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CEO Message: No 'Values' in Valuation – is CSR Dead?

Does Banking Attract Cheats or Make Them?

CMA AUSTRALIA Certified Management Accountants

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No "Values" in Valuation

Is CSR Dead?

CEO Message: No 'Values' in Valuation – is CSR Dead?

Prof Janek Ratnatunga
CEO, ICMA Australia

All CMAs are expected not to blindly pursue profits in increasing their company's monetary value, but instead consider the company's ethical values and social responsibilities. The study of *Environmental and Social Management Accounting (ESMA)* – also commonly known as *Corporate Social Responsibility (CSR)* – is compulsory for all management accountants. Indeed, an entirely new form of corporate reporting, called *Integrated Reporting*, is being slowly introduced to large corporates.

The case for the need for CSR has two motivations. The first is that it is good for society – i.e. the wider community of stakeholders, the Earth itself, and the future generations to sustain its needs. The second motivation is that potential shareholders will reward companies that are run on an environmentally and socially responsible manner by demanding their shares and thus increasing their share prices. Proponents of this argument point to the existence of trillion dollar 'Ethical Investment Funds".

Thus, the argument goes that *"Good moral and ethical 'Values" leads to higher corporate "Valuations".*

However, recent high-profile cases of iconic companies that are blatantly indulging in morally and ethically corrupt practices – ranging from money laundering, poisoning the environment, violating privacy, overcharging customers for non-existent services etc. – are forcing a reconsideration of this nexus between good corporate 'values' and high corporate 'valuations'. The reason is that in every case, after a slight downward adjustment of share price once the bad news breaks, the share prices have caught-up, and in some cases gone significantly higher than what it was before.

It almost looks like *"Corrupt moral and ethical 'Values" leads to higher corporate "Valuations".* In fact, bigger the scandal, higher the valuation!

Let me give a few high-profile examples:

Volkswagen

VW installed software in diesel engines on nearly 600,000 VW, Porsche and Audi vehicles in the US that activated pollution controls during Government tests and switched them off in real-world driving.The software allowed the cars to spew harmful nitrogen oxide at up to 40 times above the legal limit. There are some estimations that the health of up to 200,000 people around the would have been negatively impacted by these actions alone.

US regulators confronted VW about the software after university researchers discovered differences in testing and real-world emissions. Volkswagen at first denied the use of the so-called defeat device but finally admitted it in September of 2015. Even after that admission, prosecutors said, company employees were busy deleting computer files and other evidence.

In April 2017, six high-level Volkswagen employees from Germany were charged in the VW emissions-cheating scandal, while the automaker itself agreed to plead guilty to criminal charges and pay $US4.3 billion ($5.7 billion). The German company pleaded guilty to conspiracy, obstruction of justice and importing vehicles by using false statements. Under the agreement, VW must cooperate in the continuing investigation, which could lead to the arrest of more employees.

Volkswagen previously reached a $US15 billion civil settlement with environmental authorities and car owners in the US under which it agreed to repair or buy back up to a half-million of the affected vehicles. VW also faces an investor lawsuit and criminal probe in Germany. In all, some 11 million vehicles worldwide were equipped with the software(ABC News, 2017)[1].

In announcing the charges and the plea bargain, US Justice Department prosecutors detailed a large and elaborate scheme inside VW to commit fraud and then cover it up, with at least 40 employees allegedly involved in destroying evidence.

"Volkswagen obfuscated, they denied and they ultimately lied," said US Attorney-General Loretta Lynch.

Such negative publicity, massive criminal charges, huge civil settlements and potential investor lawsuits and criminal probes should surely have affected its share price in the long-run?

Not so. After a massive 20% fall when the diesel-emissions scandal broke in October 2015, just two-years later in November 2017, Volkswagen AG's share price was back above where it was. Since its nadir in October 2015, the company has clawed back more than 35 billion euros (US$40 billion) in market value (Bloomberg, 2017)[2]. In fact, in April 2018, Volkswagen AG's share price rose despite a drop in earnings (McGee 2018)![3]

HSBC

In 2012, the US Department of Justice (DoJ) revealed that HSBC had laundered $881m through its entities for Mexican and Colombian drug cartels, and that the bank violated US sanctions by working not only with Iran, but Libya, Sudan, Burman and Cuba. The US law enforcement officials illustrated, amongst other findings, how two of Latin America's bloodiest drug cartels designed specially shaped cash boxes to fit the precise dimensions of the teller windows at HSBC!

Due to these findings, HSBC, Britain's biggest lender, had to pay a $1.9bn (£1.4bn) fine in 2012 to the US DoJ. Alongside the payout, HSBC agreed to a five-year *Deferred Prosecution Agreement* (DPA) with the US DoJ under which it promised to clean up its act.

At that time the DoJ's commented that, "*The record of dysfunction that prevailed at HSBC for many years was simply astonishing"*.

The Mexico and Colombian drug saga is one of a number of misconduct scandals that have hit HSBC in recent years. Others include evidence it helped wealthy clients evade tax through its Swiss private bank and allegations of rigging foreign exchange and precious metals markets (Withers, 2017)[4].

A number of other outstanding misconduct issues remain unresolved. HSBC is expecting a $1bn-plus fine in the coming months for its role in mis-selling toxic mortgage products in the US ahead of the global financial crisis. It is also separately being investigated by UK regulators for its alleged links to money laundering by South Africa's billionaire Gupta family, whose links to former-president Jacob Zuma are at the heart of a political storm in that country.

Despite incurring the hefty fine and subsequent monitoring costs, HSBC's fate could have been worse – it could have faced a full criminal prosecution. However, it emerged in July 2017, that both former UK chancellor George Osborne and British regulators weighed in on HSBC's behalf (behind the scenes) to try to dissuade US regulators from pursuing criminal action. They had argued that criminal proceedings against a "systemically important" bank such as HSBC would risk "global financial disaster".

With such political pressure being exerted on behalf of HSBC, in December 2017, the US DoJ agreed to allow the Deferred Prosecution Agreement (DPA) to expire.

Interestingly, it has been over five years since the HSBC money laundering scandal broke. Further, although the US DoJ decision to allow the Deferred Prosecution Agreement (DPA) to expire was a welcome relief to HSBC, the verdict is still out on their response to money laundering in South Africa and other issues.

So where is its share price now?

HSBC's share price has surged more than 70 per cent in the past two years, and in February 2018 it was trading above where it was when the scandal broke[5].

Too Big to Fail; and also, Too Big To Jail!

Facebook

A decade of apparent indifference for data privacy at Facebook has culminated in revelations that organizations harvested user data for targeted advertising, particularly political advertising, to apparent success. While the most well-known offender is Cambridge Analytica—the political consulting and strategic communication firm behind the pro-Brexit Leave EU campaign, as well as Donald Trump's 2016 presidential campaign—other

companies have likely used similar tactics to collect personal data of Facebook users (Sanders and Patterson, 2018)[6].

The Facebook data privacy scandal centres around the collection of personally identifiable information of "up to 87 million people" by Cambridge Analytica, and others. These companies were able to gain access to personal data of Facebook users due to the confluence of a variety of factors, broadly including inadequate safeguards against companies engaging in data harvesting, little to no oversight of developers by Facebook, developer abuse of the Facebook API, and users agreeing to overly broad terms and conditions.

The chronology of this scandal starts in 2005, when researchers at MIT created a script that downloaded publicly posted information of over 70,000 users from four schools. In 2007, activities that users engaged in – on other websites – was automatically added to Facebook user profiles as part of Beacon, one of Facebook's first attempts to monetize user profiles. As an example, Beacon indicated on the Facebook News Feed the titles of videos that users rented from Blockbuster Video, which was a violation of the Video Privacy Protection Act. A class action suit was filed, for which Facebook paid $9.5 million to a fund for privacy and security as part of a settlement agreement.

In 2011, following an FTC investigation, the company entered into a consent decree, promising to address concerns about how user data was tracked and shared. That investigation was prompted by an incident in December 2009 in which information thought private by users was being shared publicly, according to contemporaneous reporting by The New York Times.

In 2013, Facebook disclosed details of a bug that exposed the personal details of six million accounts over approximately a year. When users downloaded their own Facebook history, that user would obtain in the same action not just their own address book, but also the email addresses and phone numbers of their friends that other people had stored in their address books. The data that Facebook exposed had not been given to Facebook by users to begin with—it had been vacuumed from the contact lists of other Facebook users who happen to know that person. This phenomenon has since been described as "shadow profiles."

On March 17, 2018, an exposé was published by The Guardian and The New York Times, initially reporting that 50 million Facebook profiles were harvested by Cambridge Analytica; the figure was later revised to "up to 87 million" profiles.

On April 18, 2018, Facebook updated its privacy policy.

On June 3, 2018, a report in The New York Times indicated that Facebook had maintained data-sharing partnerships with mobile device manufacturers, specifically naming Apple, Amazon, BlackBerry, Microsoft, and Samsung. Under the terms of this personal information sharing, device manufacturers were able to gather information about users in order to deliver "the Facebook experience," the Times quotes a Facebook official as saying.

Additionally, the report indicates that this access allowed device manufacturers to obtain data about a user's Facebook friends, even if those friends had configured their privacy settings to deny information sharing with third parties.

On June 5, 2018, The Washington Post and The New York Times reported that the Chinese device manufacturers Huawei, Lenovo, Oppo, and TCL were granted access to user data under this program. Huawei, along with ZTE, are facing scrutiny from the US government on unsubstantiated accusations that products from these companies pose a national security risk.

Australia has also launched a Facebook investigation expected to take at least 8 months.

But on May 10, 2018, just two months after the March 17 exposé, Facebook issued solid earnings reports – and had a high-profile but uneventful Congressional appearance by CEO Mark Zuckerberg – its shares had fully recouped their losses from the data privacy scandal. Although the prospects of a billion-dollar federal fine and reduced profitability from tighter regulation remain, Wall Street remains optimistic about the social network's earnings potential (Mirhaydari, 2018))[7].

Clearly, investors value 'Profit' above 'Social Responsibility'!

The Australian Banking Industry

The *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* (in Australia), headed by former High Court judge Kenneth Hayne, has uncovered an impressive rap sheet of misconduct – including bribery, fraud and outright lying – by Australia's banking behemoths. The work of the Royal Commission is still ongoing, but scandal after scandal involving all players in the industry have shocked the general public (Irvine, 2018).[8]

And the scandals keep coming. The Commonwealth Bank confessed to charging fees to dead people. AMP, a large insurance, superannuation (pension) and financial advice company has admitted it misled the corporate regulator ASIC on its overcharging with a "fees for no service" to clients of its financial advice business. Westpac (Bank) admitted it paid bonuses to a financial adviser it knew was churning clients into high-fee investments.

The breadth and seriousness of the crimes revealed in these businesses has led to calls for radical reforms forcing banks to sell these financial advisory and wealth management businesses. Less radical reform options include greater accountability and transparency, and better standards and licensing of advisers.

The role of the corporate watchdog, the *Australian Securities and Investments Commission (ASIC),* has also come into question; it has been labelled "asleep at the wheel" by some.

The royal commission is bringing to light failures in Australia's banking system as never before. The public want answers to two

questions: First, how did things get so bad in Australia's once trusted banking industry? And second, how can it be fixed?

The Banking Royal Commission has been a delight for anyone who wishes to see justice done in the financial sector. Across the plush-carpeted corporate offices of major financial institutions, heads are rolling. The CEO of AMP is the highest profile example. The boss of the huge asset management and insurance firm was forced to resign when it was revealed that AMP had lied to the corporate regulator and charged customers for doing nothing at all. Executive departures are a sign of change and renewal. They plant seeds of hope for the future that companies will be run in a morally and ethical manner.

When the Royal Commission was announced in December last year, the share prices of Australia's four major banks fell initially, with Commonwealth Bank of Australia leading the way down to close below $79 a share on 4 December, 2017. But a day later, the banks' share prices had actually recovered (Freeman, 2018).[9]

The share prices of most of these major financial institutions have been falling during the Royal (Macquarie Bank being one notable exception), appearing to indicate that unethical behaviour will be punished by investors. These share price falls across the financial sector are a sign that banks will have less leeway in future to do what they want with the rules and take more responsibility for its actions. This is undeniably good (Murphy, 2018).[10]

However, the Banking Royal Commission final report is due only in *February 2019. Once the full extent of the fines imposed are known at the time, most analysts predict that "all will be forgiven" and the share prices will bounce back to previous levels. The reason for such a bullish-prediction is that the Finance* industry is a huge part of the Australian economy. It makes up around 35 per cent of the top 200 Australian stocks. It is likely that anyone who has invested in an industry superannuation (pension) fund, would have their money invested partly in finance companies. Therefore, when Australian finance company share prices fall, their super savings also shrink.

Most investors will not want to punish bad behaviour by the banks, as that would mean giving up a more comfortable retirement with a good pension.

It appears that not only is the need for social responsibility dead in the corporate world, but also its demise has resulted in an increase in corporate profitability and shareholder value.

Regards,

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The opinions in this article reflect those of the author and not necessarily that of the organisation or its executive.

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Making sense of

the bottom line…

Does Banking Attract Cheats or Make Them?

The Banking Royal Commission has exposed a culture of dishonesty that demands reform, writes Professor David Kinley from Sydney Law School. Will changing corporate culture change the morals of the finance industry or threaten its viability?

Do banking and finance attract cheats or create them? This was the question a team of behavioural economists from Switzerland set out to answer in a ground-breaking experiment in 2014.

They took 128 bankers and separated them into two equal groups of 64. They primed the first group with questions about their personal life (their family, hobbies, favourite foods) and primed the second group with questions about their roles and responsibilities at the bank.

The researchers then asked everyone in both groups to toss a coin ten times and record the results. But they added this important rider – you'll get $20 for every head you record; nothing for tails. So what did they find?

Well, obviously, if there's no cheating, you'd expect something close to equal numbers of heads and tails across both groups. And so it was for the first group of bankers: 51 percent heads, 49 percent tails. But for the second group – bankers thinking "banking" thoughts – the results were different: 58.2 percent of them recorded heads, including 5 (out of 64) who claimed all 10 tosses were heads.

The figures from the second group are statistically significant deviations from pure chance and led the team to conclude that the prevailing culture in banking "favours dishonest behaviour".

If we didn't suspect that was the case before, we know it now. The evisceration of the finance sector by the banking and

finance royal commission has been shocking to behold and excruciating for financiers. Last week's damning report from APRA of "widespread complacency" throughout the management of the Commonwealth Bank and "inadequate oversight" on the part of the bank's board, rubbed salt into the wounds.

The problems throughout the sector are "systemic and unconscionable", as former Australian Competition and Consumer Commission head Allan Fels laments.

Shifting the goal posts

But while it is the corporate culture that has brought about this pitiful state, it is also the corporate culture that can get the banks (and the rest of us) out of it. For if the Swiss experiment tells us anything, it is that all of us – not just bankers – are an impressionable lot.

Ply us with pizza and talk about the kids and we'll act benignly. But dip us into some seriously competitive KPIs and attach dollar signs to them and we'll rip off the trusting and bill the dead.

So if we can change the incentives, the reasoning goes, we can change the culture; and if we can reconfigure the culture in banking and finance we can have an all-new, socially responsible and still profitable, financial system. At least that's the theory.

Cultural change, however, is notoriously hard to shift and it doesn't happen quickly.

What regulations are currently in place?

In the case of finance, rafts of legal rules and regulatory authorities already exist that should be enough to quell criminality and promote ethical behaviour.

Together, the Corporations Act and the Criminal Code outlaw fraud, theft, misleading and deceptive conduct, bribery and corruption, and both APRA and ASIC have the power to enforce those provisions in their respective spheres. Yet, as we have seen in the case of ASIC, its record of financial sector prosecutions, let alone convictions, is threadbare, as it prefers (and even more so the misbehaving financiers) to negotiate "enforceable undertakings".

This is a ploy which has manifestly failed to deter offenders, as the records of recidivism within the finance sector grow ever longer.

And while we are not alone in this alternative universe of being soft on white collar crime – US banks and bankers have been avoiding convictions and jail time for years through the well-worn device of "deferred prosecution agreements" – it doesn't make the situation any more palatable.

All business executives are also subject to a set of directors' duties under the Corporations Act that requires all directors to act in good faith in the best interests of the company, to exercise care and diligence, and to avoid conflicts of interest. These responsibilities should form the foundations upon which corporate culture is built.

Yet, in practice, so much depends on how you define these unavoidably open-ended terms. It may be true, as many directors (and their lawyers) are wont to argue, that you cannot legislate for something as organic and intangible as promoting a "good culture". But equally, recognising "bad culture" – like instituting incentive schemes that reward fraud and dishonesty, or lying to a regulator – and rooting it out, would certainly be steps in the right direction.

An established culture of careless disregard for customers, clients and corporate regulators are sure signs of a sector in need of rescue from itself.

Professor David Kinley

Where to from here?

Whatever, the most effective and sustainable shift in the finance sector's corporate culture will have to come from within the sector itself. Leadership – of the sincere, mould-breaking sort, rather than the wait 'til it blows over, band-aid kind – is desperately needed.

The steady torrent of financial skulduggery we are now witnessing is a "wake-up call", as Treasurer Scott Morrison called the APRA report on the CBA, but once awake, who in the upper echelons of finance is going to take heed and act accordingly?

Initiatives like the newly established Financial Advisor Standards and Ethics Authority, which aims to professionalise the financial advisory sector by introducing minimum educational standards, training programs and code of ethics, are good start, if too late for many, but they are working from the ground up.

Top down, systemic reform in the ways our financial institutions are managed and controlled is evidently long overdue. An established culture of careless disregard for customers, clients and corporate regulators are sure signs of a sector in need of rescue from itself.

Of all the data collected during the Swiss experiment, the most telling of all came from its survey of which sectors in society the general public believed would be most likely to cheat in the coin-tossing exercise. Banking topped the list, way ahead of even prison inmates. Not that that would surprise us anymore.

About the Author

Professor David Kinley *is an expert in Human Rights Law from the University of Sydney Law School. This article was originally published in the Sydney Morning Herald as 'Does banking attract cheats or make them?'*

If Only We Could See All the Credit Card Fees We Pay

By Stephen King.

The current system of credit card fees is too confusing.

Australians spend around A$48 billion per month on credit, charge and debit cards. But the different fees, surcharges and "reward points" on these cards can be confusing. As my recent work with Rod Maddock shows, there is a simple solution – getting banks to charge consumers directly, as they already do on ATMs.

Both the federal government and the Reserve Bank of Australia (RBA) are currently ramping up card regulations to protect consumers and stop the abuse of market power. Introducing direct charging would make it easier to compare different cards and forms of payment, giving consumers more choice and increasing competition.

Currently, when you pay with a card, you set in motion a complex set of charges and rules. The merchant is charged a merchant service fee by its bank. That fee may be passed on to you directly, as a surcharge, or indirectly, through the prices the merchant sets for all customers. Your bank charges the merchant's bank an "interchange fee". Your bank may charge you or reward you, depending on the type of transaction.

Each of these steps involves regulation but none of it is transparent to the customer.

In contrast, with direct charging, when you pay by card, the merchant doesn't face any extra fee. While banks may charge each other, these charges are unregulated and are not passed through to the merchant's prices. If the banks want to charge customers, then they have to do it directly and transparently, giving customers the option to say "no thanks".

If you have ever used an ATM that is not part of your bank's network, you are familiar with direct charging. The screen displays a fee with the option "do you wish to continue?". If you press "yes", then you are charged and complete the transaction. Alternatively, you can press "no" and go elsewhere.

With card payments at merchants, it is just as easy. If your bank wants to charge you a fee, then it must tell you on the in-store display. You get an option to continue or to terminate the transaction and use a different payment instrument, such as cash or a different card.

What are the benefits of direct charging?

Under the current system, a merchant either passes on the fee its bank charges through a surcharge (such as the fee commonly paid for using American Express) or sets higher prices that all customers pay.

But customers do not know if this surcharge really reflects the merchant's fee. And if there is no surcharge, then customers that use cash end up paying more because of the customers that use cards.

Direct charging removes the need to regulate both interchange fees and merchant surcharging. Because the merchant doesn't face a fee when you pay by card, there is no need for them to charge a surcharge. And they can't hide the fees in the prices customers pay.

This makes direct charging transparent and fairer. If the banks want to charge fees to card users then they have to make the fees explicit at the time of purchase. A customer who wants to use a payment card that has a fee clearly pays that fee.

It is also efficient. As customers see the cost of using different cards, they can make better decisions and can shop around. This will increase competition between the different cards.

Putting the customer back in charge

We know from ATM reforms that direct charging will have a big effect on the behaviour of both customers and card providers.

Before 2009, banks charged around A$2 per transaction for cash withdrawals on ATMs that were not part of the bank's own network. These fees were hidden in monthly card statements. In March 2009, this changed with direct charging for ATM fees. After two years, the RBA noted that:

> ***"All of the available information continues to suggest that consumers are responding to the pricing signals inherent in direct charging, and ATM owners are responding by increasing the availability of ATMs."***

Reporting on the first year of the reforms, the RBA stated that "ATM fees are much more transparent and cardholders have responded". Customers shifted to "fee free" ATMs and Eftpos to withdraw cash. Banks increased their ATM networks and independent ATM operators were able to set up new ATMs in places where customers wanted them.

In the first year of the reforms, direct charging for ATMs saved consumers around A$120 million.

Payment card transactions are more than ten times the volume of "foreign" ATM withdrawals. So direct charging for payment cards could have significantly bigger benefits for consumers.

Direct charging for payment cards doesn't solve all regulatory problems. It cannot, for example, deal with excessive interest rates or prevent some customers from making poor decisions. So while it replaces a range of current rules and regulations, it is complementary to others.

The key, however, is that direct charging puts the customer back in charge of their payments.

By making the full cost of using a particular payment card clear, customers can make smarter choices. Many cards are likely to remove fees, particularly for low value transactions.

Competition will be intense, particularly as many customers already have more than one payment card in their wallet. If one card charges too much then it is simple to pull out the other card. Over time, payment cards that do not offer value to customers will lose their place in purses and wallets.

Read the original article on **The Conversation**.

Source: ***Monash University***

ATO To Scrutinise Car Claims This Tax Time

The Australian Taxation Office (ATO) has announced that it will be closely examining claims for work-related car expenses this tax time as part of a broader focus on work related expenses.

Assistant Commissioner Kath Anderson said over 3.75 million people made a work-related car expense claim in 2016–17, totalling around $8.8 billion. “That’s a lot of money and Australians expect us to ensure people are not over-claiming.”

“While most people want to do the right thing, we know the rules can be a bit tricky for some and we are seeing a lot of mistakes.

“We are particularly concerned about taxpayers claiming for things they are not entitled to, like private trips, trips they didn’t make, and car expenses that their employer paid for or reimbursed.”

There are two ways to calculate a deduction for car expenses – the cents per km method which is limited to claims for work-related travel up to 5,000 kms, and using a log book to determine the work-related percentage of actual expenses incurred.

Each year around, 870,000 people claimed the maximum amount under the cents-per-kilometre.

“It’s legitimate to claim for 5,000 kilometres if you did actually do them as part of earning your income. However, we are concerned that some taxpayers mistakenly believe that this is a “standard” deduction they are entitled to, without needing to provide any evidence of having travelled that distance, or even having undertaken any travel at all,” Ms Anderson said.

“It’s true that claims of up to 5,000 kilometres using the cents per km method don’t require a log book. However, you still need to have done the kilometres as part of your job and be able to show how you calculated your claim, for example by keeping a diary of places you have had to drive to for work, and how often. The cents per kilometre method is there to simplify record-keeping, not to provide a free ride.”

Ms Anderson said that the ATO’s ability to identify claims that are unusual has improved due to enhancements in technology and data analytics. “We compare taxpayers to others in similar occupations earning similar incomes. Our models are especially useful in identifying people claiming things like home to work travel or trips not required as part of your job.”

“Unless you have a work-related need to travel while performing your job, you won’t be able to claim a deduction. For example, travelling from home to work is not deductible for most people. There are a few exceptions, like if people travel from site to site or are required to transport bulky tools or equipment and their employer does not provide them with secure storage at work. However, simply travelling from home to work is not enough to qualify, no matter how far you live from your workplace.”

The ATO is advising taxpayers that they may request proof that you were required to undertake the travel for work. “A good way to check that your travel claim relates to your work is to ask yourself – did your employer require you to do that travel as part of your duties, or did your employer require you to transport bulky tools or equipment to and from work?”

“The ATO is also warning taxpayers to not double-dip. You can’t claim expenses you didn’t pay for, including when your employer provided the vehicle or reimbursed your expenses, including under a salary sacrifice arrangement or novated lease,” Ms Anderson said.

Ms Anderson said there are three golden rules for taxpayers to remember to get it right.

“One – you have to have spent the money yourself and can’t have been reimbursed, two – the claim must be directly related to earning your income, and three – you need a record to prove it.”

Workers who are entitled to claim a deduction must keep accurate records. The ATO has to disallow lots of claims because the taxpayer didn’t keep the right records. But the myDeductions tool in the ATO app can help make keeping records easier. The app is particularly useful for people who use their car for work, as it helps them track trips using GPS, point-to-point or the odometer method. At tax time this data can be sent directly to a tax agent or uploaded into myTax.

For more information about work-related car expenses, visit ato.gov.au/carexpenses and to find out about myDeductions, visit ato.gov.au/mydeductions

New Research Shows Cashless is Already King

Cash payments are fast becoming a thing of the past. New research shows that the ease and security of waving a card, phone or even your wrist instead of carrying around cash is more popular than ever.

Detailed research by Colmar Brunton, commissioned for the Australian Taxation Office (ATO), reveals that only one in five Australians still prefer using cash for purchases.

ATO Assistant Commissioner Matthew Bambrick said “It’s clear that there’s been a cultural shift towards cashless payments across the board, even for smaller amounts.

“The research shows that cash is only the preferred payment method for transactions under $5, and for anything over $50, the vast majority of people want the ease and security of an electronic payment.

“Where we once saw people walk into car dealerships with cash in hand, cash has now been relegated to the morning coffee”, Mr Bambrick said.

The trend towards cashless payments is particularly evident among people under 35, who carry the least amount of cash.

Those aged 18-24 are also half as likely to request a discount for paying in cash compared to the general population.

Mr Bambrick said “the move by the younger generation away from seeking an ‘under the table’ discount is really encouraging. It indicates that a once common practice is now rare as people enjoy the benefits of being cash free.”

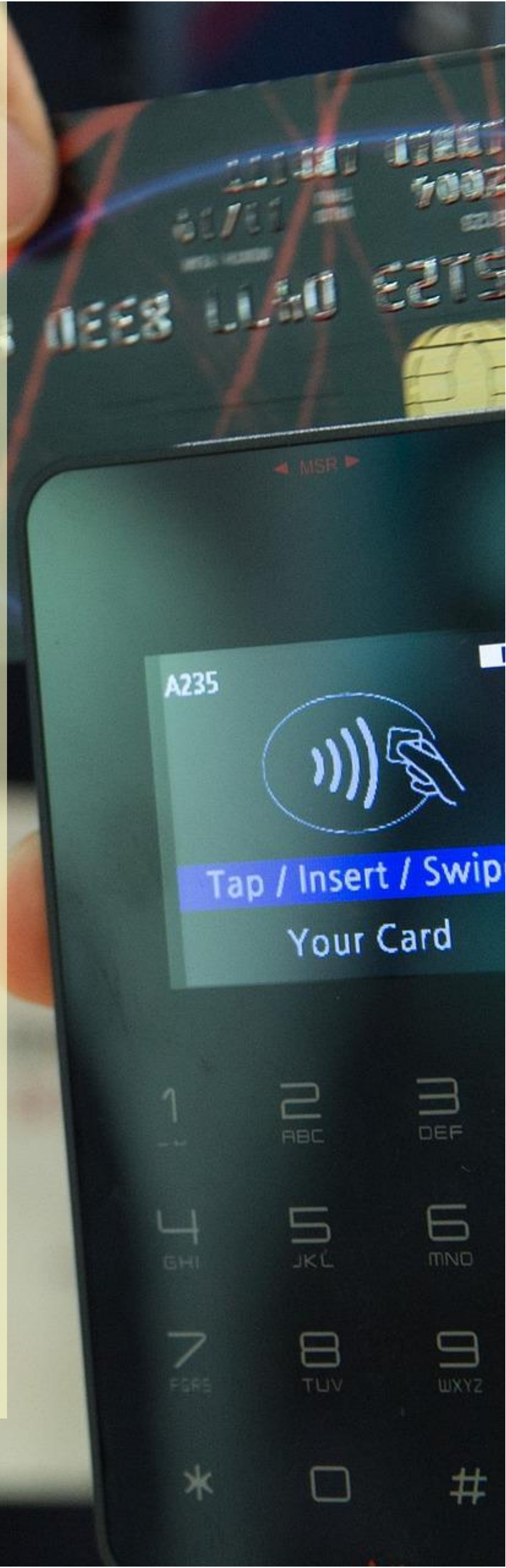
The research shows consumers are drawn by the convenience of cashless payments, which remove the unnecessary step of withdrawing cash and carrying it around when making any transaction. Tap and Go payments have also been game changing, bringing about faster transaction times.

Additionally, cashless payments boast security benefits, by removing the risks of carrying cash and protecting consumer rights through easier record keeping.

Mr Bambrick said “The business community knows what people want, and 86% of businesses agree that most customers expect to be able to pay via electronic means.

“This research indicates that the trend away from cash will only gather pace. This is more than a passing fad. This is the way of the future.

“Particularly with the decline in minimum transaction amounts, we are likely to see more and more people carrying little or no cash at all. Most businesses already know this and we expect the rest will be there soon.”



Flexible Work Practices and Career Progression are Essential

Almost three-quarters (73%) of Australian workers would like a job offering flexible work practices, with career progression opportunities (72%) and ongoing learning & development (59%) also important when job searching, according to a survey by recruiting experts Hays conducted for the annual Hays Salary Guide.

These rank ahead of more than 20 days' annual leave (28%), health and wellness programs (15%), financial support for study (12%) and payment of usage charges for employee-owned devices at work (8%).

As for the benefits employees say they receive, 70% get flexible work practices, 56% ongoing learning & development and 45% career progression opportunities.

Less popular offerings are health and wellness programs (36%), over 20 days' annual leave (32%), financial support for study (30%), payment of usage charges for employee-owned devices at work (25%), free or subsidised food (20%), a day off for your birthday (7%) and onsite childcare (3%).

"With salary increases set to be even more restrained this year, the benefits an organisation offers will help to attract and retain top talent, particularly if they support career advancement," says Nick Deligiannis, Managing Director of Hays in Australia & New Zealand.

Flexibility is standard, making its absence a recruiting limitation

Flexible work practices is the number one benefit professionals want (73%) and receive (70%), but just 45% of employees are 'very satisfied' or 'extremely satisfied' with their current level of work-life balance.

"An organisation that doesn't offer flexible working options is now in the minority and this has an obvious impact on attraction and retention," says Nick. "You can get back in the game to compete for the top talent by reviewing and implementing policies in this area, such as staggered start and finish times."

According to the survey, the most common flexible working practices employers offer are flexible working hours and compressed working weeks (77%), part-time employment (75%) and flex-place, such as working from home or an alternative location (66%). Less common are flexible leave options, such as purchased leave (38%), job sharing (31%), career breaks (18%) and phased retirement (16%).

The annual Hays Salary Guide is based on a survey of more than 3,000 organisations representing over 2.3 million employees. It is now in its 40th year.

Charity Reporting Regime – Not A Level Playing Field

Australian charities are burdened with a financial reporting regime that's overly complex and inconsistent and which fails to promote the sector's accountability or efficiency, according to research undertaken by the Australian Accounting Standards Board (AASB).

Australian charities make up a significant sector of Australia's society and economy, with net assets of more than $180 billion and income of $134 billion.

In 2012, the Australian Charities and Not-for-profits Commission (ACNC) was set up to promote the reduction of unnecessary regulatory obligations on the sector. While the ACNC has succeeded in harmonising financial reporting across some states and territories, the AASB contends that the underlying issue relates to the reporting framework within which charities are required to lodge.

In reviewing charities' financial reporting requirements in Australia, New Zealand, United Kingdom, Hong Kong, Singapore, South Africa and Canada, AASB's research found Australia has the most complex regulatory environment for charities.

"Australian charities are covered by at least 18 sets of regulation and ten regulators at federal and state level, with many charities having to answer to more than one regulator," said AASB Chair Kris Peach. "Very little of that regulation is consistent and much of it involves different reporting thresholds and requirements."

"There is no level playing field for charities," said Ms Peach. "Like charities have to produce different reports depending on their location, entity type and historic reporting choices. As a result, reports are unnecessarily complex and potentially irrelevant to donors and other stakeholders."

As well as having the most complex regulatory environment, Australia is the only jurisdiction that requires charities to 'self-assess' as to whether they need to produce full financial reports or 'special purpose' financial reports. If they opt for special purpose reports, the information required in those reports varies depending on which regulations apply.

"The community isn't getting clear and comparable financial information, and charities are having to spend time and money navigating a maze of onerous and inconsistent requirements," Ms Peach said.

Undertaken with the Auditing and Assurance Standards Board, this research is the first part of an AASB project aiming to achieve clear, objective and comparable Australian charity sector financial reports.

"Financial reporting requirements must balance the objectives of improving trust and transparency with the preparers' costs and be easy to implement", said Ms Peach.

A consultation paper will be released later this month to encourage discussion within the charity sector. This, coupled with outreach, in conjunction with the ACNC and state regulators is designed to inform stakeholders who will feed into the ACNC legislative review, starting in December this year.

"This is a tremendous opportunity for all charity stakeholders to have their say on how to improve financial reporting in their sector. I encourage everyone to get involved," said Ms Peach.

Research Finds Lack of Team Spirit in New Hires

Australian hiring managers are struggling to source new recruits who fit in well with the team and overall company dynamics, with new independent research commissioned by specialised recruiter Robert Half revealing more than three-quarters (78%) of Australian general hiring managers have hired an employee who did not fit in well within the team they were part of.

Team dynamics are essential to ensuring all employees are happy in their roles and remain productive. According to the survey of 460 Australian hiring managers, the top reasons why employees typically do not fit in well with their teams include an inability to work collaboratively (45%), lack of team spirit (43%), lack of adaptability (37%), misalignment with company culture (34%), and an inability to work independently (33%).

Andrew Brushfield, Director of Robert Half Australia said: *"Team dynamics constitiute the behavioural relationships and shared values that exist between team members which, collectively, underpin the company's overall culture and performance. A newly hired team member who fails to integrate within the team can potentially throw off its dynamic at the expense of productivity and team morale."*

"Successful hiring is about much more than finding someone who can technically perform the duties of the job in question; it's about thoroughly assessing each candidate's personality and soft skills to ensure they will positively contribute to the team dynamic – not detract from it. Before making a final hiring decision, it's therefore crucial managers find out whether a potential employee will fit well within their team and the overall company culture."

When dealing with an employee who was not compatible with the rest of the team, the majority of Australia's hiring managers agree talking to the employee to address the issue (67%) and talking to team members to get their opinion (53%) are the most effective measures. For almost half (49%) of hiring managers, getting support from senior company leaders is their primary course of action. Meanwhile, four in 10 (40%) agree letting the employee go is most effective for dealing with an incompatible employee and 37% think finding a better-suited job within the organisation is most effective.

"While it's important to ensure candidates are assessed for cultural fit before they're hired, companies also understand the negative impacts caused by employees who leave the company early and unexpected. Teams then suffer increased workloads, and the costs of hiring and training can escalate. Although far from ideal, this is why most companies will attempt to tackle the issue of 'cultural fit' before giving up on an employee altogether," said **Andrew Brushfield.**

Managers can avoid the predicament of poor cultural fit by employing a few key tactics when sourcing candidates:

1. Know the workplace culture

A thorough understanding of the company culture is necessary before it's possible to determine the type of employee who will fit best. Managers should take some time to assess the culture around them and consider communicating this clearly to candidates through an Employee Value Proposition (EVP). That way, the chances of a misunderstanding between manager and candidate are minimised.

2. Look for a cultural fit in the job interview

Looking for a good cultural fit isn't about candidates' technical skills and experience, but rather, who they are as a person. Managers should ask questions that reveal insights into how the candidate works in different environments, with other people, and the management styles that suit them best. Probing into candidates' previous experiences, both positive and negative, can also help assess whether the company culture will better meet their needs. Keeping a watch for body language as well as asking questions about life outside work will also help determine their passions, values, and sense of drive.

3. Take note of instincts

Basic hunches about a candidate shouldn't be ignored. If hiring managers think there's something about a candidate's response or conduct that raises a red flag, they need to pursue further investigation before making a decision. For example, if there's a mismatch between the candidate's body language and comments, it could be an indication their responses are not genuine. Asking referees about these concerns could provide clarity.

About the research

The annual study is developed by Robert Half and was conducted in July 2017 by an independent research firm, surveying 460 general hiring managers in Australia. This survey is part of the international workplace survey, a questionnaire about job trends, talent management and trends in the workplace.

Victorian Tax Agent Sentenced to Five Years' Jail

A 56-year-old former Beaumaris tax agent was yesterday sentenced to five years' jail for tax fraud, after pleading guilty to taking more than $4.1 million from his clients and the Australian Tax Office.

Richard Hogg was sentenced in the Melbourne County Court for promoting a tax avoidance scheme to a select group of his clients, many of whom were small businesses.

Following a tip-off from the community, the ATO used data matching to uncover the extent of Mr Hogg's wrongdoing. This included comparing internal ATO data and bank statement analysis to identify which of his clients were caught up in the scheme.

ATO Deputy Commissioner Will Day welcomed the sentence handed down and said it was commensurate with the seriousness of Mr Hogg's crimes.

"The sentence is a testament to the ATO's resolve to uncover and prosecute the most egregious tax crimes, like those committed by Mr Hogg," Mr Day said.

"The stories which have been told to the court during this trial demonstrate Mr Hogg's complete disregard for the best interests of his clients and for honest Australian taxpayers who pay their fair share.

"In this case, our sophisticated approach to data matching enabled us to easily identify transactions which didn't quite look right and to act swiftly to investigate them further.

"By analysing Mr Hogg's client list, we quickly identified 40 taxpayers out of his 1600 clients who were likely to have participated in the scheme.

"As a result, we were able to contact those taxpayers individually and work with them to correct their past tax returns, and to get their tax affairs back in order."

The vast majority of taxpayers caught up in the scheme made voluntary disclosures and received reduced or no penalties as a result.

Mr Day said the ATO has a strong commitment to protecting honest taxpayers by identifying and prosecuting any tax agents who abuse their position of trust by either conspiring with or against their clients to defraud the tax system.

"Tax agents have an important role to play in contributing to the integrity of the tax system as a whole," Mr Day said.

"The ATO will continue to work with tax professionals to ensure the integrity of the system and to protect honest tax professionals and the community from these types of crimes."

If a taxpayer suspects or is aware of anyone who is involved in tax fraud, they can report it confidentially at ato.gov.au/reportaconcern or call **1800 060 062.**

Remediation and Restructuring Hit Bank Bottom Lines

Australia's four major banks have released results showing the first signs of economic, competitive and conduct challenges materialising into financial pressures, with headline cash earnings dropping 2.8 percent half-on-half to $15.24 billion in the first six months of FY18.

PwC's 2018 Half Year Major Banks Analysis found that despite margins holding up as well as historically-low bad debts and control of the underlying cost base of Australia's four major banks, performance has been hit with slowing credit growth, a slight loss of aggregate market share, and more than $1.4 billion in restructuring and remediation costs.

PwC Australia's Banking and Capital Markets Leader Colin Heath says the half-year results show the early signs of an ever more challenging outlook, including the fallout from the Royal Commission and reviews from Australian Prudential Regulation Authority, the Australian Competition and Consumer Commission and Productivity Commission.

"The economic, competitive and conduct challenges we've been talking about for some time are starting to play out and this is the first time we've seen it start to impact the bottom line," Mr Heath says.

Interest margins increased year-on-year as the final benefits of mortgage repricing early last year flowed through, despite the offset of the federal government's Bank Levy. That levy cost the banks an estimated $730 million (three banks reported a collective $543 million) in the first half of the year.

Costs

Across the four major banks, the expense-to-income ratio for the last six months was up 227 basis points half-on-half, and 233 basis points against the first half of 2017, to 45.32 per cent, entirely driven by remediation and restructuring costs.

Mr Heath says Australian banks have been working hard on their cost base for some time and underlying costs appear tightly controlled despite increased investment in change and new technology.

CET1 and Return on Equity

The analysis found capital ratios have increased 24 basis points half-on-half to 10.56 percent, as banks move towards complying with the APRA's decision to increase the minimum tier 1 capital (CET1) requirement to 10.5 percent by 2020.

As a result, when combined with a softness in earnings, Return on Equity has fallen 50 basis points half-on-half, to 13.05 percent – the lowest level since the global financial crisis.

“Compared to five years ago when it was around 17 percent, that’s a significant fall,” Mr Heath says.

“It is hard to see growth in equity returns over the short term. There are obviously a lot of challenges, and they will keep returns under pressure.”

Credit growth and bad debt

The analysis found bad debt expense remained at historically low levels at $1.8 billion with little sign of household stress impacting mortgage repayments.

Housing credit growth remains critical to overall credit growth, and in the current environment lending decisions are being increasingly scrutinised. Mr Heath warns that credit growth is slowing and this could impact bank financial performance going forward.

“We’ve heard from each of the banks that there are going to be challenges around credit growth in the short term and we are starting to see credit growth slowing in recent data,” he says.

Mr Heath says that while moves to tighten lending controls are yet to fully flow through to the results, the clear message for banks at the moment- which has been out there for the last six to 12 months is that more scrutiny on lending is needed and it will mean that some lending decisions that were made in the past may not be possible in the future.

Housing credit growth is at around 6.1 per cent, for the last 12 months, which has tapered over the last six months as a result of regulator pressure on interest-only and investor lending. This looks likely to continue and may even accelerate going forward. There are signs that major banks are grappling with their market share, which has marginally contracted in aggregate.

Outlook

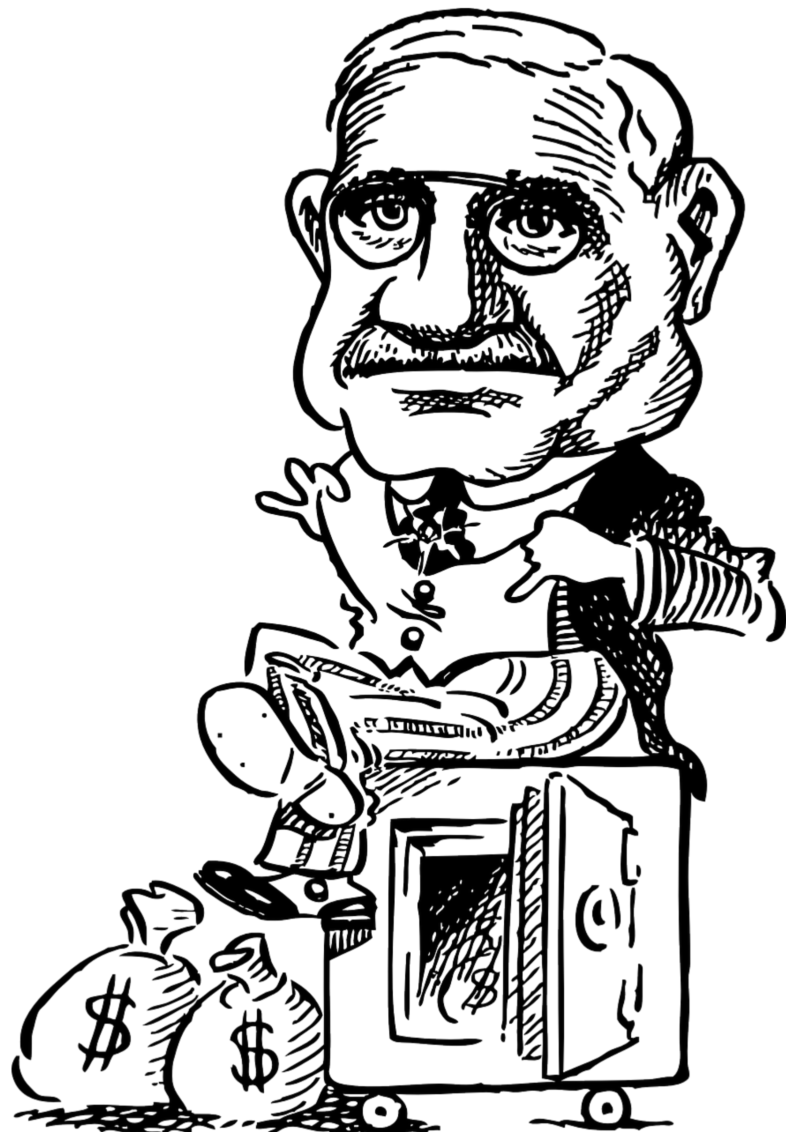
Mr Heath says the results reported in the last half reflect the first signs that the ‘non-financial’ risks we have been discussing for a few years are manifesting in the bank’s bottom lines.

“Post the de-regulation of the banking system in the 80s, we had a credit crisis in Australia in the 90s which informed a lot of what the industry does on credit risk today. In the 2000s we had the global financial crisis which again, informed a lot of what we do on market and liquidity risks. In the same way, what we are experiencing right now looks absolutely set to provide the roadmap on conduct and non-financial risk for the years ahead,” Mr Heath says.

Mr Heath says the coming year will continue to be challenging for Australia’s four major banks.

“It is going to be particularly important to see how the banks, over the next six months, deal with underlying costs and margins. If credit growth does slow, banks are going to have to make good progress on the cost profile and think hard about pricing. Competition in the domestic market is pretty fierce and the findings from the reviews on competition in the sector may make this harder.”

Read the full report: **Major Banks Analysis: May Half Year 2018**



Regional Office and Branch News

Hong Kong Events at HK Polytechnic University and Others

CMA Australia Hong Kong Branch has been very active in the last few months. Here is a sampling of their many activities.

Participants at the CMA Information Seminar at The Hong Kong Polytechnic University

CMA Australia and PolyU jointly organized a CMA Seminar at The Hong Kong Polytechnic University on 1 February 2018. Professor Allen Wong introduced CMA's background and the program to the students. There were around 50 students attending the CMA seminar. Students who attended this seminar were entitled to a complimentary CMA introductory class as CSR. Special thanks to Mr. Darron Sun, our Vice Chairman of Committee of Strategic Development for the seminar arrangement.

Participants of the 29th Intake of the CMA Program, March-April 2018

Another activity was the VTC Health Tech Forum 2018 that was held on 16 March 2018 at the IVE Kwai Chung. The theme was Transforming Elderly Services with Technologies. CMA Australia was one of the exhibitors at the Health Tech Forum 2018. CMA Australia has sponsored and distributed 150 gift bags to the elderlies who attended the event. Exhibitors displayed HealthTech innovative products for elderlies. Dr. Lee George Lam, Honorary Chairman – ASEAN of CMA Australia and Chairman of Hong Kong Cyberport Management Company Limited was one of the panel members at the panel discussion. Special thanks to CMA member Mr. SY Leung's support by sponsoring 150 Ping On Ointments for the event.

CMA was also invited to participate in the Hong Kong Polytechnic University Career Fair 2018 as one of the exhibitors. It was its fourth time attending the Career Fair. CMA set up a booth at the venue on 21 March, 2018. Over these years, the Hong Kong Polytechnic

University Career Fair has been widely welcomed as a platform by many potential employers because it does provide some valuable opportunities to promote their employment or internships offered to graduates or students respectively during this event. This is the largest career fair attracting most of the graduates among the local universities.

Prof Allen Wong at the Hong Kong Polytechnic University Career Fair 2018 held on Wednesday, 21 March 2018

Another activity was the Youth Dialogue forum organised by the Government of Hong Kong (Cyberport), The United Nations Office for South-South Corporation (UNOSSC), and UNESCO HK Association and sponsored by the Government of Hong Kong (Cyberport), Gratia Christian College (GCC), HK – Centre for Business/ Social Sustainability and Innovations, Gratia College and The Institute of Certified Management Accountants (CMA Australia). Professor Allen Wong was invited to be one of the judges.

Vietnam Delivers Workshop on Data Driven Decision Making in Industry 4.0

A CMA Workshop with the topic "Data Driven Decision Making in Industry 4.0" was held for CMA Members.

ICMA Vietnam also delivered workshop on the benefits of CMA membership to potential new members.

In June, a new CMA Program commenced in Hanoi with 25 participants. A CMA Program in Ho Chi Minh city will be held in August 2018.

CMA Certificate presentation by CMA Vietnam Regional Director, Mr Long Phan.

CMA Events Calendar

- July 15-21, 2018, 3rd CMA Intensive Program at Mercu Buana University Jakarta, Indonesia, organised by Inspire Consulting.
- September 1-9, 2018: CMA Preparatory Program, Academy of Finance, Colombo, Sri Lanka
- September 22-24 and October 20-23, 2018: 6th CMA Preparatory Program, Ruwan Hulugalle and Company, Phnom Penh, Cambodia.
- October 1-7, 2018: (Proposed) CMA Train-the-Trainer Program, ManAcc Consultants, Auckland, New Zealand.
- October 13-19, 2018: CMA Preparatory Program, IPMI Business School, Jakarta, Indonesia.
- October 19th, 2018: Accounting Hall of Fame & Management Accounting Hall of Fame Awards 2017, Gala Dinner, Phnom Penh, Cambodia.
- November 15, 2018: CMA Graduation Convocation, Academy of Finance, Colombo, Sri Lanka
- November 17-24, 2018: 24rd CMA Preparatory Program, SMART Education Group, Dubai, UAE.

Private Providers

Wharton Institute of Technology and Science (WITS), Australia

Academy of Finance, Sri Lanka

IPMI (Indonesian Institute for Management Development), Indonesia

Multimedia College (MMC), Malaysia

Business Sense, Inc. Philippines

HBS for Certification and Training, Lebanon

SMART Education Group (UAE)

Institute of Professional and Executive Management, Hong Kong

AFA Research and Education, Vietnam

Institute of Finance and Management PNG

TOP Academy, Malaysia

Segal Training Institute, Iran

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