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Taxing the Olympics and Paralympics

Demystifying EBITDA: what are its limitations?

LinkedIn: raise your profile and reach out to new clients

Business management: closing a limited company

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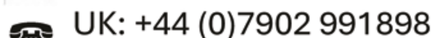
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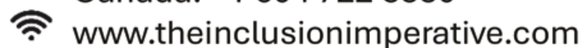
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Being match fit for accountancy practice

Angela Partington Editor, IA

Summer will soon be upon us, this year bringing with it the Olympic and Paralympic games, which will be held in Paris from 26 July. Most coverage naturally focuses upon the excellence and achievements of the superb athletes taking part – and which I am sure we will all enjoy. But as a body which focuses upon the practice of international accountancy, AIA is equally intrigued by the financial management of an event which will bring together competitors from 206 countries. In Tokyo 2020, the Japanese audit board revealed that the total cost of the games was around $13 billion. Those dealing with the accounts need to be as prepared and match fit as the participants!

Athletes at the Olympics and Paralympics do not win prize money at the games but do earn money from other sources, as do other organisations, companies, legal entities and stakeholders, including the International Olympic Committee itself. Dr Dick Molenaar tackles some of these complex issues, including the impact that bilateral tax treaties have on international payments (see page 12). He examines how earnings will be taxed under national law and bilateral tax treaties, as well as how to avoid the pressures of double or excessive taxation.

Other issues covered in this issue include the limitations that can make EBITDA unreliable. This measure of profitability (drawing upon earnings before interest, taxes, depreciation and amortization) has been growing in popularity but can potentially lead to misguided investment decisions. Henry Ong asks how other factors can help us to understand the financial situation of a company (see page 15).

Even though they are still solvent, some businesses do reach the end of their natural lifespan, often due to changing marketplaces. Shaun Barton sets out the options for consideration – including making the company dormant, applying to have it struck off the company register, and various forms of voluntary liquidation. The most important thing is to make an orderly exit (see page 23).

There are broader issues impacting accountancy, of course. Shockingly, the ethnic background, gender and location of entrepreneurs still place limitations on how easy it is for them to access funding. Cat Smith tackles how they can overcome these issues, the sources of funding available and the importance to us all of investing in a diverse future (see page 24).

One of the important challenges for all accountants is to raise your profile, make contacts and grow your practice. Social media is a superb tool if you know how to use it – and Ashey Leeds has some interesting suggestions about how to harness LinkedIn to forge strong and varied contacts (see page 18). Finally, Gemma Toner explores how better understanding our Subtle Underlying Mindsets can help us all to make better personal choices (see page 26).

Contributors to this issue

SHAUN BARTON

Shaun Barton is a partner at Company Closure with extensive experience in helping directors of distressed companies to understand their options.

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Cat Smith representing the British Business Bank across Yorkshire and Humber, and works to improve access to financial support for small businesses.

GEMMA TONER

A speaker, consultant, coach and content creator, Gemma Toner helps people around the world to 'reframe their game' and commit to new possibilities.

GREENHOUSE GASES

UK consults on rules to curb 'carbon leakage'

The UK government has opened a consultation on the design and implementation of a new mechanism for taxing imports of certain goods based on the greenhouse gas emissions generated during their production.

The consultation, which runs until 13 June 2024, is the first step towards the introduction of a new 'carbon border adjustment mechanism' (CBAM) in the UK. The government had previously pledged to introduce such a mechanism and for it to take effect from 1 January 2027.

Trade and subsidy control expert Dr Totis Kotsonis, of law firm Pinsent Masons, said that the purpose of the CBAM is to tackle so-called 'carbon leakage', ensuring that goods imported from countries that apply either low or no carbon prices do not gain an unfair competitive advantage.

Goods that might be affected include aluminium bars, various forms of ceramic bricks, roof tiles, pipes, nitrates of potassium, glass wool and railway tracks. Scrap aluminium, glass, iron or steel goods that are imported to the UK would not be in scope of the regime.

Kotsonis said that under the government's plans, the point at which tax liability on goods would arise would be in one of two scenarios. If goods are subject to customs controls, the tax point would be the date on which the goods are released into free circulation; and if there are no customs controls, it would be the date on which the CBAM goods first enter the UK.

STANDARDS

IFRS 18 'Presentation and disclosure in financial statements' set to Replace IAS 1

A new accounting standard designed to meet investor demand for better, more comparable information about companies' financial performance, has been published by the International Accounting Standards Board (IASB).

IFRS 18: 'Presentation and disclosure in financial statements' will replace IAS 1: 'Presentation of financial statements'. It will affect all entities reporting under IFRS Accounting Standards.

The new standard will kick in for reporting periods beginning on or after 1 January 2027, with earlier application permitted. The adoption of IFRS 18 for use in the UK is subject to endorsement by the UK Endorsement Board (UKEB), expected in Q4 2025 at the earliest.

In addition to existing requirements brought forward from IAS 1, IFRS 18 contains three key new requirements, focusing on the statement of profit or loss (SOPL) and disclosures around financial performance. They are:

- The introduction of two new defined subtotals to be presented in the SOPL – operating profit or loss and profit or loss before financing and income tax.
- The additional disclosures on specified alternative performance measures, termed management-defined performance measures (MPMs). Subtotals of income and expenses used in public communications to communicate management's view of financial performance, such as adjusted operating profit, will be in scope of this new requirement.
- Enhanced requirements on the grouping of information in the financial statements, namely aggregation and disaggregation. This includes requirements for presenting and disclosing operating expenses, plus guidance to determine if information should be included in the primary financial statements or disclosed in the notes.

SUSTAINABILITY

IFAC aims to embed sustainability in accountancy training

Proposals to change International Education Standards (IES) so they embed sustainability, from analysis to reporting to assurance, in professional accountants' training have been unveiled by the International Federation of Accountants (IFAC).

IFAC CEO Lee White emphasised the significance of the changes, stating: 'Investors and other stakeholders need sustainability reports and disclosures that are on a par with the high quality, decision-useful financial reports that accountants already deliver.

'To be future-fit, accountants must develop the right competencies to meet this need. The proposals provide a robust framework for the progression to develop capable accountants who produce report, and assure sustainability information.'

Key proposals include:

- emphasising working with experts and in multi-disciplinary teams;
- introducing key sustainability reporting concepts, such as systems thinking, value chains and scenario analysis;
- referencing relevant sustainability reporting and assurance standards; and
- creating new assurance competence area and learning outcomes.

SUSTAINABILITY

AIA's contribution to sustainable finance

Signatories to the Sustainable Finance Education Charter (SFEC) on 2 May 2024 issued a third Annual Progress Report, highlighting the importance of sustainability and green finance education across the financial and related professional services sectors (see tinyurl.com/3w2rxfzb). As a proud signatory of the SFEC, the AIA champions this key initiative, working with other professional bodies and government departments to ensure finance professionals are equipped to meet the demands of financial reporting and disclosure frameworks.

AIA's Sustainability Promise, embedded within its governance framework with the appointment of a dedicated sustainability expert to AIA's Council, highlights ongoing support of the activities and objectives of the SFEC. Over the period outlined within this Report, AIA has facilitated dialogue on climate change and environmental issues, taken part in events with regulators and other professional bodies, published sustainability-related articles and hosted events for professional accountants. The Green Finance and Sustainability Hub continues to offer guidance on reporting standards, signpost key literature and learning material, and host insightful articles.

David Potts, AIA Director of Policy and Regulation, said: 'AIA's work to support the SFEC shows our dedication to equipping members with the tools to lead in sustainable finance.'

AIA NEWS

AWARD

AIA celebrates Innovation in Accountancy at PQ Awards 2024

AIA presented Icarus Accounting Simulation App as the Innovation in Accountancy winner at the PQ Awards 2024.

The recipient of the Innovation Award, Icarus (Accountancy), was hailed for their groundbreaking contributions to accountancy education. The mobile and desktop app, designed for accountancy students at the University of London, simulates a 'complex business challenge set in a real-life context, where research into the market and the industry are directly relevant to and consistent with the simulated business'.

Features of the app include role assignment, social media tools to allow students in different countries to communicate and work in teams, a business plan aspect, benchmarking results, report submission, tutor feedback and more. Their innovative endeavours have not only pushed the boundaries of traditional education but embrace new ideas and technologies in the profession. Congratulations Icarus!

Philip Turnbull, AIA Chief Executive said, 'Presenting the Innovation in Accountancy Award allows us to support and honour those who are driving positive change and shaping the future of accounting. Additionally, having an AIA nominee for the NQ of the Year demonstrates the calibre of professionals that our Association produces.'

AIA Council Member, Sharon Jandu, who attended the ceremony and presented the award, added, 'As AIA continues to champion innovation and excellence in the accountancy field, the recognition of Icarus Accounting Simulation App's achievements underscores the importance of digital innovation in accountancy. It inspires us all to continue pushing the boundaries and embracing new ideas to propel the profession forward.'

By celebrating innovation and emerging talent, AIA remains at the forefront of driving positive change and shaping the future landscape of accounting. Everyone at AIA also extends their warmest congratulations to Arthur Kaliisa (AIA member) who was shortlisted for the Newly Qualified of the Year award at the awards ceremony.

SCHOLARSHIPS

AIA scholarships awarded to aspiring accountants

AIA is delighted to announce the recipients from the Commonwealth and UK of the 2024 AIA Scholarships, funded by the AIA Educational and Benevolent Trust. These scholarships are awarded to students demonstrating a strong commitment to a career in accountancy or auditing, providing full financial support to achieve the AIA professional qualification.

The deserving winners of this year's scholarships are Shantelle Malcolm from Jamaica, Michael Jefferson Nelson from Ghana, and Tony Li from the United Kingdom. Each has exhibited exceptional passion, drive and a keen willingness to learn, traits that are essential for success in the accountancy profession.

Shantelle Malcolm, Jamaican scholarship winner, said: 'Having been selected as a candidate for the Commonwealth scholarship, I recognise the responsibility entrusted to me. I'm dedicated to using this scholarship to drive positive change and advance the principles of integrity, transparency and professionalism in my organisation.'

Michael Jefferson Nelson, the winner from Ghana, said: 'This scholarship is an incredible honour. As someone deeply passionate about accounting and auditing, this opportunity is not just a stepping stone, but a pivotal moment in my career. I am grateful for AIA's confidence in my potential and their commitment to future international accountants.'

Jane Steele, AIA Qualifications Manager, congrated the winners: 'We are immensely proud of Shantelle, Michael and Tony. Their enthusiasm for their future careers in accountancy is truly inspiring. These scholarships are testament to their potential, and we are excited to see how their journey unfolds. Congratulations!'

AIA remains committed to fostering talent and ambition in the accountancy field. Applications from the UK and the Commonwealth for the 2025 Scholarship programme will open soon.

ACHIEVEMENTS

AIA member in practice celebrates a year of achievements

Shabir Djakiodine, founder of Euro Accounting and AIA Member in Practice, continues to demonstrate his commitment to excellence, having been named Entrepreneur of the Year 2024 and Most Trusted Accounting and Finance Managing Director 2024.

Euro Accounting also achieved the accolade of Business of the Year 2024 for small companies, reflecting the firm's exceptional recent performance, and was a finalist for International Enterprise of the Year 2024 and Diversity and Inclusion 2024, showing its commitment to a diverse and inclusive workplace.

As an AIA Member in Practice, Shabir has access to a wealth of professional development opportunities and specialised guidance, enabling him to continually refine his skills and stay up to date with industry trends. AIA's services help small and medium-sized practices like Euro Accounting to succeed while complying with standard and regulations.

Euro Accounting's expansion into new markets, such as Dubai, signifies the global reach facilitated by the AIA's network of professionals and resources. Through strategic collaborations and access to international expertise, Euro Accounting has been able to extend its services to a diverse clientele worldwide.

Congratulations to Shabir and Euro Accounting on these achievements. AIA is proud to support their success!

MENTAL HEALTH

Prioritising mental health in accounting

Muhammad Bilal (MBA, B. Com Hons) is an AIA member and senior consultant with M B Dean, West Yorkshire.

Since 2001, the Mental Health Foundation has been leading Mental Health Awareness Week, encouraging the UK to focus on good mental health. In May, the theme was 'Movement: Moving more for our mental health' It is crucial for us, as accounting and finance professionals, to recognise the importance of movement in maintaining our own mental wellbeing and that of our teams.

Too often, we confine ourselves to desks, buried in numbers and spreadsheets, neglecting the vital connection between physical activity and mental health. Perhaps we can shift our perspective and embrace movement as an integral part of our daily routines. Let's lead by example and encourage our colleagues to prioritise movement. Here are a few simple yet effective tips to incorporate movement into your day:

- **Moments for movement**: A brisk walk at lunchtime can rejuvenate both body and mind.
- **Move your way**: Take advantage of technology and conduct meetings outdoor whenever possible – it can enhance productivity and creativity.
- **Stretch and move**: Incorporate regular stretching exercises into your routine.
- **Rhythmic chores**: Make household chores more enjoyable by playing music and dancing along!

Research by the Mental Health Foundation shows that many adults struggle to find time for movement amidst their busy schedules. Integrating moments for movement is more achievable than we might think. Let's benefit from Mental Health Awareness Week and reflect on how we can support our colleagues and teams. Initiating conversations about mental health is the first step towards fostering a supportive and inclusive workplace culture.

So let's embrace the theme of Movement for Mental Health and make it a cornerstone of our professional ethos. **Remember, movement matters!**

Consolidation questions

***David Oakes* considers how to approach 'Financial Accounting and Reporting 2' consolidation questions.**

David Oakes
AIA moderator

Your performance in this demanding examination paper will largely depend upon how you perform in Question 1, a compulsory Consolidated Financial Statement question, typically worth 35 marks and taking up a scheduled 63 minutes of your allocated three-hour exam period.

The question will demand knowledge of consolidation techniques far beyond the basic level knowledge you obtained in studying for 'Financial Accounting & Reporting 1'.

Typically, consolidation examination questions will cover one or more of the following areas:

- complex groups;
- changes in group structure;
- foreign currency subsidiaries; and
- group statements of cash flow.

We are going to focus in this article on how to approach such a question, using an example examination question as our base.

Consolidated Statement of Profit or Loss

The main part of this question was a requirement to produce a Consolidated Statement of Profit or Loss (25 marks) and the scenario was fairly detailed.

There were four group companies:

- a parent (Amber);
- a subsidiary (Coral);
- a sub-subsidiary (Jade), which was disposed of half way through the financial year; and
- an associate company (Onyx), which had been acquired in two stages – a financial investment in an earlier year upgraded to associate classification part way through the current year.

Identification of this group structure with relevant dates is an important part of tackling the question and it is useful (if not vital) to produce a sketch of the group structure (see **Box 1**).

From such a sketch, we can conclude that as far as the year to 31 December 2023 is concerned, we need to consolidate Amber (parent) and Coral (sub) for the entire year, Jade (sub) for six months (prior to disposal), and Onyx (associate using the equity method) for nine months.

The time apportionment of Jade will apply to each of the (six) line items in the Profit or Loss and OCI. The one line consolidation of the associate is also time apportioned so it is important that these key details are picked up before you start tackling numbers in your statement.

So the basic "recipe" for the six lines in the Profit or Loss will be:

Amber + Coral + 6/12 Jade.

This basic recipe applied across the six lines would pick up good basic (easy) marks and represent a good way to start your answer. More demanding calculations can be completed later and the results added to your statement. Show the make-up of each line item as a calculation in brackets underneath the line item in question (see below). Also, don't forget proper headings in the statement itself.

Finally, when preparing workings make sure that you number them and give them a title. The cross referencing of these workings to your final answers makes life much easier for markers in terms of awarding you well deserved marks for the workings you have done.

Let us begin then by doing the 'recipe' for the Consolidated Statement of Profit or Loss. Some of these line items will be final, others will need further adjustments.

We can then turn to some of the other relatively straightforward adjustments required.

Amber: Consolidated statement of profit or loss for the year ended 31 December 2023 ($m)

Revenue: 4,500 + 3,600 + (6/12 x 2,500)
Cost of sales: 3,600 + 3,100 + (6/12 x 2,300)
Gross profit
Other operating income: 90 + 40 + (6/12 x 20)
Operating expenses: 420 + 480 + (6/12 x 180)
Group profit on disposal of subsidiary
Re-measurement gain on equity investments
Finance costs: 60 + 40 + (6/12 x 30)
Share of associate's profit
Profit before taxation
Taxation: 110 + 4 + (6/12 x 2)

W2 inter-company trading

This is a common adjustment in consolidation questions, and particularly pertinent for a P&L. Basic principles are to eliminate the full value of the trading from both revenue and cost of sales, but to then add back the value of unrealised profit in closing inventory to the cost of sales figure.

Details were in note 4. The goods were sold at a mark-up of 25% and the formula for dealing with such a calculation is:

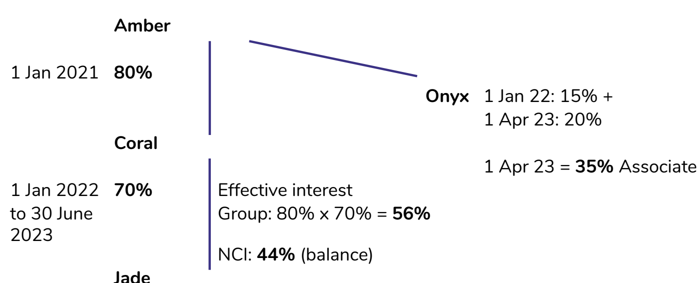
Selling price x mark up % / 100 + mark Up % x Unsold %

Adjustments:
Eliminate trading =
Dr Revenue $20m   Cr Cost of Sales $20m.
Unrealised Profit =
$20m x 25/125 x 25% = $1m = Dr Cost of Sales.

W3 Other income

This line item required one simple adjustment to eliminate the Coral profit on disposal of shares figure of $10m which needs to be calculated from a group perspective and shown separately.

Box 1: W1 Group structure (year-end 31 December 2023)



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W4 Re-measurement gain on equity investment

This is a fairly quick and easy adjustment from note 3. In connection with the Investment in Associates figure for the SFP, we need to restate the value of the original 15% investment in Onyx. Amber originally paid $3m, but the fair value at the date of the increase in the investment was $4.5m. So we report the increase as a re-measurement gain in the P/L:

($4.5m – $3m) = $1.5m

and we include the $4.5m as part of the cost of our Investment in Associate.

W5 Operating expenses

The easy adjustment here will be additional depreciation based on the fair value adjustments to PPE. The fair value adjustment is based on the given figure of $40m for net assets less share capital ($10m) and retained earnings ($15m) = $15m fair value adjustment. The remaining useful life was stated as 10 years so $15m/10 years = an extra expense of $1.5m pa.

W6 Share of associate's profit

The equity method for associates merely needs the inclusion of the parent's share of the associate's profit after tax for the period for which the associate has been in the group. Here time-apportionment is required so:

9/12 x $20m x 35% = $5.3m.

More easy marks!

We have now picked up most of the easy marks in the question but there are still three more difficult figures to be included in the P/L:

- the impairment of goodwill in Coral;
- the group profit on the disposal of Jade; and
- the attribution of the final profit figure to the parent and the non-controlling interest.

The other key question requirement was to calculate some key numbers from the statement of financial position as at 31 December 2023, and these are key group calculations which you must be able to perform. In terms of easy marks, it is perhaps worth looking at some of these next!

W7 SFP goodwill at 31.12.2023

You will always need to calculate goodwill in any consolidations question, so let us do the calculations for both subsidiaries before we go much further! We are using the partial method which means a share of net assets for the non-controlling interest figure and all impairment losses are borne by the parent.

	Coral $m	Jade $m
Consideration + NCI share of net assets	37.0	40.0*
Coral: $40m x 20%	8.0	
Jade: £30m x 44%		13.2
Less net assets at acquisition	(40)	(30)
Goodwill at acquisition	5.0	23.2

*(Coral paid $50m: group share 80%)

W8 SFP Investment in Associate at 31.12.2023

This is a relatively easy calculation. We begin with the cost of the 20% shareholding ($6m). We then add on the fair value of the original 15% holding at the date of acquiring the additional 20% ($4.5m) – see W4. We finish with the usual equity accounting approach of adding on the group share of post-acquisition profits of the Associate:

(35% x $20m x 9/12) = $5.3m (W6)

So: $6m + $4.5m + $5.3m = $15.8m

Time for the hard marks!

We can then turn to the harder calculations in the question. You may not be able to get these completely right but you can still pick up lots of marks by attempting them with clear workings.

W9 Group profit on disposal of subsidiary (Jade)

This is worth a substantial amount of marks in the context of this question and is a working that you need to learn! The essential formula for a group disposal calculation is as follows:

Proceeds		X
Less:		
Net assets at disposal date	X	
Goodwill at acquisition	X	
Less NCI at disposal date	(X)	
		X
Group profit or loss on disposal		X

The proceeds figure has been given ($60m). The net assets at disposal date will be the fair value of net assets at acquisition ($30m) plus the increase in retained earnings to the disposal date:

(20 + (8 x 6/12) – 10) = $14m

So: $30m + $14m = £44m

The goodwill figures were calculated earlier W7.

Finally, the NCI at disposal date can be calculated by adding the NCI share of increased retained earnings (see above) to the opening balance:

($13.2m (W7) + (44% x $14m) = $19.4m

So the disposal calculation is:

	$m	$m
Proceeds		60.0
Less:		
Net assets at disposal date	44.0	
Goodwill at acquisition	23.2	
Less NCI at disposal date	(19.4)	
		47.8
Group profit or loss on disposal		12.2

W10 Impairment loss on goodwill

This is relevant to Coral and is prompted by the information supplied regarding the recoverable amount for that subsidiary.

	$m
Net assets at 31.12.2023	
Fair value of net assets at 1.1.2021	40.0
Increase in post-acquisition retained earnings: ($30m + $16m – $15m)	31.0
Less: 3 years' fair value depreciation: ($15m / 10y x 3y) W5	(4.5)
	66.5
Notional goodwill: $5.0m (W7) x 100/80	6.3
	72.8
Recoverable amount (per question)	67.8
Gross goodwill impairment loss	5.0
Group share of goodwill impairment loss: 80% x $5.0m	4.0

W11 Profit for the year attributable to non-controlling interest

We need a figure here for both subsidiaries, even though Jade has been disposed of by year-end.

	Coral $m	Jade $m
Profit for year whilst a sub:	16.0	4.0*
Fair value depreciation ($15m/10y)	(1.5)	
Unrealised profit on inventory	(1)	
Less company profit on disposal	(10)	
Add group profit on disposal	12.2	---
Adjusted subsidiary profit	15.7	4.0
NIC %	20%	44%
NCI share	3.1	1.8

*($8m x 6/12)

That completes all the workings for the Consolidated Statement of Profit or Loss. The final statement is shown at the end of this article.

The final two outstanding figures from the Statement of Financial Position can now be calculated.

W12 Retained earnings SFP at 31.12.2023

This will be a combination of the four group companies and requires a coming together of all of our workings so far.

	Amber $m	Coral $m	Jade $m
At 31.12.23/Disposal date	505.0	46.0	24.0
Fair value depreciation (W10)		(4.5)	
Coral profit on disposal of Jade shares (W3)		(10.0)	
Group profit on disposal of Jade shares (W9)		12.2	
Re-measurement gain (W4)	1.5		
Unrealised profit (W2)		(1.0)	
Share of associate income (W6)	5.3		
Pre-acquisition retained earnings		(15.0)	(10.0)
		27.7	14.0
Group share:			
Coral: 80% x 27.7	22.2		
Jade: 56% x 14.0	7.8		
Less: impairment loss (W10)	(4.0)		
	537.8		

W13 SFP Non-controlling interest at 31.12.2023

The only NCI remaining is that of Coral (Jade has been disposed of).

	£m
NCI at acquisition 1.1.2021 (W7)	8.0
NCI share of retained earnings 2022 & 2023 ($30m – $15m) x 20%	3.0
Less fair value adjustments for 2022 & 2023 ($15m / 10y) x 2 x 20%	(0.6)
Plus share of profit for 2024 (W11)	3.1
	13.5

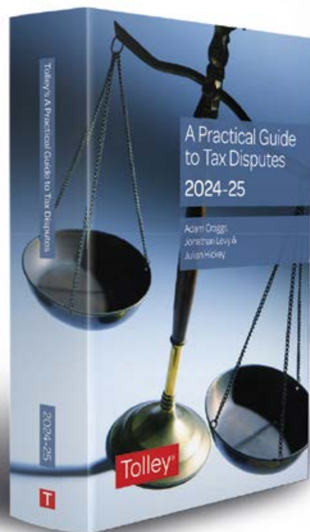
And finally…

Amber: Consolidated statement of profit or loss for the year ended 31 December 2023

	$m
Revenue 4,500 + 3,600 + (6/12 x 2,500) – 20(W2)	9,330.0
Cost of sales 3,600 + 3,100 + (6/12 x 2,300) – 20(W2) + 1(W2)	(7,831.0)
Gross profit	1,499.0
Other income 90 + 40 + (6/12 x 20) - 10 (W3)	130.0
Group profit on disposal of subsidiary (W9)	12.2
Re-measurement gain on equity investment (W4)	1.5
Operating expenses 420 + 480 + (6/12 x 180) + 1.5 (W5) + 4 (W10)	(995.5)
Finance costs 60 + 40 + (6/12 x 30)	(115.0)
Share of associate's profit (20 x 9/12 x 35%) W6	5.3
Profit before taxation	537.5
Taxation 110 + 4 + (6/12 x 2)	(115.0)
Profit after taxation	422.5
Attributable to:	
Owners of the parent	417.6
Non-controlling interest 3.1 + 1.8 (W11)	4.9
	422.5

This article should give you some clarity on how to tackle these demanding consolidated questions and how to maximise your ability to earn vital marks.

Think Tax. Think Tolley.



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LEARN FROM THE EXPERTS

Interview

Welcome to an insightful interview with Vincent Harney, Chair of the AIA Irish Advisory Committee.

For an extended version of our interview with Vincent Harney, see the AIA website.

How do you perceive your role as Chair of the Irish Advisory Committee?

For me, in large part it is a facilitator role. Initially, it will be bringing all the committee members together, making sure that we understand our role and purpose. We must then work collaboratively to harness our individual skill sets, of which there are many, to achieve our common goals. As we progress, I anticipate establishing a more interactive platform. We are fully equipped to connect with our members in Ireland, offering a diverse range of events, including social gatherings. It's about enriching our calendar with meaningful experiences for our community.

What opportunities and challenges will the committee have in gaining recognition by regulators, employers and society?

Collaboration will be key. There are always challenges, but collaboration with like-minded organisations will be essential. I have witnessed at first-hand the willingness for regulators, employers and professional bodies to work together. There might be hurdles along the way, but I think given the rich history and pedigree of AIA we can overcome them and continue to gain recognition.

What do you think are the most important challenges facing the accounting profession?

What a difficult question to answer! I would probably say the number one challenge globally will be AI – ensuring that it is harnessed in the right way with proper controls and measures in place. I think it can be a fantastic support tool if used correctly.

Sustainability is perennial and should be at the forefront of everything we do. I think given the current climate and where the legislation is going, accountants are going to be leading the field in reporting on sustainability.

And underpinning everything is ethics. It's an intrinsic part of everything we do. We must uphold ethical standards in all our interactions, affirming our credibility as trusted professionals providing essential services.

What are your views on the delivery of CPD? Is it better to have face-to-face events, online or a combination of both?

Personally, I am all for a blended approach. Live events undoubtedly offer greater engagement and networking opportunities compared to webinars, where full participation can sometimes be challenging due to the technology. However, certain aspects of CPD lend themselves well to online platforms like Zoom. For instance, a tax update seminar in Ireland might benefit from face-to-face interaction, while supplementary materials can be conveniently shared in a virtual setting. I believe there's value in incorporating both formats to optimise the CPD experience.

When it comes to professional networking and building social capital, I believe face-to-face interactions offer greater potential. Online platforms have their limitations, while in-person interactions allow for the development of genuine relationships and rapport. The visibility of face-to-face encounters often tips the scales.

What are your top priorities for the Irish Advisory Committee?

Establishing our presence is paramount – clarifying who we are, our objectives and our significance within Ireland. Prioritising services for our membership is crucial to ensure that we can effectively meet their needs. We will also engage with other institutions and regulators to enhance our profile through various avenues.

We will emphasise social engagement, through events such as an annual dinner, to foster community connections and inclusivity. Events ranging from pub quizzes to formal dinners could be on the agenda. There could also be activities that blend business and social aspects, such as team-building sessions or workshops on negotiation skills, which would provide opportunities to develop core business competencies in a social setting. Of course, traditional CPD sessions will also remain an integral part of our offerings.

Do you have any life lessons that you can pass on to our members?

'Never say never' stands out as a key lesson. Opportunities have a way of presenting themselves when least expected!

As the recently appointed Irish Advisory Committee Chair, Vincent shares his views on the challenges and opportunities facing the accounting profession in Ireland, including the integration of AI, sustainability and ethical considerations.

Vincent Harney
Chair of the Irish Advisory Committee

Taxing the Olympics and Paralympics

With the Olympics and Paralympics due to take place in France this summer, *Dr Dick Molenaar* examines the impact that bilateral tax treaties can have on relevant earnings.

Dr Dick Molenaar
Partner, All Arts Tax Advisers and researcher at the Erasmus School of Law

This summer, the Olympics (26 July to 1 August) and the Paralympics (28 August to 8 September) will be held in Paris, France. Athletes will compete in various sports disciplines for gold, silver and bronze medals and spectators can follow their sporting battles, live in the venues or at home on television.

Even though the Olympics and Paralympics themselves do not offer prize money, the athletes will earn income from other sources. Other organisations, companies, legal entities and stakeholders, including the International Olympic Committee (IOC), will also receive earnings from their activities around the tournaments.

This article will discuss how these earnings will be taxed, especially for non-residents visiting France in a short period of time.

National law and bilateral tax treaties

For personal and corporate income tax, the normal relationship between national tax law and bilateral tax treaties is relevant for Paris 2024. There is no taxation possible without a tax clause in the national law and most countries have included very broad taxing rules for non-residents in their legislation. This is also the case for France, which wants to tax almost every payment leaving the country. There are two reasons for this broad approach of source taxation:

- obtaining tax revenue for the source country; and
- preventing the possibility that the non-resident might not pay tax anywhere.

The French withholding tax rates are 25% general and 15% for non-resident sports players, while the normal tax rates are 25% corporate income tax and 11% to 45% personal income tax. However, in normal situations, the home country of the non-resident company or person will also tax this income from France as part of the worldwide income. This would lead to double taxation if nothing was done.

To tackle this issue, countries have concluded bilateral tax treaties, dividing taxing rights amongst each other, taking away this double taxation. These bilateral tax treaties are stronger than national law and lead to exemptions (or tax credits) in the source or the home country. France has around 100 bilateral tax treaties with various countries and these are relevant for these Olympics and Paralympics.

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OECD Model followed by France

Most bilateral tax treaties are drawn up after the OECD Model Tax Convention. This Model has the following general rules for different types of income:

- **Article 7: Companies and self-employed persons:** Profits will only be taxed in the home country, unless the company has a permanent establishment in the source country, in which case the source country can tax the profit of that permanent establishment.
- **Article 15: Employees:** Income from employment is taxed in the home country, unless the work is carried out in the source country. However, there is an exception that employees working for an employer for up to six months in the source country can be taxed in the home country.
- **Article 12: Royalties:** Taxation for royalties takes place in the home country.
- **Article 17: Sportspersons (and entertainers):** Work carried out by a sportsperson or entertainer is taxed in the source country when the work is done there. This is also the case when the fee is paid to another party, such as the team or a company representing the sportsperson.

These types of income will all arise at the 2024 Paris Olympics and Paralympics. France follows the OECD Model as much as possible in its bilateral tax treaties.

Practical use for companies in Paris 2024

Non-resident organisations, companies, legal entities and self-employed workers involved with the 2024 Olympics and Paralympics will fall under Article 7 of the bilateral tax treaty of their home country with France. This means that France can only tax their French source income if they have a permanent establishment in France. This requires a fixed place of business to have existed for a longer period, most often more than one year.

Without a permanent establishment, France cannot tax the French source income, and this will be the case with most foreign entities and self-employed persons working for or around the 2024 Paris Olympics and Paralympics. This includes the IOC (from Switzerland) and national sports associations. No permanent establishment means no French tax, even when the French national law would allow taxation, because tax treaties are stronger than national law and therefore the French income has to be exempted.

It will rarely happen that a foreign entity or self-employed person will have a permanent establishment in France for the 2024 Olympics and Paralympics. However, if it does, then French tax of 25% has to be paid on the profits and a tax credit or exemption must be allowed in the home country to avoid double taxation.

Practical use for employees in Paris 2024

Non-resident employees will fall under Article 15 of the bilateral tax treaty of their home country with France. This means that France can tax the salary when a non-resident employee is working on French territory, while the home country needs to allow a tax exemption or credit so as to the eliminate double taxation.

There is an exception to this general rule for employees who go to work in France for their non-resident employer. This is mentioned in Article 15(2) of the OECD Model Tax Convention and taken over in every French bilateral tax treaty. The exception applies under three conditions:

- the work period does not exceed 183 days;
- the non-resident employer keeps paying the salary; and
- there is no French permanent establishment of the company to which the salary costs can be allocated.

With this exception many employees can remain under the taxing rules of the country of their employer; for examples, television companies that send their staff to Paris for the Olympics and Paralympics. These postings will normally not exceed the period of six months, so therefore the taxing right for the salary will stay in the home country of the television company.

Practical use for royalties from Paris 2024

Payments for royalties, such as television and other broadcasting rights, will normally only be taxable in the home country of the owner of the copyright under Article 12 of the OECD Model. This means that royalty payments from France should be exempted from French tax, even though France has a source withholding tax of 25% in its national tax law.

Most copyright income from the Olympics and Paralympics will first go to the IOC in Switzerland – not only from France but also from other countries using television, broadcasting and other rights. The IOC will then distribute part of the royalties to the right holders in various countries, such as national associations. In this chain of copyright payments, more than one bilateral tax treaty may be applicable.

Some bilateral tax treaties deviate from the OECD Model, however, and have a low rate of withholding tax of between 5% and 15% in Article 12 for royalties in their tax treaties. The home state of the receiver then has to allow a foreign tax credit to eliminate double taxation. For countries without a bilateral tax treaty with France, the original French withholding tax of

25% will remain in place; however, France has around 100 tax treaties, covering all the bigger countries.

Practical use for sportspersons in Paris 2024

The main international rule is that the income of sports players (and entertainers) needs to be taxed in the state of their work. This is specified in Article 17 OECD Model Income Tax Convention and sets aside the allocation rules for self-employed and companies (Article 7) and for employees (Article 15). This means that no permanent establishment is needed for the source taxation, as required for Article 7, and that no exception is possible for short-period work of employees in the other state, as is normal under Article 15(2).

France is using Article 17 for sports players (and entertainers) in almost every tax treaty. This means that France has the taxing right for all income directly related to the Olympics and Paralympics, for the days that the sports players are staying on Franch territory. This applies to the payments from national associations, sponsors and others, such as for living expenses and bonuses. It also includes the new bonuses from World Athletic, because these are earned with the sports activities in France. However, the chance is very likely that France will not use this broad taxing right for non-resident sports players for income earned outside France, because it is hard to obtain that information.

This should be no problem, because the residence country of the sports players will tax the income from the Olympics and Paralympics anyhow, as part of the worldwide income. On the other hand, if France taxed the income under Article 17, this would lead to double taxation and so Article 23 OECD Model provides for elimination of double taxation in the residence state, either with the tax exemption or tax credit method.

With the exemption method, the foreign income will be exempted from national tax, while the tax credit method allows the deduction of the foreign tax from the national tax. The exemption method is easiest to apply but might lead to double non-taxation if France does not levy tax when it has the taxing right under Article 17.

The exemption method can be found in the treaties with the following countries: Argentina (1979); Austria (1993); Belgium (2021); Bolivia (1994); Bulgaria (1987); Cameroon (1976); Gabon (1995); Germany (1959); Hungary (1980); Ireland (1968); Jordan (1984); Kenya (2007); Madagascar (1983); Panama (2011); Slovenia (2004); Switzerland (1966); and Venezuela (1992).

Some tax treaties set as a condition for the tax exemption that the income should effectively be taxed in France. This is the case in the new treaty with Belgium.

Under-taxation cannot happen with the tax credit method and therefore the OECD recommends the use of this method for Article 17 income, which France has taken over in most of its tax treaties.

There is also a risk of over-taxation when France would tax the income from the Olympics and Paralympics and a tax credit or exemption would not be possible in the home country. This happens when the income is paid to another person than the sports player, such as a team or national association.

Then it is not the sports player that is entitled to the elimination of double taxation, but only the other person, who may not have taxable income or can even be tax-exempt (e.g. as a non-profit national sports association). These issues do not apply to sports players from Kuwait, Oman, Qatar and UAE, because France has no Article 17 in these tax treaties.

Also, France is using the exception of Article 17(3) for income from events supported by public funds in 67 of its 100 tax treaties. This means that France does not have the taxing right when the sports activities are supported wholly or mainly (over 50%) by public funds from one or both of the states. This can be applicable to Olympic athletes in relatively unknown sports.

Conclusions

Taxation of the 2024 Paris Olympics and Paralympics is a balance between French national tax law and bilateral tax treaties. Source withholding tax can be set aside by treaty articles, such as Article 7 for companies and self-employed workers, Article 15(2) for employees working for their employers for less than six months in France and Article 12 for royalties. This is only different when there is a permanent establishment in France or employees would be sent for longer than six months to the country.

For non-resident sports players, France has a broad taxing right following Article 17 of the OECD Model, even when the income has been earned outside France, although it is not likely that France will send income tax returns to include that income. This might lead to double non-taxation for sports players from countries with which France has agreed the exemption method in their tax treaty. The tax treaty should be studied as to whether this exemption really will apply.

On the other hand, double or excessive taxation can also happen when France would tax the income and problems arise with the foreign tax credit in the home country of the sports player and the national association.

Article 17 OECD Model can be a major disturber in international sports tournaments and that is again visible this year at the Paris Olympics and Paralympics. ●

Author bio

Dr. Dick Molenaar is partner with All Arts Tax Advisers and researcher at the Erasmus School of Law in Rotterdam, the Netherlands.

Demystifying EBITDA

Henry Ong **explains the limitations that can make EBITDA unreliable, and how other factors can help us to understand the financial situation of a company.**

Henry Ong
National Institute of Accounting Technicians, Philippines

Since the 1990s, the use of EBITDA (earnings before interest, taxes, depreciation, and amortization) as a measure of profitability has gained in popularity, being regarded by analysts and investors alike as a simple and straightforward metric for evaluating the operating profitability of a company.

The purpose of EBITDA is to offer a clearer view of the ability of a company to generate cash from its primary business activities. While EBITDA highlights core earnings, failure to account for these expenses results in an incomplete depiction of true cost structure and profitability.

Limitations of EBITDA

This limitation could potentially lead to misguided investment decisions. For instance, interest expenses represent the cost of borrowed capital, and excluding them can distort the actual profitability, especially for highly leveraged companies. Similarly, depreciation and amortization expenses reflect the gradual wear and tear of tangible and

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When EBITDA fails to account for depreciation and interest expenses, investors may get the wrong impression that the company is more profitable than it actually is.

intangible assets, respectively. Failing to consider them can result in an inflated sense of profitability.

Take the case of a technology company in the Philippines called Philweb. In its financial report for the first nine months of 2023, the company reported that its EBITDA was P50.9 million, representing 8% of its total revenues. However, upon deducting its depreciation, interest and income taxes, the bottom line results in a net loss of P13.6 million.

EBITDA is also often mistaken as a measure of cash flow because it ignores the cash flows associated with changes in working capital, which are important for assessing a company's liquidity and long-term sustainability.

Changes in working capital, such as inventory levels, accounts receivable and accounts payable, impact a company's cash flow and its ability to meet short-term obligations. By neglecting these factors, EBITDA fails to capture the cash flow dynamics that underpin financial stability.

For example, if we examine the financial report of a Philippine real estate company, Cebu Landmasters, as of September 2023, its EBITDA stood at P4.7 billion, accounting for 36.5% of its total revenues. However, when we factor in the changes in its working capital, we find its operating cash flows for the period declining to negative P808 million.

Moreover, EBITDA is often used to assess how easily a company can pay the interest of its outstanding debt in the form of the EBITDA-to-interest coverage ratio. In reality, when a company has significant capital expenditures, it means that it needs to allocate a substantial amount of its cash flow toward these investments.

This allocation of cash reduces the available funds that the company can use for other purposes, such as debt service, which involves making interest payments on outstanding debt.

Even if the EBITDA-to-interest expense multiple of a company appears favourable, indicating that it generates enough earnings to cover its interest costs, neglecting the impact of capital expenditures can be misleading. The company may have limited cash available for debt service after accounting for the necessary investments in its operations.

Assessing a company's value

Investors rely on financial metrics like EBITDA to assess the attractiveness of a company for investment. When EBITDA fails to account for depreciation and interest expenses, investors may get the wrong impression that the company is more profitable than it actually is.

One alternative metric for assessing a company's value is the enterprise value-to-EBITDA ratio. This ratio considers both residual earnings and cash flows generated by the entire business, providing a holistic perspective on a company's valuation. However, selecting stocks solely based on ratio comparisons may not be advisable, as EBITDA overlooks financial risks and capital requirements. If we consider the price-to-earnings (P/E) ratio as a pricing multiple that determines the value of a firm's equity, then there is another multiple that determines the overall worth of the firm. This multiple is known as the enterprise value-to-EBITDA (EV/EBITDA) ratio.

The enterprise value-to-EBITDA ratio

The rationale behind using this ratio is that investors not only pay for the residual earnings of the company but also for the cash flows generated by the entire business. To calculate the EV of a company, we simply add the market value of its equity and the book value of its net debt.

On the other hand, EBITDA (which stands for earnings before interest, tax, depreciation and amortization) represents the cash earnings of the company. EBITDA is a broad measure of cash flows and helps to assess the earnings potential of a company by adding back its financing costs and non-cash expenses.

The EV/EBITDA ratio has gained popularity among market analysts and fund managers because it allows them to price losing companies that cannot be valued using the P/E ratio.

It indicates the number of years it would take for the company to generate enough cash earnings to reach its current enterprise value. Similar to the P/E ratio, a lower EV/EBITDA ratio is considered more favourable. However, it is important to note that selecting stocks solely based on comparing ratios may not be advisable because EBITDA also fails to account for annual capital expenditures and working capital requirements, which could lead to an overstatement of the company's free cash flows.

For example, the Philippine telecom company, PLDT, has an enterprise value (EV) to EBITDA multiple of 5.1 times, which is lower than the market average of 7.9 times, indicating that it is relatively underpriced.

But when we factor in the interest expenses and depreciation, PLDT appears overpriced compared with the market, with a price to earnings (P/E) ratio of 25.9 times, nearly double the market average of 13 times. Capital intensive companies often require substantial investments in infrastructure, equipment and technology to maintain operations and propel growth.

Factors in valuation

By ignoring depreciation, EBITDA fails to account for the ongoing capital requirements necessary to replace aging assets. As a result, investors may underestimate the future capital needs of the company, leading to underinvestment and potential operational challenges down the line.

Now, in valuation, there are three factors that determine the value of a company. These are risk, cash flows and growth. By incorporating these factors, we can calculate the intrinsic EV/EBITDA ratio of a company. We can compute this by first determining the free cash flow as a percentage of EBITDA and then dividing this value by its associated risk factor. The risk factor is computed by the difference between the company's cost of capital and its long-term growth rate.

So, for example, based on the 2023 financials, the Philippine port operator ICTSI's free cash flow as a percentage of EBITDA amounted to about 59.5%. If we divide this value by the difference between its cost of capital and long-term growth, which is 5.4%, we will arrive at its intrinsic EV/EBITDA ratio of 11.1 times. If we compare this to its actual EV/EBITDA ratio of 7.2 times, we will find that the stock is undervalued by 35%.

Following this model, we observe that the ideal EV/EBITDA ratio of a stock increases when its free cash flow as a percentage of EBITDA rises or when its cost of capital decreases.

Historically, both free cash flows and cost of capital have a significant 22% correlation with the EV/EBITDA ratio. The free cash flow of a company, which is calculated by subtracting its capital expenditures from its operating cash flows, can strongly influence the target EV/EBITDA ratio of a stock.

Cash flows

While any company, whether profitable or not, can generate positive EBITDA, not all companies can consistently generate free cash flows. Some companies may not have sufficient operating cash flows to fund their capital expenditures, resulting in negative free cash flows. Others may not even have positive operating cash flows to start with if they are struggling with their sales growth and profitability.

About one-third of the stocks in the Philippine Stock Exchange index are spending more on their capital expenditures than what their operating cash flows could finance, resulting in negative free cash flows. When a company has negative free cash flow, it means that it needs to borrow more money to finance its deficit, increasing its riskiness and overvaluation.

For reference, the average free cash flow in the market is 23.3% of EBITDA, while the median EV/EBITDA ratio is 5.58 times. But similar to P/E ratios, pricing a stock based on the EV/EBITDA ratio goes beyond simple ratio comparisons because it requires a thorough understanding of the underlying fundamentals of the company. To assess the quality of a stock based on the EV/EBITDA ratio perspective, one has to evaluate and ask questions like how much free cash flows can the company generate from its EBITDA? How does the current interest rate outlook affect the company's cost of capital? What are the growth prospects of the company?

In conclusion

Understanding the EV/EBITDA ratio can provide a holistic perspective on a company's valuation, but by factoring in risk, cash flows and growth, we can make more informed decisions by avoiding the pitfalls of relying solely on traditional valuation metrics. Despite its flaws, EBITDA is still widely used and accepted in financial analysis because it's easy to understand and calculate.

It may seem like a simple and helpful metric for assessing performance, but it has significant limitations that make it unreliable. It is therefore important to be cautious and not rely solely on EBITDA when evaluating a company.

Investors and analysts should approach EBITDA with skepticism and consider other important factors like debt levels, tax exposures and asset depreciation to get a better understanding of the financial situation of a company. By understanding the limitations of EBITDA and considering a broader range of financial factors, investors can make more informed judgments and avoid being deceived by its apparent simplicity. ●

Author bio

Henry Ong is president of the National Institute of Accounting Technicians, the largest professional body of accounting technicians and bookkeepers in the Philippines

What can LinkedIn do for you?

Ashley Leeds **shares some insights on how LinkedIn can help you to raise your profile, make contacts and grow your business.**

Ashley Leeds
Author, public speaker, coach, podcaster

Would you like a steady stream of new clients reaching out to you on LinkedIn to buy your accounting services? Or how about new team members queuing to work with you?

This is the true story of how I grew my personal brand by using LinkedIn to get clients. It even meant that I was paid by Accountex to run their podcast, as well as hosting their LinkedIn Lounge at the world's biggest Accounting Exhibition.

It's a story of how one normal guy created a personal brand and grew his business by using LinkedIn. By following my method you too can grow your business and create a name for yourself.

Getting to grips with LinkedIn

You may well look at LinkedIn and think, 'Oh my goodness, I can't do that.' Or decide that it's just too complicated. It probably makes you have some or all of the following thoughts:

- What will people say when they see me?
- I can't think of anything to write.
- I've got to take lots of photos.
- Who cares what I think?

There are a million reasons why we don't do anything on LinkedIn or other forms of social media. But when I started my business, I ended up becoming a LinkedIn coach by accident. And here I am, three years later, writing for *International Accountant*! I pinch myself because I never thought I'd get anywhere like this. I never thought I'd be 'famous' in the accounting space.

Being human means that we're interested in other people.

The key factor in this whole journey has been consistency.

It was all because of LinkedIn. It was because I 'got out' there and did something a little bit different. LinkedIn is an amazing place to grow your personal brand and find business. There are many people on LinkedIn – at the last count it was over a billion members, which means that you can reach all kinds of people. You will be able to find your target audience there, including some businesses you wouldn't think of – all making connections, creating content and engaging professional services.

Being human means that we're interested in other people. When was the last time that you sat in a cafe just people watching? LinkedIn is a fantastic place to spark our curiosity, connect with people, make friends, and buy and sell our products and services.

The LinkedIn philosophy

The philosophy that I share when showing people how best to use LinkedIn is to treat the platform as one great big networking meeting. We have all been to networking meetings where we connect with people. We turn up, say hello and spark up conversations with new people. A week or month later, we go again to say hello to the same people and meet a few new ones. Rinse and repeat.

This was the traditional way that we grew our networks and businesses. Before long, you end

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WEBINAR

Ashley Leeds is running a webinar for AIA on '**What content can accountants write on LinkedIn?**' It will explore LinkedIn content creation for accountants, including the benefits, overcoming nerves, content ideas and tips.

For more information or to book a place, see: tinyurl.com/6eatw7ya

up knowing these people, liking them and trusting them. And here's the thing: people buy from people who they know, like and trust. It's no different with LinkedIn. I have been using it to build up that 'Know, Like and Trust' for the last five years.

When I set my business up accidentally in April 2021, I was starting from nothing. Since then I've grown from strength to strength. I've worked with many different people – corporations, individuals and group settings – to help them with their LinkedIn strategy.

So what have I done to get this far? I create content and comment on other people's posts. And my profile is optimised and fully accessible. This means that when you find me, you can see exactly what I do. There's no rocket science about LinkedIn, or any social media for that matter. My key advice to anyone wanting to use LinkedIn is consistency and authenticity.

The only thing that I tell people is to be yourself. You should be unapologetically yourself. Do whatever you do in real life on LinkedIn. Don't adopt a different persona. If you meet me in real life, you are seeing the very same Ashley Leeds as you do on LinkedIn. And that's all you need to do. It's that easy.

You should be unapologetically yourself. Do whatever you do in real life on LinkedIn.

Consistency is key

I show up regularly. Because I've been doing this for a while, I create content every single day. (Note: you do not need to create content every day!). I post my content around 6.30am because that works for me – not because it's the best time to post. You decide when the best time for you to post would be.

Commenting is currency

The other thing that I do every single day is comment on other people's posts. When you're scrolling on LinkedIn, you will see lots of different types of content to read, watch and engage with. With so much information available, the content is very rich. People offer advice, helpful tips, ideas that you may not have thought of or a twist on something that you're a specialist in. But it's content that makes you think.

By commenting on this content, people will start to react. You're adding your personality, so people can see exactly who you are. And if you comment on a post which has attracted comments by a hundred other people, they will all get a notification that you've added a comment too. That's potentially a whole new audience for you.

Those people may just revisit the post to see if you agree or disagree with them. They might engage too. They could click on your name and visit your profile. If they like the look of you, they may even send you a connection request. Just by adding a comment, you will have made a new connection – perhaps somebody who will refer business to you or who buy your services.

Comments are the currency on LinkedIn, so make sure that you're commenting and not just liking. Would you stick your thumb up to somebody in real life if they offered a piece of advice? No. You'd get into a conversation. This is where the magic lies on LinkedIn.

Profile optimisation

The other thing you need to do on LinkedIn is to make sure that your profile is optimised.

One of the things I talk about in my training is the four mistakes that we all make on LinkedIn:

1. a poorly optimised or outdated profile photo;
2. a banner (cover photo) that doesn't 'sell you';
3. a headline that is bland and generic; and
4. contact details that are vague.

1. Your profile photo

People buy from people who they know, like and trust. I know I keep saying that, but we need to see a photo where you are being open and being yourself. We need to see you looking at the camera and smiling.

We also need to be able to see you on our phones! When viewed on a mobile phone, the image can be as small as 4mm. I'm not going to be

Author bio
Ashley Leeds is the unstoppable 15-Minute Guy! As a business coach, he empowers business owners to become sales and marketing savvy. He has created the LinkedIn Daily Habit Workshop and teaches LinkedIn on stage, through webinars, YouTube and podcasts.

able to see you if you're standing in front of the Eiffel Tower. Make sure you fill that circle with your face and put a bold colour behind you so that you stand out out – perhaps it's a good opportunity to use your brand colours to help with marketing!

2. Your background photo

Your background photo (or your banner, as I like to call it) is a bit of real estate that you can use to tell people exactly what you do. An abstract photo or the view from your window really isn't going to do that. Write some words in that banner so that people know exactly what you do. Make sure you write them big enough so that they can read it on your mobile phone – on my mobile phone, your banner will be only 6.5cm big!

3. A headline that works

The other thing that people forget to do is have a decent headline. That's the bit that is underneath your name and by default is your job title. But 'Chartered Accountant at XYZ & Co' doesn't jump out. You need to be more than just your job title. Be different. For example, I call myself the 15-minute guy. This sparks curiosity which means people click on my link and visit my profile. They see my happy smiley face, they see my banner and they know straight away exactly what I do.

4. Contact Details

Finally, the last thing that we all get wrong is our contact details. So many people I speak to do not have a phone number on their contact details. I've just seen your great content on LinkedIn. I want to speak to you because you sound great fun or as if you'd be a perfect fit as my accountant. But if I can't phone you, what am I going to do?

Also, in the contact details there is space for three websites. Please use them and insert a calendar link so that somebody can book a meeting with you. Or you could include a testimonials page, a site where you've written a white paper, your blog page or your YouTube channel.

Some final thoughts

When are you going to start on LinkedIn and make it work for you? If you do, it won't be long before you too have a steady stream of people coming to you for accountancy services or to work with you. ●

If you want to find out more, or share your thoughts with me, please connect with me on LinkedIn, you will find me at: www.linkedin.com/in/ashley-leeds-15-minute-guy/
More information is available on my website: https://just.15mins.day

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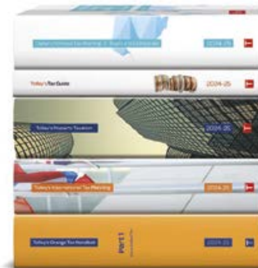

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Closing a limited company

Shaun Barton considers the various options for closing down a solvent limited company and advising your clients on how to save time, tax and overall costs.

Shaun Barton
Partner, Company Closure

When a client reaches the end of the journey with their company, whether this is due to retirement, a changing marketplace or simply a desire to move on to a new venture, ensuring that the business is wound down in an orderly and compliant manner is crucial.

Closing a limited company, however, is not a one-size-fits-all process. There are several legitimate ways in which a limited company can be closed down when it is no longer needed or wanted. When selecting a closure option which is right for your client, the choice will depend on a number of factors, including the financial position of the company at the time of closure.

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As an accountant, it is likely that you will be the first port of call for a client looking to wind down their business operations. It is therefore important that you are familiar with both formal and informal closure processes in order for you to be able to better help your client understand their possible options.

While one closure option may represent a saving in time, another may better meet a saving in terms of tax and overall cost. Due to this, what may be appropriate for one client may be wholly unsuitable for another; this can only be determined following a careful consideration of the client's financial position and their current priorities, as well as their future ambitions.

Option 1: Make the company dormant

If a company has stopped trading and is currently not required, it may be possible to register the company as dormant so long it does not have any form of income and has had no significant accounting transactions during its accounting period.

This option could be considered appropriate in situations where a company is not currently required, yet a final decision as to its long-term future has not been made. A dormant company, while inactive, does continue to exist from a legal standpoint; this means that the company name is protected from use by others during this time.

A company is made dormant following an application to Companies House. HMRC needs to be informed separately once this has been done. While the administrative duties for a dormant company are not as onerous as for an active company, annual company accounts and returns still need to be filed with Companies House while a company is registered as dormant.

A dormant company can be brought back into use at any time and permission is not required from Companies House to do this. However, HMRC must be informed within three months of the company restarting trade.

While there is no time limit to how long a company can remain dormant, this does not actually close the company. It will continue to exist in its dormant state indefinitely and will consequently require the company to continue to adhere to its annual administrative duties during this time. If your client knows they will not require the company in the future, it may make more sense to officially close the company down via either the strike off process or by placing the company into liquidation.

Option 2: Strike off

The quickest and easiest way of closing a limited company is applying to have it struck off from the Companies House register. This is achieved by submitting a DS01 form and paying the small administration fee. Strike off – sometimes known as company dissolution – is designed with solvent companies, and those which have never traded, in mind.

For a company which is currently dormant, or one which has no significant assets or liabilities to be dealt with, dissolving the company via strike off may be the best way of winding operations up. While strike off can be a good option in the right circumstances, it is not something which is appropriate for all limited companies, however.

For a company which has considerable assets, formal liquidation could be a significantly more cost-effective and tax-efficient way of achieving closure as opposed to opting for strike off. While for those companies with significant liabilities and unmanageable debts, strike off may simply not be possible in the first place.

When a company files an application to strike off, a notice is placed in the Gazette advertising this to creditors and any other interested parties. Creditors are then given the opportunity to object to the proposed dissolution of the company and thereby prevent it from being wound up.

For a creditor who is owed money by a company, it is in their interests for the company to remain active. This is because once a company is dissolved, it ceases to exist as a legal entity; therefore, a creditor will be rendered unable to recover any debts which remain outstanding. If a creditor becomes aware that a debtor is attempting to dissolve their company, they are therefore likely to object to the application in order to be able to continue their collection efforts and recover the money they are owed by the company.

If you attempt to strike off a company which is insolvent, you should prepare for a creditor blocking the process. Should this happen, you will have to consider alternative closure options for your client, which is likely to be a formal liquidation process.

Even if a company is solvent, and therefore is unlikely to receive any creditor objections to a proposed strike off, this may not be the most suitable way of bringing the company to a close. While opting for strike off may seem like the quickest and easiest option, this could come at a great financial cost if closure by way of an Members' Voluntary Liquidation has not been adequately considered.

Option 3: Members' Voluntary Liquidation

A Members' Voluntary Liquidation is a formal liquidation option for solvent companies

with significant assets to be distributed to shareholders as part of the closure process. As a general rule, if the company has in excess of £25,000 to distribute, a Members' Voluntary Liquidation is likely to be the most cost-effective way of achieving this.

As a Members' Voluntary Liquidation is a formal liquidation process, it does require the input of a licensed insolvency practitioner who will be appointed to act as the company's liquidator. This does inevitably come with costs, so closure via a Members' Voluntary Liquidation does represent a more costly option when compared to dissolving the company via the strike off process. However, for those companies that hold significant assets, a Members' Voluntary Liquidation can often be the most appropriate option.

This is because funds extracted from a company via a Members' Voluntary Liquidation are treated as capital gains rather than income and are taxed accordingly. Furthermore, directors can also take advantage of business asset disposal relief, which halves the rate of capital gains tax payable down to just 10%.

In many cases, the savings which can be made thanks to this favourable tax treatment eclipse the professional fees associated with a Members' Voluntary Liquidation.

An additional benefit of a Members' Voluntary Liquidation is that assets can be distributed 'in specie' if required. This means that non-cash assets such as property, vehicles or equipment can be distributed to shareholders in their physical form rather than their equivalent value in cash.

In order to be eligible for a Members' Voluntary Liquidation, the company in question must be solvent – determined as being able to clear all liabilities and any statutory interest, within a period of 12 months – and directors must swear a declaration of solvency to attest to this fact. Falsely swearing a declaration of solvency is considered an act of perjury; therefore, this should only be done following a full and comprehensive assessment of the company's current and contingent liabilities.

Option 4: Creditors' Voluntary Liquidation

A Creditors' Voluntary Liquidation is an insolvent liquidation process which allows an indebted business to cease trading, repay their outstanding creditors as far as possible, and facilitate the company to be wound down in an orderly manner. While this is not an option you would initially consider for a client you believe to be solvent, in some instances the process of closing a limited company identifies liabilities which were until that point unknown.

It is sometimes the case that a company undergoing a Members' Voluntary Liquidation is found to be unable to fully pay its debts in full in the allotted 12 month period following the commencement of the liquidation. This may be because of a miscalculation, or more likely, due to a contingent liability which becomes an actual liability during the Members' Voluntary Liquidation process.

In this instance, the Members' Voluntary Liquidation may have to be converted to a Creditors' Voluntary Liquidation in light of the changing circumstances. In many cases, the current liquidator overseeing the Members' Voluntary Liquidation will be able to continue on as liquidator for the subsequent Creditors' Voluntary Liquidation; however, creditors will need to give their consent to allow this.

It is sometimes the case that a company undergoing a Members' Voluntary Liquidation is found to be unable to pay its debts in full in the allotted 12 month period following the commencement of the liquidation.

From this point onwards, a Creditors' Voluntary Liquidation operates in much the same way as a Members' Voluntary Liquidation, with the crucial difference being that distributions from company assets are made to creditors rather than shareholders.

Once the Creditors' Voluntary Liquidation completes, the company will cease to exist as a legal entity, with all outstanding debts being written off unless these have been personally guaranteed by the directors.

In conclusion

When faced with a director who is reaching the end of the road with their company, you should ensure that you consider all possible options rather than automatically striking off the company at Companies House.

While strike off may be the most suitable option for some companies, it is likely that others would benefit from being placed into a formal liquidation procedure and reaping the benefits when it comes to the favourable tax treatment of the distributions. ●

Author bio

Shaun Barton is a partner at Company Closure and boasts a wealth of experience in helping directors of distressed companies understand their options.

Funding diverse businesses

Cat Smith discusses the disparities in access to finance for entrepreneurs across the UK, and explores the barriers that entrepreneurs from diverse backgrounds face when accessing finance.

Cat Smith
Senior Network Manager, British Business Bank – Yorkshire and the Humber

Disparity in access to finance is a problem that has impacted entrepreneurs across the UK for many years. In addition to this, businesses have been operating in a particularly unstable economic environment over the past few years. The Covid-19 pandemic and supply chain disruption from ongoing global tensions have all contributed to economic volatility and uncertainty. In times like this, it is more important than ever that entrepreneurs are able to access funding that will help their businesses grow.

Lack of diversity in funding

Over the last decade, it has become increasingly apparent that issues remain in accessing business support and finance for entrepreneurs from diverse backgrounds. While progress is being made in this area, an entrepreneur's ethnic background, gender and location all still remain a key factor in how likely they are to access funding.

In particular, those who are female or from an ethnic minority background are much less likely to access funding. The British Business Bank's Small Business Equity Tracker 2023 shone a light on this problem, revealing that the share of total equity investment value held by all-female founder teams has remained stagnant over the last decade. Furthermore, when looking at total equity investment, female-founded companies received just 9% of total equity investment.

A similar outlook can be seen in funding towards ethnic minority groups, with just 10% of first time equity deals going to all-ethnic minority teams in 2022. Based on these figures, it is no surprise that ethnic minority female founders are at the biggest disparity out of all demographic groups.

While this disparity exists at a national level, historically the divide between the north and south of England has placed northern businesses at a disadvantage when accessing funding. Northern businesses are less likely to access funding with

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significantly fewer equity deals taking place in the north of England. However, in recent years this divide has begun to decrease, and in 2023 equity deals in London were at 46%, falling from 60% in previous years, according to the British Business Bank's latest Small Business Finance Markets report.

One of the leading reasons for this disparity is a lack of awareness surrounding different finance options available in the market. The British Business Bank's Small Business Intermediary Research found that a staggering 60% of smaller businesses lack awareness of the finance options available to them.

Investing in a diverse future

Targeted support for entrepreneurs from a diverse background provides significant opportunities for the UK economy as a whole.

Business resilience and experience are built around the people behind them. To build a strong UK economy, the businesses within this ecosystem must be able to draw from a range of experiences and viewpoints.

By unlocking the potential of entrepreneurs from diverse backgrounds, this will bring a variety of new skills and perspectives to the business landscape. This, in turn, will create the conditions for businesses to unlock growth through taking on new opportunities, venturing into new markets, and providing products and services that may have previously been ignored due to certain groups struggling to access the necessary funds to start or scale up their business.

How to promote diversity in finance

Despite disparities still remaining, there is also a lot to be celebrated as progress is being made towards making funding more accessible for all entrepreneurs. This is being amplified by focused funding programmes directed at particular groups that have previously been under-represented.

In February, the British Business Bank launched a new partnership with Lifted Ventures. This is a Yorkshire-based funding programme aimed at increasing the flow of early-stage capital to female founders. This highly focused support will help more female-founded businesses access funding to grow their business.

Other programmes by the British Business Bank include the Start Up Loans programme, which is aimed at supporting entrepreneurs as they take the first step in setting up a business. While the scheme is open to all entrepreneurs across the UK, the British Business Bank's strategy is to ensure that entrepreneurs can access the finance they need no matter where or who they are. Consistently over time, around 40% of Start Up Loans have gone to female entrepreneurs, and around 20% to entrepreneurs from an ethnic minority background.

Entrepreneurs supported by the Start Up Loans programme include Pankaj Hurria, founder of Tiana Halal Pet Food, which secured a loan to increase its stock and invest in its marketing functions. This helped the business grow after identifying a gap in the pet market, providing Muslim pet owners across the UK with premium halal options.

Other entrepreneurs supported by the programme include Dani Wallace, founder of I Am The Queen Bee, who started her career as an entrepreneur with support from the Start Up Loans programme. In her past, Dani experienced the adversity of domestic violence, homelessness and single parenthood but now uses her experience to inspire others through her mentoring and coaching business.

By having funding programmes accessible to diverse founders and specific groups, it not only increases their awareness of the funding options available to them but also increases their confidence, so they are more likely to apply for funding.

This means we can support entrepreneurs who may have otherwise been overlooked by more traditional lending sources, helping a wider range of ambitious individuals to turn their business ideas into a reality.

From a regional perspective, the recent launch of the Northern Powerhouse Investment Fund II (NPIF II) will help to continue regional support with a further £660 million set to be deployed to businesses across the north. While helping to balance the gap in access to finance between businesses in the north and south of England, NPIF II also helps to reach more rural areas that have often struggled to secure the same levels of funding as more populous urban areas.

The British Business Bank also actively supports diverse business founders through a number of initiatives and organisational partnerships. The Bank is a founder signatory, alongside the BVCA and UKBAA, of the Investing in Women Code, which is a commitment to supporting female entrepreneurship and improving female entrepreneurs' access tools.

Looking ahead

The business finance sector is always evolving and there are now many funding programmes available that are aimed at businesses founded by people from diverse backgrounds or ones from regions that have traditionally had less funding available. As businesses continue to operate in uncertain economic times, now more than ever it is important that they feel confident in knowing the options available to them.

Continuing to build awareness with targeted support benefits both the individuals and the UK economy as a whole. ●

Author bio

Representing the British Business Bank across Yorkshire and Humber, Cat Smith works closely with funding delivery partners, innovation specialists and business support organisations to improve access to financial support for small businesses.

Do you know your SUMs?

Gemma Toner explores how better understanding your Subtle Underlying Mindsets can help you to make better personal choices.

Gemma Toner
Founder, be.unlimited consulting

Disclaimer: I make no apology for any instances of involuntary eye-rolling caused by my use of mathematical or accountancy terminology to facilitate punning in this article! If you find this offensive, please look away now.

I have known and worked with many accountants – I have one for my own business and they are a godsend! They have a level of understanding that I truly envy. Their professionalism is immense, and they seem to have a process for everything.

This seems to be universally true of the accountancy world. It is filled with individuals and organisations renowned for established approaches, analysis and accuracy. These great attributes are part of what makes them successful. I do say 'part' because I would assert that in today's business world, success demands so much more than just technical expertise from professionals in any arena. Proficiency or expertise in tasks is only half the story of success. To truly excel you need to be able to 'balance your books'.

What does that mean?

I would never argue that having a well-established process is not essential to accurate task completion in accountancy. However, I would say that the very same process-based thinking that we apply to tasks can have a profound impact on how we approach other elements that are necessary for our success: managing relationships, dealing with ambiguity and adapting to sudden change.

This is not unique to accountancy. It's a human dynamic and highly dependent on something that I refer to as our 'SUMs'.

Subtle Underlying Mindsets

The origins of Subtle Underlying Mindsets (or SUMs, if you prefer) are as diverse as our individual life stories, rooted in early experiences, cultural backgrounds, educational journeys and professional paths. These mindsets are not static; they evolve with every new experience that we acquire and are our lifelong attempts to make sense of the world.

As we collect experiences, we seek to rationalise and standardise them. Through a logical process of identifying patterns, we create 'equations' in our minds that determine our beliefs about ourselves, other

people, situations and the world. These in turn become the silent architects of our personal and professional narratives. And they are powerful!

In fact, our SUMS are so powerful that they play a pivotal role in our lives. SUMs are such deeply ingrained perspectives that they significantly influence how we perceive challenges and opportunities. These can be experienced or expressed as:

- **Fixed perspectives:** Viewing markets, methods and career options through a rigid, narrow lens; and failing to constantly gather new inputs.
- **Risk resistance:** Avoiding prudent risks due to excessive loss aversion, rather than judiciously balancing risks and rewards.
- **Perceived lack of control:** Being too concerned with uncontrollable external variables, rather than focusing energy on one's sphere of influence.
- **Complacency:** Relying on past approaches, rather than continuously honing our knowledge and evaluating innovative options.
- **Imposter syndrome:** Undervaluing one's expertise due to distorted self-perceptions shaped by early messaging and experiences.

SUMs can be the engines of our ambition or the brakes on our potential. The intricate dance between our subconscious beliefs and our conscious decisions defines our professional trajectory. SUMs influence every decision and action, either serving as catalysts propelling us toward success or creating barriers which leave us choosing to be tethered to the relative safety of the status quo.

The brain's trio: sense, safety and control

Understanding SUMs requires a dive into the neuroscience that underpins our thought processes. The brain's fundamental need for sense-making, safety and control play a critical role in shaping our personal perceptions and reactions.

The current context of the world is inherently volatile and complex, providing a rich backdrop against which the impact of SUMs can be observed. From risk management to strategic leadership, the ability to navigate one's SUMs can make the difference between success and failure. You may not be conscious of it, but your SUMs have a huge influence on your levels of professionalism, decision-making, innovation, resilience and leadership.

So, if your SUM's are not helping you to achieve the result you want, or just plain sabotaging you, it's time to question whether the equation that formed them was flawed.

Strategies for transformation

The accountancy sector's inherent uncertainties and pressures make it a fertile ground for SUMs to significantly influence outcomes. Therefore, the ability to adapt and grow is paramount.

Continuous learning and mindset flexibility are key components of professional development. By embracing a culture of self-improvement and openness to change, accountancy professionals can ensure that they remain at the forefront of their field, turning challenges into opportunities and aspirations into achievements.

Breaking free of our unhelpful 'SUMs' begins with introspection and awareness. It requires a willingness to confront and challenge uncomfortable truths about ourselves. Liberating ourselves is a journey of self-discovery and intentional change.

First, you must identify what your SUMs are and where they came from – without judgement. Then be prepared to rigorously challenge them and the unhelpful impact they are having. Finally, you will need to actively work to transform them.

Do you want to solve your SUMs?

The other thing worth mentioning here, is that some people are very happy holding on to their SUMs. And I'm not here to tell you there is anything wrong with that. What I do invite you to consider is whether they are getting you where you really want to go. Be that in your career. Or even your life.

It's not easy to challenge the habits of a lifetime. It requires diligent application, reflection and attention to detail. Much like accountancy, I guess!

And in the end, it all comes down to personal choice. You have to want to change for change to happen. By aligning your subconscious beliefs with your conscious goals, you can unlock a wealth of potential, setting the stage for success, innovation and leadership.

More than just a task!

Being able to gain mastery of both tasks and relationships to fulfil your full potential requires a profound understanding and mastery of your own mindset. This is even more critical if you happen to be a professional that also manages others and SUMs is just the beginning!

A choice

I am sure you will have heard this before: the only constant is change. And how we change is how we succeed! Will you choose to change?

Author bio

A speaker, consultant, coach and content creator, Gemma Toner has dedicated her entire career to helping people in organisations around the world to 'reframe their game', push past their limiting beliefs and commit to new possibilities.

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EVENTS

FEATURE EVENT

Why do people break the rules? Risks, red flags and detecting fraud for SMEs and SMPs
Date: 8 July 2024
Time: 10.30 – 11.30
Venue: Online Webinar

Speaker:
Arun Chauhan

Arun Chauhan is a lawyer specialising in disputes and compliance issues arising from fraud and financial crime. In 2016, he founded disruptive law firm Tenet, the only niche law firm in its field outside of London. Tenet covers the spectrum of preventative action in the form of training, ethics, governance and policy advice to case investigation and guidance on financial fraud.

An solicitor with over 20 years' experience, Arun is a Trustee Director for the Fraud Advisory Panel, a member of the Commercial Fraud Lawyers Association and a fellow of the International Compliance Association. He is a fraud specialist with a commercial mind and calm nature.

Fraud is the most commonly experienced crime in the UK, and remains a pervasive threat in today's business landscape. This presentation delves into the core factors driving the increase and explores the implications for businesses and SMEs in particular.

We will examine why people break the rules, whether it be employees or suppliers, looking at the motivations, circumstances and behaviours that lead to fraud. Understanding these underlying reasons is crucial to identify potential red flags and implement effective prevention strategies.

Accountants play a pivotal role in detecting and deterring fraud, and Arun will reveal the extent to which accountants need to assess director supplied information and discuss the tools at their disposal to ensure accuracy and integrity in financial reporting. If fraud is suspected, swift and decisive action is essential. We will cover appropriate reactions and the range of options available to businesses, including legal remedies and internal controls.

Finally, the presentation will outline best practices for fraud prevention, offering practical insights and strategies to reduce the risks by adopting a proactive approach and staying vigilant to emerging threats.

To reserve your place at this exclusive event go to: tinyurl.com/yc27pxs2

OTHER UPCOMING WEBINARS

Sustainable financing for SMEs (Malaysia)
Date: 11 June 2024
Time: 18:00 – 19:00 (Malaysia Time)
Speaker: Sunita Devi
Sunita will provide information for you to understand how a low carbon/sustainable financing due diligence is carried out and what constitutes a sustainability risk and climate risk. She will also help you to prepare sufficient data and intelligence surrounding sustainability projects and corporate portfolios for sustainable financing, while outlining the technical inputs required to avoid greenwashing practices in sustainable financing.

How to prioritise what really matters in your practice and career
Date: 12 June 2024
Time: 10.30 – 11.30
Speaker: Mark Lee
Learn about the ten factors that are limiting your ability to prioritise what really matters and what you can do to change things. The longer you have run your own practice or been in control of your career, the more frustrated you may be if you don't feel you are prioritising the right things. During this webinar, you will be inspired by tips, insights and advice drawn from Mark's experience as a mentor and coach to sole-practitioner accountants.

How AI is impacting the accounting profession and how you can benefit
Date: 26 June 2024
Time: 10.30 – 11.30
Speaker: Shane Lukas
Explore the transformative power of AI in the accounting profession in this enlightening webinar. From task automation and data analysis enhancements to new client advisory opportunities, uncover the multi-faceted impact of AI on your practice. Shane will guide you through the immediate and long-term changes AI is bringing to the industry, helping you pinpoint which aspects of your role will evolve. Learn how to adapt and thrive, leveraging AI as a powerful ally to stay ahead and remain relevant to your clients.

Credible communication: understanding colour preferences to enhance your impact
Date: 3 July 2024
Time: 10.30 – 11.30
Speaker: Gemma Toner
This session caters to professionals across various sectors and cultural backgrounds, emphasising the importance of effective communication in a global context. The workshop seeks to empower participants by providing them with valuable insights into colour communication preferences, a concept that underscores how different communication styles can significantly influence interpersonal interactions and perceptions of credibility in both professional and personal spheres.

Embracing the future: a roadmap for accountants transitioning to advisory services
Date: 9 July 2024
Time: 10.00 – 11.00
Speaker: Shane Lukas
Discover how to seamlessly transition from compliance to advisory services, regardless of your firm's size or client base or whether you're young and uncertain or feeling a bit long in the tooth for change. We'll debunk the myths surrounding advisory, show you how to identify the perfect clients for these services, and demonstrate that you already possess the skills needed to succeed.

ESG risk assessment criteria for sustainable finance (Malaysia)
Date: 10 July 2024
Time: 18:00 – 19:00 (Malaysia Time)
Speaker: Sunita Devi
A webinar to help finance professionals understand ESG risk assessment criteria, suitable due diligence questions, financing climate risk mitigation, greenwashing and best practices for high ESG ratings.

INTERNATIONAL

IESBA launches first global ethics standards on tax planning

The International Ethics Standards Board for Accountants (IESBA) has announced the launch of the first comprehensive suite of global standards on ethical considerations in tax planning and related services, incorporated in the IESBA Code of Ethics.

Following certification by the Public Interest Oversight Board (PIOB), the standards establish a clear framework of expected behaviours and ethics provisions for use by all professional accountants, and respond to public interest concerns about tax avoidance and the role played by consultants in light of revelations in recent years such as the Paradise and Pandora Papers.

Moving away from a purely mechanical and legalistic approach, the goal of the standards is to provide a principles-based framework and a global ethical benchmark applicable to tax planning services and activities. This will establish a consistent point of reference for all professional accountants, as well as other tax professionals, who are strongly encouraged to use the standards when dealing with tax planning to ensure due consideration of public interest, as well as potential reputational, commercial and wider economic consequences for their clients or employing organisations.

These standards are especially relevant in the context of rising public scrutiny of tax avoidance schemes, which can harm companies' credibility and corporate reputation, as well as risking litigation and harming the public interest. Responding to increased public interest concerns, the fundamental goal of these standards is to ensure an ethical, credible basis for advising on tax planning arrangements, thereby restoring public and institutional trust on a topic that is core to the social contract between corporations and the market which supports them.

Gabriela Figueiredo Dias, Chair of the IESBA, commented: 'Professional accountants have an important duty to their clients but must not lose sight of their fundamental duty to the public interest. As scandals in recent years have shown, though some behaviours may be legal under the letter of the law in certain jurisdictions, the "grey area" of tax is not always the ethical way forward. These standards provide a robust framework to help professional accountants, as well as all other tax advisers, whom we strongly encourage to adopt or use the standards, navigate the ethical decisions in this complex area that are central to trust in the entire system.'

Pascal Saint-Amans, former Director OECD Centre for Tax Policy and Administration, said: 'I commend IESBA on the launch of the world's first ethics standards on tax planning, which I'm sure will catalyse a much needed change in mindset and behaviours. As public scrutiny increases, tax avoidance becomes less tolerated. Ethics is a central tenet of good tax behaviour and advice and IESBA's work in this area not only generates important discussion on the topic, but also is central to restoring public trust more broadly.'

These new standards are aimed at complementing and further strengthening the relevance of the existing IESBA Code addressing Tax Planning and Related Services. The standards become effective on 1 July 2025.

The approval of the new standards was preceded by extensive outreach and public consultation which took place during 2021 to 2023, including three global roundtables involving over 150 senior-level representatives from stakeholders from very different jurisdictions and backgrounds.

INTERNATIONAL

IESBA unveils a four year strategic roadmap putting ethics at the heart of corporate decision-making

The International Ethics Standards Board for Accountants (IESBA) has announced the publication of its Strategy and Work Plan for 2024 to 2027, entitled 'Towards a more sustainable future: advancing the centrality of ethics'. The Strategy and Work Plan sets out the IESBA's vision and strategic goals and actions, underpinning its ambition to put the International Code of Ethics for Professional Accountants (including International Independence Standards) at the heart of business and organisations.

'Putting ethics at the centre of every business judgement and decision is the surest way to earn, restore and strengthen public trust in all that an organisation does. The external landscape continues to evolve, presenting new dynamics and challenges, but good ethical behaviour acts as a constant amidst the uncertainty. It is about integrity, expected behaviours and mindset, and making the right decision,' said Gabriela Figueiredo Dias, IESBA Chair. 'Our new strategic plan reflects the IESBA's unwavering determination to face the external environment head-on, broaden the reach and scope of our work, and set the highest standards of ethical conduct for professional accountants and others who play a role, large or small, in the financial and non-financial information supply chain.'

Within the Strategy and Work Plan, the IESBA has identified two high priority strategic areas of focus, namely:

- accounting firm culture and governance, which seeks to identify potential actions the IESBA might

take within or outside the Code to respond to the persistent high-profile cases of unethical behavior in accounting firms; and
- exploring the opportunity to extend the impact of the Code beyond the accountancy profession to a wider array of individuals who perform similar work as professional accountants, building on its current project to develop profession-agnostic ethics, including independence, standards for all sustainability assurance practitioners.

Other key highlights of the Strategy and Work Plan include:
- new initiatives to explore ethical considerations relating to the evolving role of CFOs and other senior professional accountants in business, and independence considerations relating to business relationships between firms and their audit clients;
- a commitment to conduct a series of post-implementation reviews for significant ethics standards the IESBA issued in recent years;
- ongoing monitoring of the rapidly changing landscape of technological transformations and their impact on the professional activities and services performed by professional accountants and others; and
- a commitment to close coordination with the IESBA's sister Board, the International Auditing and Assurance Standards Board (IAASB), and to fostering collaborative relationships with other standard-setters to ensure standards interoperability.

UK AND IRELAND

FRC revises UK and Ireland accounting standards

The Financial Reporting Council (FRC) has issued comprehensive improvements to financial reporting standards applicable in the United Kingdom and Republic of Ireland, which are used by an estimated 3.4 million businesses.

The amendments are designed to enhance the quality of UK financial reporting and help support the access to capital and growth of the businesses applying them. The changes follow extensive stakeholder engagement and consultation on the proposals with the FRC required to undertake a periodic review of FRS 102 every five years.

The most significant changes apply to leases and revenue recognition to align with recent changes to international financial reporting standards. The changes will provide better information to users of financial statements, including current and potential investors and lenders. In response to stakeholder feedback, the FRC has made improvements to the proposals for lease accounting and revised the recognition exemption for leases of low-value assets to clarify that the focus is to ensure that the most significant leases are recognised on balance sheet.

The FRC has also made a number of improvements and clarifications that are designed to make it easier for preparers to apply and understand the standards. These are expected to result in a net benefit to UK businesses and contribute to high quality, easier to understand financial reports.

Whilst there will be some implementation costs, the FRC has been mindful of the need for changes to be proportionate and to remove any unnecessary reporting burdens. During the extensive stakeholder engagement period, many stakeholders, including those representing preparers, generally supported the updates to the accounting model for revenue recognition.

The FRC's Executive Director of Regulatory Standards, Mark Babington, said: 'The FRC is mindful of the need to introduce proportionate changes to financial reporting standards, which are balanced with the need for high quality reporting and alignment with international standards. The FRC has also made a suite of improvements and clarifications to make the requirements easier for preparers to understand and apply consistently, improving the quality and comparability of financial information available.'

The amendments to the standards will in most cases be effective for accounting periods beginning on or after 1 January 2026. During 2024, the FRC intends to publish new editions of the standards and updated staff factsheets with guidance on key aspects of the new requirements.

UK and Australia audit authorities sign a mutual recognition agreement in a further boost to the UK audit market

The UK's Financial Reporting Council (FRC) and the Australian Securities and Investment Commission (ASIC) have announced a Memorandum of Understanding on Reciprocal Arrangements (MOURA) making it easier for auditors to work between both countries.

The agreement allows auditors who have obtained professional audit qualifications as a statutory auditor in either the UK or Australia to more easily apply for recognition of their qualification and audit rights in the other nation.

It will improve the quality of the UK audit market by increasing the number of skilled statutory auditors able to practise in the UK over time and make it easier for UK audit firms to export their services to Australia.

The accounting activities sector, which includes audit services, is a significant part of the UK economy, generating £44 billion in 2023. The sector supported over half a million jobs and accounted for nearly £4 billion of exports in 2022.

The FRC assessed the relevant Australian qualifications as equivalent to UK audit qualifications, including utilising an independent external expert. This work was made possible thanks to funding through the Department for Business and Trade's Recognition Arrangements Grant Programme. The scheme is part of the government's support for UK regulators and professional bodies in all sectors to develop recognition arrangements.

The UK and Australia signed a free trade agreement which came into force in May 2023. This agreement included a chapter on the recognition of professional qualifications, encouraging regulators to pursue recognition agreements such as this one to remove costly and burdensome requirements.

Similar audit arrangements have recently been signed with New Zealand and Switzerland and the FRC is continuing to explore other agreements subject to rigorous qualification standards being met.

EUROPE

European Supervisory Authorities risk update: risks remain high in the EU financial system

The three European Supervisory Authorities (the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) have issued their Spring 2024 Joint Committee update on risks and vulnerabilities in the EU financial system. The risk update shows that risks remain elevated in a context of slowing growth, an uncertain interest rate environment and ongoing geopolitical tensions.

In recent months, financial markets have performed strongly in anticipation of potential interest rate cuts in 2024 in both the EU and the US, despite the significant uncertainty surrounding these. This strong performance entails elevated risks of market corrections linked to unexpected events.

Credit risk is also expected to continue to increase as refinancing needs grow, particularly for high-yield debt and real estate. While asset quality has remained robust in the banking sector, it is expected to deteriorate as economic growth slows further. The real estate slowdown could also drive impairments at banks.

The insurance sector maintained solid capitalisation in 2023, with solvency ratios well above 200%. Defined benefit occupational pension schemes improved their financial position. The liquidity positions of insurers diminished slightly but remain ample. Challenges stemming from subdued growth and the potential repricing of risk premia nevertheless persist.

In the banking sector, capital and liquidity positions are solid with CET1 ratio of 15.8% and a liquidity coverage ratio above 160% amid high profitability in 2023. However, the outlook is more challenging, as banks face the repricing of liabilities and assets with prospects of lower interest income, slower loan growth, high costs and the challenging macro environment.

Fund performance and flows have been volatile as the interest rate environment has changed. While funds have managed the transition to higher interest rates, concerns remain regarding the valuation of real-estate fund assets, and liquidity risks in these funds could have wider spillover effects.

Heightened geopolitical instability and increased reliance on digital solutions are raising the stakes linked to cyber security. The number of attacks and cyber threats is increasing, and while the impact of these has been limited, cyber-related insurance claims keep increasing, and the (re)insurance industry is further strengthening pricing techniques and risk-transfer mechanisms. In the banking sector, the findings from the cyber resilience testing currently underway will be important.

The EBA publishes final draft technical standards under the Markets in Crypto-Assets Regulation

The European Banking Authority (EBA) has published three sets of final draft regulatory technical standards (RTS) and one set of final draft implementing technical standards (ITS) relating to the authorisation as issuer of asset-referenced tokens (ARTs), to the information for the assessment of acquisition of qualifying holdings in issuers of ARTs and to the procedure for the approval of white papers for ARTs issued by credit institutions under the Markets in Crypto-assets Regulation (MiCAR). These technical standards are key to regulate access to the EU market by applicant issuers of ARTs and persons intending to exercise significant influence on these undertakings via the acquisition of qualifying holdings.

The RTS on authorisation lay down the information requirements to be included when applying for authorisation to offer to the public or seek admission to trading of an ART, so to enable the comprehensive assessment of the application by the competent authority. Following the public consultation, the scope of the authorisation has been amended to clarify that: the applicant issuer may only be a legal person or undertaking established in the EU; and whilst the issuance is not subject to authorisation, which only covers the public offer or the admission to trading, an application may only be submitted by an applicant issuer, therefore only an issuer may be granted authorisation.

The ITS on authorisation set out the standard application letter and the application template and clarify the process relating to the assessment of completeness of the application by the competent authority. As credit institutions are only required to receive approval to publish a white paper, the RTS and ITS on authorisation do not apply to credit institutions.

The RTS on the detailed content of the information to be included in the notification for of the proposed acquisition of direct or indirect qualifying holdings lay down the information requirements that are necessary to the competent authority to carry out the prudential assessment in case of proposed acquisitions in issuers of ARTs that are not credit institutions.

This information covers five criteria relating to:

- the reputation of the proposed acquirer;
- the suitability of any person who will direct the target undertaking;
- the financial soundness of the proposed acquirer;
- the sound and prudent management of the target undertaking following the acquisition; and
- suspicion that money laundering of terrorist financing is committed or attempted or that it may increase following the acquisition.

The RTS on the procedure for the approval of white papers for ARTs issued by credit institutions sets out the timeframes that credit institutions, competent authorities and the European Central Bank (ECB) or other central banks must follow during the procedure for the approval of a crypto-asset white paper.

European Supervisory Authorities to run voluntary dry run exercise to prepare industry for the next stage of DORA implementation

The three European Supervisory Authorities (ESAs) (the European

Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) have announced that they will launch in May the voluntary exercise for the collection of the registers of information of contractual arrangements on the use of ICT third-party service providers by the financial entities.

Under the Digital Operation Resilience Act (DORA) and starting from 2025, financial entities will have to maintain registers of information regarding their use of ICT third-party providers. In this dry run exercise, this information will be collected from financial entities through their competent authorities and will serve as preparation for the implementation and reporting of registers of information under DORA.

The ESAs and the competent authorities are introducing this voluntary exercise to help financial entities prepare for establishing their register of information, gathering the relevant information specified in the ESAs' final draft Implementing Standards on the registers of information and reporting their registers of information to their respective competent authorities, who will, in turn, provide those to the ESAs.

Financial entities participating in the dry run will receive support from the ESAs to: build their register of information in the format as close as possible to the steady-state reporting from 2025; test the reporting process; address data quality issues; and improve internal processes and quality of their registers of information.

As part of the exercise, the ESAs will provide feedback on data quality to financial entities participating, return cleaned files with their register of information, organise workshops and respond to frequently asked questions.

ASIA PACIFIC

UK and Singapore strengthen collaboration in sustainable finance and fintech

The United Kingdom and Singapore held the 9th UK-Singapore Financial Dialogue in Singapore on 8 May 2024. Both countries discussed the opportunities for collaboration in priority areas such as sustainable finance and FinTech and innovation, and exchanged views on recent developments in non-bank financial intermediation (NBFI), as well as efforts to improve cross-border payment connectivity. The following topics were addressed:

- Sustainable finance: The UK and Singapore reaffirmed their commitment to scale financing in support of the net zero agenda, covering: developments in transition planning; disclosure standards, ESG ratings and data products; and sustainable infrastructure and investment.
- FinTech and innovation: The UK and Singapore exchanged views on their respective approaches to manage risks and capture opportunities in the digital space, covering: artificial intelligence; cryptoassets; the Central Bank Digital Currency; and tokenisation and distributed ledger technology.
- Developments in the NBFI sector and cross-border payment connectivity: The UK provided an update on recent developments to address risks in the NBFI sector. Both countries underlined the importance of enhancing authorities' ability to monitor risks in NBFIs via better data gathering and sharing. They also agreed on the importance of finalising ongoing international policy work on margining practices and NBFI leverage, and to subsequently implement agreed NBFI policies at domestic level.

The Monetary Authority of Singapore sets aside $35 million to support upskilling Singapore's financial services sector workforce in sustainable finance

The Monetary Authority of Singapore (MAS) and Institute of Banking and Finance (IBF), supported by Workforce Singapore (WSG), have launched the Sustainable Finance Jobs Transformation Map (JTM), which lays out the impact of sustainability trends on jobs in Singapore's financial services sector and the emerging skills that the workforce will require to serve sustainable financing demand in the region. The JTM was launched by Mr Alvin Tan, Minister of State, Ministry of Trade and Industry and Ministry of Culture, Community and Youth, and Board Member of MAS.

The JTM study, conducted by KPMG in Singapore, projects that the sustainable finance market in ASEAN over the next decade will amount to S$4 to 5 trillion. A robust and skilled workforce will strengthen Singapore's ability to serve the growing sustainable finance market in ASEAN and Singapore's financial services sector workforce should aim to undergo upskilling within the next three years to seize these opportunities.

Other key findings from the study are:

- More than 50,000 professionals in the financial services sector will see new sustainable finance-related tasks added to their jobs to a moderate to high degree. This applies to a number of career tracks, especially risk, compliance and legal, product solutioning and management, as well as sales.
- 20 unique job roles are high priority roles for upskilling, including relationship managers in corporate banking, who will need knowledge in sectoral decarbonisation pathways and sustainable finance instruments, and portfolio managers, who will need skills in sustainable investment management and the ability to construct appropriate investment portfolios based on investors' sustainability strategies and preferences.
- New job roles will emerge in areas such as sustainability risk and sustainability strategy. These new roles will become more prevalent as financial institutions increasingly prioritise sustainability as a core business strategy for their organisations.

MAS has set aside S$35 million in the Financial Sector Development Fund to support upskilling and reskilling, and develop specialists in sustainable finance over the next three years.

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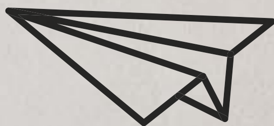

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