

INTELLIGENCE & INSIGHT FROM CA SRI LANKA

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## GLOBAL GROWTH NEEDS **GLOBAL ETHICS**

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## **NEW IMPORT LAWS** TO BUILD ECONOMIC FREEDOMS

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## ARE **LUXURY CONDOS** STILL HOT?

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## A word from the President

# Opening doors of opportunity for you



“**Creating new opportunities for our members is a top priority for the Institute. CA Sri Lanka has entered into a series of agreements with internationally renowned accounting bodies, which has vastly improved the global mobility of our members, allowing them to enjoy new opportunities and enhance their professional standing without being restricted to geographical boundaries.**”



Chartered Accountants are a brand of unique and versatile professionals. They have the ability to steer any business successfully due to their exceptional technical and perceptive skills, financial discipline and out-of-the-box thinking. As a consequence of these attributes, there is always demand for chartered accountants both locally and globally.

Creating new opportunities for our members is a top priority for the Institute. CA Sri Lanka has entered into a series of agreements with internationally renowned accounting bodies which has vastly improved the global mobility of our members, allowing them to enjoy new opportunities and enhance their professional standing without being restricted to geographical boundaries.

In continuously fulfilling this objective, we engaged the National Academic Recognition Information Centre (NARIC), which is the national agency in the United Kingdom responsible for benchmarking qualifications, to carry out an independent assessment of CA Sri Lanka's qualification.

You may be aware already that NARIC has benchmarked the ACA qualification as comparable to a UK-standard Master's Degree: this is an important achievement revealing the true value of the qualification our members enjoy.

During the evaluation, NARIC also benchmarked the two early exit routes of the CA qualification, with the Certified Senior Business Accountant (CSBA) qualification being comparable to a UK-standard Bachelor Degree, and the Certified Business Accountant (CBA) qualification being comparable to the UK's Certificate of Higher Education.

The benchmarking not only strengthens the position of CA Sri Lanka Chartered Accountants, but also elevates the qualification in a global and local context on the grounds that the evaluation was carried out by a highly respected international agency.

This benchmarking will open new doors for our members.

As an influential professional body, CA Sri Lanka remains focused on providing members opportunities to enhance professional skills. We offer pathways that allow our members to obtain membership from premier international professional accounting bodies like the International Chartered Accountants of England and Wales, CPA Australia, Chartered Accountants Australia and New Zealand, and the Chartered Institute of Management Accountants UK, among others.

Our ultimate aim as the national accounting body in Sri Lanka is to ensure that our members will continue to play a significant role in adding value to the profession and organisations they serve, thereby contributing to the national economy of Sri Lanka.

**Jagath Perera**  
President  
CA Sri Lanka

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# BLUE OCEAN GROUP, SRI LANKA'S LARGEST PROPERTY DEVELOPER MARCHES TOWARDS GREAT ACHIEVEMENTS

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**Sivarajah Thumilan** Group Chairman (ACA, ACCA, ACMA (UK), CGMA, CPA (AUS), MCSI (UK), FM AAT (SL) ACS - Chartered Accountant) commenting on the status of his Group said,

By winning a series of prestigious International Awards for its construction excellence, Blue Ocean Group of Companies had earned a historic fame to its motherland Sri Lanka in the international arena. The Group is determined to maintain and perhaps to improve this status as a leading business conglomerate in the country. With nearly 50 well established subsidiaries under its massive wing, the Group deals in many trades including real-estate, construction, engineering, trading, education, leisure and entertainment.

Blue Ocean Group had won two major international awards as 'Sri Lanka's Best Property Developer 2017' and 'Asia's Greatest Brands and Leaders 2017'. Following this historic achievement in 2017, the Group had achieved yet another tremendous victory this year by winning eight awards including Special Recognition in Corporate Social Responsibility, Best Condo Architecture Design, Best Affordable Condo Development, and Best Condo Interior Design at the PropertyGuru inaugural session held in Colombo recently.

Link Engineering, a member of Blue Ocean Group is one of the pioneer construction companies in Sri Lanka, with well over four decades of experience behind. It is one of the few construction companies in Sri Lanka, acknowledged by the Contractors' Association of Sri Lanka, Green Building Council, Construction & Industrial Development Authority and Chamber of Commerce & Construction Industries. Link Engineering is currently engaged in 38 private, luxury condominium projects and 38 government projects all over the island. Similarly, Blue Ocean is doing 35 large projects in 10 cities, targeting 1250 residences at a stretch. Totally, the Group is having nearly Rs.55 Billion worth of projects in hand which is an unbeatable record for a private construction company. Group Chairman Sivarajah Thumilan (ACA, ACCA, ACMA (UK), CGMA,

CPA (AUS), MCSI (UK), FM AAT (SL) ACS - Chartered Accountant) commenting on the status of his Group said,

"Our brand name, built on an impeccable customers' trust, is well established both in Sri Lanka and abroad. This is the very reason why most of our apartments are reserved or sold out the moment we announce a new project. By opening up branch offices in the UK, Australia, Canada and UAE we have widened our activities to the global market by which we have inspired a large number of Sri Lankans living abroad as well as foreigners to invest in our apartments. They prefer to invest in our apartments for three benefits, i.e, Luxurious Living, Holiday Home & Investment Property. As the value of the property escalates day by day, they very well understand that it is the best way for their investment rather than the traditional saving at the Banks or Finance Companies"

"To suit the customer's purse and taste we have taken an additional step to classify our apartments into three categories – First Class, Business Class and Economy Class. We also give extreme importance to select our locations ensuring a hygienic, clean, decent and peaceful environment. Most of our locations are selected in such a way to keep the occupants feel that they are far away from the dusty, noisy and disturbing city life".

"We specialize in providing every requirement of the customers under one roof, thus saving their time, money and energy. This exclusiveness becomes possible for us with our own team of professionals, comprising 04 Chartered Architects, 09 Chartered Civil Engineers, 05 Chartered Accountants, 02 Chartered MEP Engineers, 42 Civil Engineers, 58 Quantity Surveyors, 25 MEP Engineers and 235 Staff of other professions in the Construction trade. Altogether we are having nearly 4000 direct and indirect employees under our roof which is counted

as another significant feature for a private company"

"As a 100% Sri Lankan company, we possess the experience, technical expertise, manpower and financial strength to lead our way. We are also planning to expand our overseas operations. Our vision is to be a globally respected and successful business conglomerate through excellence in all endeavors.

"Our recruitments are done exclusively on the merits of the candidates, leaving aside their ethnic, language, race or religious disparities. We give more chances to eligible, creative and active youngsters and to guide them in the proper way we hold experienced, elderly personnel too in our team and this combined team always proves the best momentum"

"M.R. Jeyachandran (MPM(Aus), MBA(Aus), PG.Dip(B&F.Mgt), B.Sc(Hons), C.Eng.MIE(SL)) joined our Group, as the Chief Executive Officer, from 02nd July 2018, Being the former Director General of the Buildings Department and present Chairman of C.I.D.A, Jeyachandran, is a highly experienced and successful team leader. His wide experience in the construction related field will be of a definite advantage to our Group. I am quite confident that he could guide our team efficiently, for a still better performance"

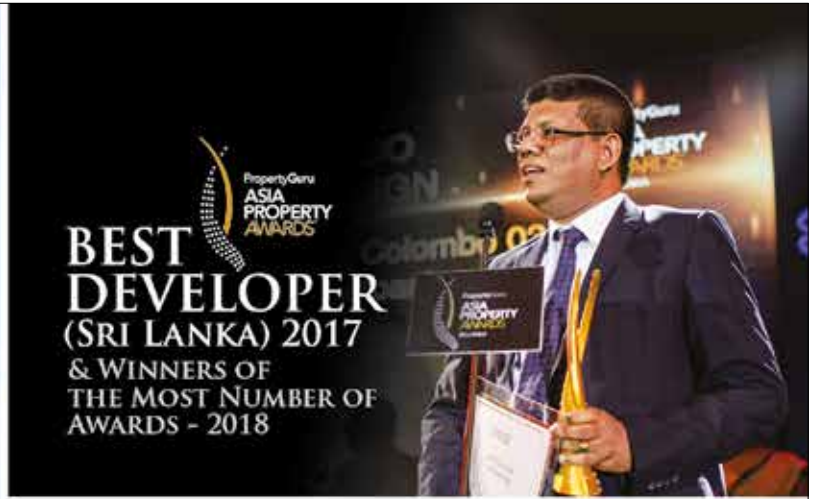
Commenting on his role as the new CEO, Jeyachandran said,

"With Blue Ocean's deep pool of talent, strong customer base, and robust balance sheet, I am really happy about having the opportunity to work with the team and I will do my best to lead the Group into the next stage of its strategic development. I earnestly look forward to having the support of our executive team, employees, customers, suppliers and other stakeholders to help me and Thumilan to turn our dream into reality."





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- ◆ No. 15A, Layard's Road, Colombo 04
- ◆ No.20, Vajira Road, Colombo 04
- ◆ No. 02, Glenfall Road, Nuwara Eliya



### Business Class Condos @

- ◆ No.01, Havelock Place, Colombo 05
- ◆ No. 75, Maya Avenue, Colombo 06
- ◆ No. 30, Hotel Road, Mount Lavinia
- ◆ No. 34/2, De Serem Road, Mount Lavinia



### Economy Class Condos @

- ◆ No. 35, Ramakrishna Road, Colombo 06
- ◆ No.09, Boswell Place, Colombo 06
- ◆ No. 15, Lillian Avenue, Mount Lavinia
- ◆ No. 19, Barnes Avenue, Mount Lavinia



No.06, 19th Lane, Col 03



No.15A, Layard's Rd, Col 04



No.35, Ramakrishna Rd, Col 06



No.34/2, De Serem Rd, Mt Lavinia



No.30, Hotel Road, Mt Lavinia

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## Intelligence & Insight from CA Sri Lanka

# Be Certain

**T**he domestic economy is gripped in uncertainty, largely due to policy unpredictability, a typical feature of coalition governments. A looming trade war between China and the US, growing protectionism and rising oil prices have engulfed the entire global economy in uncertainty, and is bound to have an impact on Sri Lanka.

Accounting professionals are paid to help their clients navigate this uncertainty.

However, there is a broader role for us to play, a public one. There's an urgent need for rational discussion around policy matters.

Public policy debates are dominated by politicians, their unions and prominent individuals supporting them. Too often, misinformation is allowed to creep in as fact, which only adds to the prevailing uncertainty, which doesn't benefit anyone. This does not bode well for the future of this country because critical reforms that can transform the economy will not be possible.

We must decide: Do we put the country on a new trajectory, or do we continue running around in the same circle since independence?

This is why professionals need to encourage rational apolitical debate and bring as much clarity to the table as possible. A rational approach to policy debates around areas like energy pricing, free trade agreements and taxation is necessary to give reforms a chance and ensure that vulnerable groups are protected.



Chartered Accountants of CA Sri Lanka are known as a brand of unique and versatile professionals, with the ability to steer any business successfully.

CA Sri Lanka has 6000 members, who are sought after both locally and globally, for their professional integrity, exceptional technical and perceptive skills, as well as financial discipline and out of the box thinking, which helps them to add value to the organisation they serve for.

The portfolio of CA Sri Lanka members comprise of Chairmen, Partners, Managing Directors, Vice Presidents, CEOs and CFOs among other high profile designations, who serve across top corporates in Sri Lanka and outside Sri Lanka.

In its capacity as the National Body of Accountants and an influential professional organisation in the country, CA Sri Lanka continuously focuses on enhancing the professional skills of its members, in ensuring that they continue to play a significant role in partnering businesses and thereby contribute to the success of the profession as well as the public and private sectors, and thereby to the national economy of Sri Lanka.

CA Sri Lanka has also been identified as the preferred and recognised destination for accountancy education in the country, and as testament to this, the Institute currently has over 40,000 students who are aspiring chartered accountants.

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# PERISCOPE

## Sri Lanka's finances will improve: Fitch

The rating agency Fitch said Sri Lanka's recent fiscal reforms and automatic pricing of fuel will improve state finances and debt, but political uncertainty has heightened following recent regional polls.

"Sri Lanka's rating balances an improving policy framework, which supports macroeconomic stability and rising government revenues, against a challenging external debt servicing outlook and high government debt," Fitch said in its Asia Pacific Sovereign Credit Overview for the third quarter of 2018. The rating agency forecasts Sri Lanka will grow 3.8% in 2018 and 4.5% in 2019. Government debt at 77.6% of GDP is expected to fall to 75.9% in 2019. It was noted that progress has been made on critical fiscal reforms, including the approval of an automatic fuel price mechanism from May 2018.

"The authorities have also taken steps to introduce an automatic electricity pricing mechanism and establish a committee to develop a detailed restructuring plan for SriLankan Airlines," Fitch said. However, it warned that deteriorating policy coherence and credibility could lead to a loss of investor confidence or a derailment of the IMF-supported programme that leads to external funding stress.

"Political uncertainty increased following the ruling coalition's heavy losses during the local elections in February, followed by a vote of no-confidence against the prime minister in April and temporary suspension of parliament in May," Fitch stated. "The risk of political uncertainty disrupting policy continuity, however, is mitigated by the election schedule, in which presidential elections are not due until end-2019, with parliamentary elections to follow."

Fitch growth forecast for Sri Lanka

**3.8% in 2018**  
**4.5% in 2019**

## Moody's affirms Sri Lanka's B1 rating

The rating agency Moody's recently affirmed Sri Lanka's foreign currency issuer and senior unsecured ratings at B1. It stated, "The decision to affirm the rating at B1 reflects Sri Lanka's progress in implementing the planned reform programme, which entails fiscal consolidation and a build up of foreign exchange reserves buffers, ahead of the end of the IMF Extended Fund Facility programme in June 2019, along with

its moderate per capita income levels and stronger institutions relative to many similarly-rated sovereigns."

However, Moody's maintained the negative outlook for the country; key reasons were Sri Lanka's ongoing high vulnerability to a potential tightening in external and domestic financing conditions, given relatively large borrowing needs; reliance on external funding; and still low reserves adequacy.



## Macquarie appoints woman of Sri Lankan origin as CEO

Australian investment bank Macquarie recently appointed Shemara Wikramanayake as CEO. Reuters noted that it was the most senior investment banking position currently held by a woman globally.

"Her elevation also marks a new phase for a financial conglomerate known for its strong record of beating profit expectations and the large pay packages of its fiercely competitive staff," Reuters stated. Outgoing CEO Nicholas Moore said, "With Shemara, we have a really outstanding successor."

Shemara built her reputation running the asset management division, which has consistently



achieved stellar results. Her career in banking and finance has spanned over three decades. It was reported that Shemara - by helping to establish and grow the asset management unit into Macquarie's most successful division - has been central to its strategy of offsetting the high volatility of tradition-

al investment banking and capital markets businesses with more stable units such as funds management. Morningstar banking analyst David Ellis called Shemara "an impressive individual, very deeply involved in the Macquarie culture and its risk management structure."

## Periscope

### Sri Lanka among fastest growing tourism markets - Global Data

#### COUNTRIES WITH FASTEST ANNUAL GROWTH FORECAST

Rank	Country	Score	Star rating	CAGR 2017-2021*
1	Iceland	39.1	★★	11.7%
2	Japan	47.7	★★★	10.6%
3	Hungary	46.3	★★★★	9.3%
4	Sri Lanka	52.8	★★★★★	8.7%
5	Chile	34.5	★★	8.6%

Sri Lanka has been listed among the top-five fastest-growing tourism markets in the world by GlobalData. The island ranks fourth in the list that also includes Iceland, Japan, Hungary and Chile.

Daily Mirror reported that the list is compiled using a ranking based on forecast average annual growth in international arrivals. The forecasts take into account factors such as capital investment,

GDP and disposable income in the main source markets. The top-ranked country Iceland obtained a score of 39.1 and a compound annual growth rate (CAGR) of 11.7%. Sri Lanka obtained a score of 52.8 and a CAGR of 8.7%. Sri Lanka is the only four-star rated country in the top five. GlobalData stated that the island is “investment-friendly and has improved its road and air infrastructure significantly.”

### China on track to bail out Sri Lanka with \$1.25 billion this year

China is on track to bail out Sri Lanka with up to \$1.25 billion in 2018 with a below market rate syndicated loan and smaller Panda bond planned for later this year. This follows criticism that it was driving the island into a debt trap. Sri Lanka faces foreign debt repayment spikes in the 2019-2021 period. The country changed its borrowing laws to allow extra money to be raised early to stretch repayment. Earlier this year, China Development

Bank beat offers from western international banks to win the mandate for a syndicated \$1 billion loan for Sri Lanka both in rates and tenor. It offered 8-year funds with a 3-year grace period at around 5.25-5.35%. In yet another move to fund Sri Lanka, China is helping the country sell a \$250 million equivalent Panda bond (Yuan-denominated bond) at the end of 2018. The People's Bank of China has set up a joint task force to help Sri Lanka in this matter.

### Sri Lanka inks deal for Google Loon broadband floating 'telecom towers'

Sri Lanka has signed a deal to deploy Google Loon high altitude 'floating telecom tower' balloons to provide full broadband internet coverage to the entire country, officials said.

“Hopefully in a few months every person and every device on the island will be covered by 3G (third generation),” said Deputy Economic Policy Minister Harsha de Silva.

Telecom Minister Mangala Samaraweera said the Google Loon balloons will cover every village from Dondra to Point Pedro, in reference to the southernmost and northernmost points in the island. He further stated that “Sri Lanka is on its way to becoming the very first country in the world to have network

connectivity covering the entire country.”

Deputy Investment Promotions Minister Eran Wickremeratne said that each balloon could cover about 5,000 square kilometres, and with a little over a dozen, the entire country could be covered. The Google Loon balloons have LTE standard transceivers which can connect to cellphone networks, filling gaps in their networks.

“Service providers will enter into agreements with “floating cell towers” that will be shared, bringing down transmission costs leading to further reductions in cost of service provision,” de Silva said. “This should give more space for them to improve technology, content and service.”





## US economic growth likely to be strong this year

Congressional researchers projected that US economic growth is likely to accelerate this year. However, they believed that it will slow next year and fall far short of the Trump administration's 3% target as a fiscal stimulus fades. According to Reuters, the Congressional Budget Office (CBO) projected that inflation adjusted or real GDP would just exceed 3% in 2018, surpassing the 2.2% growth achieved last year due to lower income taxes, higher



PROJECTED US REAL GDP GROWTH IN 2018

government spending and private investment. CBO director Keith Hall stated, "In 2019, the pace of GDP growth slows to 2.4% in the agency's forecast, as growth in business investment and government purchases slows."

## Chinese state media warns that Apple could be used as 'bargaining chip' in trade war with US



An article that appeared in two Chinese state-backed publications stated that Apple has benefitted from cheap labour and a strong supply chain in China and needs to share more of its profit with Chinese citizens, or face anger and nationalist sentiment amid the ongoing trade war. The opinion piece noted that Apple - which recently achieved a valuation of \$1 trillion - was boosted by \$9.6 billion in revenues in

China in the June quarter. It, however, stated that the ongoing trade war between the economic giants could leave Apple and other US firms vulnerable as "bargaining chips" for Beijing.

It said, "The eye-catching success achieved in the Chinese market may provoke nationalist sentiment if US President Donald Trump's recently adopted protectionist measures hit Chinese companies hard."

## New US law passed to regulate foreign takeover deals

US President Donald Trump recently signed a bill that gives the government more power to review and potentially block deals involving foreign companies. The BBC stated that the measure was spurred by US concerns that Chinese companies are using investments and acquisitions to gain access to new technology. It added that the law was supported by both Republicans and Democrats in Congress. Wary of China, other countries such as the UK are also considering ways to strengthen their scrutiny of foreign deals.

The new US law, while not specifically citing China, directs officials of the Committee on Foreign Investment in the US (CFIUS) to consider whether the transaction involves a "country of special concern that has a demonstrated or declared strategic goal of acquiring a type of critical technology or infrastructure."

## KKR to acquire 60% stake in REEL in major Indian buyout

In one of India's largest buyouts, global investment company KKR will buy control of environmental services firm Ramky Enviro Engineers Ltd. (REEL) by acquiring a 60% stake for \$530 million. The deal will give REEL an enterprise value exceeding \$900 million. It is the first private equity buyout in India's environmental services sector.

According to Reuters, the deal comes at a time when India is focused on reducing pollution and improving sanitation infrastructure through its Swachh Bharat (Clean India) Mission launched by Prime Minister Narendra Modi. An important goal

60% STAKE IN REEL

\$530 million

is to build individual and public toilets to eradicate open defecation by October next year.

Chief Executive of KKR India Sanjay Nayar stated that REEL is the only comprehensive environmental management company offering end-to-end services across the country and that its work uniquely

supports the Clean India initiative. In addition to waste management, REEL is involved in renewable energy generation using waste, as well as the recycling of paper, plastic and chemicals. Besides India, the company has a presence in the Southeast Asian, Middle Eastern and African markets.

# Periscope

## HSBC expresses cautious optimism about global growth



While announcing a 4.6% increase in pre-tax profit for the first half of this year, HSBC stated that it was “cautiously optimistic” about global growth. The bank noted that Asian economies remained robust despite rising trade tensions between the US and China.

HSBC's pre-tax profit stood at \$10.7 billion in the first six months of 2018, an increase from \$10.2 billion recorded in the same period last year.

John Flint, the chief ex-

### \$10.7 bn

HSBC'S PRE-TAX PROFIT IN THE FIRST HALF OF 2018

ecutive of HSBC group, said they were “pretty sanguine” about China's growth outlook despite the protectionist “rhetoric.” He stated that, while a full-blown trade war could impact their business, they haven't seen any impact in their business so far.

## FRC emphasizes non-financial reporting

The Financial Reporting Council (FRC) in the UK revised its Guidance on the Strategic Report, emphasizing the importance of non-financial reporting. The council felt that integrating non-financial information into the strategic report is a key aspect of telling a company's story.

As stated by *The Accountant*, the guidance encourages companies to consider wider stakeholders and broader matters that impact performance over the longer term. The revised guidance recommends the use of non-financial KPIs when

they are the most appropriate method of providing the information necessary for an understanding of the development, performance, position or future prospects of the entity.

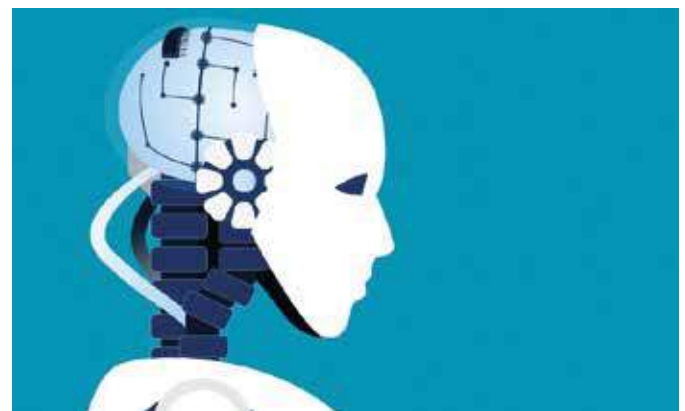
Executive Director of the Corporate Governance and Reporting Division of the IRS Advisory Council, Paul George said, “Revisions to the Guidance on the Strategic Report complement the recent changes to the FRC's Corporate Governance Code, and as a package, will contribute to enhancing trust and transparency in business.”

## AI and Big Data initiative launched by ACAEW

A scheme to use AI and Big Data for corporate finance transactions has been launched by the Institute of Chartered Accountants in England and Wales (ICAEW).

According to *The Accountant*, the institute will collaborate with governments, professional service firms, regulators, financial institutions and other stakeholders

in an effort to help companies manage the risks involved in advanced digital technologies. CEO of ICAEW Michael Izza emphasized that the government and other business organisations should do more to attract venture capital to the UK. He said they want Britain to be the best in class when it comes to financing industries like cutting-edge technology.



## Sri Lanka 2Q unemployment marginally up

Sri Lanka's unemployment grew marginally in the second quarter of 2018 from a year ago, with agriculture employment down to a historic low and fewer industry jobs while services gained, the state statistics office said.

Amid a declining labour force, unemployment moved up marginally to 4.6 percent in the second quarter of 2018 from a year ago, the highest level in eight quarters, matching figures seen in the second quarter of 2016. Unemployment has remained

below 5 percent since the third quarter of 2015. The labour force bulletin of the Census and Statistics Department showed unemployment was 4.5 percent in the second quarter of 2017 as well as the first quarter of 2018.

Employment in agriculture fell to a historic low of 24.2 percent in the June 2018 quarter amid a recovery from a two-year drought, with 1.93 million working in the sector, down from 2.11 million, or 26 percent of total labour a year earlier.



## High-risk strategies may put Americans' savings in jeopardy



A new poll has revealed that Americans' embrace of high-risk strategies and their limited understanding of investing may jeopardise their savings.

*The Journal of Accountancy* reported that, despite the stock market's volatile record this year, at least a third of Americans would describe the market as stable, according to a survey by *The Harris Poll*. It was also revealed that 28% of Americans involved in household investment decisions said they don't do their research when it

# 32%

AMERICANS INVOLVED IN HOUSEHOLD INVESTMENT DECISIONS WHO SAY THEY TYPICALLY MAKE HIGH-RISK INVESTMENTS

comes to investment opportunities and developing an investment strategy.

Approx. 32% of those involved in household investment decisions said they typically make high-risk investments. The average American doesn't

seem risk-averse. In fact, nearly half think that an unpredictable market provides opportunities to turn a quick profit through short-term patterns of buying and selling. Such thinking was particularly evident among younger Americans.

According to the *Journal of Accountancy*, one substantial grey area for about half of Americans is cryptocurrencies like Bitcoin. It was noted that 48% are not familiar with this new type of asset, which can be confusing, subject to scams and very volatile.

### The Big Four accountancy firms spurn calls to be split up

The Big Four - PwC, Deloitte, KPMG and EY - have rejected calls to break up and asserted the importance of maintaining the status quo. While conceding that the FTSE public interest entity (PIE) audit market is concentrated, Deloitte stated that splitting up the Big Four "would damage both audit quality and the UK's position as an attractive capital market." KPMG said, "We do not share the view that changing the audit market structure is the key to driving up quality, but we will, of course, take part in any debate on these complex issues in whatever forum is most appropriate, with a view to exploring workable solutions."

PwC believed that the delivery of a high quality audit requires audit teams who are able to access a broad base of specialist knowledge. "This would be difficult to maintain in a firm which focused only on audit services," it stated. According to *The Accountant*, PwC noted that having a multidisciplinary firm meant that it was easier to attract and retain better talent in the recruitment process by offering 'wide-ranging experiences' that would be more challenging to offer in a firm that only offered audit services.

EY also stressed the advantages of having a multidisciplinary firm. It stated that their multidisciplinary model and related investments provide the structure, breadth and depth of technical skills and industry expertise necessary to deliver high-quality audits, particularly to large, complex international businesses.

### Latin American tax and financial crime academy to be launched

An MoU has been signed between the Organisation for Economic Co-operation and Development (OECD) and Argentina to set up the OECD Latin America Academy for Tax and Financial Crime Investigation in Buenos Aires, Argentina. According to *The Accountant*, the academy will provide in-

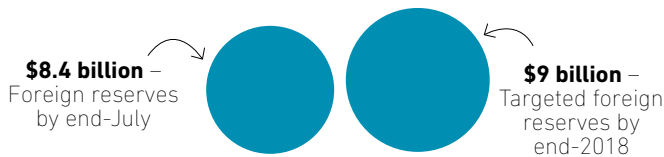
tensive capacity-building courses targeted at tax crime investigators and other related law enforcement officials, including prosecutors and anti-money laundering and anti-corruption officials. The courses will support tax crime investigators throughout their careers.

OECD Secretary-General Angel Gurría said,

"The establishment of the OECD Latin America Academy here in Buenos Aires to train investigators in using the latest techniques to deter, detect and prosecute financial crime such as tax fraud, money-laundering or corruption, will strengthen Latin America's capacity to tackle these crimes."

# Periscope

## Sri Lanka targets lower forex reserves for end-2018



Sri Lanka is targeting \$9 billion in foreign reserves by end-2018 helped by borrowings and import interventions, Central Bank Governor Indrajit Coomaraswamy said. This is a decline from the \$10 billion forecast earlier.

He stated that reserves went up to nearly \$10 billion following the sale of a sovereign bond earlier in the year, but fell to \$8.4 billion by end-July. "We think we will finish the year with around \$9 billion as far as reserves are concerned. That's a comfortable number, about 5 months of import cover," he said. He also

noted that the country will get \$1 billion from a syndicated loan negotiated through China Development Bank. Another \$250 million will come from a Panda bond before the end of the year.

Sri Lanka missed the net international reserve target under the IMF programme; Coomaraswamy said that the Central Bank will do its best to negotiate a waiver.

An official source said that, after building up a comfortable reserves buffer in 2018, Sri Lanka will opt for a round of borrowings in early 2019 to manage foreign debt maturities during the next year.

## Sri Lanka to start flexible inflation targeting from 1Q 2019

Sri Lanka is on track to start a modified inflation targeting framework from the first quarter of 2019, with amendments to the country's monetary law to stop deficit financing with printed money.

"We are on track to introduce a flexible inflation targeting regime by the end of the first quarter of next year," Central Bank Governor Indrajit Coomaraswamy said. "We will be putting in place a legal framework that will make it not possible to have fiscal forbearance."

Sri Lanka has had high inflation and currency depreciation due to money printed to keep interest rates low in a bid to finance the budget deficit (fiscal forbearance), but the rupee has also been pushed down due to a

devaluationist ideology, or a belief that the path to prosperity lies in unsound money.

Sri Lanka's inflation has reduced in recent years, down from the 20% levels seen in the 1980's when the rupee depreciated at a much faster rate.

The Central Bank was making progress in several fronts amid investigations and forensic audits into past activities, Coomaraswamy said. Under him, public confidence and credibility of the Central Bank have improved and policy debates are now on civil technical grounds.

Coomaraswamy said Sri Lanka's banks were moving fast on implementing Basel III standards. Banks were 'sound' though there was an uptick on non-performing loans, he stated.

## Sri Lanka inks \$82.6 million rail passenger coach deal with India

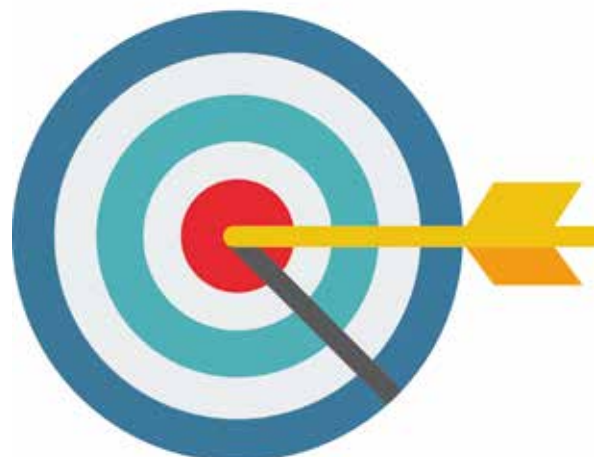
State-run Sri Lanka Railways has inked a \$82.6 million deal to buy 160 passenger coaches from RITES Ltd., the Indian High Commission in Colombo said recently.

RITES Ltd., an Indian state firm, will be paid from a \$318 million line of credit given by the Exim Bank of India in June 2017 to upgrade Sri Lanka's rail tracks and rolling stock. It will also supply 6 diesel multiple units (DMUs) and 10 locomotives to Sri Lanka. Texmaco Rail & Engineering Ltd., a private firm, will supply 20 container



carrier wagons and 30 fuel tank wagons.

The rolling stock will also be paid from the credit line. The passenger coaches will be custom-made to suit the requirements of Sri Lanka Railways.





## Sri Lanka's pharma firms call for depreciation-linked price controls

Sri Lanka's pharmaceutical firms - hit by rising costs from currency depreciation - are calling for controlled prices to be hiked every six months to reflect the falling rupee. The smaller pharmacies are also feeling the pinch from thin margins and rising inflation.

"About 85% of the drugs are imported, and the exchange rate is a very important component of this," said Shyam Sathasivam, President of the Sri Lanka Chamber of the Pharmaceutical Industry (SLCPI). The chamber stated that drug prices were frozen by gazette notice in March 2014. At the time, however, the exchange rate was stable. A National Medicinal Regulatory Authority (NMRA) set up in 2015 slashed the prices of 38 drugs. The US Dollar stood at Rs131.04 in the spot foreign exchange



market in December 2014. The rupee started to fall from around January 2015 amid money printing. By end-August 2018, the spot rupee was 161.47, indicating that compared to the US Dollar, the rupee has inflated by 23.2 percent.

"When there is unsustainable pressure on the supply chain, quality gets compromised, compliance gets compromised and that would lead to risks for the patient," Sathasivam said. "So we have to ensure that sustainability is a core part of what we do."

The NMRA slapped price controls on more drugs recently. The chamber said that in the latest batch, these cuts seemed ad hoc and they have no knowledge of how it had been done.

Sathasivam stated, "What we have continued to ask for is the same thing that is framed in the NMRA Act; a transparent process where all stakeholders are involved, where there is clarity on the choice of products and choices of formulae that go towards it."

## Sri Lankan palm oil firms form lobby after environmental strictures

Sri Lankan palm oil growing plantation companies have banded together in a new association following concerns raised by environmental authorities and a temporary halt to new planting. A statement said that businesses with a cumulative investment of about Rs26 billion in oil palm formed an industry association under the aegis of the Ceylon Chamber of Commerce.

The Palm Oil Industry Association (POIA) aims to promote common interests and advocate 'Sustainable Growth through Responsible Production.' At the launch, Plantation Industries Minister Navin Dissanayake said that the government is pursuing a policy to permit cultivation of up to 20,000 hectares of oil palm in Sri Lanka and that he as the minister in charge was committed to it. However, he stressed that policy guidelines on Good Agricultural Practices (GAP), procedures and protocols would have to be developed when implementing the decision. Dissanayake said the industry is working closely with a committee formed by the National Economic Council to address some of the strictures made by the Central Environment Authority (CEA). The new association represents cultivators, refiners, processors, manufacturers, marketers and sellers of palm oil and other products of the oil palm. "The POIA has identified as one of its first tasks the need to work with government authorities and industry experts to address a recently-manifested campaign of misinformation targeting the industry," the statement said.

## Sri Lanka's e-Land Registry to expand islandwide

Sri Lanka plans to expand its new digital land registry islandwide with the aim of speeding up property registration and making the island more attractive to investors, the government announced recently. The measures would also help improve the country's position in the Ease of Doing

Business index.

The state information office said the cabinet of ministers recently approved a proposal by Malik Samarawickrama, Minister of Development Strategies and International Trade and Vajira Abeywardena, Minister of Home Affairs, to secure funds to implement this project.

The eLand Registry will speed up land registration, reducing the number of days taken to register a property to five from 51 and the number of procedures to two from nine. It is expected to be operational in the western and southern provinces by end-2018 and elsewhere later on.

## Periscope

### New research database launched by IIRC

The International Integrated Reporting Council (IIRC) has launched an academic database featuring more than 200 studies on the ramifications of adopting integrated reporting. The comprehensive collection of studies covers the positive impact of integrated reporting on stock liquidity, performance, market valuation and the longer-term impact for the investor base of the businesses that adopt it. It was reported that more than 1,600 companies from 65 countries have begun to use this form of reporting.

It is hoped that the database will enable businesses to think holistically about strategy and

concentrate on risk management, according to *The Accountant*. The database is available for free. CEO of IIRC Richard Howitt said, "The evidence is there - in this database - that corroborates what I have always believed, integrated reporting can help instil financial stability and sustainable developments in our markets."

He noted that businesses can no longer ignore the need to communicate a holistic story of value creation to their stakeholders. "Integrated reporting is not just the right thing to do for the sake of our markets, society and environment - it is the right thing to do for your business."



### No progress on gender parity among FTSE 350 - Report



Female executive representation on main boards is as low as 8%, according to the Women Count 2018 report. It identified a lack of progress on gender diversity among FTSE 350 companies over the last three years. *AccountancyAge* stated that the percentage of women on executive committees remains at only 16%, the same as it was three years ago. Furthermore, the vast majority of P & L roles on executive committees are held by men, while women hold more 'functional' roles in fields like HR, marketing, legal and compliance.

In the Big Four accountancy firms - PwC, Deloitte, EY and KPMG - partners are at least 75% male. It was reported that FTSE 350 companies that don't have women on their executive committees achieve a profit margin of just 8.9% on average whereas those with at least 25% of women on executive committees achieve an average profit margin of 13.9%.

### FRC fines against auditors hit record high



The FRC - under pressure to act against poor quality audit work after several high profile audit failings - imposed fines amounting to almost £18 million in 2017/18. This is a substantial increase over the £14.5 million levied the previous year.

This year, the FRC introduced fines up to £10 million for "seriously poor audit work." According to *AccountancyAge*, this was based on the recommendations of a report chaired by Sir Christopher Clarke. Clarke felt



that such high fines might be appropriate in cases of incompetence in audits of a major public company, where the errors were measured in nine figures or more.

The watchdog had earlier been criticized for imposing relatively small penalties that had no deterrent effect.

COO of Customer Markets at Thomson Reuters Brian Peccarelli stated that firms are investing substantially in technology such as big data, enabling them to carry out more robust audits. He noted that they are able to use automation to extract and examine larger amounts of financial data from the business being audited, which can then be reviewed for anomalies.



## Sri Lanka's Colombo port records fastest growth in the world

Container handling at Sri Lanka's Colombo port grew 15.6 percent in the first half of 2018. This was the fastest in the world, according to an international ranking, the Sri Lanka Ports Authority said (SLPA).

SLPA said Alphaliner, a shipping publisher, had ranked Colombo as the fastest growing port – ahead of Singapore at 11.6 percent, Guangzhou at 8.6 percent and Antwerp at 8.3 percent. Colombo's growth is closely linked to the growth of India and her external trade. Colombo volumes weaken when India's growth slows.

Colombo's Chinese-built terminal has been a key driver of volume growth in recent years. "Recently the three terminal operators at the Port of Colombo; the Jaya Container Terminal (JCT) under SLPA, the South Asia Gateway Terminal (SAGT) and the Colombo International Container Terminal (CICT) reached into a Memorandum of Understanding (MOU) to operate collectively to promote the Port of Colombo," the SLPA said. Under the new collective agreement, it is expected to minimize the total turnaround time of all container vessels. Through the new agreement, terminals will also be able to promote the Port of Colombo collectively and collaboratively in the arena of international maritime business.

Up to June, transshipment volumes at Colombo grew at a blistering 20 percent from a year earlier to 2.695 million containers, with June volumes growing 23.6 percent to 471,881. Domestic container handling grew 1.3 percent to 681,393 with 6-month volumes down 1.4 percent to 110,089.

## Central Bank of Sri Lanka rejects currency crisis report



Sri Lanka's central bank recently rejected a report that the country was at risk of a currency crisis. It stated that it had asked Nomura Holdings Inc., which made the analysis, to change its opinion. The analysis by Nomura - which was published by international media - said seven emerging economies are at risk of an exchange rate crisis. It described Sri Lanka as having the worst outlook "due to still-weak fiscal finances and a very fragile external position."

Nomura analysts were quoted as saying about Sri Lanka: "With [foreign exchange] reserves of less than five months of import cover and high short-term external debt (\$160bn), its refinancing needs are large. Political stability also remains an issue."

The Central Bank said in a statement that Nomura's assessment of external debt was wrong. "Given the fact that Sri Lanka's short term external debt is nowhere near the \$160 billion figure that Nomu-

ra analysts have quoted, it appears that Nomura Holdings have made a serious computational error with regard to Sri Lanka's external vulnerability," it stated. "As such, an erroneous report could trigger unwarranted panic among investors, particularly in the context of current volatile global market conditions. The Central Bank of Sri Lanka has already written to Nomura Holdings, and requested them to correct this error without any delay," the Central Bank said. Although any so-called soft peg where a central bank tries to control the exchange rate and the interest rate is at risk like in Sri Lanka, a full-blown currency crisis hits a country when economic and credit growth is strong and interest rates are low.

If credit growth is weak and banks adjust deposit rates quickly to credit demand, the likelihood of a currency crisis is reduced, analysts say. Sri Lanka's credit growth is moderate at the moment. The stabilization of the

currency after a bout of money printing in March/April 2018 is a case in point, analysts say.

Sri Lanka also market prices oil, which further reduces the risk of a currency crisis as the pressure on the Central Bank to print money to keep interest rates down when petroleum utilities borrow to finance subsidies is reduced. In Sri Lanka, currency crises in 1999, 2004 (removing the plug), 2008/2009 and 2011/2012 were triggered by Central Bank-accommodated fuel subsidies.

However, analysts have pointed out that the rupee also comes under pressure due to inconsistent policy by the Central Bank, involving defending a peg on its 'strong side' by purchasing dollars (or engaging in a swap), and switching regimes to a 'flexible exchange' by not consistently following through by defending the 'weak side' of the peg, when the rupee comes under pressure from new rupees and credit.

## Periscope

# Anti-corruption mandate signed \$2 trillion

(or around 2% of global GDP) – Cost of bribery to the global economy

An Anti-Corruption Mandate has been signed by two prominent organisations – the International Federation of Accountants (IFAC) and the International Bar Association (IBA). *The Accountant* reported that collaboration on the mandate is a joint effort of IFAC and IBA to help combat corruption, bribery, tax evasion, money laundering and the financing of international terrorism.

Chief Executive Officer of IFAC Fayezul Choudhury said, "Grounded in a strong ethical code, professional accountants across the globe play a critical role in the fight against corruption, bringing essential transparency, relevance and integrity to the systems that underpin vibrant economies."

Bribery costs the global economy nearly \$2 trillion (around 2% of global GDP), according to the International Monetary Fund. The IBA stated that the presence of professional accountancy organisations advances the adoption of ethical, educational, investigation and discipline requirements that are central to the profession.

Executive Director of IBA Mark Ellis called corruption a significant impediment to economic stability and development, tarnishing public trust in institutions and inhibiting citizens' access to opportunities and prosperity. He added, "The IBA cross-sector collaboration aims to reinforce the role and responsibility of international professions to tackle corruption."



## Emphasis on corporate culture in new FRC code



The 2018 UK Corporate Governance Code released recently by the Financial Reporting Council (FRC) focuses on corporate culture. The code promotes trust, transparency, integrity and workplace diversity amid calls for audit reform. According to *AccountancyAge*, the code's aim is to achieve long-term sustainable growth in the UK through strong relationships between companies, shareholders and stakeholders. An important change relates to the stakeholder-workforce relationship, with the new provision urging greater board engagement with workers to better understand their views. The new code also lays emphasis on succession and diversity. It states that boards need to be refreshed regularly

**ACCORDING TO ACCOUNTANCYAGE, THE CODE'S AIM IS TO ACHIEVE LONG-TERM SUSTAINABLE GROWTH IN THE UK THROUGH STRONG RELATIONSHIPS BETWEEN COMPANIES, SHAREHOLDERS AND STAKEHOLDERS.**

and succession planning undertaken to create the right skillset and have diversity.

FRC Chairman Sir Win Bischoff said, "This new code, in its shorter and sharper form, and with its overarching theme of trust, is paramount in promoting transparency and integrity in business for society as a whole."

## Sri Lankan companies facing higher borrowing costs: Moody's

Sri Lankan companies face higher borrowing costs due to a rise in benchmark interest rates, rating agency Moody's Investors Service said.

Banking sector asset risks will increase after excessive credit expansion over the last two years and a rise in borrowing costs, Moody's said in a new report on Sri Lankan banks. "Non-performing loan (NPL) ratios have risen, and corporates are facing higher borrowing costs due to a rise in benchmark interest rates," it noted.

Moody's also stated that corporates' debt serviceability will be weakened by higher interest rates. "Higher interest rates will hurt corporates' repayment ability," the rating agency said. Around 40% of corporates will have debt interest coverage ratios of less than 2 under a stressed scenario, Moody's stated, noting that higher interest rates have begun to pressure borrowers.



## Sri Lanka's budget gap contained by June 2018, despite weak revenues

Sri Lanka's tax revenues grew 3% to Rs845.3 billion in the six months to June 2018, and current spending grew at a faster 8% to Rs995.6 billion, but the budget deficit was down in real terms, official data reveal.

Total non-tax revenues of Rs75.3 billion (up 32%) grew 5% to Rs920.8 billion, and current spending of Rs995.6 billion generated a revenue deficit of Rs74.8 billion for the half year, up from Rs42 billion a year earlier. Capital expenditure and net lending was down 5% to Rs276 billion, giving an overall budget deficit of Rs345.8 billion after grants of Rs4.96 billion.

The deficit was up 5 percent in rupee terms, but in terms of projected gross domestic product, it was down to 2.4% of GDP from 2.5% a year earlier. Annualized for 12-months, the deficit was

### Rs845.3 bn

SRI LANKA'S TAX REVENUES  
(FIRST HALF OF 2018)

4.8% of GDP, down from 5.5% during the same period last year. Up to May, Sri Lanka had given tax exemptions to fuel, losing revenues. Fuel taxes will add to revenues in the second half. Meanwhile, interest costs rose 12% to Rs391.5 billion, making it one of the fastest growing items on the budget. Media reports said some of the subsidy payments to banks on senior citizen loans were in arrears by the first quarter of 2018.

Currency depreciation - which adds to financing costs for foreign debt - is not added to the budget in the way fiscal accounts are computed now. Depreciation on instalment repaid during a year is a cash cost to the budget.



## Sri Lankan firms told to comply with new EU online privacy rules



Sri Lankan companies operating or doing online business in the European Union will have to comply with new data protection and privacy rules, according to a draft road map on reforms in the e-commerce sector.

Collection of personal data or behavioural information from people in EU member states triggers the requirements of the EU's recent General Data Protection Regulation known as GDPR, the report prepared by the Geneva-based International Trade Centre (ITC) said.

"Given the global approach of some Sri Lankan companies, there is little doubt that some are already affected by the regulation," the report stated. The EU regulation contains strict penalties for failing to abide by GDPR requirements, potentially up to four percent of global revenues.

"Sri Lankan companies operating online or in the EU will need to address the GDPR requirements to ensure compliance," the ITC report said.





TWO NEW TRADE LAWS PROTECT DOMESTIC INDUSTRIES FROM **UNFAIR TRADE PRACTICES**, AND ALSO BENEFIT CONSUMERS BY ELIMINATING PROTECTIONISM

# NEW **IMPORT LAWS** TO BUILD ECONOMIC FREEDOMS

Sri Lanka has introduced new laws to protect domestic industries from certain kinds of cheap imports; in doing so, the government has demonstrated its commitment to trade liberalisation and enhancing the economic freedoms of citizens. In March 2018, Parliament passed two new trade protection laws - the Safeguard Measures Act and the Anti-Dumping and Countervailing Duties Act - 17 years after these laws were first drafted. Briefly, the Safeguard Measures Act intends to protect domestic industries from a sudden surge in imports of a particular item from one country or several. The Anti-Dumping and Countervailing Duties Act intends to protect domestic manufacturers from foreign businesses

dumping cheap goods here. Being cheap, however, is not necessarily bad.

“When efficiency or productivity gains allow importing countries to price their products lower than domestic prices, domestic industries will not be protected under the new law. Nor would consumers be punished for the inefficiency and inability of domestic businesses to compete with imports,” says Gothami Silva, Director of Commerce at Sri Lanka’s Department of Commerce.

High customs duties and other taxes called para tariffs like cess and the Port and Aviation Levy are imposed on several items like ceramic tiles, shoes and steel for the sake of protecting domestic industry, but actually hurt consumers.

For example, a two square foot tile that costs around Rs72 in India costs about Rs260 when imported to Sri Lanka because of the import taxes. Shoemakers have successfully lobbied government for high import tariffs so that they can make profits, but poorer consumers are cornered. Import taxes on shoes are as high as 285%. The government is keen to eventually end this trend.

Anti-dumping and countervailing duties will apply to imported goods that are cheaper than those manufactured locally provided they benefit from subsidies or tax breaks given to businesses in importing countries. Businesses that undercut prices even below to what they sell at home just to capture a foreign market by

driving local manufacturers out of business are also liable to anti-dumping laws.

The new laws bring clarity that cheap imports - or those of substandard quality - don't necessarily mean dumping, and therefore will not play into the hands of the nationalistic protectionist lobby.

Imported goods can be cheaper than similar goods manufactured in Sri Lanka for several reasons: raw materials may be cheaper, manufacturers in importing countries may enjoy scale, or have much more efficient processes, or energy prices may be cheaper. The new anti-dumping rules won't apply for these reasons, and Sri Lankan consumers can enjoy the benefits without rent-seeking lobbyists destroying their freedoms.

In fact, consumer interests will be considered over the protectionist lobby when the Director General of Commerce considers an anti-dumping complaint.

The two new laws also address the issue of substandard imports. Quality has many subjective elements and anti-dumping measures will take aim at substandard imports that pose a threat

FTAs, especially with China, which could otherwise be politically contentious as the case with deepening trade ties with India has shown.

"The two new laws were long overdue. With the government negotiating comprehensive free trade deals with China, India and Singapore and committing to trade liberalisation, rules-based measures to protect domestic industries are important," says Shiran Fernando, Chief Economist at Ceylon Chamber of Commerce, a business body.

The FTA with Singapore requires Sri Lanka to eliminate customs duties on 50% of items imported from that country, gradually increasing it to 80% in 12 years. Singapore already provides duty-free access to 99% of exports from Sri Lanka. In November 2017, the government announced that it would abolish para tariffs on 1,200 imported items from all countries. Para tariffs are additional taxes, apart from import duties like the Port and Aviation Levy and Cess. The previous year, para tariffs on 240 items were abolished.

they must also show that businesses accounting for more than 50% of production of the item in question are affected by dumping. Businesses must show how dumping has caused declining sales, prices, profits or market share, or falling production and capacity utilization. They must prove that the normal price of an item is higher than the price at which it was being exported to Sri Lanka. If dumping is proven, the government can impose duties up to the difference between the normal value and export price, which is called the margin of dumping.

However, the Department of Commerce will not investigate if the margin of dumping is less than 2% of the export price, or if the imports in question account for less than 3% of similar imports from the same country.

Similar rules apply elsewhere, and have benefited countries like Sri Lanka from potentially ad hoc policies of other countries. In February 2018, the US said it was investigating Sri Lanka along with China and Thailand to determine whether rubber bands were being dumped in the United States. The investigation was triggered after a US-based manufacturer alleged that rubber bands from the three countries were selling at lower than normal prices because they benefited from subsidies. Sri Lanka's Department of Commerce and the Attorney General's office made submissions on behalf of Sri Lankan exporters, successfully arguing that rubber band exports to the US were below minimum thresholds in terms of value and volume to warrant an investigation. The US withdrew the investigation. The World Trade Organisation is often maligned, but since 1995 it has heard 500 disputes and issued 350 rulings. The system may be imperfect but having a set of common rules helps.

The two new laws, together with proposed improvements to trade facilitation - the ease of moving goods across borders - and customs reforms, can improve Sri Lanka's economic prospects exponentially. ■

## “THE TWO NEW LAWS WERE LONG OVERDUE. WITH THE GOVERNMENT NEGOTIATING COMPREHENSIVE FREE TRADE DEALS WITH CHINA, INDIA AND SINGAPORE AND COMMITTING TO TRADE LIBERALISATION, RULES-BASED MEASURES TO PROTECT DOMESTIC INDUSTRIES ARE IMPORTANT”

to the health and safety of Sri Lankan consumers, rejecting another argument of nationalistic enterprises for a blanket ban on substandard or inferior quality imported goods in favour of better quality and therefore more expensive domestic goods.

The government is committed to liberalising trade and is negotiating several free trade agreements (FTAs) while removing nuisance taxes on imports. "The two new laws will create a level playing field for both domestic and foreign producers to compete under fair conditions," says Gothami Silva. The Safeguard Measures and Anti-Dumping and Countervailing Duties laws will make it easier for the government to sell the

Sri Lanka still has many para tariffs that could potentially make the new anti-dumping rules less effective, Fernando believes. "But we're moving in the right direction," he says. Making a case for dumping can be challenging, but Sri Lanka's new laws follow global norms on safeguard measures and anti-dumping. While they're designed to protect, they also try to avoid frivolous complaints and eliminate rent-seeking.

Domestic producers supporting an anti-dumping investigation must provide evidence that there is dumping and it's causing harm to domestic producers. Businesses filing a complaint must account for more than 25% of total domestic output of the item in question;

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**RACHEL GRIMES**, PRESIDENT OF  
THE INTERNATIONAL FEDERATION  
OF ACCOUNTANTS (IFAC)



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# GLOBAL GROWTH NEEDS GLOBAL ETHICS

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**D**uring her visit to Sri Lanka, Rachel Grimes, president of the International Federation of Accountants (IFAC), shared her views on the importance of global standards to transcend borders. Here are excerpts from the interview, where she spoke of the challenges and opportunities facing the industry, and how to strengthen organisations and advance economies.





### What are the top challenges faced by the accounting profession today?

The development of new information technology and regulators encroaching the space traditionally owned by accountants are some real challenges facing the profession. There is an increasing pace of change in the profession with the rise in technology, which requires adaptability to remain competitive by maximising opportunities. Technology will not eradicate accountants in the future, but it's going to make us stronger and attract more young talent into the industry.

Second, standards setting should not be the role of regulators, but of accountants, as we are the experts in this field. Global standards are hugely important, and IFAC is continuously striving towards strengthening international audit standard-setting processes and achieving convergence with international standards, hence, ensuring that the accountancy profession is responsive to public interest.

The monitoring group is reviewing and preparing an action plan to help improve transparency. However, the most controversial part is the suggestion to combine the audit and ethics boards, while having a different set of ethics for the preparers versus auditors. It is unacceptable, as IFAC's strength lies in the geographical diversity in our standards setting boards, where we hear from 36 countries. The proposed changes would cut down the representatives from 72 to 12, and a country like Sri Lanka or even Australia wouldn't have a say at the table. A multi-stakeholder model - including preparers of internal and external audits, audit chairs, regulators and investors on these different components - is followed in order to ensure appropriate governance. Currently, the Public Interest Oversight Board (PIOB) has 10 members (6 are from Europe), and we think we need a voice from the rest of the world rather than just from Europe or only some parts. We have been writing to the Public Interest Oversight Board framework for the last four years, and it's a little frustrating that it has taken so long as we want to move on and do our work, with better and faster standards in the market. However, we have made strong progress, as we got

the buy-in from member bodies around the world. The other side of the argument is who is going to fund all these great ideas. Funding is an important element, but not the only one, as we have to get the stakeholders moving in the right direction.

### What are the challenges in establishing a standard regulation around the world? And, specify the areas that need focus to converge regulators.

It's all about smart regulation. Global standards are important because we can't have a different set of regulations in one part of the economy and not in others. There is no use having restrictions only in some areas, particularly Europe, as it doesn't encourage a smooth flow of capital or trade. People walk away when it's hard to do business in a country. Having international standards strengthens the argument for a global profession, as it allows our skills to be transferred and have a mobile workforce speaking the same language. We can transport people all around the world, and accountants can work in Sri Lanka, Albania and Zimbabwe, etc. For instance, a multinational financial services company operating in different parts of the world have different rules for maintaining an auditor. For example, an auditor in Australia and the UK has to rotate over a certain period of time. It could be five years in one country, and seven or ten in another. This is why regulatory convergence and consistency are important. In fact, inclusiveness is vital as smart regulation saves a lot of money. At our organisation, around a quarter of our capital spend is on dealing with compliance and regulation. It's more about strengthening controls in the smartest way possible by supporting regulatory convergence and consistency around the world through international collaboration and standards.

### Why are regulations in Europe so restrictive?

I look at Europe as the rest of the world, as they have not taken a lot of hard decisions early on. Even with the global financial crisis being only 10 years away, some organisations are still showing negative net capital. This is an unsustainable



approach, as the hard decisions haven't been made here, even though the US and other countries did. Europe is not really in their greatest growth cycle, with the declining population and political instability where Brexit has been a huge distraction. They seem to be unsure of where they are headed. Europe is trying to create a lot of rules that don't allow professionals to think for themselves.

#### **What would be the impact of the US trying to relax regulations? Would it cut back on some of the safeguards that have been put in place?**

It doesn't matter whether it's the US or any other country, as even though governments mention less red tape, somehow there is actually more. It all comes down to smart regulations, like how easy is it to do quick business without the government acting as a business prevention unit. The government needs to assist in trade, and help build a strong economy and provide the confidence, stable exchange rate, rules and regulations etc. If you keep changing the rules, then people don't want to trade with you; they want to know what they are getting into, and global standards assist in this process. If we didn't have global standards, we would not have that confidence and capital flow will not occur.

#### **Some of the regulations have come up as a result of various frauds, scandals and misappropriations faced even by some large firms today. How do you restore the confidence of the regulator?**

Trust is everything, as we must ensure that our people are the very best qualified. Besides trust, ethics play the largest part in everything, I think criticising auditors is always not the right approach, as if you look at these corporate files, the preparers have done the wrongdoing. Regulators see auditors as the last port of call, but plenty of other failures had to happen along the way. This is why having a different set of standards/ethics for auditors versus preparers is absolute madness. Not only the auditors, but everyone in the value chain is respon-

sible for the correct numbers being recorded. The standards have to be the same across the groups in the value chain; one cannot have a different set of ethics or standards placed on them. We are more than happy to be reviewed and be transparent about our process. The regulators will publish on what's being done correctly and incorrectly, and we must be honest and address those concerns right away. As accountants, we are happy to be measured. But it's a hand-in-hand approach of strong member bodies that make a resilient economy. We need to utilise our code of ethics and call out when things go wrong in corporations, be brave and raise our hands. This is only possible with the appropriate whistle blowing protections in all countries to give confidence to people. Transparency in everything is the key, and technology will only add to that as we move to become a cashless society. In fact, cash out of ATMs have declined by 10% in Australia, as people tap their credit cards, and that's an audit trail. Moving around bags of money will be gone, and with less money in circulation, every cent will be followed and tracked, building trust and transparency.

#### **What should organisations do if Sri Lanka aspires to trade more, and attracts investments to become a global hub in this part of the world?**

One voice from all the member bodies. For example, in Australia, even though we have three accounting bodies, we join forces and call it the JAB - Joint Accounting Bodies. We speak as one voice when we go to the government; our core strength lies in that. Second, create a peer review panel if it isn't already there, where independent people ensure that we have and do the best in everything. There also needs to be an option where people can call out when they notice unethical behaviour or report corruption. Members must be brave, which assures to have confidence in the financial statements prepared, thus contributing towards strengthening the economy further. ■

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# BEYOND GSP+

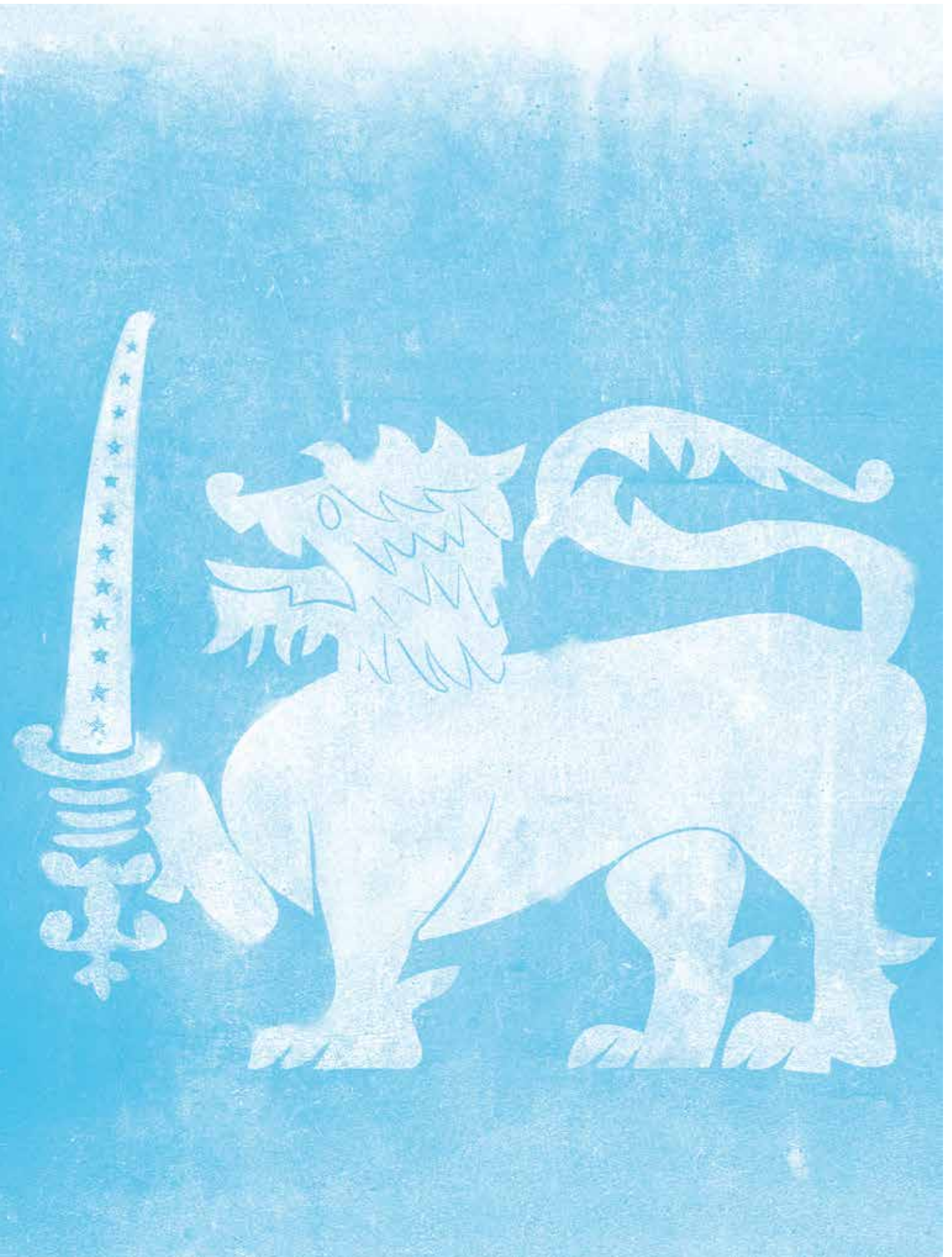
A NUMBER OF  
TRENDS HAVE  
DEVELOPED IN  
THE APPAREL  
INDUSTRY SINCE  
**SRI LANKA**  
**REGAINED EXPORT**  
CONCESSIONS  
FROM THE EU ONE  
YEAR AGO

**L**ocal and international media, lawmakers and industry leaders may be keeping their ears to the ground to determine how GSP+ will be affected by President Maithripala Sirisena's lifting of a moratorium on the death penalty. Following a similar decision taken in Pakistan, the EU has made a reversal of such a policy a condition for Pakistan remaining in GSP+.

It may be a case of out of sight, out of mind; in the frenzy of speculation over Sri Lanka losing GSP+, the discussion has moved away from the fact that Sri Lanka completed 12 full months of participating in the trade programme in May 2018. Sri Lanka was readmitted as a beneficiary of GSP+ in mid-May 2017, after the government made commitments to the EU that it would improve human rights conditions in the country. Having enjoyed the trade benefits for 5 years, Sri Lanka lost GSP+ in 2010 after the EU became concerned over allegations of human rights abuses during the country's 25-year civil war which ended in 2009. According to the EU, Sri Lankan exports have an annual upside of \$350 million through GSP+.

The apparel industry has been the biggest beneficiary of the trade facility since Sri Lanka's readmission to GSP+, as it accounts for 60% of the country's \$3 billion exports to the EU. The Sri Lanka Apparel Exporters Association has set a \$500 million target in increased exports to the EU to be achieved before Sri Lanka becomes ineligible for the concessions in 2023 by transitioning to an upper-middle income





economy. With an increase in apparel exports to the EU by 8.2%, the apparel industry has already moved \$170 million closer to its target in the 1st year which ended in May 2018. But for how long could this momentum be continued? A number of trends have developed since



**We have signed high-end customers who have never worked in Sri Lanka. Some have worked here and have done business in a small way. Things have changed because of GSP+. It is a new avenue for us to grow**

Sri Lanka regained GSP+, which may provide insights to answer that question.

## 1 / NEW CLIENTS, NEW MARKETS

The biggest markets in the EU for Sri Lankan apparel historically have been the UK, Germany, Italy and Belgium-Luxembourg. Most of the EU markets, other than the UK, have been experiencing strong retail activity, according to the Consumer Confidence Index of the Organization for Economic Cooperation and Development.

“The UK is struggling because of Brexit,” said Arshad Sattar, managing director of Timex Garments (Pvt) Ltd.

The poor performance of the UK market is critical for Sri Lanka, as Britain has absorbed over 40% of Sri Lankan apparel exports to the EU in recent decades. Central Bank data also shows that the UK purchased less apparel products from Sri Lanka in 2017 compared to 2016, when the British voted to move out of the EU. With one of the biggest European markets in flux, local manufacturers are turning towards other countries in the EU which have traditionally not been strong buyers of Sri Lankan apparel.

“There is a lot of potential in smaller markets,” said Felix Fernando, chairman of the Sri Lanka Apparel Exporters Association.

Readmission to GSP+ is making Sri Lanka more attractive to countries that had never done business with Sri Lanka before. Sattar said that he has acquired a major buyer from Den-

mark, along with clients from other markets.

“We have signed high-end customers who have never worked in Sri Lanka. Some have worked here and have done business in a small way. Things have changed because of GSP+. It is a new avenue for us to grow,” he noted.

According to Sattar, the idea of GSP+ is marketable, especially among high-end buyers, as clients would save 12% on their imports. As high-end apparel would have an average Free on Board (FOB) price of around \$20 per product, a 12% saving is significant when compared to cheaper garments. Fernando said that the Export Development Board (EDB) has recognized the untapped markets that have opened up for Sri Lanka under GSP+.

“The EDB, to develop the markets, is trying to get into the Netherlands, Austria, Sweden and other countries,” he said, pleased with the work done by the state-run agency.

## 2 / A FLIGHT FROM HIGH COST PRODUCERS

These new clients are leaving other high-end, high-cost manufacturing destinations, as Sri Lanka has a reputation as a quality apparel producer, despite not having the lowest production costs.

“Customers that did business in Turkey, China and Vietnam, we’re now taking that share. That’s fantastic,” Sattar said. But some of these new orders may take time to generate revenue, according to him. He opines that this will be reflected in the exports for 2019, as the new clients are in the first stage of business, doing activities such as new style orders. But GSP+ cannot take the credit alone for business coming to Sri Lanka from China, according to Fernando, as the Trump effect has come into play, with the US-China trade spat sending jitters among foreign buyers to switch to alternative manufacturing destinations.

## 3 / CAPACITIES FULL

Sri Lanka is now in the limelight for European buyers. However, the country is unable to fully capitalize on the opportunities as GSP+ has brought all idling production lines into operation. Fernando believes that many apparel

manufacturers in Sri Lanka have had to decline a lot of new business as they do not have the capacities to produce orders for new clients; the existing clientele has fully taken up production capacities. Even when the EDB is attempting to organise delegations of apparel exporters to markets it wants to develop, participation is poor as manufacturers aren't able to promise production capacity, Fernando said.

Many apparel buyers looking to leave China have also been turned back by Sri Lanka, he noted.

"Orders moving out of China are not for thousands of pieces. They are for hundreds of thousands. We don't have the capacity. That means lost exports. Most of these volumes have gone to Vietnam, Bangladesh and Cambodia," Fernando explained. According to both Sattar and Fernando, two reasons are holding back investment in the industry despite ample opportunity. First, as another election year approaches, the industry is looking towards political stability. Second, they also await the government's view on labour market liberalisation, as there are no local workers to man new factories. Fernando believes that while the biggest producers have fully invested in technology, most smaller players could still invest to automate around 15% of their processes to increase productivity and sign more orders.

## 4 / FOB MARGINS TO FALL?

As competition increases not only among apparel producing countries, but also among retailers in Europe, Fernando believes that FOB prices of Sri Lankan producers will come under pressure. "Although capacities are full and volumes are high, it looks like there will be some correction in the FOB prices," he said.

This adjustment is likely to take place during the current summer sale season in Europe, according to Fernando, as the narrative continues to be spun around the tug of war between online retailers and traditional brands trying to capture the attention of strong European consumers. Many online retailers are emphasizing on the comfort of everyday wear and affordable luxuries over expensive high-end choices. Fernando believes that traditional luxury brands retailing through physical stores will continue to lose out. Sattar on the other hand opined that these high-end names will fight back as

they too go online and close down enough stores to right-size their operations.

"Online has taken up some parts of the market share. But it's not online that has reduced profits of high-end brands. It's excess stores. They can't continue to open a store at every mall. Of 1,000 stores, only a few will have good sales, so they have to right-size their stores," he said. Local producers would have to keep their fingers crossed on a recovery for the high-end brands, as the cost structure of Sri Lanka is more suited for value-added products over mass consumption brands.

## 5 / EURO EFFECT

But a fillip to the exports will come from the cross currency trades between the US Dollar and the euro. Fernando said that the euro, which had continuously gained against the dollar in 2017, had decreased the dollar revenue of Sri Lankan apparel exporters, who had to convert their earned euros.

"If the dollar/euro rate had remained on par, it would have helped our exports by another 3-4%," he said. The euro/US Dollar rate which peaked out at 1.25 in February 2018 has since fallen gradually to 1.17, helping out Sri Lanka's export record. ■

### CONCLUSION:

Different dynamics may have affected Sri Lanka's apparel exports to the EU since the resumption of GSP+. However, it is clear that the trade facility has helped the industry emerge from stagnation. Delays in regaining GSP+ even led to the industry revising its export targets downwards.

"With GSP+, Sri Lanka has been highlighted, and it has brought in a new life to the industry," Sattar said.

Fernando agreed, saying that apparel exports may have headed into negative growth in 2017 without GSP+. Looking to the future, Sattar said that Timex could manage to sustain a 10% growth until 2023 as the company switches to even shorter run production and higher end products. Fernando, however, has a slightly different view for the industry.

"I don't think it will be possible to maintain 10% growth year-on-year for 5 years, but this year, if we get to around 12.5-13% growth, then we will be able to hit our target," he said. Fernando believes that future growth would be lower unless there is more investment into capacity. If so, growth would only come through higher FOB prices stemming from value addition and moving up the value chain.

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# ARE LUXURY CONDOS

## STILL HOT?

**C**hatham Street is buzzing with construction workers building South Asia's tallest skyscrapers. The three skyscrapers' development on a 4.5-acre plot close to the World Trade Centre is branded 'The One.' At \$550 million for construction alone, the investment is one of the most significant for a real estate project, including two hotels, apartments and shopping in the two towers being constructed first.

"In a world of low yields, the search for returns has pushed vast sums into the ultra-luxury condominium market. Most buyers seek potential for capital appreciation and rental yields," says Jayamal Dias, the chief sales officer at the Sri Lankan unit of Zhong Tian Ding Hui (ZTDH), the largest privately owned construction company in China. ZTDH is in a partnership with the project's developer and owner, The One Transworks Square. Someone considering spending \$760,000 (around Rs120 million) for a two-bed condo (the most affordable unit in the development) would discover that Dias, referred by the hypocorism Jay, has the sophistication to match the perfected sales pitch.

WELL-LOCATED, SMARTLY POSITIONED **CONDO DEVELOPMENTS HAVE RETURNED 15% ANNUALLY IN THE PAST.** CAN COLOMBO'S NEW RITZY DEVELOPMENTS KEEP UP?

Perfectly located and clearly positioned condo developments have yielded extraordinary capital appreciation over nearly a decade, and was the preferred asset class for wealth preservation and capital gains for the rich. Dias makes the pitch that the first building of the One Transworks Square project nails both location and positioning. On a third of the upper floors, the 80-storey first tower under construction will have Sri Lanka's first Ritz Carlton hotel. The other floors (levels 16 through 52) will contain 187 apartments, of which 82 had been sold by June 2018.

The condos are also designed to specifications of, managed and branded by The Ritz Carlton. The central business district location and Ritz Carlton residences branding have proved to be

a potent mix for luxury condo buyers. Jay says that at least 20 buyers have purchased more than one unit. Its website says The Ritz-Carlton does not own, develop or sell 'the Residences'. The One Transworks Square uses The Ritz-Carlton mark under a licence agreement, it adds. The website does not contain many details of the hotel, but highlights that it will house Sri Lanka's largest banquet on one of the topmost floors.

"There are limited Ritz-Carlton residencies around the world, and here is an opportunity to take a piece of the brand," he beams during an interview at its office housed at a heritage building constructed during the British occupation referred to as Transworks House on the property's southern border. Once the three towers are complete,

**JAYAMAL DIAS, THE CHIEF SALES OFFICER AT THE SRI LANKAN UNIT OF ZHONG TIAN DING HUI (ZTDH)**



Transworks House will be converted to an upmarket shopping mall. Touches of Ritz-Carlton branding can be seen in the interiors, splashed with energetic colour palettes. Typical Ritz-fashion yellowish marble adorns the walls and floors, and each space has a dominating grand chandelier.

Dias points out that the yellow marble's swirls and vein patterns - at just the right intensity - were only available from the best Italian quarries. High ceilings and spacious living spaces require large and costlier marble slabs to avoid visual distortion of joints. At Transworks House, a model apartment is being fitted out so that buyers of the 60% or so of units now in the market can experience the product. For any buyer, the Jay Dias key pitch is the investment angle. Rental yields continue to be attractive even though condo capital gains have slowed from an annual 10-15% to around 7-9% over the last couple of years for the best located and clearly positioned properties.

"Rental yields are 5-6%, depending on the type of property. In real estate, you can look at an annual return of 14-15%. There are some investors holding 30 or more apartments in Colombo, easily

getting a good rental income on top of capital appreciation. There is nothing to lose even if the property appreciates, unlike withholding tax and brokerage fees incurred while investing in the stock market," he says. He optimistically states that sales volumes have been maintained despite oversupply concerns, and suggests demand from the ultra-luxury segment wouldn't dry up any time soon due to the lack of other asset classes that can perform as well.

Ritz-Carlton tower is 80 storeys and construction had reached the 11th floor by June 2018, with a new floor expected to be added every week. A second tower facing Colombo's Hilton Hotel on the site's northern end, which is yet to be tied with a brand, will have 77 floors. Piling for the second tower is complete and construction is due to begin soon. Finally, the third tower, 'The One', will have 92 floors and piling work has just commenced. The Ritz tower will have teams manage the properties and deliver concierge services and facilities from in-residence dining to housekeeping. One of its many firsts include a building that has a complete glass façade, like some New York City apartments and

unlike developments in the tropics that often feature a balcony. ZTDH is funding project construction but does not hold equity in One Transworks Square (Pvt) Ltd., which is owned by India's Krrish Group. ZTDH expects to recover its property development costs by earning commissions on the condos it markets and selling a number of units under its ownership, under a development deal with One Transworks Square. Jay Dias says receipts from apartment sales in the third tower will altogether go to ZTDH.

"Our project doesn't depend on the buyers to fund construction, and it's funded by ZTDH." Usually, construction project delays happen when they are over-reliant on pre-sales for funding construction. "It's a vicious cycle, and we are clearly avoiding that path," adds Dias who says the Ritz-Carlton tower will be complete by late 2021 and the whole project by 2023.

"We wouldn't go into the market with such inventory if we see that digestion is not good." He adds that another reason for delays in other developments is currency volatility. "We contract at dollar rates, as 70% of our raw materials are imported. It will be a disaster if we

## STUMBLING BLOCKS ON THE PATH

Top challenges faced by high-rise property developers



### 1. The biggest challenge is not financing, but labour

Local construction workers lacking experience are challenged to work at heights due to vertigo and fear. On the other hand, Chinese workers have experience working on tall buildings and height isn't a big deal. Some construction companies manage the issue by mixing both.



### 2. Foreign investors face too much red tape

Heavy scrutiny delays the process, and inefficiencies in the system derail attracting foreigners to condo investing. Time-consuming processes need simplification to lure savvy investors who are used to speed of delivery. They are not willing to wait 60 days to close a transaction. The lack of a one-stop-shop for real estate is a hassle.



### 3. Individual foreign investors cannot raise capital in Sri Lanka

Only the developer can collateralize their assets in Sri Lanka and raise capital; individual foreign investors cannot.



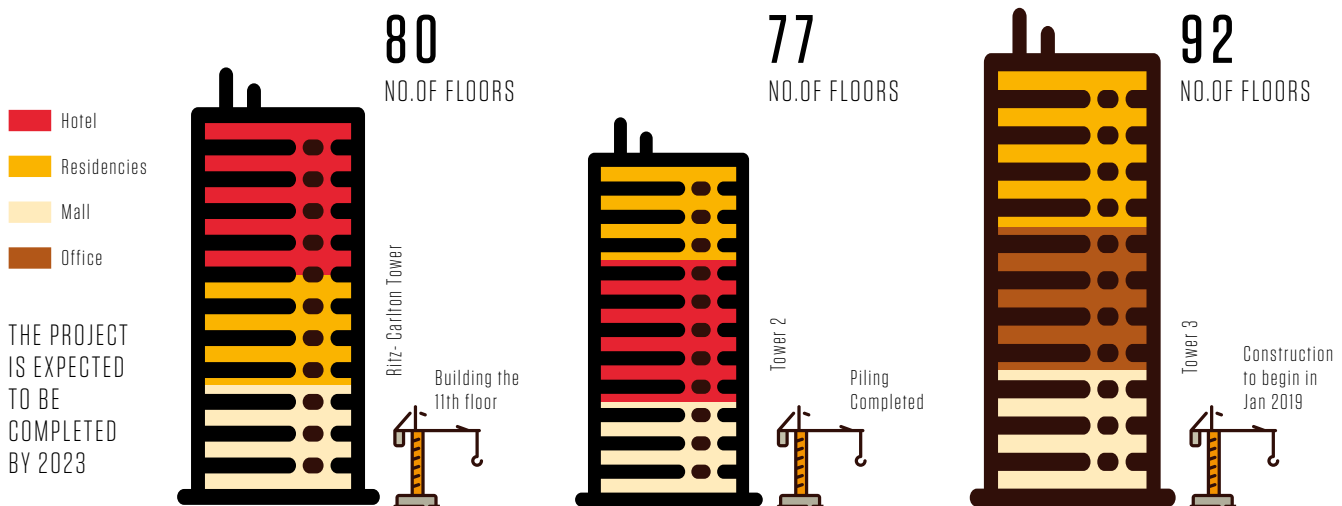
### 4. Lack of a framework for real estate

Over the years, a significant amount of fine-tuning has taken place in matured asset classes like equity and fixed income. There is legislation in place where one needs to be qualified to become even a stockbroker. On the other hand, a framework is lacking to govern the real estate business in Sri Lanka.



## ONE TRANSWORKS SQUARE

The three towers of ZTDH construction



open ourselves to elements over which we have no control. In fact, this is a huge issue faced by developers. Some are dealing with it by writing the possible currency depreciation into their pricing, when quoting in rupees,” he says.

The Chinese contractor hasn’t borrowed from local banks to finance the project. Construction costs are extremely high, as it’s a branded building and needs to have a certain flair to the elements used. Most items such as kitchen and bathroom fittings and light fixtures are purchased from Ritz-Carlton approved vendors.

“We purchase cement, sand and metals locally, but have tax exemptions for items like tiles and bathroom fittings, etc. We have to import certain building materials to maintain promised quality, regardless of whether there are tax exemptions or not.”

The entire development will encompass over 4.5 million square feet of built-up space and feature three of South Asia’s tallest buildings. Affluent buyers enter the real estate market with the capacity to purchase and sell properties for reasons beyond mere necessity, unlike buyers in the general housing market, says Dias. In fact, a fine home is

considered an ultimate expression of an individual’s taste and achievement, and an acquisition of passion and lifestyle. They are motivated by capital growth, along with the interest to own an asset of lasting intrinsic value.

“Around 90% of the sold units are to Sri Lankans living here and overseas, and purchased with zero gearing. Only those purchasing at the lower end, from small real estate projects, take loans. There is very little gearing from higher-end customers,” adds Dias.

The client portfolio for ultra-luxury real estate includes a good balance of locals, foreigners and expats, at 65%, 25% and 10%, respectively. “The local client base can be further classified into self-made entrepreneurs, corporate professionals and those who possess inherited wealth. Entrepreneurs buy luxury property as a status symbol to indicate that they have made it, and because they can collateralize it in the future,” he says.

Dias adds that the thinking of corporate professionals is very different from other clients. They calculate minute details of an investment-like future value, the exchange rate impact, etc. An increasing number of professionals are climbing the corporate ladder and

moving into the elite segment, and are buying units that were predominantly bought by the investor class earlier.

“Around 60% of ultra-luxury properties in the industry have been absorbed by the market, and there aren’t many projects in the pipeline for the next five to six years within this segment,” says Dias. A seasoned investor buys a new property every four years, which is considered the normal cycle.

In addition to the Transworks project, the ZTDH Group has also invested in a number of other development projects in Colombo, noting that Sri Lanka is an important link in China’s Belt and Road Initiative.

They have already begun construction in Colombo 10 of a residential tower with 340 units. ZTDH is also working on a joint venture to develop the Excel World complex, to feature an office tower, a water-themed park and high-end boutique mall.

“We entered the market with such inventory volumes only because the market has the capacity to absorb it. In fact, the real estate market has benefitted from a much higher rate of return than any other asset class in recent times,” concludes Dias. ■

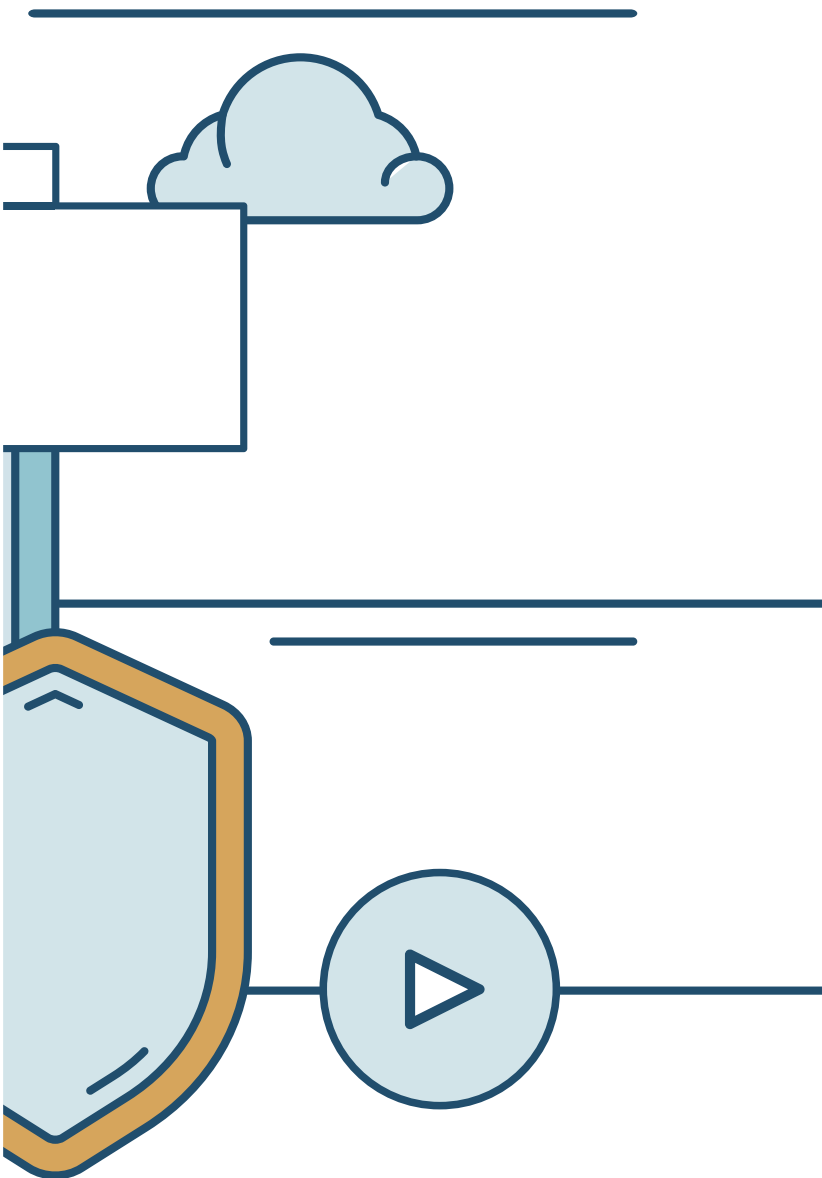
# Is Sri Lanka ready for Europe's new Privacy



# Standards?

The EU's new data protection law will impact everyone

**A** new law came into effect in May 2018 to strengthen and unify data protection for all residents within the 28 countries of the European Union (EU). It also affects those outside the EU if they offer goods and services to, or monitor the behaviour of, EU residents. Some Lankan information technology (IT) companies, and those that accept online tourist bookings, are covered by this scope. Until then, each EU member country had enforced its own data privacy laws under the guidance of the 1995 EU Data Protection Directive. The new law, known as the General Data Protection Regulation (GDPR) 2016/679, supersedes all these. It not only harmonizes laws within the EU, but also broadens their jurisdictional reach worldwide.





The GDPR, approved by the EU Parliament on 14 April 2016, imposes strict new rules on controlling and processing what is known as personally identifiable information (PII). PII is any information related to someone that can be used to directly or indirectly identify the person (name, photo, email address, bank details, posts on social networking websites, medical information or computer IP address).

The GDPR applies to all organisations holding and processing EU residents' personal data, regardless of these entities' geographic location. In this sense, all foreign companies doing business with any single, several or all countries of that region come within the purview of this law.

The new law was adopted in response to the need for better privacy and data protection in the digital age. The European Commission says the GDPR is a key enabler of the Digital Single Market and the EU Agenda on Security.

“THE GDPR IS RELEVANT TO SRI LANKA FROM AN OUTSOURCING PERSPECTIVE – WE WILL NEED TO ENSURE THE SAME LEVEL OF PROTECTION FOR PERSONAL DATA AND INFORMATION AS REQUIRED BY THE EU.

**A LACK OF (DOMESTIC) LEGISLATION COULD BECOME A NON-TARIFF BARRIER FOR FUTURE OUTSOURCING (TO SRI LANKA)”**

“The reform will allow people to regain control of their personal data. Two-thirds of Europeans, according to a recent Eurobarometer survey, stated that they are concerned about not having complete control over the information they reveal online. Seven Europeans out of ten worry about the potential use that companies may make of the information disclosed. The data protection reform will strengthen the right to data protection, which is a fundamental right in the EU, and allow them to have trust when they give out their personal data,” says a press release issued by the EC.

#### **Implications beyond the EU**

The new rules give individuals more control over their personal data. They will have

more information on how their data is processed, and this information should be available in a clear and understandable way. It will be easier to transfer personal data between service providers. Companies and organisations will be required to inform the national supervisory authority of serious data breaches as soon as possible so users can take precautions.

The GDPR's harmonization of data protection regulations would make it easier for non-European companies to comply with these regulations (instead of having to deal with a patchwork of national laws). “However, this comes at the cost of a strict data protection compliance regime with severe penalties of up to 4% of [a company's] worldwide turnover,” says one of the many guides to the new law available online.

Writing on the GDPR, *The Economist* noted in early April 2018: “At nearly 100 articles long, it is too complex and tries to achieve too many things. The compliance costs for smaller firms, in particular, look burdensome. In addition, parts of the GDPR are out of step with America's constitutional guarantee of free speech: a ‘right to be forgotten’ of the kind that the new law enshrines will not fly.”

Nevertheless, the law has already been adopted by the most powerful trading bloc in the world, with a GDP nearly as large as that of the United States. Companies have no choice but to comply. However, many companies outside the EU are still not sufficiently aware how the GDPR applies to them.

That includes Sri Lanka's outsourced data processing industry. Jayantha Fernando, a specialist in cyber laws and legal advisor to the ICT Agency of Sri Lanka (ICTA), has been highlighting this for some time. He says: “The GDPR is relevant to Sri Lanka from an outsourcing perspective - we will need to ensure the same level of protection for personal data and information as required by the EU. A lack of (domestic) legislation could become a non-tariff barrier for future outsourcing (to Sri Lanka).”

#### **IT-BPM sector**

Information technology and business process management (IT-BPM) has emerged as a significant economic sector during the past decade. According to the Export Development Board (EDB), Sri Lanka's ICT export revenue grew from \$166 million in 2006

to \$900 million in 2016 - making it the fourth-largest export earner. In the same year, the ICT-BPM industries provided employment for a skilled workforce of over 85,000. Of course, not all IT-BPM companies handle outsourced data processing contracts from EU countries involving personal data. But some do, and they will need to comply with the GDPR. And the EU's new regulations can influence similar levels of data protection in other developed countries to which Lankan companies provide data processing services.

Samantha de Soysa, a lawyer who works as a legal consultant in foreign direct investment (FDI), banking and finance and ICT laws, wrote in an article in March 2017: "Companies that have no physical presence in the EU will also need to comply with the GDPR if they offer goods and services in the EU or monitor a data subject's behaviour taking place in the EU."

She added: "Also, the GDPR does not require all personal data to be kept within the EU. However, if the personal data travels outside the EU, the controller should ensure a level of protection similar to that in the EU for the data."

In the context of the GDPR, a 'data controller' is the entity that determines the purposes, conditions and means of processing personal data, while the 'data processor' is an entity that processes personal data on behalf of the controller.

The new law requires all organisations that engage in large scale processing of sensitive personal data of EU residents to appoint a Data Protection Officer (DPO), says the official EU web portal providing public information and clarifications on this transition. It is located at <https://www.eugdpr.org/>.

### Lankan response?

How will the GDPR affect our IT-BPM industry? This is the question that needs urgent attention by both industry leaders and policymakers. ICTA's Jayantha Fernando points out that the GDPR will usher in the 'long arm enforcement' - in this case, the EU region's laws extending globally. While this may be inevitable in this era of globalization, the question arises: who is going to enforce it, and how? There are longstanding rules and norms of international jurisdiction that need to be satisfied before regulatory agencies and courts can

exercise jurisdiction beyond their own territories. Sri Lanka needs to address privacy and data protection for the sake of its own citizens, and not simply to remain eligible for trading with EU states. The GDPR adds a new sense of urgency to this gap in our rights.

The right to privacy is not specifically protected under our constitution. We also do not have privacy laws (although under Roman Dutch law, the right to privacy is protected in a few specific instances).

Can the new constitution include the right to privacy in its enhanced framework of fundamental rights?

**"THE GDPR DOES NOT REQUIRE ALL PERSONAL DATA TO BE KEPT WITHIN THE EU. HOWEVER, IF THE PERSONAL DATA TRAVELS OUTSIDE THE EU, THE CONTROLLER SHOULD ENSURE A LEVEL OF PROTECTION SIMILAR TO THAT IN THE EU FOR THE DATA"**

Fernando recalls how the right to information (RTI) was first added to the constitution (via the 19th Amendment, April 2015) before a dedicated new law was passed (RTI Act, June 2016). Can a similar approach work for privacy protection?

Another key decision to make: Which state entity should be tasked with implementing privacy protection laws and regulations, and under what terms?

"There is an ongoing discussion on this, but an issue we need to address (upfront) is who should be the 'owner' of data protection and privacy legislation in Sri Lanka? Is it the Justice Ministry, Media Ministry or Digital Ministry - or a combination of all three?" asks Fernando.

Finally, he wonders whether Sri Lanka should consider joining the only binding international treaty in this field - Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data, also known as Convention 108? Initially developed by the Council of Europe in the early 1980s, it came into force in 1985 and has been signed by 50 states. ■

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# TAX

## on imports is a tax on exports

ANY IMPORT  
TARIFF SYSTEM  
MUST SUPPORT  
EXPORT GROWTH

**A** century ago, it was possible to drink Ceylon tea sweetened with Jamaican sugar at a London teahouse. This was due to the success of globalisation's first wave when European entrepreneurs, marauders and vagabonds sailed to Asia and the Caribbean seeking fortune and whatever else they could grab. This wasn't the perfect unveiling for globalisation, a system that would go on to transform people's lives, lift billions out of poverty and make the world smaller.

For economists, what existed then was a dream world, because people, capital and ideas flowed freely across borders. As London's teahouses witnessed, globalisation's first wave unbundled production and consumption. It was now possible to combine the produce of many counties at the point of consumption. Prices were set by international demand.

In the decades since, the cost of moving goods across long distances declined as steamships followed by oil-powered vessels took to the seas. With access to other territories improving due to advances in transport, Ceylon lost its strategic advantage arising from its geographic location, agricultural potential and abundant natural resources.

However, globalisation's initial gains didn't endure. They dramatically ended with the outbreak of World War I. Soon countries started erecting barriers across borders, policing them vigilantly and imposing tariffs on trade that passed through.

However, in the 1990s a new wave of globalisation emerged. Advances in communication technology and the Internet started

**Protection of infant industries should be based on evidence and granted in exceptional cases instead of being the norm as it is presently in Sri Lanka**

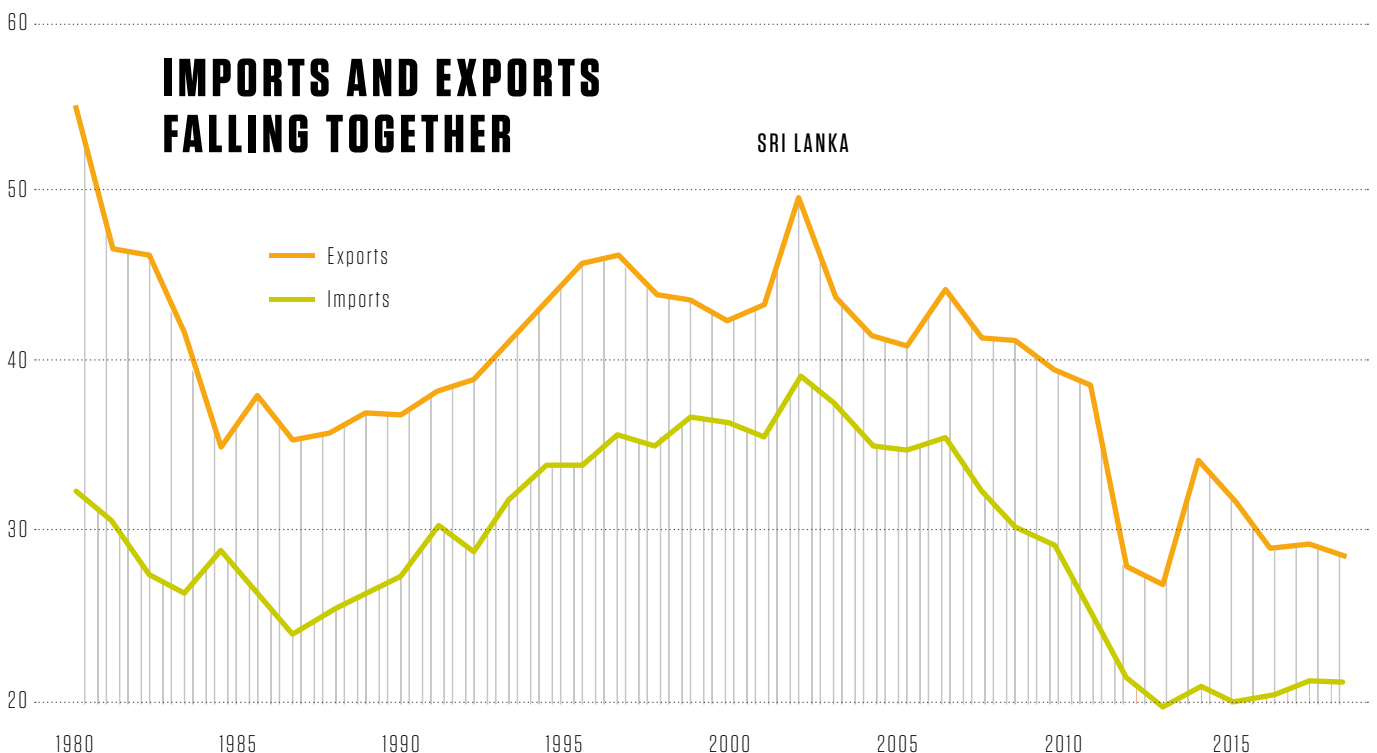


a second unbundling. Fast and affordable communication made it possible to coordinate production across borders.

Products once manufactured with local raw materials could now be manufactured or assembled with imported materials and components. Economists call this comparative advantage - each territory specialises and swaps, making them richer in the process. It's easy to figure where comparative advantage lies. Consider that a territory is an island, then, what products would be the most affordable there? Those are the ones on which that island has a comparative advantage.

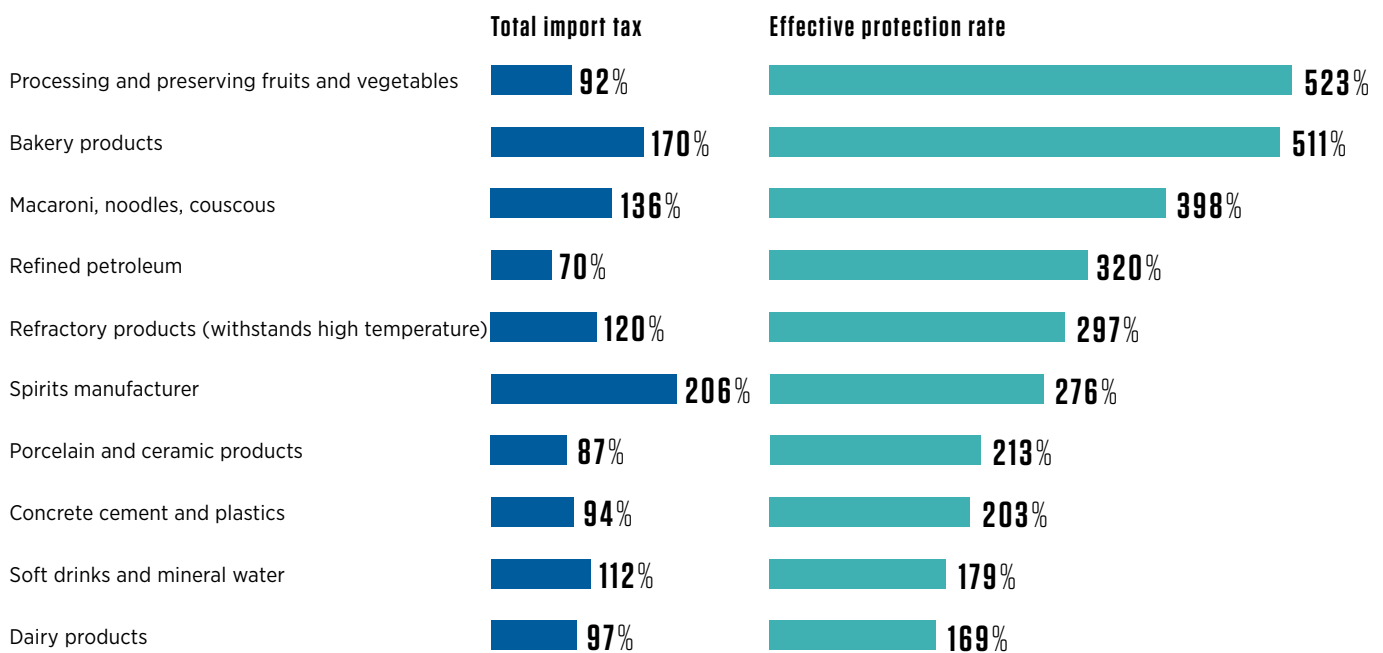
If relative prices in territories are different they ought to specialise in the things that are relatively cheap, and sell those, and buy the goods that are expensive. That's the essence of why international trade is advantageous. The gains are greatest when territories trade with those that are most different from them. Later in the last century border tariffs were gradually lifted as countries realised they had the effect of erecting a wall in the middle of the factory. If Sri Lanka were a factory, it erected a wall in the mid-

% of GDP (Chart 1)



## EFFECTIVE PROTECTION

Nominal tariff rates versus actual protection industries receive (Chart 2)



Source: Department of Census and Statistics estimate in 2016

dle with devastating consequences. Relative to the size of its economy, the country is among the few in the world where exports of goods and services have declined in the last decade and a half (see Chart 1).

There are a number of reasons for this poor export performance. Deficiency in innovation, burdensome regulations and the lack of economic stability have all eroded the competitiveness of its businesses.

Much of Sri Lanka's workforce is employed by the private sector or work for themselves (like farmers and shopkeepers). Of the country's 8.1 million workforce, as much as 75% are in the non-agriculture sector (i.e. industry and services). Therefore their advancement is linked to the global competitiveness of Sri Lanka's industry and services. Specialising on a comparative advantage makes it possible to scale. The shrinking share of exports is ample evidence that our businesses haven't succeeded in scaling. Scale is the second advantage

**Later in the last century border tariffs were gradually lifted as countries realised they had the effect of erecting a wall in the middle of the factory**

of free trade. An example of this is how similar types of businesses cluster in the same area. In Colombo's Fort there are many restaurants; independent vehicle retailers are concentrated along Highlevel Road; tile and sanitaryware shops prefer Nawala Road. Why would businesses that compete want to be located near each other?

It's because they seek the scale advantage. By clustering, they seek the benefits of what economists call 'agglomeration economies' - attracting more customers and sourcing cheaper suppliers. The offsetting benefit of margin eroding competition is the scale advantage.

People also have a taste for variety. This is the third reason why free trade is advantageous. For instance, despite Sri Lanka producing high quality black tea, some people will only drink green tea from China. Likewise, some Germans prefer American cars while certain Australian consumers want premium steaks from Europe.





Since providing variety is costly, there can be gains from trading in similar products.

Hence, to boost exports, Sri Lanka must unlock these free trade opportunities: comparative advantage, scale economies and the taste for variety. Sadly, its illogical, arbitrary and nepotistic import tariff protection is hurting economic competitiveness.

It's still not unusual for a country to have some import tariffs, although many are discarding them. They offer a basic degree of protection for manufacturers and service providers. Sri Lanka has import duties for this purpose. In the last decade and half, it has added CESS (a tax on tax) and PAL (port and airport development levy) on imports. Excise taxes are levied on some imports like petroleum and motor vehicles. Sales tax (VAT) and NBT are levied on all goods, imported and locally-made.

As a result the nominal level of protection enjoyed by some industries is over 100%. Basically the import value is more than doubled due to taxes. Taxes of 108% are levied, for example, on imported floor tiles. Locally-manufactured tiles are only subjected to 19% tax (VAT and NBT).

This offers a great competitive advantage to local manufacturers, who will either earn

**Governments around the world use more equitable means of raising revenue, like taxes on income and consumption. As import tariffs hurt trade, these are set low or not imposed at all**

huge profits or be profitable despite their inefficiency. However, the real rate of protectionism is often higher than the nominal rate. If the business has imported tax-free inputs (which costs the same for foreign and local manufacturers), the local value addition is higher simply because the selling price is not market determined. In the case of tiles, the effective protection rate is 213%, according to an estimate of the Department of Census and Statistics in 2016 (Chart 2).

Many industries enjoy extraordinarily high nominal and real protection in Sri Lanka. Consumers pay protective tariffs when they purchase an imported product and high prices to local businesses when they purchase locally-made alternatives. So-called Para Tariffs (PAL at 6% and CESS at 4%) contribute around 10% of total tax revenue and around 20% of import tax revenue. Governments around the world use more equitable means of raising revenue, like taxes on income and consumption. As import tariffs hurt trade, these are set low or not imposed at all.

The only valid argument for high taxes on imports is that they support infant industries. An infant industry by definition is one that will eventually attain global price



competitiveness, or grow up. The argument is that while they are very young and small, tariff protection is required to compel consumers here to fund them by paying high retail prices until they grow up. To graduate (or grow up) they must be able to have sufficient scale to be globally competitive.

If the business cannot ever acquire scale to be globally competitive - as is obvious with tiles and porcelain, macaroni and pasta, dairy, cement, booze, soft drinks, steel, cosmetics and the like (protected industries are too many to list!) - local consumers will always have to pay inflated prices. Under protection these industries grow to a sufficient size to deter any attempt to correct the import tariff structure.

It's not uncommon for protected industries to form effective political lobbies, channel part of their large profits to political causes and win enduring favour.

Protection of infant industries should be based on evidence and granted in exceptional cases instead of being the norm as it is presently in Sri Lanka. It must be due to a plausible argument that the industry could be globally competitive during a defined timeframe.

The real tragedy is the economic poten-

**Governments around the world use more equitable means of raising revenue, like taxes on income and consumption. As import tariffs hurt trade, these are set low or not imposed at all**

tial that protectionism snuffs. Taxes on imports are ultimately a tax on exports. In the fifteen years since Sri Lanka's imports declined, exports also fell in step. When imports that become inputs in exports (direct or indirect inputs) are taxed, exports become uncompetitive.

It's a well-understood fact that low tariff rates generate more revenue than high tariff rates. Take the taxes on cars for example. When overall rates were low they generated more revenue than at present, when they are high. Any import tariff system must support export growth, unless Sri Lanka wishes to emulate the North Korean economic model. Import tariffs aren't the only thing impeding export growth, but they have grown to be a critical factor.

Now that the tariff structure is messed up, it may require kid gloves to unravel. Uncompetitive industries will however fade over time. And then Sri Lanka's economy will turn the corner. ■

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# WHY THE CEB IS INTENT COAL P

SRI LANKA NEEDS TO INVEST IN MORE FOSSIL ENERGY NOT JUST TO AVOID BLACKOUTS, BUT TO MAKE CLEAN RENEWABLES VIABLE, THE ENGINEERS AT THE UTILITY ARGUE







ON

# OWER

**S**RI LANKA HAS TO INVEST IN LOW-COST FOS-  
SIL ENERGY like coal and LNG over the next five  
years to keep pace with rising demand as hydro reaches  
capacity and burning expensive liquid fuel for electrici-  
ty continues to shove the state power utility CEB deeper  
into the red. It's easy to criticise the CEB's proposal to  
invest in 'dirty energy,' but fossil energy is a critical  
foundation to build 'clean energy' like solar and wind, the CEB's engi-  
neers argue.

"We all want clean energy, but what Sri Lanka needs now is afford-  
able uninterrupted power supply," says Athula Wanniarachchi, past  
president of the engineers' union at the CEB, under whose leader-  
ship the union unsuccessfully campaigned against the government's  
decision to terminate the proposed coal-fired power plant at Sampur  
in 2016. "People often ask us why not invest in solar or wind, but

switching to clean energy can't happen as fast as we would like," he says. Sri Lanka generated 15 billion units of electricity in 2017 and demand is expected to grow by a billion units each year, according to the CEB. In order to meet the growing demand, Sri Lanka needs to find cheaper alternatives to diesel-powered electricity generation like coal and LNG. Hydropower cost was Rs4 per unit of electricity and is highly profitable, but Sri Lanka is reaching capacity. The next cheapest is coal at Rs11.34. Diesel-powered electricity generation costs between Rs25-30 per unit. Sri Lanka does not yet produce electricity from LNG, but it could cost around Rs15 per unit or more.

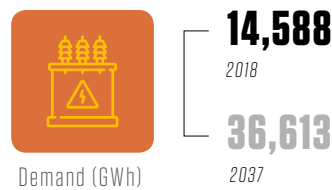
**H**YDRO - which accounts for around 40% of the electricity mix - will decline to 25% by 2037 as it reaches capacity; there is a natural limit to dam-building. The balance 75% will have to come from fossil energy. The CEB favours low-cost power plants like LNG and coal, which produce electricity at lower cost than burning liquid fuels like diesel (which now accounts for over 60% of the electricity mix). The engineers at CEB say the decision to terminate the proposed Sampur plant built by the Indians will cost the already cash-strapped utility an additional Rs200 billion in the next five years as it must import fuel to run its thermal power plants to meet increasing energy demand.

The utility claims it lost Rs900 billion over 15 years because the existing coal-fired plant at Norochcholai was held up for that long. When the plant was finally commissioned, the average cost per unit of electricity fell to Rs15 from Rs24 and consumers benefited as the government cut electricity tariffs by 25% in 2015.

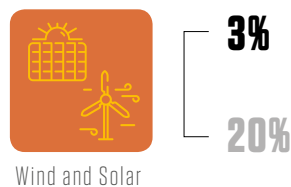
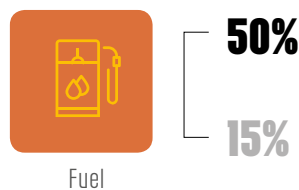
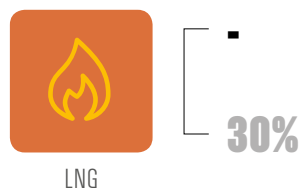
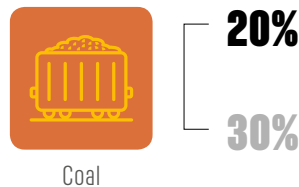
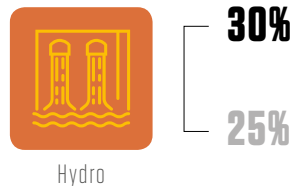
However, the Chinese-built plant was beset with problems, frequently breaking down and emitting high levels of pollutants. Both could have been avoided had Sri Lanka stuck with the original plans for a Japanese-built plant. Corrupt deals for coal supplies blackened the plant's public image.

## CEB'S PUSH FOR COAL, LNG

The energy utility's 20-year electricity generation expansion plan calls for more low-cost fossil fuel energy plants; renewables are a bonus



## ELECTRICITY MIX



(Source: Ceylon Electricity Board)

The CEB engineers claim the technology exists for low-cost coal power plants that are also less harmful to the environment with lower levels of CO2 emissions. However, the CEB's arguments are met with upturned noses.

The global average cost of producing a unit of electricity from solar energy fell 73% between 2010-17. The average cost to produce a unit from onshore wind fell 23% in the same period, according to the International Renewable Energy Agency. In the US, wind and solar electricity generation costs have fallen below coal and gas.

**“LET ME TELL YOU WHAT WILL HAPPEN IF THE SOLAR PARK DOES MATERIALIZE. WHENEVER A CLOUD PASSES OVER THE SOLAR PANELS AT SAMPUR THERE WILL BE A SHARP FALL IN ELECTRICITY GENERATION”**

The reduction in costs has much to do with scale than improving technology. Solar panels cannot be turned off. So prices go down with more electricity added to the grid, especially in markets where governments don't control prices.

Storing energy for later use, dealing with fluctuations and trading surplus electricity across borders via direct-current power lines (one is being proposed between Africa and Europe) are difficult problems to solve globally. This is why renewable energy excluding hydro accounts for less than 10% in the OECD group of rich countries, according to the International Energy Agency. The share is 8% for the entire world.

In Sri Lanka, a tropical island, produc-

ing electricity from the abundant sunshine and winds is far more expensive than coal. In 2017, the energy utility paid Rs22 for a unit of electricity produced by wind power, and Rs23 for a unit of solar energy. The average price the CEB sells a unit of electricity to consumers is Rs16. The average cost to produce electricity from coal was Rs11.

Solar and wind account for less than 3% of the country’s electricity requirement, according to CEB data. However, the share will reach 25% by 2037, according to the utility’s power generation plan for the next 20 years, provided Sri Lanka invests more in fossil fuel energy.

“Solar and wind energy will have a larger share of the electricity mix as it becomes cheaper with improving technology, but it’s not a feasible option yet, nor is a rapid switch possible,” Wanniarachchi says.

Building renewable capacity also requires adequate backup in the form of conventional fossil energy plants.

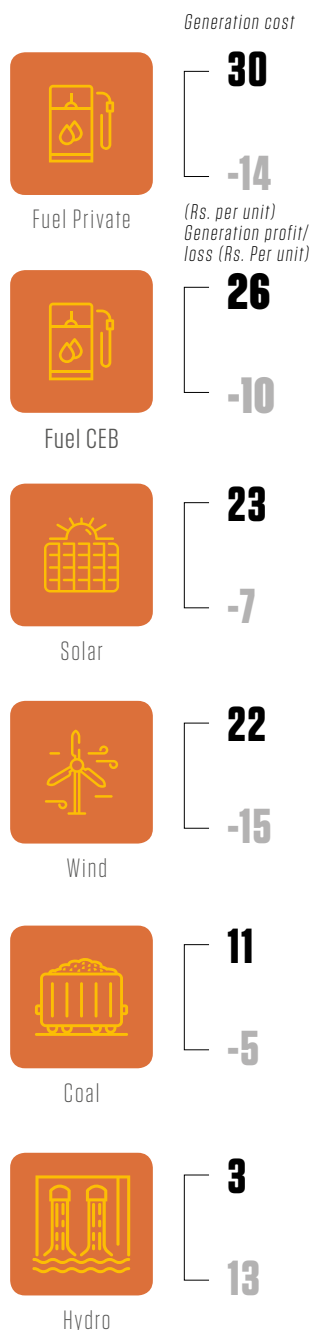
Wanniarachchi says India is now proposing a 500MW solar park in Sampur instead. For him, it’s not good news.

“Let me tell you what will happen if the solar park does materialize. Whenever a cloud passes over the solar panels at Sampur there will be a sharp fall in electricity generation. Without a conventional power plant in place to fill the gap, the grid will keep breaking down each time this happens,” he says.

**F**OR THE SOLAR and wind energy mix to grow beyond 20%, Sri Lanka will also need to be able to export excess electricity or import the shortfall from India or the Maldives (which is not impossible, though politically challenging). North African countries are investing in massive solar powerparks to harness the scorching Saharan sun. The scale of these projects will drive down prices and the surplus imported to southern Europe. Tunisia and Morocco are investing a total of \$20 billion on these mega projects. However, for cross-border trade to be feasible Sri Lanka must build enough scale to achieve a competitive price. This can be

## RENEWABLES AREN'T CHEAP

Average cost to generate a unit of electricity vs. average price consumers pay for a unit which is Rs16: mounting losses for the CEB to the tune of Rs45 billion in 2017



**“WHEN WE PREPARE THE POWER GENERATION PLAN, WE DON’T REALLY ACCOUNT FOR RENEWABLE ENERGY SOURCES LIKE SOLAR AND WIND. INSTEAD WE CONSIDER WHAT IS CALLED FIRM ENERGY SOURCES”**

challenging for an island with limited available land. It took 15 years to find the land, relocate residents and obtain environmental and regulatory approval for the Norochcholai project. The Sampur coal-fired power plant took 10 years to clear these hurdles, but President Sirisena blocked it in the end.

Since the last power plant at Norochcholai was built, the average cost for a unit of electricity increased 40% by 2017. The CEB now loses Rs5 per unit selling electricity to consumers below cost.

“In 2017, the CEB made a Rs45 billion loss and this will only increase. It’s inevitable that we will make losses of about Rs50 billion annually over the next few years until we commission a low-cost power plant and wean ourselves from diesel-fired thermal power,” says Saumya Kumarawadu, president of the CEB engineers’ union. By 2037, coal and LNG will contribute 30% each to Sri Lanka’s electricity mix. Hydropower will account for 25% and diesel-powered turbines the balance 15%, Kumarawadu says.

“When we prepare the power generation plan, we don’t really account for renewable energy sources like solar and wind. Instead we consider what is called firm energy sources,” he says. “Once we have stable firm energy supply we can switch to renewable energy.” ■



## Update

# CA Sri Lanka Applied Accounting Degree programme sets enrolment record



A section of the undergraduates of the CA Sri Lanka BSc. Applied Accounting Degree at a lecture

Over 750 students registered to follow CA Sri Lanka's BSc Applied Accounting Degree programme in 2018, which is the highest annual intake since inception a few years ago. The three-year programme is the only applied accounting degree offered in Sri Lanka and offers a two-year internship to ensure that graduates have practical experience and clear insights into demands of the workplace. The Applied Accounting Degree is accredited to the Association of Chartered

Certified Accountants (ACCA) and CPA Australia.

Students who follow the BSc. Applied Accounting also have the option of completing one or two years of the degree in Sri Lanka and enrolling at La Trobe University or Deakin University in Australia and completing the degree, along with the option of also completing a Masters' Degree.

Students with passes in three subjects (in any subject stream) at the GCE Advanced Level (Sri Lanka) examination or any foreign

**The three-year programme is the only applied accounting degree offered in Sri Lanka and offers a two-year internship to ensure that graduates have practical experience and clear insights into demands of the workplace**

qualification equivalent to the GCE Advanced Level Examination in Sri Lanka (Edexcel/Cambridge) can register for the degree programme. CA Sri Lanka will arrange loan facilities for students. Prior knowledge in accounting is not a prerequisite to enrolling in the programme. The degree programme offers exemptions for professional qualifications such as CA Sri Lanka, CIMA, ACCA, SLIATE, HNDs and AAT. So far, around 220 local and foreign students have graduated from the programme. ■

## CA Sri Lanka extends development role to Afghanistan



CPA Afghanistan's Ms. Sameera Sarwar, Mr. Sullamal Rahmatullah, Mr. Bilal Hashimi, Mr. Zia ul Haq Sarwari and MOF Afghanistan's Mr. Sanauallah Rahimi, pose for a picture with ICAEW's Dr. Mark Campbell, Mr. John Hooper and CA Sri Lanka's Mr. Jagath Perera, Mr. Manil Jayasinghe, Mr. Aruna Alwis and Mr. Lakshman Athukorala during the 5 day roundtable

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) recently partnered with the Institute of Chartered Accountants in England and Wales (ICAEW) to host a 5-day roundtable in Colombo with ICAEW and CPA Afghanistan on strengthening the accounting profession in Afghanistan.

The roundtable included ICAEW Director International Capacity Building Dr. Mark Campbell, CA Sri Lanka President Jagath Perera and Vice President Manil Jayasinghe.

The agenda focused on knowledge-sharing and mentoring to build a strong national accountancy profession.

"We are delighted that CA Sri Lanka was the first choice of partner for this initiative. It reflects our commitment to regional accountancy," Perera said. "The combination of our technical expertise and Colombo's infrastructure provide an environment that is highly conducive to mentoring and capacity building," he stated.

The sessions covered governance of professional accountancy bodies, professional qualifications and qualification pathways, member services, licensing of practitioners and firms, and accountancy standard setting. The roundtable also focused on aspects of the accounting practices adopted in Sri Lanka.

CA Sri Lanka was among the first professional accounting bodies in South Asia to adopt the International Financial Reporting Standards (IFRS) in 2012. Since then, CA Sri Lanka has taken the lead in the region to help develop and enhance the profession across the region. In fulfilling this endeavour, CA Sri Lanka facilitated the setting up of a professional accountancy body in Bhutan, and also extended support to the Auditor General of Maldives to help develop and strengthen the accounting and auditing profession in Maldives. ■

## CA Sri Lanka Toastmasters Club gets new office bearers

The Toastmasters Club of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) held its installation ceremony of club officers for 2018/2019 recently with Dilhani Seneviratna appointed president.

The Chief Guest of the ceremony was CA Sri Lanka President Jagath Perera, and the keynote speaker was Former Group Finance Director of John Keells Holdings Ronnie Peiris, who is also a mentor, coach and author. The Installation Ceremony was a colourful event with entertainment and inspiring speeches before a large gathering of eminent Toastmasters, Chartered Accountants, Gavelliers, and distinguished guests.

The following officers for 2018/2019 were installed by Toastmaster Anura Shantha, Area Director of Area F1:

**President:** Dilhani Seneviratna CC, CL

**The Chief Guest of the ceremony was CA Sri Lanka President Jagath Perera, and the keynote speaker was Former Group Finance Director of John Keells Holdings Ronnie Peiris, who is also a mentor, coach and author**

**Vice President Education:**

Anuradha Bandara CC

**Vice President Membership:** Dinesh Dias

**Vice President Public Relations:** Nisansala Samarathunga

**Secretary:** Poorni Noopahewa

**Treasurer:** Sameera Giragama

**Sergeant at Arms:** Thilini Dhanushkika

The Masters of Ceremony were Toastmaster Indeewari Ambanwala and Toastmaster Anuradha Bandara.



Office bearers of ICASL Toastmasters Club for the year 2018/19 with President of CA Sri Lanka Mr. Jagath Perera, Keynote Speaker Mr. Ronnie Peiris and Programme Quality Director, District 82 - Toastmasters International Mr. Sarmaa Mahalingam

## Update

# Accountants must build IT skills, says La Trobe University Dean

With the role of the accounting professional changing amidst a technological revolution, Professor Jane Hamilton, Dean and Head of School of La Trobe University, Australia, advised students of CA Sri Lanka School of Accounting and Business to enhance their IT skills to remain relevant and achieve success.

Delivering a guest lecture at the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) on 'The Changing Nature of Accounting,' Hamilton said accountants will continue to play a critical role in the world of business and finance despite the changes and challenges brought on by technology.

"We must continue to make the right decisions and remain a steady influence to an enterprise," she said.

As an example of the risks of the technological changes, she revealed how a bank in Australia had retrenched 6,000 staff members but hired



Dean and Head of School of La Trobe University, Australia, Professor Jane Hamilton addressing the students

A section of the students at the guest lecture held at CA Sri Lanka

2,000 new people to work on digital banking.

"They're hiring people with new skills and letting go of those stuck at performing traditional roles," Hamilton said.

"Don't get stuck, because there is no guarantee that you might be able to keep that job. Instead, you need to increasingly focus on advancing your skills," she said, addressing over 150 students of the CA Sri Lanka School of Accounting and Business. She emphasized that it was important to identify the need to change amidst a technological revolution. "Think about accounting as part of the bigger picture. Think about the changes and how you should upskill yourself as an accountant. Ultimately, as accountants, you

need to know how to navigate through the storm and help businesses survive amidst changes," she said.

The BSc. Applied Accounting Degree offered by CA Sri Lanka is approved by the University Grants Commission, and is the only applied accounting degree programme in the country. Demand for the programme from local and foreign students is growing. The degree is accredited by international professional bodies such as ACCA and CPA Australia. Students have the option of completing one or two years of the degree programme in Colombo and the final year with either La Trobe or Deakin University in Australia, along with post-study work rights in Australia. ■





## Over 50% pass rate at CA Sri Lanka's Executive Level exam

The Executive Level March 2018 exam of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has registered a pass rate of over 50%. Six students of the Institute were awarded merit prizes for excelling at the Executive Level I and II exams. Chamara Chandimal Wijerathna won the First in Order of Merit prize at the Executive Level I exam, while Dilini Sewwandi and Malindu Dulshan shared the Second in Order of Merit prize for the same level. Mark Praveen Shalintha Perera won the First in Order of Merit prize at the Executive Level II exam, while the Second in Order of Merit prize was shared by Pasindu



Merit and subject prize winners with CA Sri Lanka President Jagath Perera, Vice President Manil Jayasinghe, Council Members Tishan Subasinghe and Dulitha Perera, and Examinations Director Prasanna Liyanage

Kavishka Fernando and Isuru Sampath Wijenayake.

Seven students including three of the merit prize winners won subject prizes at the exam. Merit prize winner Dilini Sewwandi won the Financial Accounting and Reporting Fundamentals subject prize, while Mark Praveen Shalintha Perera won the Management Accounting Information subject prize. The

subject prize for Fundamentals of Taxation was shared by Kaumini Rashmila Dissanayaka and Yasri Muhammad Shabeer. The Fundamentals of Law subject prize was won by Raveena Srimali. Dewmina Pramudith Rajapaksha won the Processes, Assurance and Ethics subject prize, while merit prize winner Chamara Chandimal Wijerathna won the subject prize for Commer-

cial Insight for Management.

The CA Sri Lanka qualification has gained recognition both locally and internationally as a qualification that produces accounting professionals of distinction who have the ability to steer businesses across varied sectors, possessing multi-faceted technical skills and business acumen both in Sri Lanka and overseas. ■

## Young Chartered Accountants Forum: The power of professional skills

The Young Chartered Accountants' Forum (YCAF) of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) organized an executive development workshop recently which was attended by over 50 participants. The programme was conducted by experienced trainer Loretta Gunawardena. The workshop covered topics like effective communication, emotional intelligence, business etiquette, stress management, giving and receiving feedback with a special emphasis on building confidence and character. ■



## Update

### CA Sri Lanka qualification equal to a Master's Degree: NARIC, UK

The CA professional qualification of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) received a renewed boost recently after the National Academic Recognition Information Centre (NARIC) based in the United Kingdom said that the qualification is comparable to a standard Master's Degree in Britain.

The announcement was made by NARIC following an independent evaluation of the CA qualification.

The agency had also benchmarked the two early exit routes of the CA qualification, with the Certified Senior Business Accountant (CSBA) qualification being comparable to a UK Bachelor's Degree, while the Certified Business Accountant (CBA) qualification was comparable to a Certificate of Higher Education.

"This benchmarking no doubt adds an important dimension to our qualification as it shows that it is one of the best qualifications any accounting professional or aspiring accountant can possess," CA Sri Lanka President Jagath Perera said.

"This rating by NARIC is no doubt an important boost to our existing members, because they now know that they not only possess a professional qualification of relevance, but it is also a qualification that is comparable to a Master's Degree. This rating by NARIC also strengthens our position internationally," the Institute's Immediate Past President Lasantha Wickremasinghe said. ■

### IFAC President Meets Prime Minister Ranil Wickremesinghe



From Left: Lasantha Wickremasinghe (CA Sri Lanka Past President), Nathaniel Webb (IFAC Deputy Director Communications & External Affairs), S. Ilayperuma (AAT Sri Lanka Vice President), Jagath Perera (CA Sri Lanka President), Rachel Grimes (IFAC President), Prime Minister Ranil Wickremesinghe, Prof. Lakshman Watawala (CMA Sri Lanka President), Dr. Gary Pflugrath (IFAC Senior Director Public Policy and Governance), Jazri Magdon Ismail (AAT Sri Lanka President), H.M. Hennayake Bandara (CMA Sri Lanka Vice President), Manil Jayasinghe (CA Sri Lanka Vice President) and Dinesh Weerakkody (National Human Resources Development Council)

International Federation of Accountants President Rachel Grimes met with Prime Minister Ranil Wickremesinghe during her recent visit to Sri Lanka. The development

of the accounting profession as well as the role played by the three local accounting bodies CA Sri Lanka, CMA Sri Lanka and AAT Sri Lanka were discussed at length. ■

### Practical training critical component of CA Sri Lanka curriculum: Vice President Manil Jayasinghe



The importance of the practical training component of the CA Sri Lanka Chartered Accountancy curriculum was highlighted recently by the Institute's Vice President Manil Jayasinghe who said it helped professionals acquire important human skills which allows them to become competent accounting professionals. Speaking at the inaugural induction

programme for CA trainees in the public practice sector, Jayasinghe said, "What sets us apart from other professions is the practical training. We can go to a university and get a degree but the training is the most distinctive feature for us, as qualifications alone aren't sufficient."

He noted that unlike an academic qualification, a professional qualification

is always a step ahead as it focuses on building professional competency and developing soft skills to carry out the job.

The inaugural induction programme for trainees in the public practice sector organised by the Institute of Chartered Accountants of Sri Lanka received an overwhelming response with 100 trainees taking part in the two-day event. ■

## CA Sri Lanka's 39th National Conference

# Hyperleap: inspiring Chartered Accountants to evolve and thrive

Sri Lanka's biggest annual business summit, the National Conference of Chartered Accountants organised by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), is set to take the centre stage in inspiring Chartered Accountants to take that all important leap which will help them evolve and thrive despite the increasing business world complexities.

The 39th National Conference which will revolve around the theme 'Hyperleap' will help Chartered Accountants understand the need to embrace challenges, whilst ensuring that they take a bold leap without being shackled by technological, demographic and economic changes.

The conference which will be held from 8<sup>th</sup> to 10<sup>th</sup> October 2018 at the BMICH, will focus on the increasing technological disruption, future HR challenges and changes to the global economy whilst emphasizing the important role accountants have played in the past in propelling businesses to the top and the important role they can continue to play if they continue to be relevant.

CA Sri Lanka President Jagath Perera said that the technological revolution has brought in monumental changes to the professional community including the accounting profession. "The challenges and complexities



From left, National Conference Committee Chairman Dulitha Perera, CA Sri Lanka President Jagath Perera, National Conference Technical Committee Chairman Moiz Rehmanjee and CA Sri Lanka Secretary Prasanna Liyanage

we face as a profession has renewed the need for us as professionals to adapt to new trends, technologies and methodologies if we are to remain relevant as a group of specialized professionals. This is why CA Sri Lanka has been spearheading various initiatives to ensure our members are not just qualified, but they are also given a platform to evolve and thrive in today's context," he said.

Last year's national conference attracted over 1700 delegates including business leaders, c-suite executives and top professionals. This year too, as in the past, the institute will offer the conference via webcast for the benefit of Chartered Accountants who are overseas. The three day conference, which also comprises two days of technical sessions, will bring together a cross section of local and

foreign speakers and panellists who are well versed in taking bold initiatives and thriving despite the challenges they have faced in their professional lives.

National Conference Committee Chairman Dulitha Perera said Chartered Accountants played a pivotal role in economic development. "They are equipped to contribute immensely in boardrooms with the ability to steer strategic decision making. This is why our Chartered Accountants have a far greater responsibility lying on their shoulders. We have to be in the forefront to ensure that our members change with time and embrace the challenges to ensure they continue to be relevant and will continuously add value to their company and their country," he said.

Perera also noted that with challenges and complexities

being part and parcel of the business world, Chartered Accountants must progress to become visionary thinkers by having the foresight to see what the future holds and therefore adapt and evolve to take on new challenges boldly by acquiring the necessary skills and knowledge.

"The National Conference is therefore the perfect platform to enhance mind development, because it focuses on very pertinent areas relevant to Chartered Accountants which in turn help them acquire new knowledge, all the while stimulating their thoughts and line of thinking," Perera added.

National Conference Technical Committee Chairman Moiz Rehmanjee explaining the theme 'Hyperleap' said it was important not to be overwhelmed by ever-changing technologies and demographics.

"We must all embrace challenges and spin them into opportunities and be ready to take that leap, boldly," he said.

With digitization changing consumption habits and disrupting tradition business models, Rehmanjee said Chartered Accountants were well placed to help organisations adapt to change. "The skills we possess will help us learn and adapt quickly to seize opportunities in challenging times," he stated. ■



## Update

CA Sri Lanka, CMA & AAT unveil 'Creating a Profession Par Excellence' joint initiative

# Global accounting body president praises Sri Lankan accounting bodies

President of the International Federation of Accountants (IFAC), Rachel Grimes praised the country's top three local accounting bodies – CA Sri Lanka, CMA Sri Lanka and AAT Sri Lanka – for coming together to strengthen the profession by launching the 'Creating a Profession Par Excellence' new strategic initiative.

Delivering a speech at the event, Grimes congratulated the three local bodies for taking this important step and uniting for the betterment of the profession.

"This is a big celebration and a much warranted one. This is a great step forward, and I congratulate everybody for pulling this off," she said.

The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), the Institute of Certified Management Accountants of Sri Lanka (CMA Sri Lanka) and the Association of Accounting Technicians of Sri Lanka (AAT Sri Lanka) are



IFAC President Rachel Grimes being welcomed by CA Sri Lanka President Jagath Perera, CMA Sri Lanka President Prof. Lakshman R. Watawala and AAT President Jazri Magdon Ismail

member bodies of the New York-based International Federation of Accountants (IFAC), which is based in New York, USA. Grimes also praised

the Sri Lankan accounting professionals including CA Sri Lanka members for their contributions while serving as members on various IFAC committees.

'Creating a Profession Par Excellence', a strategic initiative jointly launched by CA Sri Lanka, CMA Sri Lanka and AAT Sri Lanka, aims to further strengthen the accounting profession and also ensure Sri Lanka has a sufficient skilled workforce in the country to meet the changing demands of the economy. Speaking at the event, CA Sri Lanka President Jagath Perera said that this was the first time that three professional accounting bodies in Sri Lanka were working together with a single aim.

"We have been conceptualizing this moment where we

meet at a common platform to reflect and contemplate our common aim, goals and issues, and today with the IFAC President's arrival we are pleased that this initiative is beginning to take shape," he said. Speaking at the event, CMA President Prof. Lakshman R. Watawala said that the visit of the IFAC President to Sri Lanka alone was testament to the recognition that the three Sri Lanka accounting bodies command in the global accounting arena. He said half of Sri Lanka's accounting professionals work overseas.

AAT President Jazri Magdon Ismail said that AAT was the only technical body in the world to hold full membership of IFAC and also of the Confederation of Asian and Pacific Accountants (CAPA). ■



## Embrace technology, IFAC President Rachel Grimes tells CA Sri Lanka members

International Federation of Accountants (IFAC) President Rachel Grimes called on Chartered Accountants to embrace the technological revolution as an opportunity and not a challenge.

“Technology is opening doors and I have set out to assist everyone on how to utilize technology,” the IFAC President said, speaking at a forum organised by CA Sri Lanka during her four-day visit to Sri Lanka. Grimes said that as part of her presidency, she has focused heavily on technology because there has never been a more exciting time to be an accountant than ‘right now.’ “Accountants must own technology as an opportunity instead of seeing it as a challenge. For this reason IFAC has taken steps to create a technology advisory group,” Grimes said. The technology advisory group has representatives from around the world, and tasked to focus



A section of the audience at the forum organised by CA Sri Lanka

on the ‘new A, B, C and D’ related to the accountancy profession. A stands for Artificial Intelligence, B for Block Chain, C for Cyber Security and D for Data Analytics. “We believe that these skills will form the foundation of the accounting profession as we move into the future,” Grimes said. She also said that strong government and a strong economy only comes with strong member bodies, and therefore congratulated CA Sri Lanka for making tangible contribu-

tions to the development of Sri Lanka. “Everyone looks at awe in terms of Sri Lanka’s growth which is in the area of 6.5% over the last ten years. Many economies around the world look at your country with great envy as you move up to upper-middle income status in your development, and I congratulate all of you for being part of this development,” she told the CA Sri Lanka members. Grimes also noted that she was dealing with regulators to ensure that

the accounting profession continues to have strong audit and ethical standards throughout the globe. She also highlighted the importance of ethics for the accounting profession, and how ethics underpins the profession. Speaking at the forum, CA Sri Lanka President Jagath Perera emphasized the need for Chartered Accountants to change and equip themselves with new tools and skills if they are to remain relevant amidst the technological revolution. ■



CA Sri Lanka President Mr. Jagath Perera delivering his speech

## Nurturing entrepreneurial skills among A/Level students

With entrepreneurs being identified as an essential pillar to solve unemployment and help strengthen economic development in a country, the CA Sri Lanka Business Plan Competition will kick off Season 3 in an effort to nurture entrepreneurial skills among the country’s student population. The Business Plan Competition - 2019, organised by the Institute of Chartered

Accountants of Sri Lanka (CA Sri Lanka) for the third consecutive year, is calling for applications from schools from across the country to compete at the competition, which will commence in January 2019.

The competition is open to students sitting for the GCE Advanced Level examination in 2019/2020 from the commerce stream. Schools interested in participating in the competi-

tion can submit their applications to the institute from October to December 2018. Each participating team must comprise four students, who must present a business plan to the panel of judges in English at both the regional and national levels. QUT Business School of the Queensland University of Technology (QUT), Brisbane has once again come onboard as the Strategic Partner of the

2019 competition, which is organised in association with the Sri Lanka and Australia Chamber of Commerce (SLACC). The winner of the grand finale of the Sri Lankan competition will fly to Brisbane, Australia to take part in the BlueShift Case Competition organised by the QUT Business School of the Queensland University of Technology, which will be held in May 2019. ■

## Update

# CA Sri Lanka inducts four new training partners



CA Sri Lanka President Jagath Perera presenting the training partner certificate to Ansell Lanka's Assistant Financial Controller Hasitha Kurukulasooriya. CA Sri Lanka's Vice President Manil Jayasinghe, Council Member Dulitha Perera, CEO Aruna Alwis and Head of Education and Training Dr. Nagalingam Nagendrakumar are also in the picture



CA Sri Lanka President Jagath Perera presenting the training partner certificate to Co-operative Insurance Company's Finance Manager M.A.A.D. Kumara and CFO Laksiri Nawarathne



CA Sri Lanka President Jagath Perera presenting the training partner certificate to Business Promoters and Partners Engineering's CFO Nilantha Rathnayake and Senior Accountant Maduri Silva



CA Sri Lanka President Jagath Perera presenting the training partner certificate to Dutch Lanka Trailer Manufacturer's Finance Manager Lakmal Manatunga

Ansell Lanka (Pvt) Ltd., Business Promoters and Partners Engineering (Pvt) Ltd., Co-operative Insurance Company Ltd., and Dutch Lanka Trailer Manufacturers Ltd., recently came on board as training partners of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). At a ceremony held at the institute, CA Sri

**At a ceremony held at the institute, CA Sri Lanka President Jagath Perera awarded the certificates of recognition to the four companies, welcoming them on board as training partners**

Lanka President Jagath Perera awarded the certificates of recognition to the four companies, welcoming them on board as training partners. Accordingly, the four new partners will provide practical training to aspiring chartered accountants who are following the globally recognised CA qualification at the institute.



# 'Epitome of Brilliance' - CA Sri Lanka's 54<sup>th</sup> Annual Report Awards Competition

In an effort to crown the best and most brilliant annual reports produced in the country, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) will host the 54th Annual Report Awards this December under the theme 'Epitome of Brilliance'.

The competition will reward organisations that produce the most cohesive, clear and customised annual reports that better reflect an entity's operations, going beyond their statutory boundaries of reporting and promoting transparency, accountability and good governance.

With a history of over half a century, the Awards, recognised as one of the country's most coveted corporate level competitions, has carved an important niche as a platform that has significantly helped organisations from multinationals to conglomerates, NGOs, NPOs and even SMEs to improve transparency and accountability in financial reporting, while enhancing Sri Lanka's reporting standards in

line with global best practices.

Entries for the 54th Annual Report Awards is ongoing. The Institute will accept reports for financial statements for the year ended 31st December 2017 and 31st March 2018.

Addressing a press conference, President of CA Sri Lanka Jagath Perera said, as the national body of accountants in the country, CA Sri Lanka has been at the forefront in ensuring that businesses adhere to global requirements. "In such a scenario, the Annual Report Awards has built a reputation as an important competition that encourages companies to produce high quality annual reports that are cohesive, clear and go beyond the statutory boundaries of reporting," he said.

Perera noted that, as Sri Lanka continued to inch towards upper-middle income status, the professional community and corporates have an important role to play in our country's journey going forward by conscientiously promoting transparency,

accountability and good governance, which are important cornerstones for any developing economy.

"In this journey, producing precise and transparent annual reports in line with the highest global standards should remain at the top of the agenda of any organisation, immaterial of its standing in the business world, as accurate financial reporting has a long-term bearing on a company and country," he added.

Chairman of the Annual Report Awards Committee Heshana Kuruppu explained that the importance of this competition has been highlighted by the consistent growth it has witnessed year after year. He also said that the Institute has taken every necessary effort in updating the marking scheme in line with the latest accounting standards and other relevant pronouncements, to ensure the relevance of the competition. Kuruppu said that a meticulously formulated annual report helps develop the country's capital market, therefore ensuring the availability of information in a clear, complete and concise manner which is vital for all stakeholders including shareholders and potential investors, allowing them to make informed investment decisions.

"It is refreshing to see that organisations from blue chip companies to even small time non-profit organisations have continuously demonstrated their commitment towards

best practices in annual reporting. I encourage corporates in Sri Lanka that produce annual reports to take part in this competition and convey to the world that they are a responsible business willing to promote core areas of transparency, accountability and good governance," he added.

Any organisation in Sri Lanka that produces an annual report can apply for the CA Sri Lanka Annual Report Awards. Organisations from small-time community groups to large-scale conglomerates representing 25 sectors including banking & finance, diversified holdings, leasing & other, food & beverages, healthcare, trading, hotels, insurance, land & property, manufacturing, motor, services, telecommunication, unit trusts, media & entertainment, state corporations & statutory boards, plantation, construction, power & energy, not-for-profit (NPO) including non-governmental organisations (NGO), and small and medium-sized entities can apply for this year's competition.

Apart from the overall winners and the winners under each sector, the competition will also honour organisations for corporate governance disclosure, corporate social responsibility reporting, management commentary, integrated reporting, integrated reporting - best disclosure on capital management, and integrated reporting - best disclosure on business model.



# ALL ABOUT THAT BASS

It's all about the music. Whether you are entertaining guests at home or relaxing after a hard day at work, music soothes the soul. We have listed the top sound equipment this side of a home theatre system...although some of these may even outdo the cinema experience.



## Bose QUIETCOMFORT 35

The Bose QuietComfort 35 combines top-of-the-line active noise cancelling with wireless Bluetooth operation in an extra-comfortable, foldable design. Sound quality is unparalleled, and it doubles as a great headset for phone calls. The battery isn't replaceable, but wired mode is possible if the battery dies. The Bose QuietComfort 35 is the ultimate noise-cancelling, wireless headphone you can buy right now - it won't feel like you're wearing headphones! **Siedles; LKR79,990**



## KEF LS50 Wireless

The beauty of the LS50 Wireless is its effortless combination of simplicity and elegance. It is easy to set up and use, yet offers sophisticated sound fit for audiophiles through inspired audio engineering. Easily blending in with any surrounding, the LS50 Wireless delivers an intense, rich and multi-dimensional sound experience no matter where you sit. Adaptable to any platform and source, whether TV, PC or mobile, the set has got everything you need in one compact box.

**Multiform Interlining; LKR360,000 upwards**

## JBL Boombox

This behemoth from JBL is the outdoor party animal's dream; playback of up to 24 hours, IPX7 waterproofing, a 20,000mAh battery with two USB ports, and it can float. Although on the high side of pricey, the JBL Boombox is one of the best Bluetooth speakers money can buy. [urban.lk](http://urban.lk); **LKR89,799**



## Ultimate Ears Boom 2 Bluetooth speaker

The UE Boom 2 is a Bluetooth-enabled, waterproof speaker that gets loud even when wet! It comes in a host of eye-popping colours and features up to 15 hours of battery life. The 67x180mm, 548g tube features a 360-degree speaker grille and will allow two of your mates to compete in a DJ-off all the while sporting an IPX7 rating.

[takas.lk](http://takas.lk); **LKR28,000**



A street scene in Chicago, likely downtown, featuring a construction site fenced off with a chain-link fence. Pedestrians are walking on the sidewalk, and a large American flag is visible. The background shows tall buildings and a clear sky.

# COME OR GO CHICAGO

**The “Windy City” has had an exciting history; its wealth gave home to impressive architecture and art**

BY VINOD MOONESINGHE





# GO

The phrase “come or go, Chicago” – meaning to take things as they come without much thought to the consequences – is familiar to Sri Lankans from all walks of life. It occurred as a catchphrase in Nihal Silva’s *Sergeant Nallathamby*, and as the title of a Sinhala film. This shows how deeply Chicago has registered in Sri Lankan culture, but as a place that no longer exists, in which Al Capone and other Mafiosi gun down their opponents ruthlessly, and where life is vicarious.

This view of the great Midwest American metropolis as a place of gun violence is borne by its statistics: about 3,000 people get shot each year, with about a fifth of that number getting killed. However, that is not the entire story of Chicago. It is one of the most important transport hubs in the world, the key to the Midwest. It is also a beautiful city, home to many works of architecture and art, and a thriving centre for the arts.

**Cloud Gate**  
is an open-air  
work of art  
by Sir Anish  
Kapoor



### ▶ Losing Bags

When visiting Chicago, a carry-on bag rather than checked-in baggage seems advisable, one problem being the likelihood of losing your baggage. This is a regular occurrence, according to one employee of Chicago O'Hare International Airport. Employees appear stressed, being too few for the tasks at hand, many with only a tenuous grasp of English. This is strange, as O'Hare is the second-busiest airport in the world by aircraft movements, with 867,049 take-offs and landings in 2017. Although with 80 million people going through, it falls behind Atlanta, Beijing, Dubai, Tokyo (Haneda) and Los Angeles in terms of passenger traffic. By cargo traffic, it was 20th in the world. A further 22 million passengers and 22,000 tonnes of cargo come through Chicago Midway International Airport.

As these statistics indicate, Chicago is the logistical hub of the Midwest. A major intermodal port, serving the movement of containers via multiple transport methods, it is the centre of a network of railways, highways, air routes and shipping routes stretching out over the entire continental USA. About 30% of all US freight originates, terminates or passes through the Chicago region.

**A new technique, the “balloon frame” – which used lightweight studs instead of posts and nails instead of joinery – enabled the cheap and fast erection of multi-storey wooden houses**

### ▶ Balloon Frames

It was Chicago's strategic logistical position, near the southern end of Lake Michigan, allowing shipping to navigate up the St. Lawrence River from Québec, which caused it to be built. It was occupied originally by Algonquin American Indians, who called the place Shikaakwa, meaning “stinking onions”, after the wild plants growing on the banks of the river.

In the 1780s, an African-American, Jean Baptiste Point du Sable settled here, on a site beside the Chicago River now occupied by the Apple store. Although a small settlement of 350 people came up in the area, capitalist enterprise caused its rapid growth after the organisation of the town of Chicago in 1833.

Developers saw the potential of the area and obtained the best sites. A new technique, the “balloon frame” – which used lightweight studs instead of posts and nails instead of joinery – enabled the cheap and fast erection of multi-storey wooden houses (this technique developed into the “light-frame” construction method, which still dominates US housing). A frenzy of building activity resulted in a fast-growing city, based on livestock processing, manufacturing and transport.



## ► Skyscraper City

Unfortunately, balloon frames were fire bait. In 1871, a great fire swept Chicago, devastating the city. Undaunted, the enterprising Chicagoans started re-building, constructing even taller buildings using steel and stone. The world's first skyscraper, the Home Insurance Building, came up in 1885, and three years later, The Rookery, the oldest surviving skyscraper - both of which combined a steel frame with load-bearing walls. They were followed in 1889 by the Tacoma building, which although combining a steel frame with internal load-bearing walls, had non-load bearing curtain walls on two façades. The next stage of skyscraper evolution came the next year, when the Rand-McNally building became the first all-steel-frame building.

Chicago maintained its position at the cutting edge of skyscraper architecture and construction well into the 20th and 21st centuries. In 1929, Union Carbide built its regional office, the art deco Carbide and Carbon Building, featuring a base clad in black granite, with a central shaft clad in dark green terracotta with gold accents capped with gold foil trim. For many years the site of the Hard Rock Hotel, this summer, it is due to reopen as the St. Jane Hotel.

In the 1960s, the iconic Marina City complex pioneered the combination of residential towers with a parking base, and commercial space with living space, which became the worldwide norm. In the 1970s, the Sears Tower (now Willis



A sculpture and music pavilion by **Frank Gehry**

**Crown Fountain** by Haume Plensa, a combined video sculpture, fountain and play area

Tower) became the tallest building in the world for over two decades; it features a skydeck, glass platforms sticking out of the side of the building on which visitors can stand. In the 2000s, the Chicago Trump Tower (briefly the world's tallest apartment/condominium) was joined by the Aqua Tower, the tallest female-designed skyscraper (designed to avoid bird collisions). The juxtaposition of older skyscrapers with newer ones gives Chicago a unique architectural importance. The view from each street corner changes remarkably within a few metres, revealing a completely different panorama. Even glimpses through the gaps between buildings reveal astonishing skylines or highlight details.

## ► Vivekananda, Dharmapala, And A Buddhist Conversion

In February 1890, after a vigorous debate, the US Congress decided on a site to celebrate the 400th anniversary of Christopher Columbus' 1492 arrival in the New World with a "World's Fair: Columbian Exposition." Amid bitter rivalry from New York, Congress chose Chicago because of its central location and extensive railway system, enabling Americans ease of access, and because of its impressive fundraising ability. The city saw this as an opportunity to celebrate its phoenix-like rise from the ashes of the 1871 great fire and to underline its position as the second city in the US.

The exhibition, held in 1893 on the 600-acre Jackson Park, containing nearly 200 temporary buildings set amid canals and lagoons, proved a success, with over 27 million visitors. Although most of the structures were pulled down or moved elsewhere, the park still endures, home to the commemorative Statue of The Republic,



the Japanese Garden, and one of the two exhibition buildings that survived: the “Palace of Fine Arts.” This is now the Museum of Science and Industry, the exhibits of which include the Apollo 8 command module, a full-size replica of a coal mine, a World War II German U-boat and a huge model railway.

The other building, the World’s Congress Auxiliary Building, had an auditorium in its court to host the World Parliament of Religions. The Hindu philosopher Swami Vivekananda addressed this body; a plaque commemorating this event is set outside Fullerton Hall. Later, Anagarika Dharmapala addressed the gathering, explaining the parallels between Buddhism and Christianity. In response, on 26 September, a New York businessman, Charles T Strauss, accepted the Five Precepts from Dharmapala, becoming the first native-born American to convert to Buddhism on American soil. Following Dharmapala’s second visit to the US, a branch of the Mahabodhi Society opened in Chicago, which no longer exists.



### Parks And Arts

The Auxiliary building itself now houses the Art Institute of Chicago, a must-see art gallery/museum, the third-largest in the world and

**The Auxiliary building itself now houses the Art Institute of Chicago, a must-see art gallery/museum, the third-largest in the world and the best according to TripAdvisor for several years running**

the best according to TripAdvisor for several years running. It features ancient and modern art and artefacts, notably collections of works by Gauguin, Cézanne and Seurat. Must-sees are the Thorne Miniatures, a collection of tiny dioramas of rooms from medieval times to the 1930s; and the Chicago Stock Exchange Trading Room, a reconstruction from the original 1893 building when it was demolished in 1977. The building was located right on the lakefront in Grant Park. In subsequent years, the reclamation of land from the lake enabled the park to expand. It now accommodates several other parks, one of which is Millennium Park, connected to the Art Institute by the Nichols Bridgeway.

This holds several open-air works of art, such as Cloud Gate by Sir Anish Kapoor, a three-dimensional mirror with multiple convex and concave portions known popularly as “the Bean” on account of its shape; Crown Fountain by Haume Plensa, a combined video sculpture, fountain and play area, featuring large faces; and the insect-like Jay Pritzker Pavilion, a combined sculpture and music pavilion by Frank Gehry, who also designed the snake-like BP Pedestrian Bridge connecting the pavilion to Maggie Daley Park. The lastnamed, also within



**Willis Tower skydeck** features glass platforms sticking out from the side of the building





The Art Institute of Chicago (bottom) is a must-see art gallery/museum



Scotch pancakes feature in the typical American breakfast that also includes eggs, fried potatoes, butter and maple syrup

Grant Park, contains a garden dedicated to cancer survivors and children's play areas.

Two equestrian statues of American Indians, The Bowman and The Spearman flank Congress Plaza, serving as gate-keepers to Grant Park. They are part of the large collection of open-air sculptures spread over the city, including landmark statues by Pablo Picasso and Joan Miró, part of a determined effort by Chicagoans to advance their city as a cultural capital to rival New York.

The performing arts also benefitted from this cultural enthusiasm. Even the gangster Al Capone loved the opera, and Chicago is well endowed with opera venues: the iconic Civic Opera House, home to the Lyric Opera; the Studebaker Theatre; and the Harris Theatre for Music and Arts. There are also many more venues for musicals and other music and dance performances. Every year, the Chicago Cultural Center organises a jazz festival. The world-acclaimed Chicago Symphony Orchestra is located opposite Millennium Park.

## ▶ FOOD AND DRINK

Traditional American food is heavy in sugar, salt, starch and fat. A typical American breakfast of eggs, Scotch pancakes, fried potatoes, butter and maple syrup is a particularly lethal combination, and may not suit the

**Chicago itself is home to very good beer, and a visit to the Goose Island Beer Company brewery is called for. Each neighbourhood has its own favourite beer: lager, pale ale, blonde ale or Kolsch**

palates of most Sri Lankans. However, Chicago is diverse and cosmopolitan, and offers a range of ethnic foods. According to one Italian-American in the hospitality industry, the Italian food is "not authentic", being heavily Americanised, but other cuisines are delightful. Of special note are Polish pierogis, filled dumplings; Mexican empanadas, spicy baked patties; and Japanese poke poké, combinations of rice or noodles, raw fish, tofu, spicy sauce and toppings. Avoid tea, which is undrinkable—it generally tastes of muddy water. Coffee, which does not come from a dedicated coffee house, is no better—it generally tastes like it has been made from used coffee grounds. However, coffee shops such as Intelligentsia, Fairgrounds or Starbucks provide good coffee and passable tea. Avoid ice coffee. Health drinks such as aloe or iced green tea are good.

Chicago's sewage is floated down a canal to the Mississippi River, and thence down to St. Louis, the inhabitants of which are reputed to bottle the sewage and return it to Chicago as beer; so avoid St. Louis beer, is the advice Chicagoans give you. However, Chicago itself is home to very good beer, and a visit to the Goose Island Beer Company brewery is called for. Each neighbourhood has its own favourite beer: lager, pale ale, blonde ale or Kolsch. Cider is also a surprising favourite. ■



# Reports from the Ethics and Disciplinary Committees

## Ethics Committee

The Ethics Committee received 5 new complaints, out of which one matter was referred to the Council for further action. The other matters on which actions have been taken, or are currently being attended to, are listed below:

- A Government organization requested CA Sri Lanka to verify the authenticity of four membership certificates received by them. Upon inspection, it was noted that the certificates provided to the Government organization were forged. On the instructions of the Ethics Committee, a police complaint was lodged against the persons who had submitted those certificates.
- A complaint was received from an owner of an estate alleging that an audit firm had audited the financial statements of the estate without proper authority. On further investigation it was revealed that the audit firm was not a firm of Chartered Accountants and therefore does not fall within the purview of CA Sri Lanka. Therefore the owner of the estate was advised to take up the matter with the appropriate authorities.
- A letter was received from an alleged shareholder of a family owned business pertaining to alleged wrong doings of the auditor of the company. This matter is currently being attended to.
- A complaint was received from an alleged shareholder of a quoted public company, stating that the auditors had issued a 'clean' opinion, although the company is facing heavy losses. The complainant raised two questions: How could the auditor's opinion state that the financial statements are fair under such circumstances and why the auditors failed to caution the shareholders of the poor financial situation. On the instructions of the Ethics Committee, a reply was sent to the complainant to refer this matter to the relevant authority to investigate further into the matter.

## Disciplinary Committee

There are currently six matters before the Disciplinary Committees, out of which three have been carried forward from 2017.

### Summary of cases carried forward from 2017:

- SLAASMB had directed a re-audit of a listed company, as the original audit conducted by a firm of Chartered Accountants was found to not be in compliance with auditing standards. A prima facie case of professional misconduct was established under Section 20 Rule 1.1 of the Act. The Disciplinary Committee inquiry is ongoing.



- Failure by an auditor to present the audit opinion and the audited financial statements of a client in compliance with the accepted format and standards. A prima facie case of professional misconduct was established under Section 20 rule 1.1 of the Act. The Disciplinary Committee inquiry is ongoing.

### Summary of cases for 2018:

- A letter was received from SLAASMB with regard to noncompliance of auditing standards when conducting the audit of a 'Specified Business Entity' (SBE). A prima facie case of professional misconduct was established under Section 20 rule 1.1 of the Act. The Disciplinary Committee inquiry is ongoing.
- A complaint was received from a member with regard to an audit firm which had conducted the audit of a SBE. The complaint alleged that the auditors had failed to detect a material misstatement in the financial statements, thereby wrongly reducing the tax liability of the company. A prima facie case of professional misconduct was established under Section 20 Rule 1.2 and breaching provisions of the Code of Ethics. The Disciplinary Committee inquiry is ongoing.
- A complaint was received from an employer of a member employed in the capacity of Finance Manager in that company. The member had allegedly misappropriated Rs.50,000/- per week from August to October 2017. A prima facie case of professional misconduct was established under Section 20 Rule 1.9. The Disciplinary Committee inquiry is ongoing. ■

## Focus On - Technical

### New auditing standards for non-specified business enterprises

#### CA Sri Lanka recently introduced the 'Sri Lanka Auditing Standard (SLAuS) for the Audits of Non - Specified Business Enterprises (Non-SBEs).'

The principle-based, stand-alone auditing standard is tailored specifically for small entities that do not have public accountability and publish general purpose financial statements for external users which follow the cost model for measurement of assets and liabilities.

For this purpose, the companies categorised under the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 and subsequent amendments thereto as Specified Business Enterprises will not fall into this SLAuS.

The financial reporting frameworks that could be applied for the purpose of this Standard are either Sri Lanka Accounting Standard for Small and Medium- Sized Entities (SLFRS for SMEs) or SLFRS for Smaller Entities.

Salient features of SLAuS for Non-SBEs include reliance on substantive audit procedures; simple benchmarks on materiality for the financial statements as a whole; less stringent quality control requirement, responsibility towards detecting frauds and non-compliance with laws and regulations (NOCLAR); simplifications over the planning and reporting sections. This SLAuS is effective for audits of financial statements from the period ending on or after 31 March 2018. ■

### Amendments to LKAS 19 Employee Benefits-Plan Amendment, Curtailment or Settlement

The Council of the Institute of Chartered Accountants of Sri Lanka (Council) issued the **Plan Amendment, Curtailment or Settlement** (Amendments to LKAS 19) which clarifies the accounting as follows:

- If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the re-measurement are determined using the assumptions used for the re-measurement.
- In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

#### Effective date and transition requirements:

An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019. Early application is permitted but must be disclosed.

**Impact:** Changes in the terms or membership of a defined benefit plan might result in a plan amendment or a curtailment or settlement. LKAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by re-measuring the net defined benefit

liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment.

Current service cost and net interest are usually calculated using assumptions determined at the beginning of the period. However, if the net defined benefit liability is re-measured to determine past service cost or the gain or loss on settlement, current service cost and net interest for the remainder of the period are re-measured using the same assumptions and the same fair value of plan assets. This will change the amounts that would otherwise have been charged to profit or loss in the period after the plan amendment, curtailment or settlement, and it might mean that the net defined benefit liability is re-measured more often.

A plan amendment, curtailment or settlement might reduce or eliminate a surplus, which could change the effect of the asset ceiling. Past service cost, or a gain or loss on settlement, is calculated in accordance with LKAS 19, and it is recognised in profit or loss. This reflects the substance of the transaction, because a surplus that has been used to settle an obligation or provide additional benefits is recovered. The impact on the asset ceiling is recognised in other comprehensive income, and it is not reclassified to profit or loss. The impact of the amendments is to confirm that these effects are not offset. ■

# INSIGHTS INTO SLFRS 9 FINANCIAL INSTRUMENTS

- ▶ SLFRS 9 includes requirements for recognition, measurement, impairment, de-recognition and general hedge accounting.
- ▶ Effective for annual periods beginning on or after 1 January 2018.
- ▶ SLFRS 9 largely replaces LKAS 39 Financial Instruments: Recognition and Measurement, except Hedge Accounting.

## COMPARISON OF LKAS 39 AND SLFRS 9

Criteria	LKAS 39	SLFRS 9
Classification and measurement of financial assets	<p><b>Had four categories of Financial Assets, i.e.</b></p> <ul style="list-style-type: none"> <li>● Fair value through profit or loss (FVTPL)</li> <li>● Loans &amp; receivables (L&amp;R)</li> <li>● Held to maturity (HTM)</li> <li>● Available for sale (residual)</li> </ul>	<p><b>Introduces three categories of Financial Assets, based on the measurement basis, i.e.</b></p> <ul style="list-style-type: none"> <li>● Amortised cost</li> <li>● Fair value through Other Comprehensive Income (FVTOCI)</li> <li>● Fair value through profit or loss (unless measured at amortised cost or FVTOCI)</li> </ul>
	Classification was dependent on the type of the debt instrument	<p><b>Classification depends on:</b></p> <ul style="list-style-type: none"> <li>● The contractual cash flow characteristics of financial assets</li> <li>● The entity's business model objective for managing financial assets</li> </ul>
	For Financial Assets classified as Available for Sale, the option to present subsequent changes in the FV in OCI was not irrevocable.	The option for equity instruments to present subsequent changes in the FV in OCI is irrevocable.
	Exception was available to measure investments in equity instruments (without having a quoted price in an active market) at the cost, if the fair value cannot be assessed at cost.	This exception is no longer available.
	Initially, trade receivables also needed to be measured at fair value.	Allows trade receivables that don't have a significant financing component to be measured at undiscounted invoice price rather than fair value.
Reclassification of Financial Assets	Permitted, provided that there was a change in the intention or ability, but subject to restrictions.	Permits, only if there is a change in the entity's business model objective for its financial assets.
	The tainting rule was applicable for the HTM category.	Not applicable



Criteria	LKAS 39	SLFRS 9
Classification and measurement of financial assets	The entire change in the fair value of financial liabilities designated as FVTPL was always recognised in profit and loss.	<b>The portion of the change attributable to changes in the entity's own credit risk is recognised in OCI, with no recycling, unless:</b> <ul style="list-style-type: none"> <li>● OCI presentation would create or enlarge an accounting mismatch in profit and loss; or</li> <li>● the liability is a loan commitment or financial guarantee contract.</li> </ul>
De-recognition	Recycling was permitted, upon de-recognition.	Recycling is permitted only for the debt instruments classified as FVTOCI, when it is de-recognised.
Impairment	Loan losses were accounted using the "Incurred loan loss model".	Loan losses need to be accounted using the "Expected Credit Loss Model"
	Impairment assessment requirements were applicable for investments in equity instruments as well.	Eliminates impairment assessment requirements for investments in equity instruments, because they can only be measured at FVPL or FVTOCI (an irrevocable option) without recycling fair value changes to profit and loss.
Embedded derivatives	Embedded derivatives not closely related to a non-trading host contract were measured at FVTPL, but the host contract could be measured at the amortised cost. Therefore, the separation of the host contract from the derivative was required.	The entire contract has to be measured at FVTPL. As a result, changes in fair value of both the host contract and the embedded derivative will immediately affect profit and loss. Therefore, in the event the SPPI test is not passed, the separation of the host contract (if it is a non-financial asset) from the derivative is not required.

Recycling (the reclassification from equity to P&L) means that gains or losses are first recognised in the OCI and then in a later accounting period moved to the P&L.

## EXCLUSIONS FROM SLFRS 9

Excluded Category	Relevant SLFRS
Interests in subsidiaries, associates and joint ventures	SLFRS 10, SLFRS 11, SLFRS 12, LKAS 27 & LKAS 28
Rights and obligations under leases	LKAS 17/ SLFRS 16
Employers' rights and obligations under employee benefit plans	LKAS 19
Rights and obligations arising under Insurance Contracts (other than derivatives and financial guarantee contracts)	SLFRS 4
Financial instruments, contracts and obligations under share-based payment transactions	SLFRS 2
Contracts with a discretionary participation feature	SLFRS 4
Forward contracts between an acquirer and a selling shareholder to buy or sell an acquiree	SLFRS 3
Loan commitments, other than for the SLFRS 9 requirements for impairment and de-recognition (except those designated at FVTP) can be settled net in cash or by delivering or issuing another financial instrument, commitments to provide a loan at a below-market interest rate - scoped into SLFRS 9)	SLFRS 15
Right to payments to reimburse the expenditure recognised as a provision to settle a liability	LKAS 37
Equity instruments issued by the entity in accordance with 16A-16D of LKAS 32	LKAS 32
Financial liabilities issued by an entity that are classified as equity in accordance with 16A-16D of LKAS 32.	LKAS 32
Rights and obligations within the scope of SLFRS 15 that can be treated as financial instruments, unless specified to be accounted under SLFRS 9.	SLFRS 15

## MEASUREMENT OF FINANCIAL ASSETS

### Initial Measurement of Financial Assets

- ▶ Trade receivables at their transaction price, if the trade receivables do not contain a significant financing component in accordance with SLFRS 15.
- ▶ Any other financial asset at its fair value (including directly attributable transaction costs for financial instruments not measured at FVTPL).

## SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

Description	Classification of Financial Assets			
	Amortised Cost	Fair Value Through OCI		Fair Value Through P&L
		Equity Instruments	Debt Instruments	
Initial measurement	FV	FV		FV
Transaction cost	Capitalised	Capitalised		Expensed
Subsequent measurement	Amortised cost	FV		FV
Income Recognition	Accrued interest income by applying EIR	Dividends are recognised in P&L	Accrued interest income by applying EIR	Accrued interest income by applying EIR
FV gains & losses	P&L	OCI	OCI	P&L
Impairment losses	P&L	N/A	P&L	P&L
Recycling of FV changes to P&L on de-recognition	N/A	Not permitted	Permitted	N/A

## FINANCIAL LIABILITIES

### MEASUREMENT OF FINANCIAL LIABILITIES

Description		Classification	
		Amortised Cost	Fair Value Through P&L
Initial measurement		FV	FV
Subsequent measurement		At Amortised cost	At FV
FV gains	attributable to changes in the credit risk	Recognise in P&L	Recognise in OCI*
	remaining amount		Recognise in P&L

\* If the recognition creates or enlarges an accounting mismatch in profit or loss, all gains or losses on that liability (including the effects of changes in the credit risk of that liability) shall be presented in profit or loss.



# IMPAIRMENT

## SCOPE OF SLFRS 9

The following would be subject to impairment testing:

- ▶ Financial assets measured at amortised cost
- ▶ Financial assets mandatorily measured at FVTOCI
- ▶ Loan commitments when there is a present obligation to extend credit (except where these are measured at FVTPL)
- ▶ Financial guarantee contracts to which SLFRS 9 is applied (except those measured at FVTPL)
- ▶ Lease receivables within the scope of LKAS 17 Leases
- ▶ Contract assets within the scope of SLFRS 15 Revenue from Contracts with Customers (i.e., rights to consideration following the transfer of goods or services)

## IMPAIRMENT MODEL UNDER SLFRS 9 AT A GLANCE

Criteria		Stage 1	Stage 2	Stage 3
Category		Performing	Under-performing	Non-Performing
Status of credit risk		Credit risk has not increased significantly since the initial recognition	Credit risk has increased significantly since the initial recognition	Credit impaired
Recognition of Impairment as per SLFRS 9	Initial Recognition	12 month ECL	LECL for purchased or originated credit-impaired financial assets	
	Subsequent Recognition	12 month ECL	LECL	
Recognition of Interest		Effective interest on the gross carrying amount		Effective interest on the net (carrying) amount

<b>Expected Credit Loss</b>	
<p>An entity shall measure expected credit losses of a financial instrument in a way that reflects:</p> <p>(a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;</p> <p>(b) time value of money; and</p> <p>(c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.</p>	
<p><b>12-month expected credit losses</b></p> <p>The portion of lifetime-expected credit losses that represent the expected credit losses that result from default events on a financial instrument that is possible within the 12 months after the reporting date.</p>	<p><b>Lifetime-expected credit losses</b></p> <p>The expected credit losses that result from all possible default events over the expected life of a financial instrument.</p>

## IMPAIRMENT APPROACHES

Criteria	Simplified approach	General approach
<b>Applicability</b>	<ul style="list-style-type: none"> <li>● For trade receivable or contract assets that:               <ul style="list-style-type: none"> <li>- do not contain a significant financing component as per SLFRS 15; or</li> <li>- if the entity chooses as an accounting policy.</li> </ul> </li> <li>● All lease receivables that result from transactions that are within the scope of LKAS 17. The policy choice may be applied separately to finance and operate leases</li> </ul>	<ul style="list-style-type: none"> <li>● Financial assets that are debt instruments measured at amortised cost</li> <li>● Financial assets that are debt instruments measured at FVTOCI</li> <li>● Lease receivables under LKAS 17 (accounting policy choice)</li> <li>● Contract assets under SLFRS 15</li> <li>● Loan commitments and financial guarantee contracts that are designated at FVTPL.</li> </ul>
<b>Recognition of Impairment Provision</b>	<p>A simplified approach does not require an entity to track the changes in credit risk. Instead, it requires the entity to recognise a loss allowance based on the lifetime expected credit loss as of the reporting date.</p>	<p>The three-stage ECL impairment model is applicable considering the credit risk on that financial instrument.</p>
	<p>The changes in the loss allowance balance are recognised in profit or loss as an impairment gain or loss.</p>	<p>The changes in the loss allowance balance are recognised in P&amp;L (OCI for FVTOCI assets) as an impairment gain or loss.</p>



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