghai in 2009. For Judith Fei, the group's CFO for Asia, it is a dream job and she felt immediately at home in the luxury goods industry when she joined the company in 2012.

It has been a heady first five years in mainland China for Balmain. The brand has grown swiftly, opening more than 20 stores, and it's now time to take stock and consider what has been achieved and how best to move forward. Fei is at the very heart of that decision-making process.

'The real issue for luxury brands is how to control your development speed in China. Opening more and more stores doesn't guarantee you will see higher returns,' Fei says.

Like many high-end fashion brands, Balmain has discovered that not all cities are equal when it comes to the luxury market. The first China store opened in the then sparkling new International Finance Centre in Shanghai, and was followed by one in Beijing's trendy Sanlitun neighbourhood. Both were success stories.

'Of course just looking at the papers cannot support you very well,' Fei says. 'I go to the stores often. At IFC in Shanghai our shop grew very well with the mall. Over four years, the traffic improved a lot as well as our sales performance.'

But the same cannot be said for all the shops that have been rolled out over the last few years. Those in the so-called first-tier cities such as Shanghai, Beijing and Hangzhou have seen impressive sales figures, and even second-tier cities such as Jinan and Nanjing are doing well, but the third-tier cities such as Weihai have found it harder. 'A luxury brand like ours is stylish and has a strong identity so it is well suited to first-tier cities,' Fei explains. 'It may not be as well known as Gucci or Chanel, but we have an even longer history and we have a big group of very loyal VIPs in cities like Beijing and Shanghai.'

As CFO, one of her primary concerns is gathering data on stores, analysing it and preparing reports to advise management on how best to proceed. This involves some tough decisions and in some cases back-tracking, but it is critical if the company is to secure and maintain its most rewarding niche in the huge mainland market.

'We made a huge investment in opening some stores in second- and even third-tier cities, but after more than a year the stores are not showing profits and we have to close them. Terminating a lease with a landlord is associated with large penalties, so it's a big loss for us,' says Fei.

CV

2014
CFO, Balmain Asia, Hong Kong
General manager and CEO, Pierre Balmain Fashion, Shanghai, China

2012-14
Finance controller, Pierre Balmain Fashion, Shanghai

2011-12
Corporate accounting director, Ryerson China, Shanghai

2009-11
Group finance manager, Red Star Macalline Household Group, Shanghai

2005-09
Senior auditor, PwC, Shanghai

2005
BA in international accounting, Nanjing Audit University

The company sees it as an important lesson learned and is now better positioned to make smart investment decisions. 'Our strategy in China is to focus on a suitable market. It is important for us to choose the right partner and the right mall to open a store. If you don't choose the right location, the store could end up making losses,' says Fei.

In addition to conducting an overall review of store performance, Fei monitors the cashflow for the group. 'We have the suppliers in Paris and the retail shops in China, and we have to make sure that the cashflow we generate from our daily operations can finance our future investment plan,' she says.

Store detective

The nature of the job requires Fei to be something of a detective, comparing the sales performance of each store with that of the previous week as well as year-on-year figures. 'It always tells you something,' she says.

Fei works closely with her team of five in Hong Kong and six in Shanghai. She gets weekly sales reports from regional sales managers and operation managers in both cities, and scrutinises them for unusual fluctuations. The fall in sales at a store could be due to anything from the merchandise or »

Basics

* Founded in Paris in 1945 by Pierre Balmain, Balmain Paris is a quintessentially Parisian fashion house.
* Balmain Paris has become one of the world's most influential fashion brands, celebrated for its sophisticated mix of Parisian chic and glamour aesthetic.
* The house is present in all major markets and carried in prestigious department stores and multi-brand boutiques around the world.
* Today the company exports its fashions and fragrances to some 60 countries.

Tips

* 'You must always be professional and responsible for the reports you write. We are dealing with important figures that may have a great impact on management decisions.'
* 'Be prepared to sacrifice your leisure time. For financial accounting there are monthly, quarterly and annual closing reports to prepare; when others are celebrating the New Year, we will be working hard.'
* 'Get a good relevant professional qualification. Many of my colleagues are studying and can apply what they learn on the job to their studies.'

the failure to follow a promotion plan to the lack of a good incentive plan for sales staff.

'It's very important to get frequent feedback on the sales performance and decide what to do moving forward,' she says. 'Retail is a day-to-day operation. You can't delay decisions for too long; you have to react quickly.'

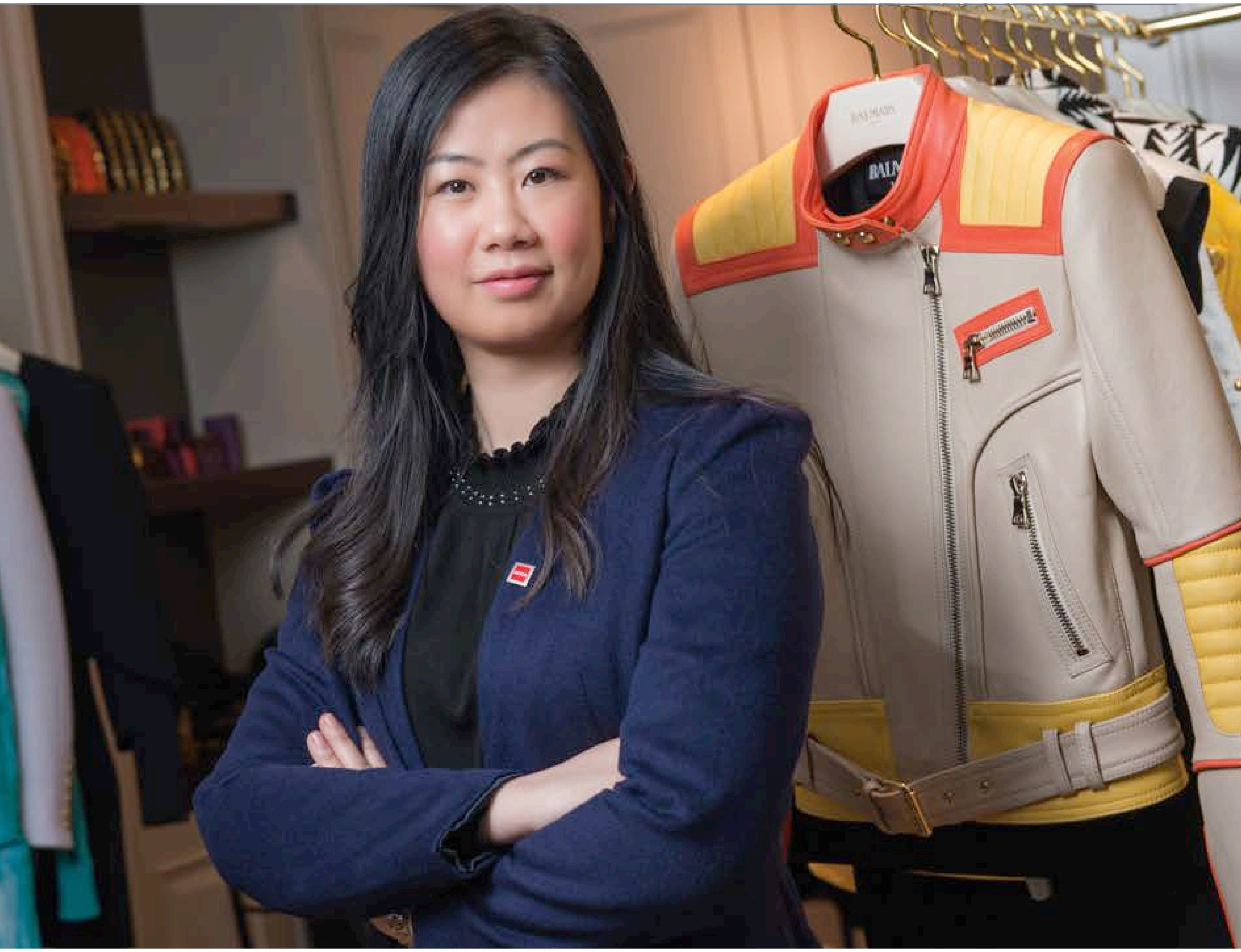
The fast-paced retail environment suits Fei and she enjoys the almost immediate feedback from customers. Balmain's marketing team plans the brand's promotion schedule a year ahead and is meticulous in gathering data on the spending habits of customers, particularly its VIPs. 'After each promotion we will summarise a report of all the results – what customers bought, how much they spent – so that we can analyse whether the promotion was successful or not and how to improve it,' says Fei.

While the post-2008 years have not been easy for luxury brands in Europe, China's apparently unquenchable thirst for high-end designer brands has more than made up for the slump in the West. The rising number of high-net-worth individuals in China as well as the middle classes with strong spending power has driven the demand for luxury goods. According to management consultancy Bain, in 2014 luxury spending in China fell (by 1%) for the first time, but the growing upper-middle-class consumer segment is expected to double by 2017.

'More and more people in China are willing to spend huge sums on luxury goods,' Fei says. 'As long as you have high-quality goods, a special identity and are very stylish, they are willing to spend a lot. Some of our VIP customers spend several million [yuan] a year.'

Solid start

Prior to joining Balmain, Fei was corporate accounting director at metal sheet fabricator Ryerson in Shanghai, having spent two years as group finance manager with the household property management service Red Star Macalline. Her first job after graduating from Nanjing Audit University was with PwC as a senior auditor. It was a good position to snag so early, but not altogether surprising; she was ranked in the top 1% for academic performance and was an annual scholarship winner; she also



gained her ACCA Qualification at university, completing the exams within three years.

'Some graduates told me studying for ACCA would take a long time and wasn't easy, but it would be meaningful,' she recalls. 'I didn't realise quite how difficult it would be, but I am very glad I did it. Although I sacrificed all my leisure time, it has given me good returns and has really helped in my career development.'

The first nine years of her career were spent in Shanghai, but with the promotion to CFO she moved with her family to Hong Kong just over a year ago and loves life in the city, enjoying getting out with her five-year-old daughter at weekends. 'I've developed so many interests in Hong Kong. There are so many hills, the environment is much better than Shanghai and I like going hiking with my daughter at weekends to breathe the fresh air,' she says.

But Shanghai is never far away. Fei has a joint role as finance controller of Pierre Balmain Fashion (Shanghai), the French fashion house's diffusion line that has been dubbed the younger sister of Balmain. It's a position that means she has to travel regularly between Hong Kong and Shanghai.

It was the introduction of Pierre Balmain to the mainland market, after Balmain Paris was well established, that helped expand the group's performance. While Balmain Paris attracts a strong and devoted following of mainly women over 40, Pierre Balmain draws a younger customer base.

'It's more casual and easy, so-called affordable luxury. When we introduced this second brand we saw customers who are 20, and sometimes even younger, who have very strong consumption power in China,' says Fei.

While Fei doesn't usually wear the brand to work – 'it's so stylish, it's not suitable for the office' – she absolutely does when it comes to the company's annual party; a pair of Balmain red heels are the perfect party shoes. And the best part of her job? The close-knit team.

'Our brand is not very well known, but we work like a family,' she says. It's not a huge team – just 40 to 50 people – but everyone knows each other well and most have worked for a long time with the group. We love our brand and enjoy seeing the new designs come out each season.' ■

Kate Whitehead, journalist

Vital signs

After years of decline, the eurozone's economy is showing signs of revival. But does the tentative recovery have the potential to turn into sustainable growth?

The eurozone had started to seem like something of a lost cause in recent years. The 16-year-old currency union had become a byword for political crisis and economic stagnation. While Britain and the US rebounded smartly from the 2008 downturn, the region has continued to flirt with recession – with output shrinking in both 2012 and 2013. The zone has also been plagued by recurring bouts of investor anxiety over excessive government debt in the likes of Italy, Spain, Portugal and Greece. Such market jitters have at times been so extreme as to threaten the very existence of the currency union.

But over the past few months much of this gloom has started to lift. For the first time in years, growth expectations have started to improve. Eurozone equities soared in the year to mid-April, with markets in France, Germany, the Netherlands and Italy all surging by more than 20%. That has far outpaced America's S&P 500 index, which rose just 2% over the same period.

The main questions economists are asking is whether the eurozone is likely to last. More importantly, can the recovery turn into a fully fledged economic renaissance? 'Even the eurozone at a sprint typically runs slower than the US and UK,' says Jonathan Loynes, chief European analyst at Capital Economics. 'There are still major obstacles to growth in many European economies that their Anglo-Saxon rivals dismantled long ago. There is a lot of ground that the zone needs to make up.'

The first mystery is why sentiment has recovered so quickly. For a start, the zone is one of the world's main beneficiaries of cheaper oil. 'The plunge in the oil price over the past nine months has been a real stroke of luck for the eurozone,' says Win Thin, a global strategist at Brown Brothers in New York. The zone is a massive net importer of crude, consuming about 3.5 billion barrels of oil in 2013 yet producing almost nothing within the zone. The largest European pumpers, Britain and Norway, are not part of the currency union. And the only oil producer that BP deems worth listing in its annual statistical review is Italy, with an output of just 115,600 barrels a day or 42 million per year – equivalent to only 1.2% of eurozone demand.

The upshot is that the slide in the oil price – from an average of around US$100 a barrel in September 2014 to an average of US$55 so far in 2015 – delivers a financial boost equivalent to nearly 1% of eurozone GDP or roughly €80bn. To put that in perspective, it's equal to the entire annual economic output of the zone's four smallest members – Malta, Cyprus, Estonia and Latvia. This may even understate the advantage, since cheaper crude has also dragged down the price of natural gas, which is used in electricity production and home heating.

Banks play their part

There is more to the eurozone recovery than a favourable move in commodity markets. The European Central Bank has also done its part. On 22 January the zone's monetary policy body finally announced a US$1.1 trillion programme of bond-buying – or quantitative easing (QE) – designed to drive down interest rates and chase investors into riskier assets such as equities or high-yield bonds. Expectations that the ECB was set to take this step had already started to work its magic, pushing the euro roughly 20% lower against the dollar since May 2014. The trade-weighted fall, which takes the currency's slide against a broader range of commercial partners, has been about 10%.

This boosts both the economy and corporate earnings. One result has been to make the zone's exports cheaper in foreign markets. That helps explain why sales of eurozone goods climbed by around 8% in the first 10 months of 2014 with the zone's three top trading partners – Britain, the US and China. For companies that decide not to chase the market, the outcome is higher profit margins.

The zone's large listed companies derive around half of their revenues from outside the region, so in theory a 10% slide in the trade-weighted fall should boost earnings by roughly 5%. Of course, many eurozone companies have put in place a natural currency hedge – shifting costs to the nations in which their sales are made. For example, more than two-thirds of the workforce of French firms listed on France's CAC 40 exchange were based abroad in 2012. But a lucky few, such as winemaker Château Latour, incur almost all of their costs in euros and gain most of their revenue outside the zone.

> 'The flipside of declining yields is rising prices for government bonds – delivering capital gains for existing holders'

QE also produces a clear financial boost. The European Central Bank (ECB) is currently buying €60bn of bonds a month, about three times

▲Shining bright
The euro symbol stands outside the European Central Bank in Frankfurt am Main in Germany. Can the future of the eurozone be said to be as bright?

more than eurozone governments are issuing. This has sharply depressed the yields on government bonds. By mid-April, the yield on the 10-year German bond had fallen to a record low, under 0.1%. Remarkably, a third of eurozone sovereign bonds now carried negative rates – meaning that investors had to pay governments for the privilege of lending them money. 'This provides a huge shot in the arm to financial assets,' explains Thin. 'The flipside of declining yields is rising prices for government bonds – delivering capital gains for existing holders.' In addition, the ultra-low yield on risk-free assets encourages investors to divert any new investment flows into more remunerative assets, including equities and riskier corporate bonds. 'This can have a positive wealth effect too, increasing the net worth of existing owners of these shares and bonds, potentially making them more willing to spend,' says Thin.

Trickle-down

There are plenty of early signs that this potent cocktail of cheap oil, currency depreciation and booming asset markets is feeding through to the real economy. One of the best measures of this is Citibank's Citi Economic Surprise Index, which reflects whether economic data releases surpass or disappoint analysts' expectations. This index jumped from minus 57 in October 2014 to plus 55 in April. Meanwhile, consumers appear to be spending the windfall savings from cheaper energy prices. Even notoriously frugal German citizens have been loosening their financial belts, with retail sales climbing 3.6% in the year to February. That capped the fastest three-month surge since the early 1990s. Spanish retail sales surged by 4.1% in January, the sixth consecutive monthly increase. The improvement in the labour market adds to confidence that this spending spree will continue. Unemployment declined to 11.3% in February – the lowest since May 2012 – and appears on track to fall to 10% by 2016.

But it also makes sense to put the upswing in perspective. 'Before we get carried away, we should remember that this is a recovery not a renaissance,' says Gregory Claeys, a research fellow at Bruegel, a Brussels-based thinktank. 'There is a great deal of difference between a cyclical recovery and a longer-term increase in the sustainable rate of economic growth.' Put in a global context, the eurozone upswing still looks pretty meagre. »

Fuelling the zone
An oil platform off the south-eastern coast of Sicily. The plunge in the oil price over the past nine months has benefited the eurozone

The consensus forecast for eurozone GDP growth in 2015 was 1.3% as of mid-April. That is still half the 2.6% forecast for the UK and still further behind the 2.9% expansion expected from the US. 'To a certain extent, the euphoria over the zone has been a sign of just how shrivelled expectations had become,' says Stephen Webster, the European economist at consultancy 4Cast. 'Nobody would get at all excited about growth rates of close to 1% if the eurozone were a normal economy.'

Economists also point out that it is easier to look good if GDP is coming from such a low base. Even after the latest pick up, eurozone GDP is still about 2% smaller in real terms than at its pre-crisis peak in early 2008. By contrast, US output is 9% higher now than its pre-crisis peak.

Less flexible

Nor have the well-known structural limitations of many eurozone economies been removed. Labour markets are typically less flexible, making it harder for firms to fire staff – and therefore more reluctant to hire them. Certainly industries or professions enjoy a degree of protection that renders them uncompetitive and raises prices for consumers.

'Reforms are happening, but at such a slow pace that it is hard to generate much enthusiasm,' says Claeys. 'Greece, France and Portugal have all been taking some baby steps. But we have not seen anything close to the explosive reform spree enacted by Margaret Thatcher in the UK.' Spain has been one of the few countries to win widespread praise for its efforts to improve productivity. The nation accounts for only about 10% of the zone's output. As a result, few economists believe the overall eurozone potential growth rate – the pace of expansion that can be sustained without sparking inflation – has improved.

There are even some threats to the cyclical upswing – notably the possibility that Greek debt negotiations will fail, leading the nation to exit the currency union. 'That would set the precedent that nations can leave, potentially generating some economically disruptive market volatility,' says Webster. 'The market has so far been a little too sanguine about this risk.'

> 'A few years of relatively steady growth will give the zone's nations the opportunity to upgrade the supply sides of their economies'

But more economists take the view that we should be grateful for small mercies. The eurozone economy at least appears out of the danger zone. 'A few years of relatively steady growth will also give the zone's nations the opportunity to upgrade the supply sides of their economies,' says Claeys. 'Whether they will seize this chance is harder to say.' ■

Christopher Fitzgerald and Fernando Florez, journalists

Talent pipeline deficit

As company horizons extend beyond domestic borders, Canadian CFOs will need to look to international talent to fill the financial executive pipeline, says Ramona Dzinkowski

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

In March, the CFO Alliance Canada, a North American-wide organisation serving the CFO community, published the results of a country-wide survey exploring the issues that will be top of mind for Canadian senior finance executives over the next 12 months.

It shows that Canadian senior finance executives are decidedly bullish on the US economy in 2015, with almost 50% indicating that their confidence in the US market was strong or very strong. Far fewer were bullish on the domestic economy, or the growth prospects for the international economy beyond the US. Only 9% and 6% respectively felt strongly confident in the Canadian domestic economy or global economy overall.

Views on revenues, however, were decidedly mixed. Roughly half expected their revenues to grow throughout 2015, and half expected them to remain the same or decline. Much of the growth stagnation can be explained by the fall in oil and commodity prices.

Not surprisingly, therefore, a large majority of Canadian financial executives indicated that growing revenues (81%) would be either a 'very important or important' focus for their companies in the coming months. This was followed by improving customer service (68%), reducing costs (66%), increasing their innovative capabilities (60%) and improving the corporate culture of their organisations (58%).

Talent management (acquisition and retention) is among the top concerns and, according to Canadian CFOs, filling the talent pipeline will be no easy feat. According to the study, there are two main factors that contribute to this problem. First is the shortage of experienced accountants in Canada – one in four executives felt that the talent simply wasn't available. The second evolves around unrealistic expectations of new Canadian graduates. Over 30% of executives polled felt that new graduates expected higher wages than their company was willing to pay.

The upshot is that this may be good news for international accountants looking to work for Canadian companies.

Although most Canadian companies operate primarily in the domestic market, many will be reaching beyond North American borders to capture new markets and one in four will consider opening new distribution centres overseas. Over one quarter of executives reported that their company would open new distribution channels internationally in the next three years, approximately 20% will be entering into a joint venture with an overseas partner, and 15% will be acquiring a foreign company.

International expansion also means that the shoulders of the senior finance executive in Canadian companies are growing broader.

Forecasting international risk, while ensuring they meet new regulatory and statutory requirements will place added pressure on the CFO. Consequently, international accountants with expertise in assessing local market risk as well as a thorough knowledge of their regulatory environment will fare well. The study shows that the major challenges of expanding internationally for Canadian companies will include: evaluating risk exposure (45%), managing tax implications (44%), changing regulatory environments (29%), and conforming to different accounting and reporting standards (29%). ■

For more information:

The CFO Alliance's *CFO sentiment study* is at tinyurl.com/SentStudy

Missing links

Sub-Saharan Africa sorely needs a coherent strategic vision in infrastructure and greater collaboration between external sources of investment, says Alnoor Amlani

In 2009 the World Bank, along with international donors and development agencies, published a report titled *Africa's infrastructure: a time for transformation*, which investigated the infrastructure gap in sub-Saharan Africa. It concluded that the continent needed US$93bn a year to build its missing infrastructure.

Five years later and the problem remains acute despite an unprecedented level of investment by a range of external sources, primarily official development financing (ODF) from multilateral institutions and donors, private sources and official Chinese financing.

Now the Brookings Institute think-tank has just published a paper titled *Financing African infrastructure: can the world deliver?* It comes up with a number of interesting findings:

* The surge in infrastructure financing has been spearheaded by private investment, which has grown to 50% of external financing, while China is a major bilateral source. The largest share of total external financing (45%) has gone to the energy sector, with private investment concentrating on telecoms, ICT and energy. Chinese investment has expanded beyond resource-rich countries into areas of expertise such as hydropower and transport (particularly road and rail). However, ODF remains the only significant external source of finance for low-return (but crucial) investment in water and sanitation projects.
* This surge in financing was largely unaffected by the global financial crisis in 2008-09.
* Thirteen African countries have accessed international capital markets by issuing sovereign bonds to the tune of US$15bn since 2006.
* Internal financing via public sector budgets remain the primary source of infrastructure funding, but levels are much lower than the recommended 5%–6% of GDP recommended by development practitioners, mainly because of inadequate tax collection.

Alnoor Amlani FCCA is a director of The Numberworks, a financial management consultancy practice based in Nairobi

* Even with the high rate of internal migration from the land to the cities in sub-Saharan Africa, there is inadequate investment in urban transport and in rural infrastructure across the continent – with the exception of South Africa.
* Governance remains the major problem for infrastructure investment. The 2009 World Bank report estimated that US$17bn of the US$93bn gap could have been met by better maintenance of existing infrastructure, institutional reform of utilities and service providers, administrative and regulatory reform, and improved subsidy policies and practices.

These findings illustrate the complex nature of infrastructure financing. Visitors to Africa's major cities will not only note the number of new housing projects, commercial buildings and modern malls but also the absence of strategic investment in urban transport solutions for workers in those cities. Legions of commuters walk to work among the traffic gridlock every day if they cannot afford the dangerous motorcycle taxis or poorly run private minivans.

The problem is the absence of a coherent strategic vision in planning infrastructure and inadequate collaboration between external sources of investment and proper urban planning in infrastructure investment. How dangerous this situation is can be illustrated by one simple example: in almost all of Africa's major cities there is no adequate fire protection service in place, and the illusion of urban modernity is regularly shattered whenever a fire breaks out and cannot be contained. ■

Moving experience

ACCA's new headquarters in London's Westminster will provide the mix of heritage and modernity that defines the brand, says ACCA president Anthony Harbinson

You should, by now, have heard about ACCA's plans to relocate its London headquarters from its current home in Lincoln's Inn Fields, Holborn, to newly refurbished office space in the historic Adelphi building in John Adam Street, Westminster (see also page 9).

We have not taken this decision lightly. My colleagues on Council and I thought long and hard about what it would mean for our members, students, business partners and of course the excellent staff team that provide services and support for you.

While our current iconic headquarters – 29 Lincoln's Inn Fields – has played a critical role in ACCA's past success, we have had to accept that, in order to continue to support our growing global membership, we need to have a world-class London headquarters that enables us to work even more effectively.

During the past few years, our London operations have been spread across a number of locations in Holborn, and over time this arrangement has become increasingly unfit for purpose.

The move has been planned with the aim of delivering an efficient, collaborative workplace designed to enable ACCA people to fulfil their potential, which in turn will help ACCA achieve its ambitious strategy for the future.

Like ACCA, the Adelphi is steeped in history and culture. Built between 1768-72 by the Adam brothers – John, Robert, James and William – previous inhabitants include literary giants George Bernard Shaw, Thomas Hardy and Sir JM Barrie, author of *Peter Pan*. The owners of this historic art deco building, which is Grade II listed and protected by law, will be undertaking a complete refurbishment of the interiors over the coming months to provide us with the mix of heritage and modernity that defines the ACCA brand.

> Our new home will provide us with an inspiring workplace in which to welcome global members, students and stakeholders

Our new home will provide us with a dynamic, inspiring and sustainable workplace to which we will be proud to welcome our members, students, partners and stakeholders from around the globe.

This is a move that Council believes will prepare ACCA to face the future. We have almost half a million students studying hard to become the next generation of ACCA members. In the years ahead, we believe the Adelphi will provide us with the perfect platform from which to support these leaders of tomorrow, along with the 170,000 members we are currently proud to represent around the world. ■

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

The view from

Ahmed Adam, deputy manager (non-bank financial sector), Maldives Monetary Authority, Malé, Maldives

The authority's non-bank financial sector division has specific responsibility for the general insurance industry. Although our role is to license, supervise and regulate, we try to create a supportive environment for the national and international insurers and intermediaries operating in the Maldives. Monitoring levels of compliance and carrying out risk-focused analysis is integral to the sector's success, alongside development of the Maldives economy itself. So we are constantly seeking ways to increase awareness of our various programmes.

One aspect I enjoy is the off-site supervision of insurance companies. These visits give me the opportunity to apply my audit knowledge and experience, examining the technical controls in place and taking samples of accounts for further analysis. And as I'm the only accountant with a chartered qualification on this team, I'm relied on for my input, which I find rewarding. You have to develop relationships and build trust with the insurers that we regulate; you can't be effective without the respect and sense of partnership that comes from taking time to understand not just the individual organisation, but also how regulations impact on their day-to-day operations and long-term business objectives.

> Changes in banking, credit, mortgage and insurance markets have created even more opportunities for accountants

Finance is now one of the most popular career choices for students and graduates in the Maldives. It's regarded as highly demanding and selective, which only adds to its appeal. Changes in the way banking, credit, mortgage and insurance products are structured and marketed, and the introduction of new direct and indirect taxes, have created even more opportunities for accountants. For example, our goods and services tax and business profit tax only came into effect in 2011; this has only served to increase demand for accounting and auditing services. The profession has until recently been dominated by people who have qualified overseas. But progress is being made in our education system, with greater numbers of students going on to take qualifications like ACCA.

Working in a central bank carries a special responsibility. The reputation of the authority is always at stake, whether our economy and financial systems are flourishing or during times of crisis for companies or sectors under supervision. That's a heavy responsibility to bear, but it is a privilege and a challenge. Financial risks may be large but damages to reputational risk can take years to recover. As a public official, I am also highly aware of the need to serve the public interest – and to be vigilant for any potential mismatch or wrongly competing objectives. There is pressure but I serve alongside highly experienced managers who set good examples and provide support. ■

Snapshot: hospitality and leisure

The hospitality and leisure sector is both familiar and highly dynamic, with plenty of established brands and lots of room for innovation.

It is currently seeing modest if uneven growth. Increased disposable income opens up the possibility of bigger ticket purchases, so outlets and destinations that benefited from the 'staycationing' trend during the downturn may struggle to maintain market share.

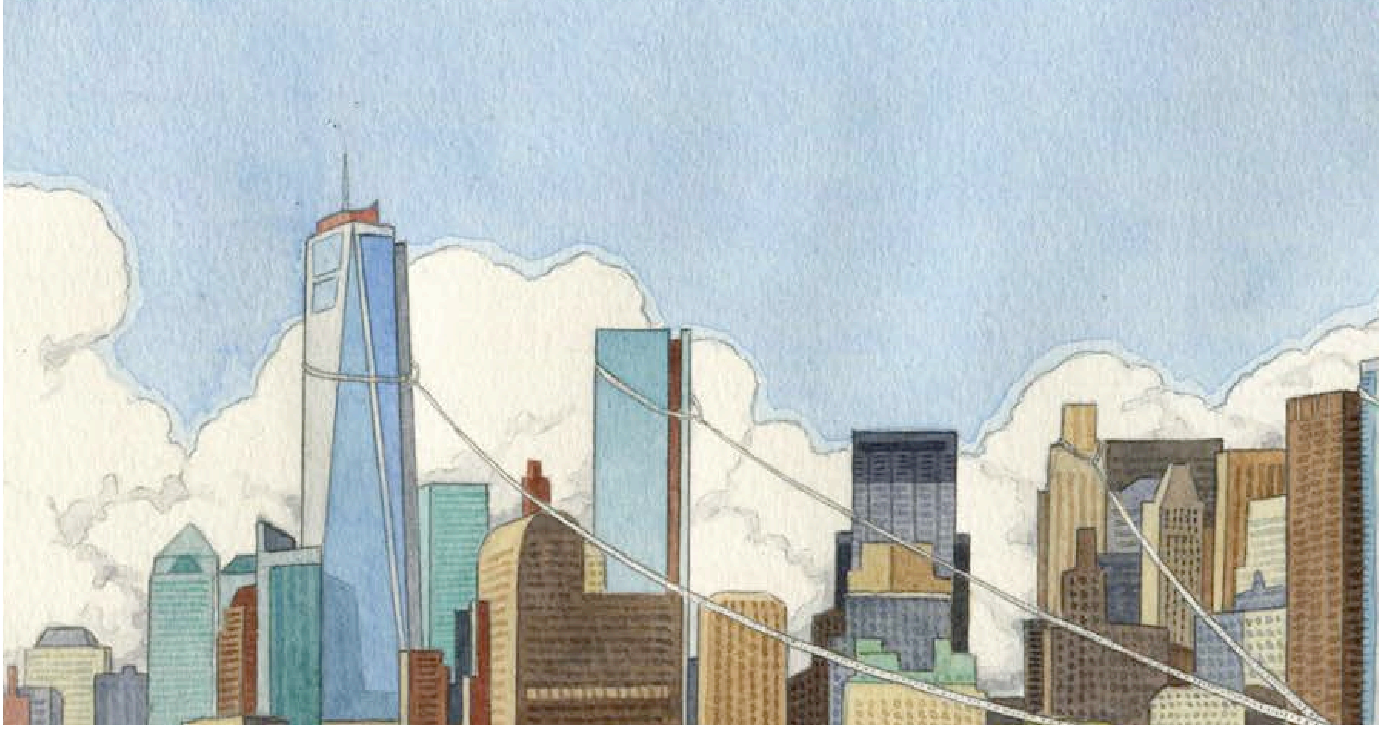
Regulation is everywhere in hospitality and leisure, from tax to employment, and its familiarity means that the sector is also very affected by trends in public sentiment. The current focus on health issues, for instance, makes businesses operating with a licence to sell alcohol open to scrutiny, in addition to regulatory and tax issues. However, as a mass employer, the industry remains a powerful lobbying force.

As a place to work, this sector is attractive to younger people but it is also an industry that likes to hold on to its employees. Businesses need finance professionals with strong analytical skills and commercial awareness who can make very large volumes of data meaningful and who can match the pace of change. Barely any part of this sector remains the same as it was 20 years ago, with technology and social media particularly important features.

Simon Haydn-Jones, leisure audit partner, KPMG

Cyber liability

Accountants must work with the authorities and experts to devise effective cybersecurity that balances customer needs with financial controls, says academic Jonathan Hill



The hacking of consumer credit card data at prominent US companies such as the Home Depot, Target and Neiman Marcus is merely the tip of the iceberg in the world of cybercrime and cybersecurity. If the largest businesses are prized targets for cybercriminals, so are US federal government computer systems, such as Fannie Mae and the Internal Revenue Service. This also affects technology enterprises such as Google, eBay, AT&T, Verizon and Apple. The *Wall Street Journal* reported that by July 2014, the biannual reports of 1,516 companies traded on the NYSE or Nasdaq stock market included the words 'cybersecurity', 'cyberattacks', 'hacking' or 'data breach'.

At a time when technology and financial executives share a consensus that the 'bad guys', the hackers, are always two steps ahead of the risk management team, accounting professionals need to adopt risk management strategies that are both responsive and resilient in their approach.

Government agencies have played a leading role in identifying cyberattacks and developing countermeasures that are shared with industry partners. However, public alarm over repeated breaches of computer networks containing possibly millions of individuals' confidential financial data has drawn the attention of government regulators. They are focusing their scrutiny on the executives of these businesses, and asking if appropriate cybersecurity measures have been taken, and if executives are properly vigilant. Is cybersecurity another area ripe for government oversight?

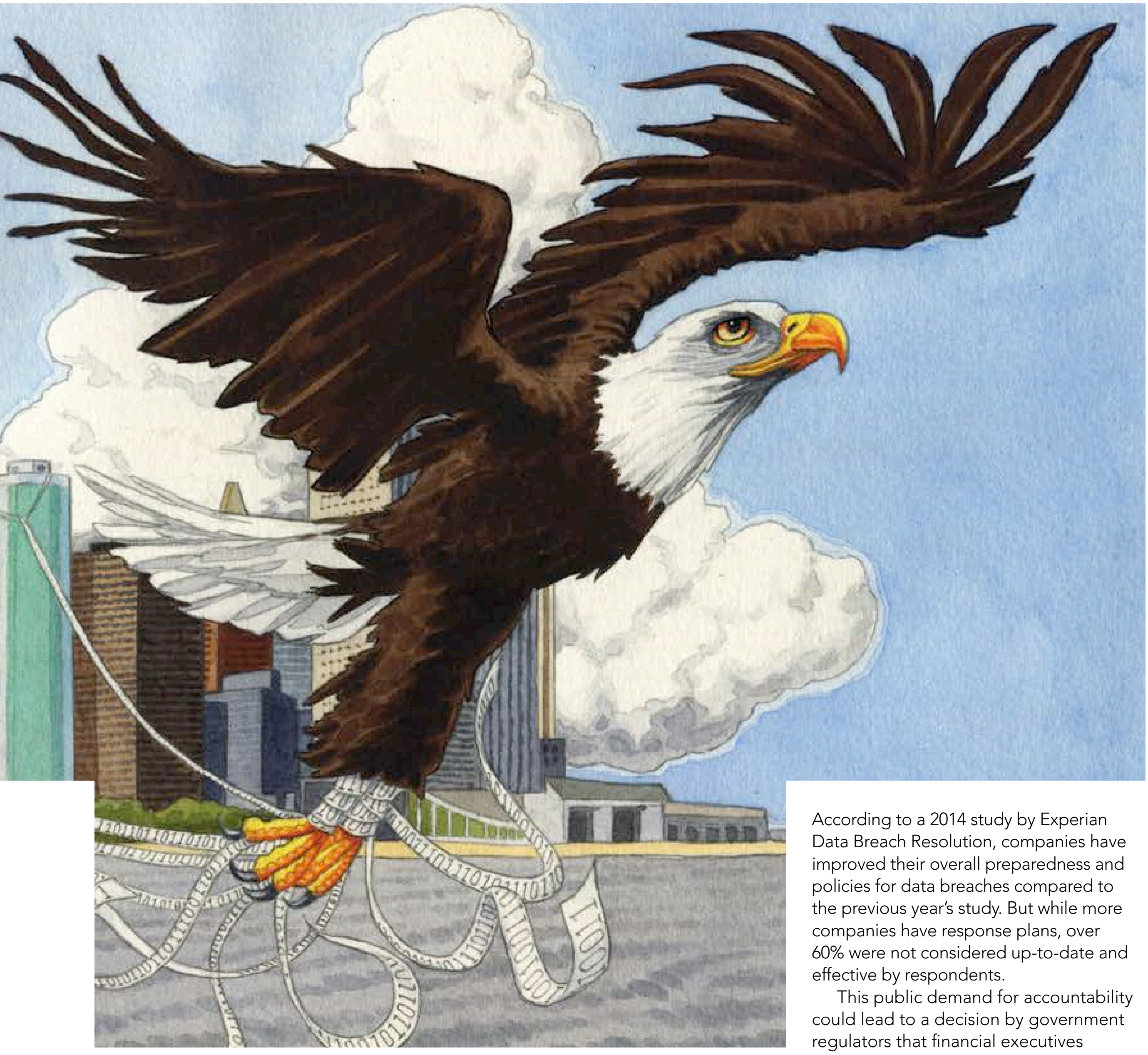
Who is accountable?

The anxiety over the theft of personal financial information has spread through the executive suite, from the IT professionals on the front lines to the financial executives who have to make sense of it all. Based on the results of two recent polls by credit card processor TSYS, in the aftermath of the big breaches at Target and Neiman Marcus, approximately 40% of respondents said that they had changed their shopping behaviour.

Importantly, the majority of respondents believed that the companies should be held accountable for these breaches. Over 60% said they were willing to move their accounts to financial institutions that were capable of providing additional cybersecurity measures.

As the public demands accountability for IT breaches and the theft of personal data, the conversation turns to who should be held responsible. Benjamin Lawsky, former New York State Department of Financial Services superintendent, has called for executive accountability at financial services companies as a way to prod executives into action. Some people, including prominent investors, argue that individuals, especially executives, should be held responsible for data breaches instead of the company as a whole.

The intense scrutiny on data vulnerability has meant that C-level



executives and the individuals who report directly to them have to increase their participation in data breach response and resilience planning.

The data breach incident at Target, the third largest retailer in the US, is but one example of the repercussions of a cyberattack: in May 2014, Target's chief executive, Gregg Steinhafel, became the first CEO to step down over a huge customer data breach. Although data security was, by all accounts, taken seriously at Target, Steinhafel's resignation shows that both preparedness and resilience are vital parts of the business process today.

Room for improvement

There is an increased public belief that cybersecurity vulnerabilities are a consequence of a company's lack of investment in appropriate security practices, including response plans, risk assessments of vulnerable areas and continuous monitoring of information systems to detect unusual traffic.

According to a 2014 study by Experian Data Breach Resolution, companies have improved their overall preparedness and policies for data breaches compared to the previous year's study. But while more companies have response plans, over 60% were not considered up-to-date and effective by respondents.

This public demand for accountability could lead to a decision by government regulators that financial executives are liable for, among other things, not following proper information management security controls as specified by the Control Objectives for Information and Related Technology (COBIT) framework and the ISO 27001 information security management standard. If so, accountants will need to take a hard look at how they can influence financial controls and effective cybersecurity.

'Due to the nature of the profession, accountants tend to have a lot of personal information. Any firm or business that is responsible for personal information is » a target for cyberattacks,' said Catherine Putnam, product manager for portfolio management at Travelers Insurance, in *Accounting Today*. Therefore accountants must remain vigilant and ensure cybersecurity is a top priority. They can be seen as the gatekeepers of information; they have the ability to recognise irregularities and anomalies, and can red-flag them to the appropriate channels. Corporate accountants and individual firms should incorporate cybersecurity not only to protect against cybercrime, but as an obligation towards their clients' privacy.

Whether real or imagined, the widespread dependency on cloud services for enterprise data storage is also a perceived vulnerability in the minds of the public and some regulators. There is a trend among all companies in the US to outsource cloud services. Accounting firms need to understand the liabilities associated with this service and gain more insight into their chosen company's cybersecurity action plan.

Poacher turns gamekeeper

President Obama's executive order in February 2013, 'Improving critical infrastructure cybersecurity', warned that hackers sponsored by foreign governments and organised crime syndicates, as well as lone individuals, are probing financial, energy and public safety systems every day.

These hackers are technologically sophisticated proxies for organised crime groups motivated by money and, increasingly, by the militaries of hostile governments intent on causing disruption and destabilisation. Financial systems are particularly rich targets. In addition to the threats from these criminals, spies, terrorists and 'hacktivists', there is worry about the inside threat represented by both current and former employees who have access to company systems and who may be motivated by money or revenge to jump to the dark side.

24/7 online access, 'bring your own device' policies, work-at-home employees and insecure wi-fi connections create vulnerabilities that remain all too easy to exploit. Infamous hacker Cameron Lacroix, whose record includes hacking into celebrity phones, gift cards and credit cards, was recently sentenced to four years in prison despite his cooperation with the FBI in teaching them his hacking tricks. He stated that, upon completing his sentence, he hoped that Target and the Home Depot would hire him to protect their systems, adding 'it's still very easy to get into'.

Hacking techniques have become more sophisticated and more difficult to detect. The ongoing investigation into the breach at the Home Depot disclosed that hackers used custom-built malware, putting 56 million payment cards at risk.

> As holders of personal information, accountants must remain vigilant and ensure cybersecurity is a top priority

Playing cards

Cybersecurity vulnerabilities exist at the data storage and transaction levels. Without the latest microchip technology, US debit and credit cards remain at high risk of cyber theft. Digital payment solutions are increasingly accepted by banks and merchants, and card-based purchases resulted in more than $6bn fraudulent third-party charges in 2012, according to the Federal Reserve Bank. In the US, some of this has been attributed to outdated card technology that is, at the time of writing, just beginning to be changed to the widely acknowledged and more secure EMV (Europay, MasterCard and Visa) smart chip cards, which are widely used in Europe. Unlike EMV cards, US swipe cards do not contain a chip for storing encrypted information, making it easier for hackers to steal.

One major concern is the lack of professionals with advanced offensive and defensive cyber skills. According to a recent CNN report, approximately 20,000 to 30,000 professionals are needed in a variety of industries to adequately equip companies with the human resources to provide cybersecurity. Given the great need for these types of professionals, universities, colleges, community colleges and vocational schools are responding with a multitude of degree opportunities. Federal agencies even offer scholarship programmes in cybersecurity that require federal or state employment after completion of the degree, encouraging cybersecurity professionals to enter government agencies.

At risk is personal financial information, through retailers, third-parties, apps and so on, which have account information, credit information and other personal data, as well as people's individual mobile devices, computers and laptops. To maximise their financial gain, hackers have 'preferred' industries: the financial industry can be attacked for financial gain or political reasons, followed by the retail, energy, aerospace, defence and healthcare sectors. Forgotten are the days of email scams and public wi-fi; cybersecurity is now at a point where all digital devices, regardless of their ownership and location, can and will be attacked if they hold any personal information at all.

Time to take steps

Cybersecurity is well on its way to becoming a regulated practice. The US Securities and Exchange Commission is currently deciding what sort of guidance it will provide on cybersecurity standards, while acknowledging the fact that a company's cybersecurity strategies and practice must remain undisclosed in order to remain effective. Finding ways to collaborate with the military, law enforcement experts and computer scientists to devise effective cybersecurity that balances customer needs for easy access with appropriate financial controls must become part of accounting practice.

Although liability and responsibility have yet to be fully defined, since only financial institutions are placed under strict US data protection laws, accountants should understand how far their services and sub-services are protected against cyberattacks. In line with the US government's new-found attention to medical devices and their vulnerability to cybercrime, accountants should take a more proactive approach and arm themselves with the right strategies and plans. The financial ramifications do not discriminate against legal liability, and it is in firms' best interest to understand what steps can be taken to protect themselves and their clients from data breaches. ■

Jonathan Hill, associate dean, Seidenberg School of Computer Science and Information Systems, and Wenya Chen and Kalterina Latifi, research fellows

No stone unturned

A zero-tolerance approach to bribery, wherever it lurks and however small the backhander might be, is essential to send a clear message to the business

Concern about graft in corporates worldwide has intensified following recent allegations and court cases involving large international businesses, such as that which saw UK pharmaceutical company GlaxoSmithKline (GSK) fined for bribing doctors and hospitals in China to promote its products.

Small bribes paid as cash and vouchers, benefits in kind such as tickets to sporting events, prepaid phone cards, alcohol, tobacco and perfume may be particularly hard to detect. But even if an individual bribe is a modest one, if discovered, it can seriously damage a company's reputation and bring it to the notice of law enforcers in jurisdictions such as the US and UK, who can and do use the extra-territorial reach of their own anti-corruption laws.

The appetite among regulators and law enforcers to pursue small bribery cases varies from region to region, according to Toby Duthie, partner at Forensic Risk Alliance (FRA), an international forensic investigator. The FRA frequently deals with US and European Union prosecutors, and undertakes validation audits for the Extractive Industries Transparency Initiative, assessing governments' openness about payments from energy and mining companies.

'In general, small bribes will not be their main focus,' Duthie says. 'But it can be a means to catch companies short on books and records. A number of US Department of Justice deferred prosecution agreements [DPAs] reference instances of frequent but low-value bribes. For example, according to a 2009 DPA, one US global manufacturer and distributor gave four pairs of US$125 shoes to Chinese officials as part of a series of gifts totalling around US$30,000.'

Some anti-corruption campaigners acknowledge that small bribes are often regarded as an accepted and time-honoured feature of business and public sector dealings in many locations. Peter van Veen, director of the business integrity programme at non-governmental organisation Transparency International, says: 'We understand from some industries, such as shipping, that moving in and out of ports in many jurisdictions is almost impossible without being confronted with demands for bribes, be it to pilot the ship safely into port, to the loading or unloading of cargo. Small bribes in this context are not really small, either because of the number of them that need to be paid, or their actual size, with several thousand dollars sometimes having to be paid to get goods off a ship and into the country.'

Just say no

The best advice to companies and CFOs is just to say no, says Duthie. 'From a practical perspective, it is easier to ban bribes, however small,' he explains. 'This removes ambiguity and lack of clarity as to what constitutes small, especially if bribes are frequent and, say, to a small group of vendors or employees. They soon add up. Zero tolerance sets the right tone and is readily understood by all levels of operations.'

Devising and implementing programmes and controls to prevent, detect and punish bribery is complex.

'The key is to get practical, hands-on advice that can be implemented at an operational level,' Duthie suggests. 'For example, if your logistics team is properly trained as to where bribery risks exist within their area, especially through customs agents, they will be able to pre-empt »

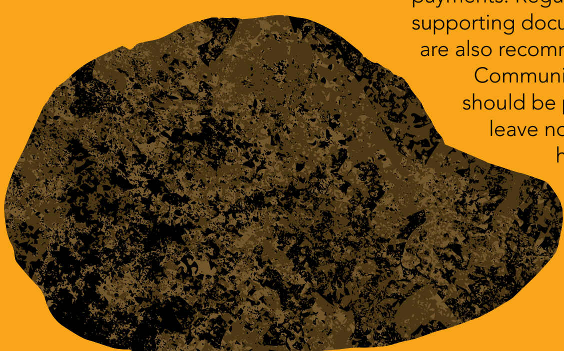
these risks before they materialise. There is a lot of theory out there; the trick is to see how that can be applied on the ground. Make sure advisers work closely with operations to ensure recommendations are workable.'

In *Countering small bribes*, Transparency International assembled a set of principles and guidance after consulting with law and advisory firms and leading global companies in the oil and gas, banking and travel sectors.

The document describes an anti-bribery approach based on 10 key principles. They include committing to eliminate small bribes, supporting a culture of integrity from the top down, conducting risk assessments to design a strategy and programme to eliminate small bribes, and actually implementing a programme of internal controls and collaborative action.

Examples of business units that may be at risk include supply chain management, shipping fleets, corporate affairs, marketing and clearing agents. External risks include inadequate public sector processes, and interactions by the company and its employees, which may take place when either is most vulnerable – for example, when critical items are in transit. Third parties may not live up to the company's standards.

As for internal risk factors, reporting structures may militate against effective control of bribery, or the company may be too globalised or highly centralised, with top management too remote from what is happening in local operations. Employees may be vulnerable if they operate alone, are allowed to use petty or other cash, or pay small bribes out of their own pockets.



How to resist

* Transparency International provides a free e-learning module of comprehensive anti-bribery training designed by experts in the field. It's at **tinyurl.com/TI-nobribe**.
* The year-long, US-based Trace Anti-Bribery Specialist Accreditation (TASA) programme was set up in 2011 by independent compliance and due diligence specialist Trace to raise the standard of anti-bribery compliance worldwide.

Wave the red flag

Among red flags identified by Transparency International are: small payments made in a repeated situation, expenses claims with no documentation or explanation, expenses paid in round sums, advances made to employees with no valid reason given, excessive use of petty cash, undue favourable treatment by government officials, and no report of bribery ever being made.

Internal controls required include appropriate corporate procedures for third parties, including due diligence, contract terms, communication, training and monitoring, according to van Veen.

As part of a company's anti-bribery programme, internal accounting controls should be modified and extended to counter small bribes, Transparency International urges. There should be tighter controls on who gets to spend cash, how and on what, and duties should be segregated to counter the risk of collusion or error in authoring, approving and recording of expenses or other payments. Regular checks and audits, and supporting documentation for expenses, are also recommended.

Communication and training should be provided to employees to leave no doubt that the company has prohibited small bribes, and information given on how to anticipate and resist demands, seek advice, and report concerns or instances of small bribes. One model provided by Transparency International explains the negotiation steps in resisting demands for a bribe. It offers a case study of a global energy company that risk-assessed 90,000 staff before giving face-to-face training to 12,000 deemed to be at high risk from demands for small bribes.

Corporate consideration also needs to be given as to what action is appropriate if small bribes are detected. A company needs a procedure to deal with any incidents, including investigation and review, disciplinary action, and reporting incidents to relevant authorities.

And as safety measures degrade over time, the 'zero-bribery' company needs to regularly monitor and review the effectiveness of its programme.

Act strategically

The company should also act strategically to influence the corruption environment in which it operates, says Transparency International. This involves accepting responsibility for addressing the factors that lead to demands for a small bribe – collaborative working and investing in communities can be effective responses.

Awareness of the problem is spreading. 'There is huge and growing demand for advice and training in this area,' Duthie says. 'This demand is driven by the regulators' sector focus, as well as geographic exposure to higher risk countries. For example, post-GSK, lots of pharma companies, and others, are seeking such advice, especially as regards China.' He adds that another key driver is personal liability as enforcement agencies increasingly prosecute individuals.

The growing cost of settlements and investigations themselves also make preventative compliance spending seem worthwhile. ■

Robert Stokes, journalist

For more information:

Countering small bribes is at tinyurl.com/TI-CSB

Details on Trace accreditation are at www.thetasa.org

The view from

Teymur Naghiyev ACCA, audit manager, Baker Tilly, Baku, Azerbaijan, and lecturer at the state university

My client portfolio is made up largely of companies in oil and gas. They're sectors which are critical to Azerbaijan's domestic economy and global exports. The volatility of energy prices has influenced the services and solutions that clients want beyond audit. Stakeholders rely on the integrity of the information we prepare or audit. Factors such as professionalism, trustworthiness and ethics, together with technical accounting and auditing skills, assure clients that they're turning to the right people.

Azerbaijan's economic growth adds another dimension to the roles played by accountants and auditors. We have a number of international corporations and well-known brands or their subsidiaries here, so it's highly competitive for professional services firms. But local and national businesses might more typically start by improving their financial statements or management reporting processes, or strengthening their corporate governance, so that they can expand their business, increase revenues and improve competitiveness while maintaining professional ethics.

Paying special attention to macroeconomics is vital for anticipating client needs. I don't just work with energy and natural resources producers – besides extraction and processing, many of our clients operate across specialist supporting sectors. The government has been encouraging newer industries to develop and attract more foreign investment, as fluctuating energy prices affect resource economies like Azerbaijan more than others. Earlier this year, the Central Bank reduced the exchange rate between our currency (the manat) and the US dollar, to support our main exporting industries, such as commodities, chemicals and agricultural products, while boosting US dollar revenues. Since the country's biggest trading partners are the EU and Russia, as well as Turkey and the US, geopolitical and economic developments in the region and overseas can all impact our clients' business.

Azerbaijan's economic growth adds another dimension to the roles played by accountants and auditors

I enjoy helping young professionals realise their ambitions. Recently, I started teaching ACCA trainees at a local business school; I also lecture in financial and managerial MBA courses at the state university. For me, it's not just about ensuring they get the technical and business knowledge to qualify; equally important is developing the values and ethics required in accounting and auditing roles. ■

Snapshot: insolvency

The state of world economies provides a barometer for insolvency and restructuring activity. While there is a general sense that global growth is reasonably buoyant, many businesses are still nervous.

China's growth, although still significant, has slowed, with some state-owned entities in trouble. Latin America, apart from Colombia, is struggling, while India is under regulatory pressure to clean up its banking bad debt. In the EU, some countries are still stagnating or contracting eight years post-crisis. Insolvency teams are seeing increased activity in these markets.

Turnaround and insolvency professionals keep a weather eye on commodity prices. Scandinavia and Canada, for instance, are suffering from the fall in oil prices, which affects exploration and energy services companies. Brazil's energy sector has been hit by the Petrobras scandal, with repercussions right through the supply chain.

For restructuring specialists, engagements have become broader. Underperforming companies look to their advisers for an assessment of operational viability, not just a financial workover. Engagements are more hands-on and turnaround teams are becoming truly multidisciplinary. A combination of knowing how to get things done and sector expertise is highly valued.

Alan Bloom, global head of restructuring, EY

Bridging the brand gap

If practice leaders want to win more business for their firms, they must move out of their statistically based comfort zones and start collaborating with their marketing teams

Accounting and finance firms see attracting and developing new business as their top business challenge in 2015, according to research from the Hinge Research Institute. That puts the hunt for new business ahead of finding and keeping good people, leadership and internal change, and technology issues. The study also shows that firms recognise they need to raise their brand visibility to win more work. However, it is clear that practice leaders often do not appreciate or understand the value of the marketing effort.

'Professional practices on the whole and accountancy practices in particular tend not to appreciate the benefits of marketing,' says Alan Stone, head of marketing at Old Mill accountants. 'They know they have to be spending, but struggle to understand why they're spending the amount they are and what the value of it really is.'

Brand – the B word – can simply go over their heads. 'If practice leaders can't touch it, feel it, smell it or taste it, they often don't get it,' says Alan Gilchrist, lecturer in marketing at Lancaster University Management School.

This means there is a need for better collaboration and cooperation between practice leaders and their marketing teams. But cooperating can be easier said than done.

Personality clash

For a start, there is a disparity in attitudes and personalities. 'The clash between the statistically based accounting mind and the more creative marketing approach is at the root of the problem,' says Stone.

A survey by Econsultancy illustrates the division. It shows that while marketers tend to see finance people as analytical, detached, consistent, cautious, efficient and organised, finance people see those in the marketing department as outgoing, energetic, inventive, curious, easygoing and spontaneous.

On the whole, finance and marketing people do not speak the same language. Claire Curzon, managing director of Brighter Directions, a provider of outsourced marketing services for accountants, says: 'The language of finance is often ambiguous, but accountancy firms in general don't understand marketing language either. There are acronyms and jargon for almost every strategy and tactic, from conversion rates to customer experiences and stylesheets to the company's proposition or its USP.'

Likewise, especially when marketing is outsourced, the marketers sometimes do not fully understand the nuances of their client's business. Prodoceo, a firm of accountants and tax advisers based in Warsaw, Poland, outsources some of its marketing to an external agency. Katarzyna Kowalczyk, the firm's managing partner, says: 'I'm battling against this myth that tax is just about preparing tax returns – our marketers still don't get it, so we struggle to agree the scope of our marketing strategy.'

There is also a lack of accurate information when it comes to demonstrating the return on investment of marketing spend. Research from McKinsey shows that just 36% of marketers use analytics to demonstrate their marketing return on investment quantitatively – the other 64% rely on qualitative measurement or none at all. And without clear ROI, practice leaders are reluctant to invest in marketing. 'Our marketers always push for more money, but it's difficult to persuade me to spend more when I have no idea of the results, especially when it can take ages for the results to materialise,' says Kowalczyk.

> 'If practice leaders can't touch it, feel it, smell it or taste it, they often don't get it'

Getting the nuance

So what can practice leaders do to get a better understanding of marketing's value and where they need to invest? Clearly, some may have to educate themselves in the nuances and subtleties of customer research, evaluation and marketing metrics. 'There's always room for improvement,' says Andy Froggatt, director and sales director at accountants Royston Parkin, which outsources some of its lead generation to a third party. 'Evaluation, marketing metrics and the capacity and scope of the internet is what we have most to learn – we've only just scratched the surface in this area.'

Curzon's accounting clients look for high tangibility and confirmed ROI from marketing campaigns, which cannot always be guaranteed in the case of 'soft' marketing activities. 'We provide proven case studies and industry information to show what ROI they can expect, and explain that soft marketing techniques like PR should be measured through brand awareness and website visits,' she says.

Marketing ROI is not black and white, warns Stone. 'Nearly all clients have been influenced by a cocktail of events, publications and networking. You cannot pin it on single activities, which makes it difficult to measure the cost-effectiveness of any given campaign or event,' he says.

Practice leaders need to consider and accept the issue of timescale too. 'Most clients do not come on board the week after first contact is made. It may take three months, a year or even three years, so you have to give it time for things to happen,' adds Stone.

Practice leaders should also ensure their marketing and broader business goals are aligned, and get involved in evaluating their firm's marketing efforts. Royston Parkin's external marketers run and present seminars for the firm and are also responsible for getting in the right

type of attendees. 'Initially, they focused on the number of prospects so we were getting a lot of startups and pre-startups, whereas we wanted mature businesses. It was our evaluation of the data on attendees after events that highlighted this issue,' says Froggatt.

Finally, in a world awash with data, the practice leadership may have to invest in data analytics that could help provide a reliable indication of potential future growth as a result of marketing activities. 'The Big Four – for example, Deloitte's marketing and insights division in London – have already invested hugely in an increased analytical approach,' Gilchrist points out. 'The promise of increased analytical enquiry and evidence gives marketers an opportunity to develop robust, data-driven arguments for decisions and investments needed. This, combined with marketing's creativity, may help marketers drive the brand and contribute in a meaningful way to the strategic direction of the firm, not as a cost, but as a value-adding asset.'

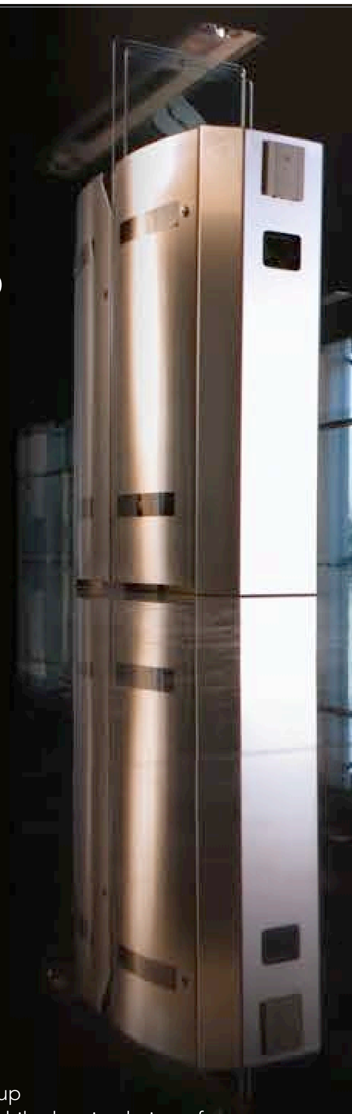
A marketing team with skills fit for the digital age is increasingly important too. 'Hiring personnel who have the ability to combine hard analytical skills with softer creative ones and brand management is key for developing differentiation from competitors and for leading growth,' Gilchrist says. ■

Iwona Tokc-Wilde, journalist

Five metrics every practice leader should care about

Claire Curzon, managing director of Brighter Directions, pinpoints five crucial marketing measures:

* month-over-month growth in organic website traffic, leads and opportunities
* social engagement (the number of people actually engaging with the firm via replies, comments, clickthroughs and shares) rather than just your social reach (the total size of your audience including Facebook fans, Twitter and LinkedIn followers, blog and email subscribers, etc)
* lead generation by content, channel and initiative (cost per lead)
* customer lifetime value and churn rate
* revenue (conversion rates).



Brains across borders

Skilled migration is a global business but, although it is growing, a number of obstacles stand in its path, as Madeleine Sumption explains

Over the past few decades, skilled migration has become a major global industry. Every year, millions of skilled migrants cross international borders for work, either for short-term placements or long-term settlement. Across the world, human capital is recognised as an enormously valuable resource – whether among governments seeking economic growth, employers looking after their bottom line or individuals deciding whether to invest in their own education.

Several forces have driven this trend. The gradual shift away from agriculture and other labour-intensive activities, the much reported growth of knowledge-based industries such as financial and business services, and the increasingly high skills requirements within occupations have put a premium on high-quality education and training. At the same time, domestic education and workforce training systems in many countries have struggled to keep up with the demands of employers. The reasons for this are debated but are likely to include: underinvestment; high turnover, which reduces employers' incentives to train their staff; students' choices, which are not always aligned with the needs of the labour market; and the fact that even the highest-quality education systems often fall short of employers' ambitious expectations.

The global pool of educated workers has also grown enormously. Some emerging economies are investing in education on a massive scale, even if quality still lags behind quantity in many cases. Growing middle classes in emerging economies are spending heavily on education abroad. The number of international students worldwide almost doubled between 2000 and 2010 to over four million, according to estimates from the Organisation for Economic Cooperation and Development (OECD). In the US alone, the number of student visas issued to individuals coming from China rose more than eightfold, from 22,000 in 2005 to 189,000 in 2012.

In other words, both supply and demand for skilled workers across the globe have grown considerably. At the same time, governments around the world have dedicated significant energy to skilled migration policies designed to capitalise on these flows. This includes long-standing players such as Australia and Canada, which have substantially reshaped their immigration policies in recent years, as well as newer ones such as Austria, Sweden and Germany.

Emerging economies are also becoming destinations for international migrants. Countries such as Brazil, Mexico and Saudi Arabia have sought to develop human capital at home by funding the education of their nationals abroad, while China and India run several initiatives to attract back highly skilled members of their diasporas. Others, such as Brazil, are seeking out foreign professionals with skills that they hope will jump-start economic growth and seed skill-intensive industries. As the number of countries facilitating skilled mobility grows, so a greater choice of destinations is opening up for the internationally mobile.

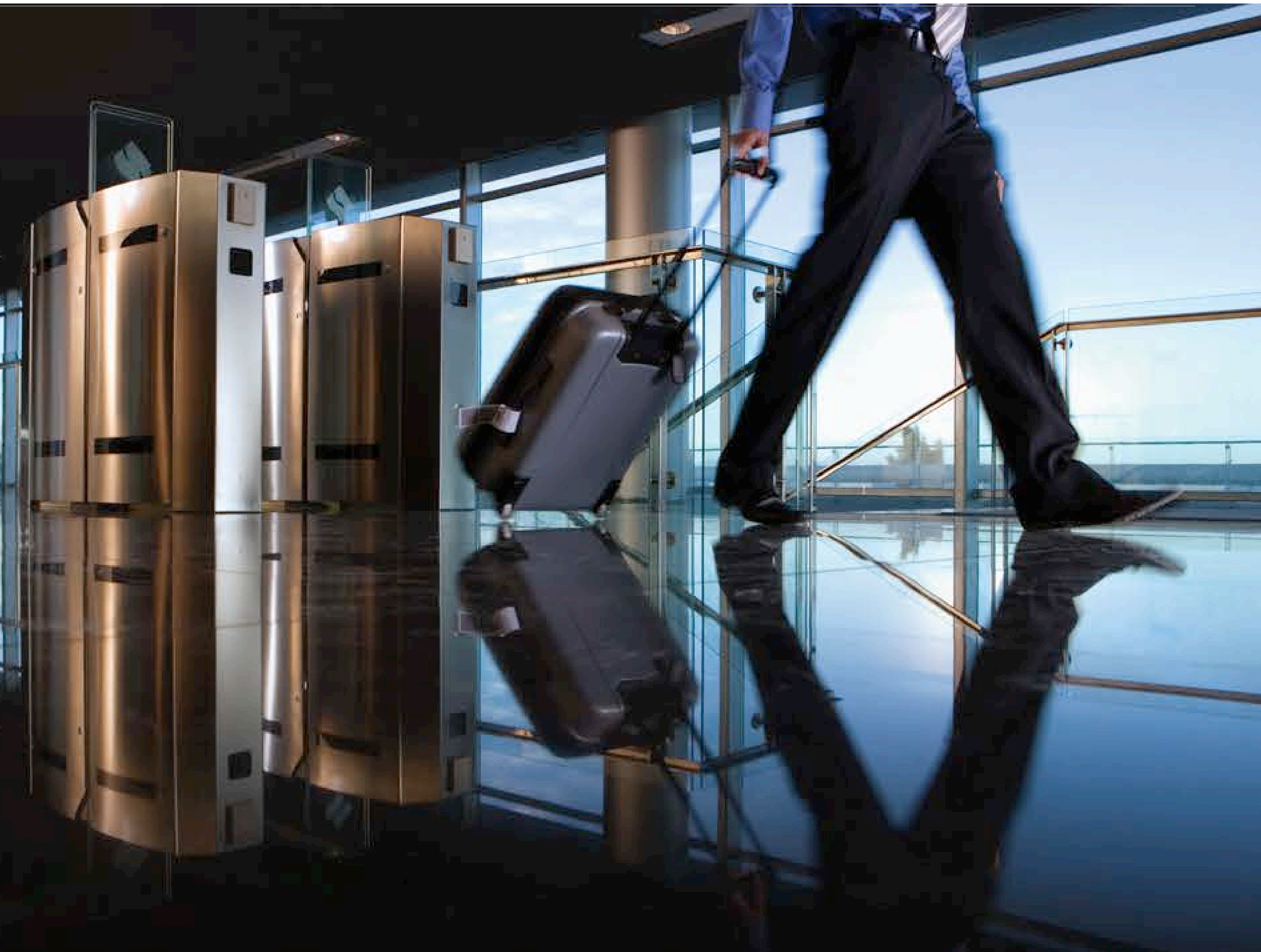
Transferring skills

The potential benefits of skilled migration for destination countries and migrants themselves are generally not disputed. Despite legitimate concerns about the negative impacts of brain drain from developing countries, the research debate on migration in recent years has shifted to emphasise the potential benefits that emigration can bring to a country. For example, it may help open up new markets for trade and investment, while the circulation of skilled workers among origin and destination countries offers opportunities to transfer knowledge, technology and business practice back home.

But the benefits of skilled migration depend on the ability of mobile professionals to use their skills productively in destination countries. In practice, skilled workers often face barriers to transferring their skills and experience across borders.

One reason for this is that, inevitably, only a minority of long-term migrants in OECD countries are admitted – the ones who have skills that are in demand at their destination. Foreign workers selected directly by employers for specific vacancies tend to fare well in the labour market, because immigration policies generally channel them into professional occupations and exclude those who cannot find skilled work.

But most international migrants qualify for entry to the destination country as family members, refugees or – within the European Union – through their entitlement to the free movement of labour. Many bring high levels of education. But across destination countries, these immigrants are generally much more likely to work in less skilled jobs than workers with domestic qualifications.



Barriers to practising the profession in which immigrants are trained can arise for several reasons. For example, local employers may wish to avoid the risks of hiring a candidate with unfamiliar qualifications and no local work experience. And while immigrants may possess relevant occupational skills, they may lack the language proficiency that a job requires. International differences in education, training and skills learned on the job also mean that immigrants may require additional training or work experience but have few options for filling skills deficits without starting their training again from scratch. And some occupations require licensing or registration, creating barriers to entry in the form of examinations, application fees or supervised training requirements.

Undervalued

Immigrant-receiving countries have introduced a wide range of policies to improve the recognition of foreign qualifications. Several of them focus on providing information to help employers understand the nature and content of foreign qualifications. However, the tendency of employers and regulators to discount the value of foreign qualifications does not result only from a lack of information. Foreign professionals are often simply not completely interchangeable with their locally trained counterparts. As a result, effectively demonstrating that their training meets local standards may not be enough; they may also require opportunities to fill knowledge deficits without prohibitive time and cost requirements.

In some countries, such as the US, Canada and Australia, a host of public and non-profit programmes have emerged to meet this need. Some provide training or language instruction, local work experience placements or mentoring to guide immigrants through the process of applying for professional jobs. These programmes often receive plaudits from participants and evaluators, although they may serve relatively small numbers of people. Good options to gain local qualifications are frequently oversubscribed or not widely available, although they have grown in recent years and governments' awareness of the problem appears to be increasing.

A rather different approach to improving the recognition of foreign qualifications – particularly in regulated occupations, such as accounting, architecture, engineering and medicine – is known as mutual recognition. This strategy involves agreements between governments or professional regulators to speed up the process of getting a professional licence after moving abroad. »

Domestic regulations to restrict entry into professional occupations and protect the public from poorly qualified practitioners were, in most cases, designed decades or even centuries ago, when policymakers could not have contemplated current levels of global mobility and economic interdependence. These systems are naturally designed with domestic candidates in mind. They are much less equipped to deal with foreign-trained practitioners, who must often undergo time-consuming and expensive assessment or training to demonstrate their competence.

Mutual recognition

To address this problem, governments and professional associations in several countries have negotiated mutual recognition agreements that set out clear rules for licensing practitioners who move between signatory countries. These agreements are based on the idea that countries may have equally high standards even if their certification processes are not exactly the same. Their goal is to reduce, or in some cases even eliminate, the need for case-by-case assessments when applicants have been trained in systems conferring essentially comparable skills and knowledge.

Reaching agreement on mutual recognition is no easy feat. National governments do not control all the policy levers, often relying on the willingness of professional associations and local governments to participate in negotiations. In many cases, no single organisation or government department has the power to negotiate an agreement, creating a formidable coordination challenge. In the US, for example, 54 states and jurisdictions make up a complicated patchwork of licensing rules, and in some occupations it can be difficult to transfer a licence from another US state, let alone from abroad.

Yet some significant agreements have been struck. The most extensive mutual recognition agreement is in the EU, which has created an extensive network of rules reducing national regulators' discretion to reject EU citizens' applications for professional licences and certifications. These rules cover all regulated occupations across 27 countries with a population of more than 500 million. More recently, Quebec and France have concluded a web of agreements covering around 100 occupations. Mutual recognition has also been on the table in trade negotiations between the EU and its counterparts abroad (notably Canada and the US), although concrete results remain to be seen.

As trade in services and skilled migration increases, the pressure to use human capital more efficiently ought to grow. Labour markets in highly skilled occupations have become more international, and modern economies have come to rely on highly integrated global supply chains. At the micro level, there is an increasingly robust trade in virtual services – delivered entirely online between individuals who will never meet. These developments make it difficult for national regulators to maintain traditional territorial systems of professional regulation as if mobility did not exist.

> As trade in services and skilled migration increases, the pressure to use human capital more efficiently ought to grow

Breaking down barriers

In the future, globalisation may start to break down the barriers to the recognition of qualifications. Local differences in the skills that individuals learn in different countries are inevitable, but curricula and standards in some fields may nonetheless be converging in some fields – particularly in the most globalised professions, such as IT, accounting and architecture. A host of new international qualifications have also emerged, driven by independent actors such as universities, professional associations and private companies. Examples include private qualifications issued by organisations such as ACCA or Siemens, or the foreign campuses of universities that have sprung up in Asia and the Middle East. These initiatives have been successful in part because they exploit market demand from employers and students.

These trends will not eliminate the barriers to transferring skills across borders. For one thing, formal credentials are often not the only qualification for a job – professional experience can be equally or more important. But with enough political will among governments and regulators, and with the help of educators and the private sector, there is plenty of scope for them to be reduced. ■

Madeleine Sumption, former director of research for the International Program at the Migration Policy Institute

Digital advance

The world's richest countries have been the biggest beneficiaries of the ICT revolution

A spur for business and wellbeing

Singapore tops the Networked Readiness Index, according to the World Economic Forum's *Global information technology report 2015*. The index measures capacity to leverage information and communication technology (ICT) for competitiveness and wellbeing. The top 50 includes 44 of the 50 high-income economies covered; the highest-ranked upper-middle-income country is Malaysia.

New digital divide opens up

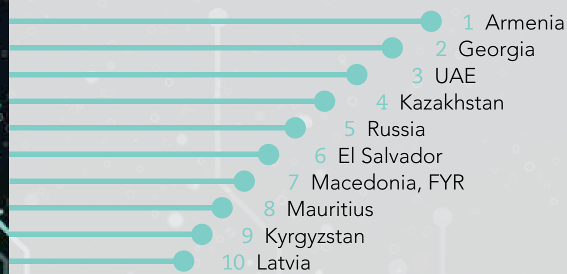
Progress made in improving national competitiveness may create or deepen domestic inequalities if the digitally unconnected end up becoming second-class citizens.

90% of the population in low-income countries is not online yet

60% of the population of the world is not online yet

Biggest digital leaps forward

Soviet Union successor states dominate the top 10 ranking of countries that have seen the biggest rise in their Networked Readiness Index score since 2012.

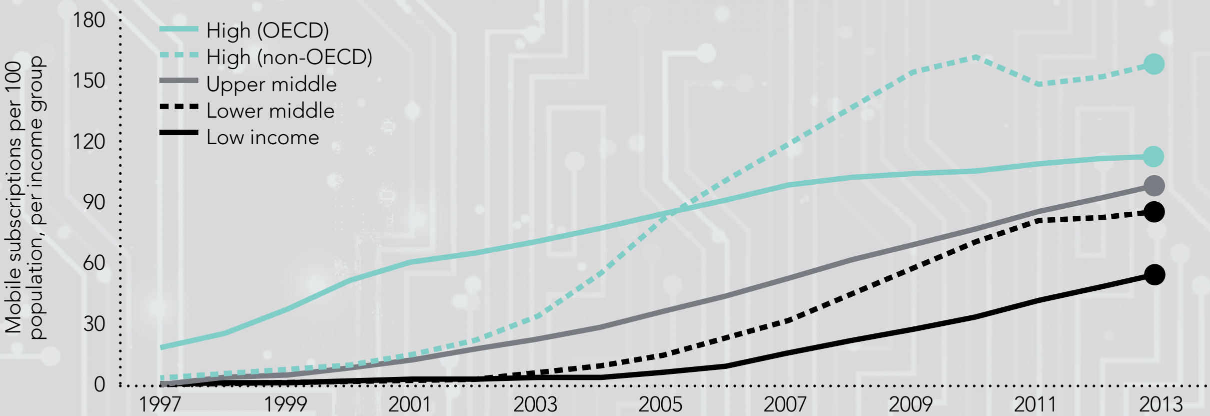


For more information:

The World Economic Forum's *Global information technology report 2015* can be downloaded at tinyurl.com/WEF-IT-2015

As many handsets as there are humans

There are as many mobile subscriptions as there are human beings on the planet. Nevertheless, half the world's population are without a mobile phone and 450 million people remain out of reach of a mobile signal.



Compensation culture

Although it has become a central tool of world trade, the investor-to-state dispute settlement process is under challenge as countries pull out. So what does the future hold?

When Churchill Mining, a London Stock Exchange AIM-listed company, invested in a new coal mining project in Indonesia, it had high hopes of building a long-term profitable business. The coal reserves at East Kutai, in Indonesia's province of East Kalimantan on the island of Borneo, were estimated at 2.8 billion tonnes and valued at US$1.8bn. But before long the project turned sour when government officials revoked mining licences held by Churchill's local part-owned subsidiary.

Churchill took its case to international arbitration using long-standing investor-to-state dispute settlement (ISDS) procedures to seek compensation, which could be as high as US$1.05bn. But although Churchill has won the first stage in the process, major ISDS cases often last many years, and the Indonesian government is fighting the claim every step of the way.

At a crossroads

There are more than 3,400 trade agreements around the world that include ISDS provisions, but there is a sense in the international community that the process is at a crossroads. Although ISDS has been around for about 50 years – and used more intensively during the past 15 – it is now under challenge.

Several countries, including Indonesia, Venezuela and South Africa, have announced that they intend to pull out of trade agreements that include ISDS. When the EU tried to include ISDS in its proposed Transatlantic Trade and Investment Partnership (TTIP) with the US, it was swamped with nearly one-and-a-half million protests. The EU has since put ISDS on the back-burner pending further consultation at a later stage in the TTIP negotiations.

'These are interesting times, with ISDS under scrutiny as never before,' says Andrew Cannon, a specialist in international arbitration at the law firm Herbert Smith Freehills.

In the past few years as international investment flows have grown, ISDS has become an essential tool of world trade. 'Countries have realised that the only way you're really going to encourage investment is if you provide a mechanism for the independent and neutral resolution of disputes involving the state,' says Charles Gordon, a mediator and arbitrator at JAMS International, which specialises in resolving disputes. 'Suing a state is always hazardous, and in many countries it's impossible.'

There is a strong feeling among international arbitrators that there are countries where a lack of independent dispute resolution could make investors think twice about putting money into a project. 'A number of empirical studies suggest that investment treaties, in conjunction with other trade agreements and arrangements, are a factor impacting investment flows to particular states,' says Cannon. 'If states decide to remove ISDS and require investors to subject themselves to the national courts in the event of a dispute, this may affect investors' decisions.'

Open to abuse

But critics say that some companies are using ISDS to oppose perfectly reasonable public policy decisions. They point to tobacco giant Philip Morris Asia, which is suing Australia under the terms of the Australia-Hong Kong bilateral investment treaty for insisting on plain packaging for cigarettes. The tobacco firm claims the packaging rule impairs its investment.

'The public is concerned about the process because in some high-profile cases they see challenges being brought against legislation that states have made in areas they think are entirely justifiable,' says Cannon.

Some companies have brought what Gordon calls 'slightly more speculative' claims. Some of these are from companies that set up one-off special purpose vehicles to fund a project in an overseas country. If the project runs into official opposition or interference, there is less to lose than for a company that wants to develop an enduring business relationship with the country.

> 'Critics say that some companies are using the ISDS process to oppose perfectly reasonable public policy decisions'

Part of the problem lies not so much in the ISDS principle as its execution. Many bilateral investment treaties are vaguely worded, which leaves too much scope for disagreement, says Gordon. The European Commission is focusing on two key areas as it seeks to tighten future ISDS agreements.

The first is to limit the 'indirect expropriation' concept to exclude legitimate policy changes such as phasing out renewable energy subsidies. The EC wants ISDS treaties to spell out how to decide if a measure constitutes 'indirect expropriation' or is a legitimate policy decision.

International trade dispute lingo

* **Bilateral investment treaty (BIT).** An agreement between two countries or groups of countries that provides for the tariff-free exchange of goods and services or opens markets to inward investment. More than 3,400 BITs are in force around the world.
* **Foreign direct investment (FDI).** Investment by an entity in one country in an entity, usually a company, in another. Increasingly, disputes centre around which investments are covered by ISDS.
* **International Centre for Settlement of Investment Disputes (ICSID).** Part of the World Bank, based in Washington DC, with over 150 countries signed up. It supports international arbitration and conciliation proceedings, such as those in the Permanent Court of Arbitration in The Hague and the London Court of International Arbitration.
* **Investor-to-state dispute settlement (ISDS).** Essentially a legal instrument that allows a foreign direct investor to bypass the domestic courts of the country in which it has invested and ensure that a dispute is settled by an independent tribunal.
* **Transatlantic Trade and Investment Partnership (TTIP).** Proposed free trade agreement currently under negotiation between the EU and US. Proposals to include ISDS in TTIP caused a storm of protest, delaying further negotiation.
* **UN Conference on Trade and Development (UNCTAD).** Main UN body dealing with trade, investment and development.
* **UN Commission on International Trade Law (UNCITRAL).** Focuses on reform and harmonisation of international trade laws.

The second is tightening up the standard for ‘fair and equitable treatment’, a concept previously largely undefined in most investment treaties. The EC wants this limited to issues such as manifest arbitrariness, abusive treatment (such as coercion) and failure to respect the principles of due process.

Regulation challenge

Both investors and governments would benefit if ISDS was more predictable, with clearer rules and previous cases providing binding precedents. But Cannon points out that it would be difficult to impose precedent on a patchwork quilt of more than 3,000 treaties.

‘There is more of an argument for an appellate mechanism with some form of binding precedent when you’re talking about case law within the context of one treaty,’ he says.

Many companies that think an ISDS-driven complaint is a route to riches are disappointed. Most claims are dismissed and, where damages are awarded, they tend to be a lot less than claimed, says Gordon. And the cost of bringing a big case can run into millions. The three arbitrators in the Churchill Mining case are each paid US$3,000 a day. Taking on the might of a sovereign state doesn’t come cheap. ■

Peter Bartram, journalist

Under embargo

Economic sanctions are complex and in a constant state of flux. So how can companies avoid jeopardising business opportunities while staying on the right side of the law?

A company director in the UK was jailed for 30 months in March 2014. Gary Summerskill's offence was to ignore trade sanctions by exporting over £3m of banned products. In addition to the jail sentence, Summerskill and the company, Delta Pacific Manufacturing, were told to hand over a total of £1.14m of criminal profits. During the investigation by HMRC, details of which were revealed in November 2014, Summerskill was found to have attempted to conceal the illegal export of alloy valves to Iran. In the UK, alloy valves are subject to an export ban to various countries including Iran because of their potential to be used in the construction of weapons.

While most embargoes involve arms and defence, it is often the economic sanctions that hit the headlines. Russia is a recent example; Rhodesia (now Zimbabwe) is one from the history books. It was 50 years ago this year – 1965 – that Britain, joined by others, imposed an escalating set of economic sanctions on Rhodesia, which culminated in a total ban following the unilateral declaration of independence (UDI) by the white minority regime.

Economic sanctions are legal restrictions on dealing with individuals, companies or even countries that have fallen out of favour for whatever political reason. These sanctions will vary in severity and in type. For instance, in September 2014 Russia's largest banks, oil producers and defence companies were cut off from international finance and technology as a result of economic sanctions by the US and Europe designed to escalate western political pressure over Ukraine. Usually there are some limited exemptions where essential legal or medical services may be provided under licence.

Web of regulations

While deliberate flouting of sanctions appears to be rare, many companies can inadvertently find themselves on the wrong side of complex, fast-moving and multijurisdiction regulations. Sanctions imposed by the United Nations, the US or the European Union fall into two broad types: trade embargoes and asset freezes.

Tom Stocker of law firm Pinsent Masons says: 'The problem with sanctions for companies is that they can virtually come in overnight, and so businesses need to have a monitoring regime in place to keep up to speed.'

> 'No one wants to be on the front page of the newspaper for, say, exporting chemicals to the Syrian regime'

Key risks

Compliance with sanctions depends on understanding where the key risks lie. David Whitehouse of PwC suggests the following three lines of defence:

* Operational: employing the right personnel, ensuring correct training, understanding the red flags and knowing communication and escalation procedures.
* Compliance and in-house legal team: responsible for up-to-date policies, training and awareness, which has to be sector-relevant.
* Internal audit: looking at non-financial procedures and risk, and considering how to mitigate the risk.

For example, this year has seen alterations in the US sanctions regime for Cuba, Russia and Iran.

Complying with changing sanction regimes is not easy, according to David Whitehouse, PwC director, export controls. 'In the UK, for example, a company doesn't just have to comply with relevant UK legislation but EU and extra-territorial, and often these will not overlap.' Whitehouse says many companies adopt a one-size-fits-all approach, with policies and procedures that are compliant with any authority. 'They go with the most robust regulatory environment, and that tends to be the US.'

Whitehouse agrees that the ever changing nature of the controls and the regulations is a problem: 'One of the challenges companies face is keeping on top of that change.' Perhaps it is not a surprise, Stocker adds, that there is often a degree of interpretation over the exact meaning of the restriction. 'Can a lawyer document a contract? Or is that facilitating a transaction? If you are not on your guard, companies can find themselves party to an unlawful transaction. It happens all the time.'

German companies have been particularly unhappy about EU sanctions on Russia. Early last year BASF, Siemens, Volkswagen, Adidas and Deutsche Bank were all mentioned in the German and international press as pressuring their government to ease off the sanctions throttle.

▲ Friends or foes?

Top left: German chancellor Angela Merkel with Russian president Vladimir Putin – Germany does more trade with Russia than any other EU state

Top right: Cuban president Raúl Castro and US president Barack Obama meet as a first step in lifting a US sanctions regime that has run since 1962

Bottom: British prime minister David Cameron meets Iranian president Hassan Rouhani as a tentative nuclear deal paves the way for an end to sanctions against Iran

BASF (slogan: 'We create chemistry') said in a statement: 'Economic sanctions are a political instrument. The EU has decided to impose sanctions and we will adhere to them. We have assessed the sanctions imposed by the EU and US on Russia and currently see limited impact on our business. We cannot say how the sanctions will ultimately affect the business climate, which could have a mid to long-term impact on our activities.'

Germany leads the pack in terms of trade with Russia, with €75bn of business in 2013, and Russia maintains a 'this is hurting you as much as me' stance over the measures.

Unsurprisingly, views differ: one expert suggests that German business is prepared to adopt a more risky approach than UK companies in negotiating a way through sanctions. And while some banks seemed prepared to carry on financing Russian business – complying with the sanctions regimes all the way, of course – other finance has evaporated. Syndicated loans for Russian raw-material companies fell 82% in the first six months of 2014 from a year earlier to a five-year low of $3.5bn, data compiled by Bloomberg shows. The slump significantly outpaced the 2% decline in global commodity borrowing.

Sensitive area

Whatever the country affected, sanctions are clearly a sensitive area for multinationals. BP declined *Accounting and Business*'s request for an interview but a press spokesman said that the company had comprehensive compliance programmes, experts and legal teams. He added that the company also used external advisers.

Companies monitor the progress of sanctions on different regimes depending on individual strategic interests. It is clear from the BP annual report, for example, that Russia and Iran currently interest the energy giant most.

Even the Confederation of British Industry (CBI), the normally voluble voice for UK business, declined to comment on how businesses deal with sanctions beyond a spokesperson saying: 'In this sensitive, changing political situation, business understands the bigger picture. There are well-established trade links between the UK and Russia, so close cooperation between business and government remains critical.'

However, the CBI issued a briefing for its members on sanctions at the end of March 2015, noting the major changes in the US sanctions regime against Cuba, Russia and Iran. »

Guy Sander, of investigation firm Arig and formerly of HMRC, says: 'Companies' reluctance to speak is because they don't want to be associated with the possibilities of sanctions in any way.' That reluctance has grown, with the US imposing huge fines, particularly on banks, for sanction breaches – for instance, a US$100m fine in December 2013 for RBS, and US$300m for Standard Chartered a year earlier, in connection with sanction violations in Iran, Burma, Libya and Sudan.

While big corporates and banks may have greater resources to ensure compliance, smaller firms involved in exporting face exactly the same risks. For example, Sander says a company may be offered a contract to supply accounting software to a distributor in Dubai without thinking that the contract could end in a supply to Iran. Even some basic research would uncover the fact that the deal could be illegal. He suggests some careful in-house research could pay dividends, as well as seeking external expertise if the answer is still not clear. The basics are plain: every company should know and check regularly whether their product or service is subject to any trade restriction, and they should check whether any counterparty is connected to a person subject to sanction.

Sander makes the point that companies should check out the advice on the government websites and talk to the civil servants. 'BIS [the UK's Department for Business Innovation and Skills] is very helpful. It is not setting out to destroy British industry.'

Reputations at risk

As well as the eye-watering fines, one of the biggest risks of becoming embroiled in sanctions breaking is reputational damage. Whitehouse says: 'No one wants to be on the front page of the newspaper for, say, exporting chemicals to the Syrian regime. If companies don't have effective and efficient compliance programmes, they will face delays in shipping or transferring goods or assets, and that places you at a competitive disadvantage.'

Loss of reputation has direct effects. Whitehouse says that many US businesses will simply not deal with a company caught up in a sanctions scandal. Nor increasingly will the banks. Stocker says: 'The reason this is a sensitive area is that if a company is found to have breached sanctions, they could be subject to enforcement, and their bank is likely to pull any facility as a result.'

Breaking an embargo or sanction nearly always involves the transfer of money, which in the UK brings in the Proceeds of Crime Act and money laundering provisions. And given the tough times banks have had on the issue at the hands of regulators, it is perhaps understandable that they just don't want to know. 'Banks' risk threshold for this is so low,' says Stocker. 'They won't touch any business that could relate to sanctions or embargoes. And that means that any companies caught up in it could have real difficulty accessing finance.'

Banks are now being proactive in their approach. Stocker says that the cautious approach of banks is extending to them contacting clients (starting with major internationals), seeking warranties and undertaking that they are not engaging in any sanction-busting activity.

Sanctions and other key controls

* **Product controls through the military or 'dual-use' list.** The dual-use list covers products that have a legitimate, commercial end use but could also have the potential for a more nefarious purpose.
* **End-use controls on products that don't meet the technical specification for the military or dual-use list.** Governments realise that to control everything that could be of use to a terrorist or weapons of mass destruction (WMD) programme would bring world trade to a grinding halt but companies still require an export licence under this control for many goods.
* **Denied parties list.** Published by the US government, this lists individuals and entities denied export privileges. Companies need to screen their supply chain against the various lists from different authorities. This has to be built into supply chain processes.
* **Destination controls/sanctions.** These include arms embargoes, limited sanctions or full-scope sanctions on particular countries and regimes. Measures include export bans and financial sanctions on government or terrorist groups and individuals within them.

All this suggests that any corporate should be looking at their risk of breaking sanctions – especially now that there has been a renewed focus on how conventional industrial goods may be used for terrorist purposes – with most companies accepting the role of sanctions in promoting global stability. Stocker suggests that governments could do more to communicate the likely timescale of regulatory action. That would help companies plan better and even prepare to take advantage of sanctions lifting.

He has sympathy for companies that are trading, perhaps representing a significant investment, and find their business operations in foreign countries suddenly extremely challenging or simply unlawful. 'If their business has been closed down because of foreign policy, perhaps there should be some sort of compensation scheme.'

That looks unlikely, even if politicians and governments maintain their record of using economic and business sanctions as an important weapon in their diplomatic armoury. And so business should be taking compliance seriously. Whitehouse suggests that the issue is moving from logistics to compliance, with the board increasingly keen to ensure they are getting it right in order to avoid prosecution or enforcement action.

Peter Williams, journalist

For more information:

Read the CBI's briefing on major changes in US sanctions regimes at tinyurl.com/CBI-sanctions

All eyes on the future

A new report by ACCA and IMA (Institute of Management Accountants) finds that finance functions need to adapt quickly to the demands of the modern world

The role of the CFO is becoming more complex and demanding as the business world responds to economic volatility and innovative technology changes the way we all work, according to a new report.

The research, *Tomorrow's finance enterprise*, is based on the views of 1,631 ACCA and IMA members from around the world on the priorities for current and future CFOs and the skills they will need to meet future demands. It found that CFOs and their organisations are preoccupied with economic volatility and risk; the participants named these as the two most significant influences affecting the top finance job (see chart).

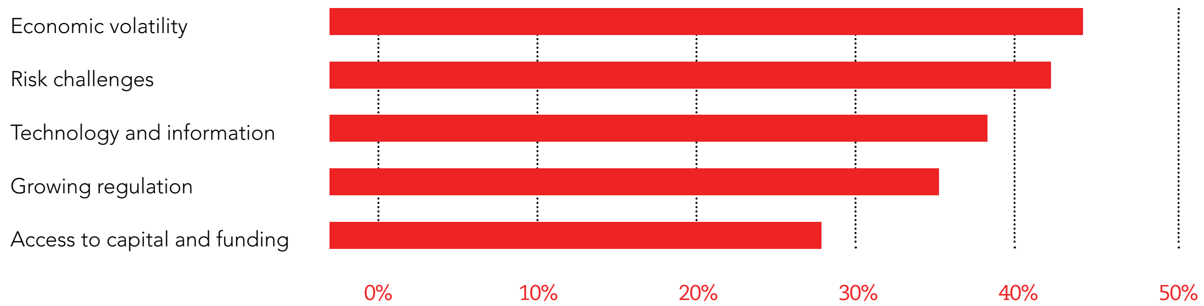
'CFOs are so used to seeing things in just black or white, but we don't have the luxury of that any more'

Organisations of all sizes are seeing not only economic uncertainty but increased competition and disruption in the form of new market entrants and radically different business models. Senior leaders are looking for more and better information on which to plan a strategy in a world where they are forced to take more calculated risks and encourage innovation in their own organisation in order to drive growth.

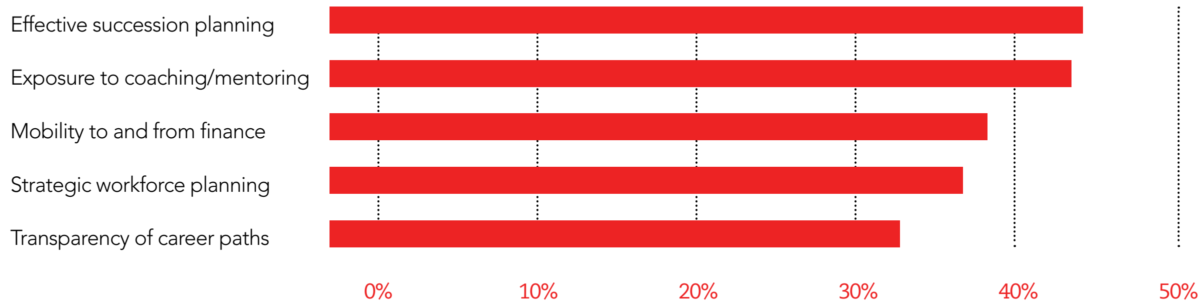
Broader risks to the fore

CFOs see this happening – the report found that 79% agreed that the »

The most important influences on the future CFO role



The top five interventions considered necessary for developing future CFOs



finance function will be focused on broad business risks and not just on finance risks in the future – but the forces that are creating this change are also impeding CFOs' ability to help. Amir Hafiz, CFO of TDM and one of the senior finance professionals interviewed in-depth for the study, said that CFOs are increasingly in the spotlight over 'the performance gaps between what the business wants to achieve and what it actually does achieve. To make sure that strategy is translated into results is an integral part of the CFO's role.'

> The assets driving corporate wealth have changed; intangibles such as data, branding and talent have become central to value creation

The report argues that economic volatility and a fast-changing world decrease the capacity of the finance function to plan and forecast, and impair the ability of CFOs to give rapid and accurate support to the rest of the C-suite in their decision-making.

The need for the CFO and finance function to adapt to a world of far greater ambiguity is a theme running through the report. Quin Thong, finance director, Greater China, for Baronsmead Consulting, sums up the dilemma: 'CFOs are so used to seeing things in just black or white, but we don't have the luxury of that any more.'

Smarter service delivery

The report argues that smarter delivery of finance services is essential. There is already evidence that CFOs are placing a greater emphasis on their role in business strategy, but the report makes the point that it is imperative that the finance function has the right operating model – agile, scalable and capable of meeting the changing needs of the organisation. The finance team, says the report, 'must ensure the right processes, systems and metrics are in place to aid strategy execution, deliver richer information insights and drive cost and process effective finance operations'.

The report identifies a number of areas where finance professionals will have a critical role to play in the near future. One feature of modern business is that the assets driving corporate wealth have changed in the knowledge economy;

intangibles such as data, branding and talent have become central to value creation. This has a number of implications for the finance function, which are discussed in the report. Data quality and collection, for example, will be central to success and the finance function, says the report, 'will have a critical role to play in getting their organisation's basic data right as a starting point for better decision making'.

'Enterprises that use the data at their disposal drive competitive advantage,' agrees Jamie Lyon, head of corporate sector at ACCA, but challenges remain in finding data that will enable finance to track, report and help the organisation take the right commercial decisions.

Technological transformation

Technology will, of course, also transform the finance function itself over time; 78% of the CFOs questioned for the study said that they believed many standard finance processes would be automated in the future. At this stage, though, the rate of innovation in technology and data collection is, in the view of many CFOs, creating too much confusion. 'The current finance technology landscape remains overly complex for most, and simplification is sought,' says the report. 'The CFO function needs to get better at influencing the business on the information that really matters. It must articulate the outcomes it is trying to drive and use the right data to report effectively.'

Rita Purewal, CFO of Wolverhampton Wanderers Football Club, makes the point in the report that the availability of data, and our increased ability to analyse it, has raised expectations of what finance professionals can and should deliver. CFOs and the finance team are more than capable of rising to the challenge, but it is also important to understand that the skills – and especially the leadership qualities – demanded of finance professionals has changed.

The report says that volatility, risk, customer centricity and other modern challenges are demanding new levels of leadership performance: 'For the CFO function, the classic challenge now is how to transform talented individuals from having a narrow focus on functional perspectives to embracing the broader strategic CFO leadership capabilities needed in this environment.'

Communication skills and the ability to think strategically and innovatively are fast becoming prized skills, and the CFOs interviewed for the report acknowledged that they needed to have a far greater understanding of business than in the past – or at least know enough and have the confidence to gather people around them who together, produce the best result. 'The scope of a CFO's responsibility has become so big that you cannot be an expert in every area,' said Holger Lindner, CFO of TÜV SUD. 'Do you need to have experts? Yes. Do you need to understand what they say? Absolutely. But do you need to be able to be the expert in every area? I don't think so.'

The report concludes that traditional finance career paths should now 'rest in peace' and that finance departments need to think quickly about how they 'future proof' the potential talent gap. 'One of the biggest questions facing the future CFO function is this: where will your future finance leadership talent come from?' says Lyon. 'It's a critical question, and businesses need to think very carefully about how they will develop the next generation of finance leaders.'

Liz Fisher, journalist

For more information:

Read *Tomorrow's finance enterprise* at www.accaglobal.com/ab/188

Career boost

Dr Rob Yeung explains how to exploit the chameleon effect to win colleagues over to your way of thinking. Plus, dress code in the office, and non-stop stress syndrome

Talent doctor: mimicking

Dr Rob Yeung is an organisational psychologist and coach at consultancy Talentspace

Imagine for a moment that you are shopping in a high-street store for a gift – perhaps for a speaker dock for a friend's smartphone. As you are browsing, a woman wearing the store's uniform approaches you.

What factors might affect your decision to make a purchase? Probably price, the range of goods on display, the salesperson's product knowledge, helpfulness or even her warmth and personality. But you wouldn't be influenced by the number of times she scratches her head, would you?

Actually, you might.

In a recent study, French researcher Nicolas Guéguen trained sales assistants at a department store in the subtle art of mimicking customer behaviour: if customers smiled, the sales assistants did likewise; if they touched their hair or crossed their arms, then so did the assistants.

The sales assistants were instructed to copy any customer's behaviour no more than five times during an interaction. They were also told to wait three to four seconds before doing so so that their imitation would not be apparent to customers.

A researcher nearby surreptitiously noted which customers actually made a purchase: 63.4% of customers who had not been mimicked made a purchase, while 81.5% of customers who were mimicked made a purchase.

But that's not all. Further researchers followed customers out of the building to interview them about the sales process. Assistants who had mimicked were generally rated as not only more friendly and agreeable but also more competent than those who hadn't.

Acting as a social chameleon by copying a customer's behaviour not only boosted sales, it also affected customers' perceptions of both the friendliness and even the competence of the sales people. And all of that in the mere minutes it took to chat to a customer in a store.

Studies have shown that the chameleon effect works in other situations too. Negotiators who subtly imitate the body language of their counterparts tend to secure better deals. Fundraisers who mimic potential donors get bigger financial contributions for their charities.

But it has to be done subtly. Do too much or too obviously and people may think you're trying to mock them.

Anthropologists believe the tendency for humans to mimic each other may be a social bonding technique. Without exchanging a single word – mimicking may have developed before spoken languages appeared – mimicking helps humans show they are similar, in sync and collaborating rather than competing.

Like a form of unspoken empathy, the chameleon effect is one of the most robust findings in psychological science. So the next time you're looking to win over a colleague or client, remember that people who engage in subtle mimicry are not only more persuasive, but also seen as more capable and likeable.

It pays to think about not only what you say but the dance of your body language too. ■

For more information:

www.talentspace.co.uk

@robyeung

Upbeat update

The Organisation for Economic Co-operation and Development (OECD) has reported in its quarterly employment update that the global economic outlook is positive, with many countries demonstrating positive employment growth in the second quarter of the year. However, Europe was a divided region, with employment increasing in countries such as the UK and Germany, while others such as Italy experienced a 0.5% decline in employment.

The update reports employment in Japan as on the rise but flat in the US.

Skills drift away from jobs in China

The *New York Times* has reported that China is experiencing a growing mismatch between its skills pool and the job market. Urbanisation and economic growth in the country have benefited hugely from a ready supply of migrant workers from rural areas. But this pool of talent is not bottomless and migration has slowed markedly, in part as a result of higher salaries in agriculture. The expected salary rise for migrant workers who move away from rural jobs has also softened by between 8% and 20%.

This issue of supply and demand is also present in another section of the population: China produces twice as many university graduates, nearly seven million a year, as it did 10 years ago, but there are only 88 jobs available per 100 graduates. This uneasy balance is a growing concern for the country's leadership.

Non-stop stressing

For those professionals who are feeling stressed, join the club. A recent survey by Axa PPP Healthcare found that one in four British senior managers, executives and chief executives are in a near-constant state of stress. Among senior managers, this figure increases to more than half of the 1,000 respondents.

The key factors contributing to stress include financial worries, job insecurity and workload. While the majority of those surveyed identified the workplace as the source of most of their stress, a quarter of bosses felt that their home life generated the most stress.

The perfect: work dress code

When it comes to formulating a dress code at work, corporate history is littered with errors – some understandable, some absolute howlers. How exactly UBS found it in themselves to pronounce on the colour of employees' underwear, for example, is anyone's guess. Yet such apparent presumptions flag up a familiar management issue. Some employees know instinctively what is expected of them, others appear to need very specific guidance.

Dress codes need to speak to both groups. On the one hand, their authors might and often do include prescriptive details on skirt hem lengths as well as mentioning that flip-flops are forbidden. On the other, they need to give an overall sense of the professional or perhaps business casual look that is expected. The more detail they provide, the better.

According to Kim Winser, the retail force behind Pringle, Aquascutum, and now Winser London, business dress acts as a visual communication tool. She explains why it's important: 'If you get it wrong, unfortunately people will spend more time looking at you than listening to what you are saying.'

If finance professionals err towards the conservative, they won't go far wrong, she says. Beyond that, she advocates reflecting the sector you work in and buying quality fabrics, as they will look good all day.

And think ahead: 'The more time you put into this in advance, the better,' she says. 'It will take enormous pressure off your day.'

Accountants 16th

An influential report by US News & World Report, which ranks the 100 best jobs in the US of 2015, has put 'accountant' at 16th on the list.

Citing the appeal of accountancy in particular for students with a natural disposition towards mathematics, the report also stated that the US Labor Department predicts more than 166,000 new jobs will be created in the sector by 2022.

Other jobs in the top 100 include financial adviser (ranking: 25); bookkeeping, accounting, audit clerk (40); financial analyst (65); financial manager (69); and compliance officer (84). Dentist was ranked best job of 2015. ■

Compiled by Adam Akbar
Bronzegate.co.uk

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Death benefits

The funeral sector offers many possibilities for growth, but the emotional barriers to reinventing the industry must be overcome, explains Tony Grundy

MBA thinking can be applied just as well to more mature markets as to new and fast-growing sectors. In traditional corporate planning, truly attractive industries are thought to be those that are, or are about to become, high growth. But growth potential can also be latent.

For instance, before the early 2000s it was felt that the healthclub market had expanded as far as possible – until Matthew Harris, CEO of FitnessforLess, saw budget gyms as a growth sector (see previous article, December 2014).

One industry with hidden potential is the funeral sector. Between 1980 and 2000, the funeral care market actually grew in the UK, with the average spend going up in real terms. Families were prepared to spend more on this product of considerable emotional value. The value of estates grew too. In addition, not only was more spent, on average, on the whole funeral process; spending on the core product also went up – the services associated with the 'disposal' itself (including a reported increase in embalming).

The actual market size has thus increased, even though demographics have reduced the death rate in the UK. So sales growth rate as a key driver of economic value has been very positive. Who would have thought of the funerals market as a growth sector?

Value creation in a given industry is driven by the existence or otherwise of 'competitive pressure'. This is critical in determining the second key driver of economic value: operating profit margin, or return on sales. Competitive pressure here means:

* buyer power: very low
* supplier power: moderate
* competitive rivalry: low
* substitutes: extremely low
* entry barriers: see below.

Entry barriers vary: although the economic entry barriers are not that huge, the psychological ones are actually very high indeed, as dealing with corpses seems to carry with it a certain stigma. The funeral director is arguably a less appealing type of finance director.

'How to' video

See the latest in our series of management and strategy videos by Tony Grundy – on the importance of a strategic vision – at **www.accaglobal.com/ab/191**

Ripe for the picking

Looking at the five aspects of competitive pressure listed above (sometimes known as Porter's five forces), you would have to conclude that this is a rather attractive industry – indeed, as no force is actually negative, it is a 'five-star' industry. Such industries are characterised by high returns on net assets and stong economic value creation. And this gets better where there is some market growth.

Indeed it is not impossible to achieve net profit as a percentage of sales nearing 20%. The industry is also relatively free of regulatory pressures that might push up costs and squeeze margins. However, on the flip side, that does mean lower regulatory barriers to entry, leaving the industry structure potentially vulnerable.

This means that the industry is similar in many ways to the weddings business, some areas of pharmaceuticals such as the IVF market, the adult electronic gaming industry, and others where there are strong buying habits (maybe even quasi-addictive ones). All of these markets exhibit more naturally easy ways of making money than those one, two and three-star industries that economists would describe as 'partly or fully commoditised'.

Not only are the forces of competitive pressure crucial determinants of profitability and return, but these industry structures and dynamics are ones that can be reshaped.

> The psychological entry barriers are very high, as dealing with corpses seems to carry with it a certain stigma

For example, in a classic UK television documentary some years ago, former undertaker and entrepreneur Howard Hodgson told of how he led the transformation of the industry through a combination of acquisition, consolidation, value innovation and cost management. In his book *How To Become Dead Rich* Hodgson set out his vision of how to to run his funeral business as economically as possible, with an efficient set of local operations providing up to several funerals in a day, making much better use of facilities such as cars, storage and sales facilities. Alongside this he pioneered a more extensive range of services, optimising the average price.

► Remembering the dead

The Ancient Egyptians used death masks to guard the soul from evil spirits. Today's death rituals may be less elaborate, but funeral care is a growth market

This hugely widened operating profit margin and increased return on net assets.

This vision became the model of the Great Southern Group, which Hodgson sold out to and which, after a period of being owned by US company Service Corporation International, is now called Dignity, one of the UK's top players. These changes also reduced competitive rivalry in the UK market, where a higher proportion of the market had previously been fragmented, made up of 'mom and pop' independents.

The final frontier

After book retailing (Amazon), vacuum cleaners (Dyson) and toilets – virtually unchanged for 200 years – funerals could be regarded as a final frontier for innovation and reinvention. A single new player could potentially create a new submarket that could ultimately rival the existing industry paradigm.

There are many ways that one could innovate in this industry: pre-need funerals (where people plan their own funerals) are one example of a big opportunity in the UK, but they require overcoming emotional resistance – often the key to unlocking growth.

Issues that might keep a CEO of a funerals company awake at night might include:

* What could precipitate a major fall in margins in the industry?
* What kind of new entrant into the industry should we be worried about?
* How can I get the board to think seriously about the future when there has been such stability for so long?
* Could we sell funerals as a set of emotional needs and experiences that encompasses pre-need, event organisation and follow-on services, including grief support and therapy?
* If I were an alien entering the industry, what would I do differently? ■

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

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Switch on your indicator

In this third article in his series on key performance measures, David Parmenter looks at the four distinct types and provides an example of the power of KPIs in practice

Following the two previous articles on the myths of performance measures and the unintended negative consequences that many have, let's look at the different types of performance measure.

They fall into two groups:

* **Result indicators** These reflect the fact that many measures are a summation of more than one team's input. They are useful for looking at the combined teamwork but do not help fix a problem, as it is difficult to pinpoint which teams were actually responsible for the performance or non-performance. Some of them, such as return on capital expenditure or customer satisfaction, are excellent summaries of the performance of many teams. I call these measures key result indicators.
* **Performance indicators** These can be tied to a team or a cluster of teams working closely together for a common purpose and are about activities, so they are all non-financial. Some performance indicators are profound. I call these key performance indicators (KPIs).

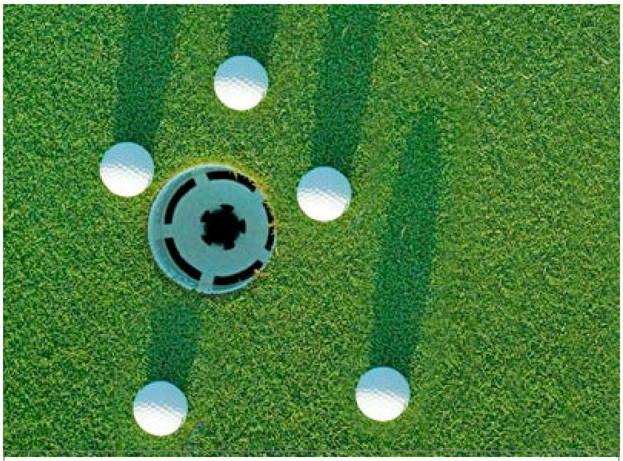
The power of one

My favourite KPI story is about a senior official at British Airways (BA) who, in the 1980s, set about turning the airline around, reportedly by concentrating on a single KPI. He employed consultants to investigate and report on the key measures he should concentrate on to achieve the turnaround. They identified one critical success factor (CSF): the punctuality of aeroplanes.

Everybody in the airline industry knows the importance of punctual planes, but nevertheless the consultants proposed he focus on a 'late-planes KPI'. The senior official arranged to be notified whenever a BA plane was delayed over a certain time, and BA managers at airports knew that if a plane was delayed beyond a certain threshold, they would receive a personal call from the senior official making it clear that the situation was, quite frankly, not good enough. The senior official would point out that the manager had had over six hours of advance notice that the plane was already late and that he needed to use this window to take actions that would bring it back on time.

Prior to the 'personal call policy', the airport manager (and many other airline employees) were prone to 'not our fault' syndrome: a late plane created by another BA team was 'their problem not ours'. But after receiving the personal call from the senior official, the airport manager undertook proactive steps to recapture lost time, no matter who had created the delay. Actions included:

The actions undertaken as part of the late-planes KPI included:



Next steps

1. Persuade others that not every measure can be a KPI.
2. Email me (parmenter@waymark.co.nz) for a book extract explaining the four types of measure in more detail.
3. Understand why KPIs cannot be financial.
4. Read my paper, *The New Thinking on KPIs,* on my website.

* Doubling up the cleaning crew, despite the additional cost
* Letting the refuelling team know which planes were a priority
* Providing the external caterers with late-plane updates so they could better manage re-equipping the late plane
* Asking check-in staff to escort at-risk customers to the gate
* Not allowing business-class passengers to check in late
* Possibly asking traffic control for a favour or two.

BA planes soon had a reputation for leaving on time. The late-planes KPI was linked to many other critical success factors including 'delivery in full and on time'; 'timely arrival and departure of airplanes'and 'increase repeat business from key customers', all of which had a key part to play. ■

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

For more information:

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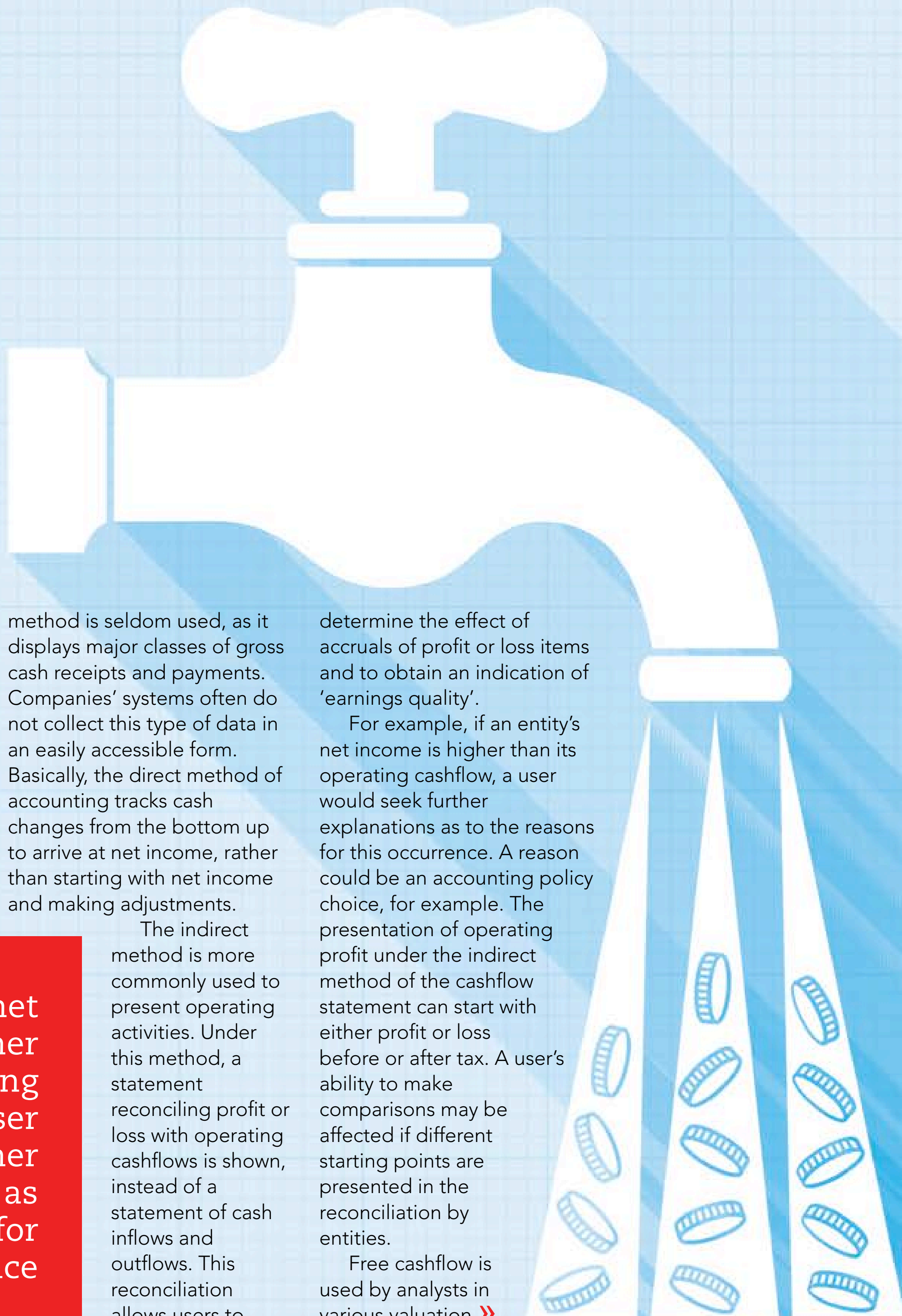
Reconciliation?

The IASB has proposed amendments to cashflow reporting, but the need for the change has been questioned, finds Graham Holt



IAS 7, *Statement of Cashflows*, was first published in 1992 and has barely changed since that date. It allows users of financial statements to assess how different types of activity affect a company's financial position by classifying cashflows as operating, investing and financing activities.

By requiring companies to consider transactions this way, the cashflow statement is thought to support various methods of analysing the present value of future cashflows and of making company comparisons. However, there are issues with the current standard. For example, cashflows from the same transaction may be classified differently. A loan repayment would see the interest classified as operating or financing activities, whereas the principal will be classified as a financing activity.

The operating activities in the cashflow statement can be presented in one of two ways: the direct method or the indirect method. The direct method is seldom used, as it displays major classes of gross cash receipts and payments. Companies' systems often do not collect this type of data in an easily accessible form. Basically, the direct method of accounting tracks cash changes from the bottom up to arrive at net income, rather than starting with net income and making adjustments.

> If an entity's net income is higher than its operating cashflow, a user would seek further explanations as to the reasons for this occurrence

The indirect method is more commonly used to present operating activities. Under this method, a statement reconciling profit or loss with operating cashflows is shown, instead of a statement of cash inflows and outflows. This reconciliation allows users to determine the effect of accruals of profit or loss items and to obtain an indication of 'earnings quality'.

For example, if an entity's net income is higher than its operating cashflow, a user would seek further explanations as to the reasons for this occurrence. A reason could be an accounting policy choice, for example. The presentation of operating profit under the indirect method of the cashflow statement can start with either profit or loss before or after tax. A user's ability to make comparisons may be affected if different starting points are presented in the reconciliation by entities.

Free cashflow is used by analysts in various valuation »

models and is thought to be a better measure than using the figure for operating cashflow. Free cashflow is often taken as the excess of a company's operating cashflows over its capital expenditure, which essentially reflects the cashflows available to owners. Entities have been encouraged to disclose cashflows that increase operating capacity and the cashflows required to maintain it. This information can be used as an indicator of the financial strength of an entity.

Classification concerns

There are concerns over the current classification of items in the statement of cashflows. For example, dividends and interest paid can be classified as either operating or financing activities. As a result, users have to make appropriate adjustments when comparing different entities, particularly when calculating free cashflow for valuation purposes. Additionally, when a user is assessing an entity's ability to service debt, interest paid would be reclassified from operating activities to financing activities.

Research and development expenditure is classified as cash from operating activities, but is often considered to be a long-term investment. Some argue that such cash outflows should be included within investing activities, because they relate to items that are intended to generate future income and cashflows. IAS 7 takes the view that to be classified as an investing cash outflow, the expenditure must result in an asset being recognised in the statement of financial position.

Some items of property, plant and equipment are purchased from suppliers on similar credit terms to those for inventory and for amounts payable to other creditors. As a result, transactions for property, plant and equipment may be incorrectly included within changes in accounts payable for operating items.

Consequently, unless payments for property, plant and equipment are separated from other payments relating to operating activities, they can be allocated incorrectly to operating activities.

There are currently different views as to how to show lessee cashflows in the statement of cashflows. Some users would like the statement of cashflows to reflect lessee cash outflows in a way that is comparable to those of a financed purchase where the entity buys an asset and separately finances the purchase. Other users take the view that lease cash payments are similar in nature to capital expenditure and should be classified within investing activities in the statement of cashflows. Some users would like all lease cash outflows to be included within the free cashflow measure, which would require lease cashflows to be classified within either operating or investing activities.

Finally, there is concern about the current lack of comparability under International Financial Reporting Standards (IFRS) because of the choice of treatment currently allowed. A lessee can classify interest payments within operating activities or within financing activities.

Many issuers recognise that current cashflow disclosures are inadequate, as they give an incomplete picture. Investors and analysts need a better understanding of the economics of their business and so voluntarily supplement the cashflow information required by IAS 7. In addition, some issuers provide a reconciliation of net debt from the end of one accounting period to the end of the subsequent period. The net debt reconciliation discloses information such as acquired debt and the inception of finance leases, as well as any fair value adjustments made to debt and the impact of foreign exchange movements.

Partly as a result of the above practices, the International Accounting Standards Board (IASB) published an exposure draft (ED) in December 2014 that proposes amendments to IAS 7. The main objective of the ED is to improve information about changes in an entity's liabilities that relate to financing activities and the availability of cash and cash equivalents, including any restrictions on their use.

This latter situation could arise from existing economic restrictions where, for example, the cash and debt are in different jurisdictions and using the cash to settle debt would trigger a tax payment, or from legal restrictions on the ability of the entity to freely use the cash.

IAS 7 already requires the disclosure of significant cash and cash equivalent balances that are not available for use. However, this requirement does not address the situation where cash and cash equivalents are available but, because of restrictions, the entity would find it more economical to use other sources of finance.

The ED results from the IASB's Disclosure Initiative, which comprises smaller projects to improve presentation and disclosure requirements in existing IFRSs.

As part of the initiative, the IASB has already issued proposed amendments to IAS 1, *Presentation of Financial Statements*. The initiative also complements the current review of the Conceptual Framework. The proposed amendments require an entity to provide a reconciliation of the opening and closing amounts in the statement of financial position for each liability for which cashflows are classified as financing activities.

The ED would not prohibit disclosures on a net basis – that is, liabilities relating to finance activities less cash and cash equivalents. The reason behind this view is that some entities manage debt on a net basis and there was no intention on the part of the IASB to limit management's ability to explain its financial and risk management strategies. IFRS 12, *Disclosure of Interests in Other Entities*, already requires disclosure of significant restrictions on the access and use of assets and settlement of liabilities. However, the IASB felt that current disclosure does not address economic restrictions.

For a number of years, users have been requesting the IASB to require companies to provide a net debt reconciliation. Although the proposed amendment to IAS 7 does not include net debt reconciliation, it will help users by providing them with sufficient information to prepare net debt reconciliation themselves. The problem facing the IASB is that there is no definition of net debt in IFRS. The proposed changes will require companies to reconcile the movement in debt from one period to another and, together with the existing information from the statement of cashflows, this will facilitate a net debt reconciliation.

> Research and development expenditure is classified as cash from operating activities, but often considered a long-term investment

Because many entities already voluntarily provide a net debt reconciliation, the proposed changes should theoretically not impose any additional burden on issuers. The proposals also require issuers to provide information to help users better understand any liquidity issues. The understanding of limitations on the use of liquid resource is important, and some users would like additional disclosures to better understand the different types of debt financing by the entity. The changes should help users in making investment decisions.

Where's the need?

However, there is currently no general agreement about the need for the ED. Although a reconciliation of 'debt' or 'net debt' is a common feature of reporting, some feel it is not appropriate to make such disclosure compulsory prior to establishing a conceptual basis for requiring reconciliations in general. Also, there has been comment that the practicality of implementing such a requirement has not been sufficiently analysed to merit an amendment to IAS 7.

Finally, it is thought by some that additional disclosure requirements of this type should not be added in advance of the IASB's conclusions on relevant elements of its Principles of Disclosure project. ■

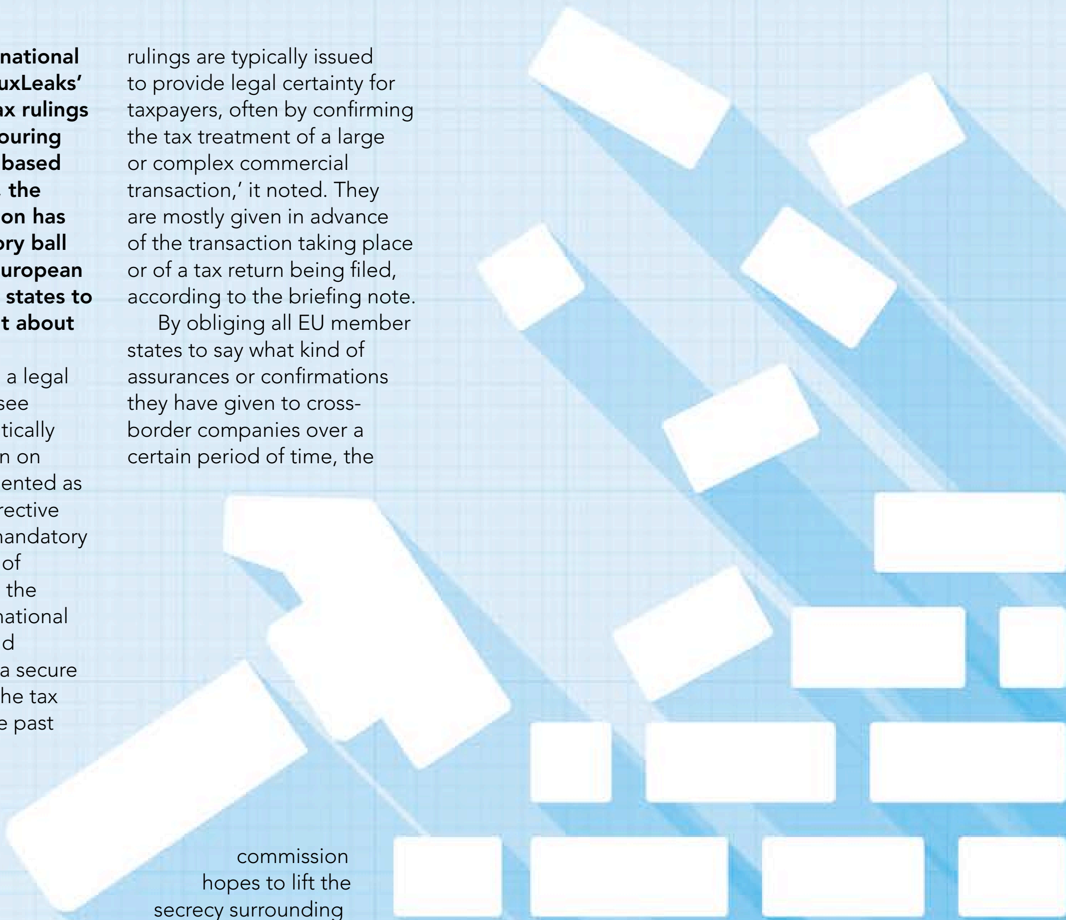
Graham Holt is director of professional studies at the accounting, finance and economics department at Manchester Metropolitan University Business School

For more information:

www.ifrs.org

EU targets tax secrecy

The European Commission is moving to force the EU's national tax authorities to share information about the tax assurances they give to businesses in their jurisdiction



In response to international outrage over the 'LuxLeaks' revelations about tax rulings by Luxembourg favouring companies that are based in the Grand Duchy, the European Commission has started the regulatory ball rolling to force all European Union (EU) member states to be more transparent about such decisions.

In March it tabled a legal measure that would see EU countries automatically exchange information on their tax rulings. Presented as an amendment to directive 2011/16/EU on the mandatory automatic exchange of taxation information, the measure will oblige national tax authorities to send information through a secure email system about the tax rulings given over the past three months. This exercise would be repeated every three months, starting from 1 January 2016.

The commission has defined tax rulings as 'any communication or other instrument or action of similar effect, given by or on behalf of a member state, regarding the interpretation or application of its tax laws'. This will be broad enough to ensure that national tax administrations do not try to circumvent the rule, a commission official said.

In a briefing document, the commission explained that a tax ruling is just a confirmation or assurance that tax authorities give to taxpayers on how their tax will be calculated. 'Tax rulings are typically issued to provide legal certainty for taxpayers, often by confirming the tax treatment of a large or complex commercial transaction,' it noted. They are mostly given in advance of the transaction taking place or of a tax return being filed, according to the briefing note.

By obliging all EU member states to say what kind of assurances or confirmations they have given to cross-border companies over a certain period of time, the commission hopes to lift the secrecy surrounding these practices. At present, one national tax authority does not have to inform an EU counterpart about tax promises made to a company based in the former, but operating in the latter.

Under the commission's proposals, information that would need to be exchanged would include the name of the taxpayer, a description of the issues addressed in the tax ruling, and a description of the criteria used to determine an advance pricing arrangement. It would also contain information about the member states most likely to be affected and identify any other taxpayer likely to be affected; the latter does not refer to natural persons.

If an EU country believes the tax rulings given by another EU member is relevant for one of its taxpayers, it could request more information, the commission official explained. However, it would have to prove to the country making the ruling that the information was relevant to the requester's tax collection systems.

The exchange of information will be handled by tax authorities alone and not open to the public in any way. One tax authority could not withhold tax ruling information on the basis of confidential business information, said the official, as tax authorities were bound to keep the information confidential.

Brussels believes that confidential data exchange will help governments react to abusive tax practices better than public disclosure of all tax rulings. However, the commission has said that public disclosure may be an additional deterrent

> 'It has become unacceptable for our citizens that companies refuse to pay their fair tax contribution or exploit aspects to diminish it'

have to provide the same information covering the months of April to June, and so on. If no tax rulings were given over the three months that the automatic exchange covers, then national tax authorities would have to state that.

The target is to eliminate the tax avoidance against harmful tax regimes and aggressive tax planning. The commission will assess whether information on tax rulings 'should be subject to wider publication, particularly by the companies that benefit from these rulings'.

The proposal is retroactive, with EU countries having to exchange information on tax rulings given over the past 10 years. If the measure is to be applied from 1 January 2016, tax authorities will have until 31 December to provide all this information.

As well as clearing the backlog, they will have to exchange information by April 2016 of the tax rulings they have given from January to March of the same year. In July 2016, they would and aggressive tax planning that has seen multinationals employ sophisticated schemes to shift profits to countries with low tax rates.

'It has become unacceptable for our citizens that companies refuse to pay their fair tax contribution or exploit certain aspects to diminish it,' said EU economic and financial affairs, taxation and customs commissioner Pierre Moscovici when he presented the measure.

'It's not a question of banning or regulating tax rulings in any way,' he added. 'Our question is transparency. Opacity creates the questionable uses; in many cases a member state is not aware of these and may be affected and be at loss because of them.'

The corporate burden

Since the automatic exchange of information would be restricted to tax authorities on tax rulings they have issued, companies' administrative burdens would not be increased by this proposal, the commission has pointed out.

However, Chas Roy-Chowdhury, head of taxation at ACCA, is concerned about 'the volumes of complex information which are likely to be exchanged between member states'. There is a potential for the whole process to become a bureaucratic nightmare for participants, he believes. 'We would also have concerns around the leakage of sensitive commercial information during the process,' he adds.

ACCA recommends that the scope of tax rulings information to be exchanged 'be very tightly defined so as to ensure a streamlined process together with a standardised template for the information to be conveyed'.

The Federation of European Accountants (FEE – Fédération des Experts comptables Européens) welcomes the European Commission measure, but warns that the transparency should focus on the quality and relevance of the disclosed information, 'rather than merely making more information available'.

Moreover, FEE stresses that the tax information exchange 'should not add any further confusion to the already complex area of international tax legislation'.

Jane McCormick, KPMG head of tax for Europe, Middle East and Africa, says that tax advisers will now need to have an understanding of EU state aid policy, since Brussels may launch an investigation if there is perceived unfair tax competition by EU states.

The greater scrutiny that the commission wants to place on tax rulings may lead some companies away from seeking certainty from tax authorities, McCormick believes. 'A top priority of our clients is achieving certainty in relation to their tax position, and obtaining rulings from tax authorities is one way in which they have sought to do this,' she explains. 'If rulings cannot be relied on, then it is possible that our clients will place further reliance on their advisers.'

The European Commission proposal still has to be approved by the EU Council of Ministers in a unanimous decision for it to become law. While that is a high bar for it to get over, the political blowback that will come from blocking the proposal might push member states in line.

Brussels is also expected to present an action plan on corporate taxation this month, with the aim to 'make corporate taxation fairer and more efficient'. This will include a relaunch of a common consolidated corporate tax base proposal, which has been blocked by the EU Council of Ministers since 2011. ■

Carmen Paun, journalist based in Brussels

Technical update

A monthly roundup of the latest developments in financial reporting, audit, taxation and legislation from the IASB, IFAC, the European Union, the OECD and elsewhere

Financial reporting

Revenue recognition

Last month *Accounting and Business* highlighted that the European Financial Reporting Advisory Group, in its letter to the European Commission on EU-adopted IFRS, stated: 'EFRAG supports IFRS 15 and has concluded that it meets the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in that it:

* is not contrary to the principle of "true and fair view" set out in Article 4(3) of Council Directive 2013/34/EU; and
* meets the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

Having considered all relevant aspects, EFRAG assesses that adopting IFRS 15 is conducive to the European public good and, accordingly, EFRAG recommends its adoption.'

The International Accounting Standards Board has deferred the effective date of the standard from 1 January 2017 and is consulting to defer by one year, although continuing to state that early adoption would be allowed. More at **bit.ly/ifrs-15**. You can follow the status of IFRS 15 adoption in Europe at **bit.ly/efrag-endorse**.

IFRS essentials

The International Accounting Standards Board publishes investor guidance under the title *The Essentials*. The guidance aims to increase investors' awareness of IFRS and enhance the insights they obtain when analysing information produced by IFRS financial statements. It states that it aims 'to provide an overview of how a specific accounting standard (or aspect of it) is relevant to financial statement analysis'.

These useful guides, which pose questions that investors may ask of boards, can be found at **bit.ly/ifrs-ess**.

Audit

Auditor's responsibilities

The International Auditing and Assurance Standards Board has issued International Standard on Auditing 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*. It states that the 'revisions aim to clarify and increase the auditor's involvement with "other information" – defined in the standard as financial and non-financial information, other than the audited financial statements, that is included in entities' annual reports'.

The standard includes new requirements related to auditor reporting arising from the new and revised auditor reporting standards, issued earlier this year. ISA 720 (revised) will be effective for audits of financial statements for periods ending on or after 15 December 2016.

You can find illustrations of auditor's reports relating to other information in the standard. These include:

* '**Illustration 1:** an auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
* **Illustration 2:** an auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
* **Illustration 3:** an auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
* **Illustration 4:** an auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
* **Illustration 5:** An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
* **Illustration 6:** an auditor's report of any entity, whether listed or other than listed, containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.
* **Illustration 7:** An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.'

Further details at **www.accaglobal.com/advisory**.

Audit illustrated

The International Auditing and Assurance Standards Board has published *Auditor Reporting – Illustrative Key Audit Matters* to 'illustrate how the concept of Key Audit Matters (KAM) may be applied in practice in accordance with ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*'. You can find the publication at **bit.ly/iaasb-kam**.

Non-audit services

The International Ethics Standards Board for Accountants has issued changes to the independence provisions in the Code of Ethics for Professional Accountants, effective from 15 April 2016 with early adoption allowed. Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients will no longer permit auditors to provide certain prohibited non-assurance services to public interest entity audit clients in emergency situations, ensuring that they do not assume management responsibility when providing non-assurance services to audit clients.

The revisions include 'the removal of provisions that permitted an audit firm to provide certain bookkeeping and taxation services to PIE audit clients in emergency situations, as these were susceptible to being interpreted too generally. In addition, the revised provisions include:

* New and clarified guidance regarding what constitutes management responsibility; and
* Clarified guidance regarding the concept of "routine or mechanical" services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.

The revisions also include corresponding changes to the Code's non-assurance services provisions with respect to other assurance clients.' More at **bit.ly/iesba-code**

Glenn Collins, head of technical advisory, *ACCA UK*

European Union

MEPs back reforms

The European Parliament's economic and monetary affairs committee has backed

a proposed European Union regulation designed to prevent the setting of interest rate benchmarks such as LIBOR and EURIBOR being undermined by corrupt practices. The law would ensure benchmark setting is overseen by a college of supervisors, including the European Securities and Markets Authority (ESMA) and other competent authorities. More at **bit.ly/ec-bench**.

Guidance on green bonds

International guidance on the issuing of so-called green bonds have been released by an executive committee of the Green Bond Principles, backed by the International Capital Market Association. The guidelines recommend transparency and disclosure, promoting integrity in this market. More at **bit.ly/icma-green**.

Tax policies coordinated

European Union (EU) member states must be more transparent about their national tax rulings because unfair tax competition distorts competition among companies and could generate a 'race to the bottom' to low taxes, MEPs warned in a European Parliament debate with EU taxation commissioner Pierre Moscovici. He advocated better coordination of members' tax policies and plans to release an analysis by December. (See also feature, page 52.)

Challenge to Greece

The European Commission is taking Greece to the European Court of Justice, challenging its inheritance tax exemption for primary residences, which only covers European Union (EU) nationals permanently living in Greece. The commission says that this breaks EU rules preventing tax discrimination between nationals of different member states.

Belgium asked to reform

The Belgian government has been asked by the European Commission to reform its country's tax rules regarding income from financial instruments. This can be deducted from taxable income where they have been sold, given as security or lent regarding rem securities agreements or cross-border loans. The EC argues this breaks the EU's parent-subsidiary directive (2011/96/EU).

Excise duty database

A database of information on excise duties charged within the European Union on alcohol, tobacco and energy has been released by the European Commission. More at **bit.ly/data-ec**.

OECD

Burdens continue to rise

Taxes on wages in developed countries within the Organisation for Economic Cooperation and Development (OECD) have risen by about 1% between 2010 and 2014, despite a majority of governments not increasing statutory income tax rates. A new OECD report, *Taxing Wages 2015*, notes that, in 2014, the tax burden paid by average OECD workers increased by 0.1 of a percentage point to 36%. More at **bit.ly/oecd-tax**.

Action on corruption

The OECD and Ukraine have signed a joint action plan on fighting corruption, improving public governance and the rule of law, boosting investment and fostering a dynamic business environment. The OECD will stage policy reviews and make recommendations, helping boost regulatory capacity and ensuring that Ukraine follows relevant guidance. More at **bit.ly/oecd-corr**.

SMEs must step up

SMEs need to broaden their sources of finance to reduce their vulnerability to volatile credit market developments, argue two reports from the OECD. *Financing SMEs and Entrepreneurs 2015* and *New Approaches to SME and Entrepreneurship Financing: Broadening the Range of Instruments* are available at **bit.ly/oecd-finance** and **bit.ly/oecd-instr**. ■

Keith Nuthall, journalist


Cauchy Integral

Reform school

Online MBAs have been steadily growing in popularity among students, and an increasing number of business schools are responding to the growing demand

Online MBA programmes are ideal for working professionals who wish to continue their education while being able to advance in their career. Not only are there cost advantages over the traditional campus-based, full-time MBA programmes, but studying online means less compromises in your personal and family life and more flexibility.

As such, and in order to vie for the best candidates, the quality of online MBAs continues to rise as the accredited providers up their game to meet a set of more diverse student needs.

With so many institutions offering courses, deciding which one is right for you can be rather daunting. A good place to start is to have a look at rankings from trusted sources, such as the 2015 *Financial Times* ranking of online MBAs (see box), which is based on surveys of schools and of alumni who graduated in 2011. Schools must be internationally accredited, and at least 70% of their programme content must be delivered online.

Taking – and indeed retaining – the number one spot in this year's rankings is Spain's IE Business School. The reason for IE's success is also a good reason for taking an MBA in the first place, whether online or not: money. The Spanish business school's alumni earn the highest average salary, at nearly US$153,000 (£102,000), a rise of 43% on their income on graduation three years ago. In fact, salaries for MBA students in general look positive.

A recent survey from the Graduate Management Admission Council, administrators of the GMAT entry test for business schools, found that most employers in 2015 plan to increase starting-salaries at or above the rate of inflation for MBA employees.

The majority of the top 10 business schools in the online rankings remain in the same position as last year, including Durham University Business School at number six, which has invested heavily in its IT infrastructure in order to compete with the very best.

David Kilgour, programme director of the Global MBA Programme, explains: 'Durham University Business School is a dynamic institution. As one of the leading business schools in the world, Durham is one of a small number of triple-accredited schools, and demand for our graduates is high, attracting students from 130 nations.

> 'One word of caution is that online courses are just as demanding, sometimes more so, than traditional courses'

FT ranking of top 10 business schools

1. IE Business School, Spain
2. Warwick Business School, UK
3. University of Florida, US
4. University: D'Amore, US
5. Indiana University, US
6. Durham University Business School, UK
7. Babson College, US
8. Syracuse University, US
9. Bradford University School of Management, UK
10. University of Nebraska, US

From a student perspective, online courses can have a number of advantages. Students can study at their own pace and can stay at home and keep their job, which means there should be less debt by the end of the course. Students spend less time travelling to classes; and they work in an environment that they know but where there are new experiences available. They can also choose to meet fellow students at regular residential seminars.'

Online advantage

Kilgour also highlights the unique advantages that online courses offer. 'They can be more innovative than taught programmes through the use of information technology and teaching methods like flipped classrooms and phone and iPad applications. Blogs, tweets, podcasts, webcasts, webinars and online chats mean that students can be kept up to date with developments in their subjects 24/7, and they can do this within their time constraints.'

But he is quick to point out that anyone thinking of taking an online course because they believe it to be less work than the alternatives may be in for a nasty surprise. 'One word of caution for students is that the online courses are just as demanding, sometimes more so, than traditional courses and students have to be able to devote the time – between 10-20 hours per week – and be well-organised and able to work independently to achieve success.'

Of course, it isn't only the students who benefit from this evolving teaching model. From a business school perspective, online courses can also bring a significant advantage. 'Increased student numbers and a more diverse student population can be developed by going online, and the reach and reputation of the university can be improved by moving into new geographic areas,' says Kilgour.

'Developments in research can be communicated quickly and built into courses, and the use of information technology can help teaching staff develop skills and force them to try new ways of communication and delivery.'

The biggest climber in the *FT* rankings is the UK's »

Accessing prospective students

Business school websites, friends and family, and published rankings are the most effective ways of channelling information to prospective MBA students, according to a new survey by GMAC.

Having questioned 15,000 prospective MBA students across the world, the report found that other influential sources of information about MBAs for potential students are alumni and current students, business school admissions advisers, the GMAT website, academic staff and co-workers and peers. Only 20% of students questioned used social networking sites to obtain MBA information even though 95% of them used social media.

Business School Innovation Forum 2015

The Association of MBAs has announced its next Business School Innovation Forum, which will take place on 25-26 June in Athens, Greece (left).

The event gathers programme managers, staff and alumni from business schools across the globe, giving them an opportunity to network, discuss best practice, exchange knowledge, and attend seminars and workshops about all aspects of business education.

For more information about the all aspects of the event and to download the provisional Business School Innovation Forum programme, visit the AMBA website at **www.mbaworld.com.**

Asia School of Business set to open

A brand new business school is to open in Kuala Lumpur, Malaysia following a 10-year collaboration between the MIT Sloan School of Management in the US and Bank Negara Malaysia (BNM), the nation's central bank.

The partnership to establish the Asia School of Business (ASB) has been driven by the increased importance of the region in the global economy.

The central bank said that ASB would offer degree and non-degree programmes to serve the needs of Asia and the broader global economy, with non-degree programmes starting in September this year and two-year MBA programmes to open in September 2016.

Bradford University School of Management, up three places to ninth overall. Its rise was also helped by the joint highest alumni salary increase of 43%, up from 30% last year.

The rankings also reveal some interesting statistics about the true value of an MBA in real terms. They show that, at start of their MBA, nearly three-quarters of the graduates were professionals, with 12% holding senior manager or executive roles. Three years after graduation, nearly 30% were in senior manager or executive positions, followed by professional (27%), other director/vice-president (16%) and department head (15%).

The top sector that graduates entered was finance and banking at 13%, followed by the industrial and information technology/telecoms sectors at 12% each.

Depressingly, there remains a gender divide in salaries, with men earning US$130,000 (£87,000) on average, US$22,000 (£14,700) more than women, although the rise in women's salaries is 37% compared with the men's 30%, so the gap should close if that trend continues.

So as competition for applicants heats up in the virtual classrooms, what fallout might there be for institutions offering traditional campus-based programmes? It seems that those relying heavily on revenue from executive and part-time programmes are on slightly shaky ground; they may have to revise their business model and adapt to serve a global population that has begun to expect to be able to work and study at any time and from any location. ■

Beth Holmes, journalist

ACCA Careers.com

ACCA Careers **Advice**

4 tips to avoid common hiring mistakes

As you progress through your finance career, you may become involved in hiring. Depending on your seniority, this could see you having to take on a variety of tasks – from assessing whether to fill a vacant job or developing a staffing plan through to shortlisting, interviewing, even appointing a successful candidate. And all this comes with huge responsibility.

Get these tasks right and they will lead to an employee who fits in with your team and adds value to your company. Get them wrong, though, and the aftermath can be the opposite – a disruptive employee who lowers morale.

With many companies now seeing strong signs of growth, the job market has evolved into one of strong employer demand, resulting in more jobs than skilled professionals who can fill them. And with the best candidates often receiving multiple job offers, making the right hiring decisions first time round has become more important than ever before.

One in 10 recruits is deemed a 'poor hiring decision', according to research in Robert Half's Management Insights: How to avoid common hiring mistakes, and of course, no one wants a reputation for hiring an employee in that group. While there's always a risk that one will slip through, you can take steps to minimise this. Below are just a few of the tips from the report that may lead to a wrong hire.

1 Ask around

You've been tasked to recruit a new team member. Yet this doesn't mean you have to go it alone. You may well be responsible for the decision-making, yes, but that's not to say you can't consult. Your colleagues may have valuable experience: they may have worked in a similar role to the one you're recruiting for and therefore have first-hand knowledge to add.

2 Make the most of the job description

The best candidates are driven and ambitious, and they look for interesting and challenging jobs. They will want to know how an open role relates to other positions in the team and how their work will contribute to the goals and objectives of the company. They will also want to imagine themselves in the role. This happens early on at the application stage so don't neglect the job description.

Read the full article http://po.st/rhtips

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Carry out audits as per the Approved IA Plan covering all areas related to the auditee and completion of the assignment within stipulated time-frame. This includes Full scope Audits, Special Reviews & Investigations, Limited Scope Reviews, Health & Safety Reviews etc.

UNITED ARAB EMIRATES | REF: 7375

Plant & Project Controller

Henkel

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BELGIUM | REF: 43622

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NETHERLANDS | REF: 963025

ACCA Careers Job Hunting

The online job recruitment industry has revolutionised how people advertise and search for jobs. Increased efficiency allows proactivity whenever and wherever you work best. Newer filtration systems have taken the laboriousness of sifting through the wrong jobs out of the picture.
Not everyone who's looking through job sites is looking for a job – many are simply getting a feel for the market or new and exciting opportunities – with online job searches you are able to send your CV out in to the world without committing to anything before you're ready. Not only this,
Sites such as ACCA Careers offer career advice and educational opportunities so you can make more informed choices about your career. In a recent survey it was discovered that over a quarter of ACCA Members do all their job hunting through ACCA Careers. Join your peers and start job hunting through ACCA Careers today.

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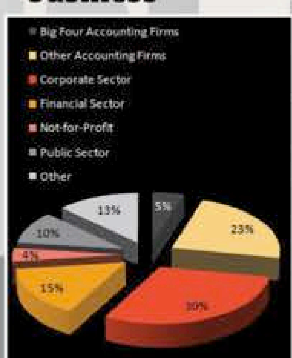
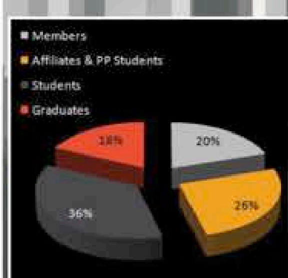
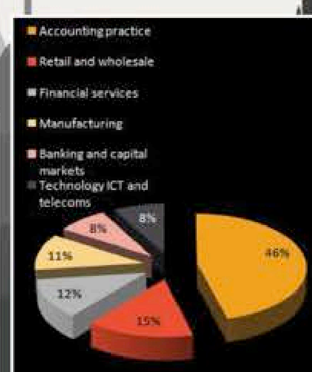
Members in business

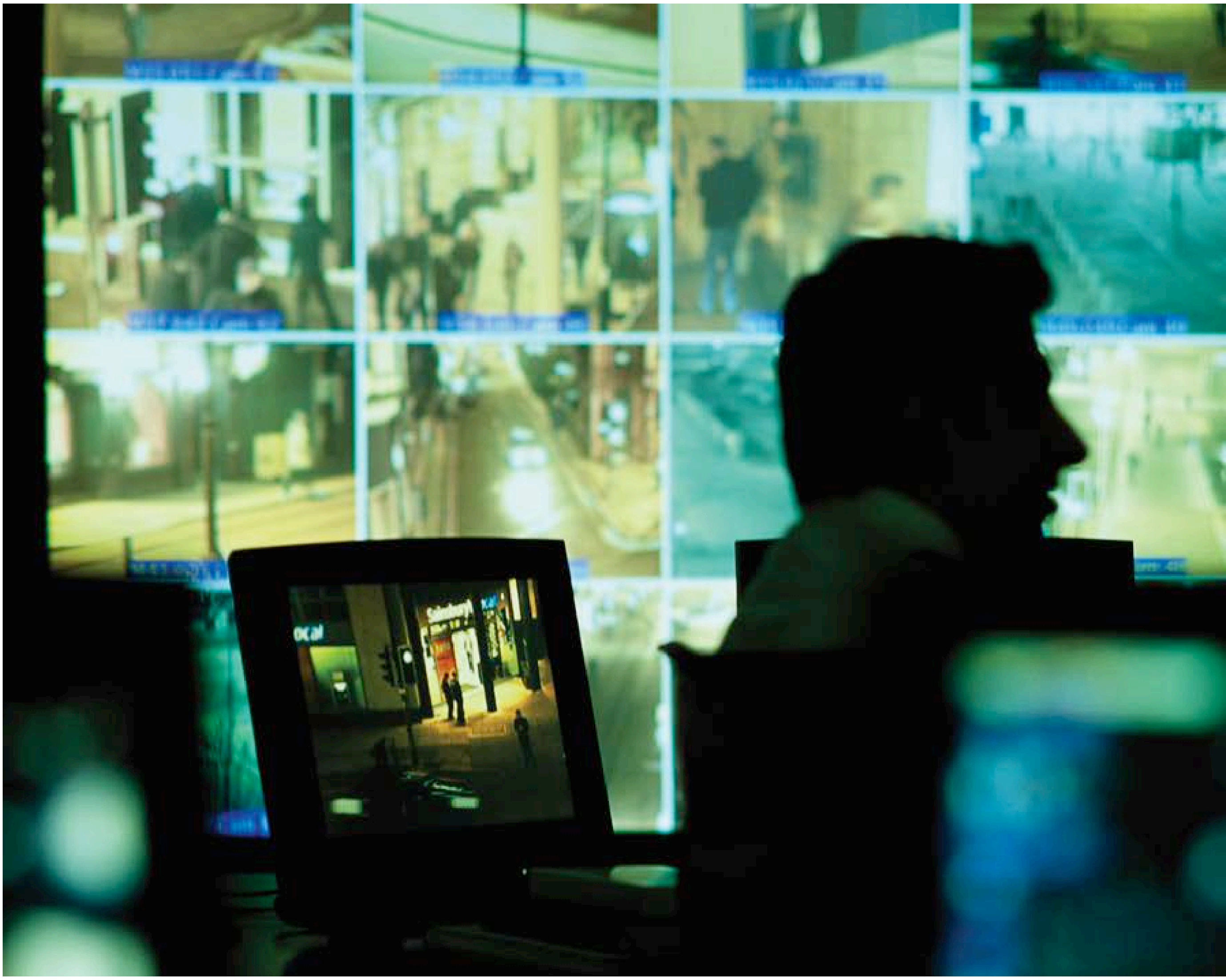


Registration split



Members in industry





Your number's up

With big data starting to change the world, CFOs are having to get to grips with it, and all levels of finance professional will also eventually have to, an *ACCA Canada* roundtable heard

Big data is going to feature much more in the lives of accountants. But how will they and their organisations use it? And what will it mean for the skills that accountants need to develop? Members of the profession are already grappling with these questions.

The concept of big data results from the spread of mass technology around the world, referring to data sets too large or complex for traditional applications. Huge amounts of data are generated every day – through PCs and mobile phones by individuals, companies and governments – and are increasingly being captured for analysis. For companies, huge potential exists to spot emerging trends, identify new customer needs or address client issues. Governments can also capture information to help develop, manage and improve public services.

Sentiment check

Social media in particular provides a huge amount of big data which organisations can use. ACCA, for example, has developed the capability to monitor sentiment among students across the world based on posts on social media platforms.

The bigger picture
Video applications such as surveillance – used increasingly in retail and banking as well as security – generates large quantities of data that can produce actionable business intelligence when subjected to analytics

At a roundtable discussion organised by ACCA and the Financial Management Institute of Canada in Ottawa in February, Brian Pagan, assistant secretary for the expenditure management sector at the Treasury Board of Canada Secretariat, said: 'New tools are changing the way we do business. In particular, we are becoming increasingly sophisticated in how we're using social media for internal consultations and collaboration.'

He added: 'Efforts are under way to transform the public service and develop new business processes and collaborative approaches to service delivery through the initiative known as Blueprint 2020. A lot of the real ideas came from the grassroots – Twitter, Facebook and from social media sites.'

> 'As the millennials go through the workforce, they will bring the big data through because they want it'

Data veracity and consistency

The characteristics of big data can be captured in a 4V model. The four Vs here refer to volume, velocity (rate of flow into organisations), variety (eg text from social media, an image or a raw feed from a sensor) and veracity. This fourth aspect reflects the fact that the reliability of data may be uncertain when it comes from so many different sources.

Veracity is an issue for governments and public sector departments that want to use big data. But lack of integration across systems is a challenge for government bodies and requires considerable effort to fix.

'The reality is we're using different systems with different inputs and different outputs,' Pagan said. 'We're addressing that by moving to common back-office systems, including HR and financial management systems. This way we'll be better positioned to use government big data and be more efficient in managing scarce operating dollars in the long run.'

Carol Najm, CFO of Environment Canada, also highlighted the challenge around the 'commonality' of data. 'Does the one expenditure mean the same thing across the system?' she queried. 'That's what we struggle with. As CFOs, we understand we need to share information and do open reporting. In fact, the government's agenda on open data makes everything even more transparent than ever.'

But there is always the same problem around whether one number means the same thing to everybody. 'How do you get past that context piece?' she asked.

ERP floundering

Ewan Willars, ACCA's director of policy, pointed out that questions are increasingly being asked about whether current enterprise resource planning (ERP) systems are fit for a big data world.

'Frequently they're not,' he said. 'Those systems struggle to take on board customer data and supply chain data. It tends not to be integrated very well and there are consistency issues.'

Best-in-class organisations are responding to the information challenge by developing a 'wraparound unified data approach'.

Such initiatives, usually led by the CFO, start by identifying the data that is really necessary to take desired decisions. They also seek to minimise the threats to data veracity resulting from too many manual workarounds and spreadsheets being used to move data from one system to another.

'You have to make sure your systems maintain the veracity of the data and can handle it in an agile and sensible way that's consistent across the organisation,' Willars said. 'The problem is that having that conversation with the board – persuading them to invest, which over time will give greater efficiency – is a tough conversation to have.'

Big Brother?

Another challenge for government departments seeking to use big data is that citizens may take a dim view of it – as a 'Big Brother' attempt to capture personal information about them. This is despite the fact that many consumers seem perfectly happy to provide private companies with personal data.

Lorna Lane, director of financial shared services at private property company Minto Group, said: 'It's the association with government. Many individuals are freely giving information to [online survey company] SurveyMonkey, or signing up for store apps and freely completing online surveys or through email. Many of us will do it without second thought – but not, unfortunately, when there's an association with the government.'

However, she thought that attitudes might change over time. 'As the millennials go through the workforce, they will bring the big data through because they want it,' she said. 'It's just the norm; it's the way things are going to happen.'

This has repercussions for accountants, who need to develop skills to enable them to handle big data effectively. As Najm said: 'Accountants don't think about IT or open data, so that's a big issue as we do succession planning for finance teams. In this new reality, big data is there and everybody has to be more comfortable with it.' ■

Sarah Perrin, journalist

Afghanistan expansion

ACCA and the Afghanistan Ministry of Finance meet in Dubai to draw up a practical programme for developing a pipeline of qualified professionals in the country

ACCA has met with employers, learning providers and policymakers to help develop the profession in Afghanistan.

Held in Dubai, the meeting builds on a memorandum of understanding signed in February 2015.

The discussions supported the development of concrete action plans through which ACCA and the Afghanistan Ministry of Finance – and their partners in Afghanistan, including learning providers, the government and employers – work together to increase the capacity of the national profession.

Afra Sajjad, head of education emerging markets at ACCA, said: 'This is about ensuring the delivery of ACCA qualifications in Afghanistan in a sustainable way that meets local needs and ensures a pipeline of qualified accountants. Our experience of supporting tuition providers to deliver quality tuition and implementing a holistic range of support for students, tutors and employers will be key to establishing a pipeline of qualified professionals in the face of the unique challenges in Afghanistan.'

Muhammad Zarif Ludin, programme manager for professional accountant organisation development at the Ministry of Finance, said: 'Our plans for Afghanistan involve 10% of our stakeholders, including learning providers and employers, which will ensure we establish the infrastructure needed to ensure that there is growth in the accounting sector – from high-quality tuition to relevant roles for professional accountants.

'We are continuing to progress the accounting law to ensure that there is also formal oversight and regulation of the profession. We are confident that these activities will boost the confidence of outside investors and enhance the Afghanistan economy.'

Mahalah Groves, head of capacity building projects at ACCA, said: 'ACCA has extensive experience of building capacity in developing markets such as Afghanistan. With dedicated partners on the ground, combined with support from international agencies such as the World Bank, we look forward to supporting concrete and sustainable development that will help establish an effective profession in Afghanistan in the long term.'

Talent treaty

ACCA and ISCA are collaborating to develop the talent pipeline for the Singapore accountancy sector

***ACCA Singapore* and the Institute of Singapore Chartered Accountants (ISCA) have signed a partnership agreement to strengthen the accountancy talent pipeline in Singapore.**

This is in anticipation of the sector's growth as Singapore transforms into a leading global accountancy hub. The accountancy sector's GDP contribution is expected to grow at a similar rate to other developed countries such as Australia and the UK by 2020.

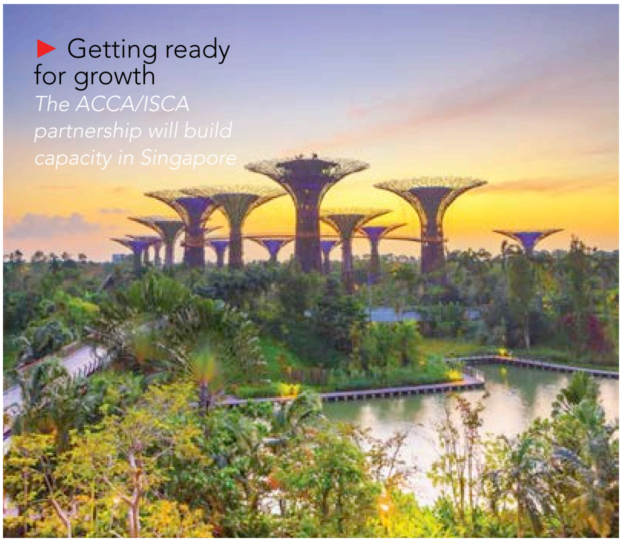
The partnership will expand the range of opportunities for those who aspire to become accountants. It will offer high-quality education and training for students from institutes of technical education (ITEs), polytechnics and universities and for mid-career professionals.

Under this partnership, ACCA and ISCA will collaborate on the Fundamentals level of the ACCA Qualification. ISCA will also contribute its local expertise to the F4 (Singapore Corporate and Business Law) and F6 (Singapore Taxation) papers to reflect the current Singapore legal regime.

The ACCA Fundamentals-level papers will equip students with financial and management accounting skills as well as the key technical areas. They will graduate with an ACCA Advanced Diploma in Accounting and Business, which is recognised as a degree-equivalent in the UK and EU. This will provide students with a foundation to embark on a professional accountancy qualification such as the ACCA Professional level.

A second joint initiative will be to promote employer recognition and career development for aspiring finance and accounting professionals. As part of the collaboration, ACCA will develop a regional internship programme for students to gain practical work experience. In addition, working closely with industry partners, ACCA and ISCA will be jointly offering career guidance to all students and mid-career professionals as well as driving employability through career fairs and talks that will be open to the public.

Other initiatives will include joint prizes and scholarships for outstanding students and also collaborations to inculcate strategic thinking among finance and accounting students and professionals.



▶ Getting ready for growth
The ACCA/ISCA partnership will build capacity in Singapore

Singapore boss takes strategic Asia Pacific role

ACCA has appointed the current head of *ACCA Singapore* to a key strategy and development role for Asia Pacific.

Leong Soo Yee will be director – Asia Pacific, with responsibility for developing the accountancy profession in the Asia Pacific markets of Australia and New Zealand, Cambodia, China, Hong Kong, Laos, Malaysia, Singapore and Vietnam, and for building ACCA's profile there. She will also explore new partnerships to create fresh training and development opportunities for the 163,000 ACCA members and students in the region.

Inside ACCA

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 career portal gives guidance and lists job vacancies worldwide.

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

Go to **www.accaglobal.com/memberbenefits**

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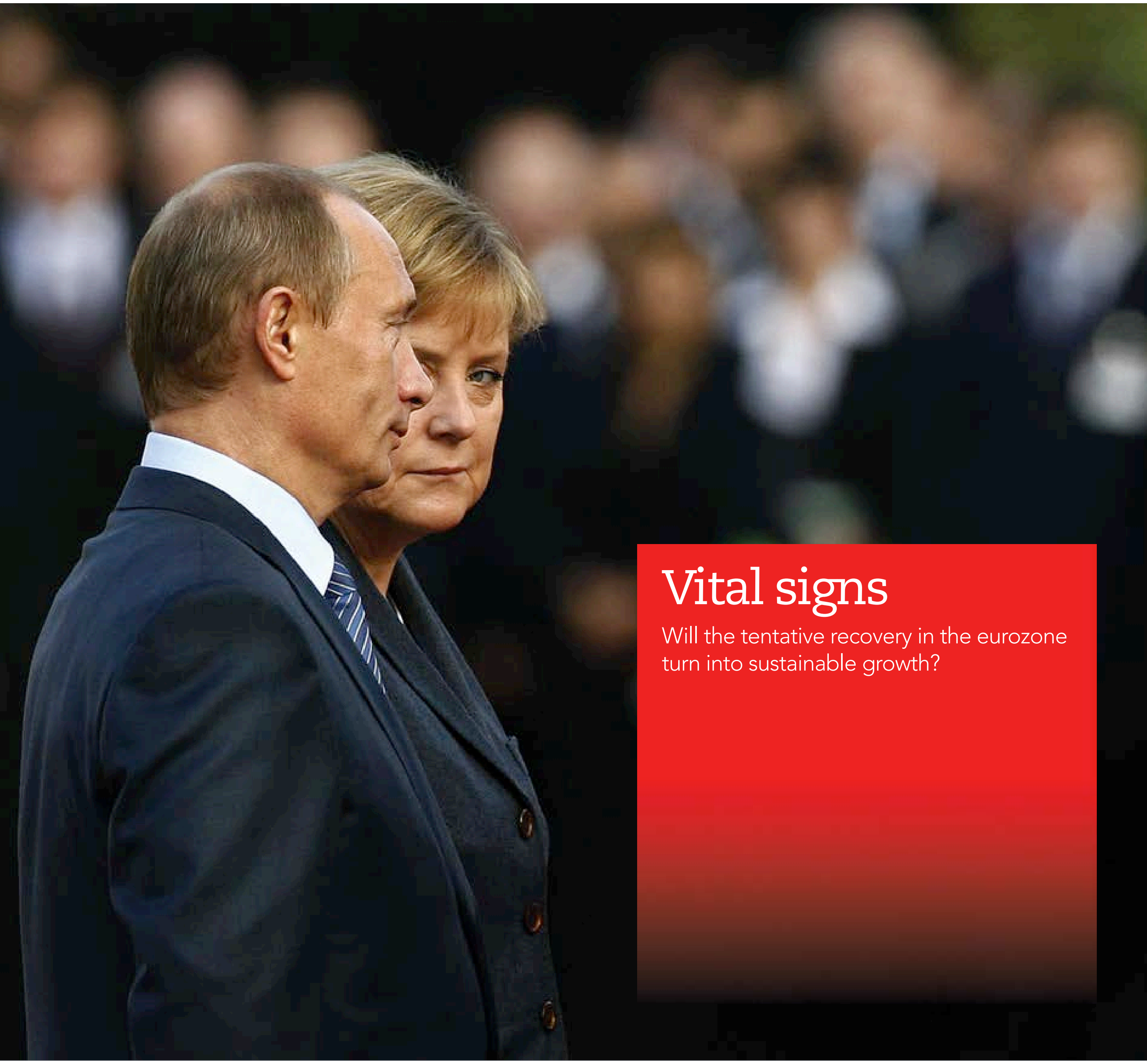

Vital signs

Will the tentative recovery in the eurozone turn into sustainable growth?

ACCA Think Ahead

Tomorrow's world

Changing business practices are a major challenge for CFOs

Practice On message for marketing

Online MBAs Why virtual learning is popular with students