



INTERNATIONAL ASSOCIATION OF FINANCIAL EXECUTIVES INSTITUTES

The Premier Global Society of Financial Executives

IAFEI QUARTERLY

50th Issue - December 2020



Message from the Chairman

Dear IAFEI members,

A greetings of peace, hope and prosperity as we celebrate this Season and welcome 2021! I present to you the 50th issue of the IAFEI Quarterly, the last for 2020.

2020 was a challenging year primarily because of COVID-19. It was a difficult year for most businesses as they grapple with the effect of the pandemic. We expect that the coming year will be a recovery year.

As we transition to the new normal, we must still be cautious and continue our daily lives with care. The new strain of the virus has surfaced and we are uncertain how this will further affect the way we do business, work and live.

At this point, I would like to thank everyone for all your support for the past two years. I would like to thank the 2020 Officers for the service that they have rendered to IAFEI and to the Advisory Council for the continuing guidance to ensure that we always look at the best interest of our members and the organization.

It was not easy for our international organization. We have to change current structure and practices to adapt.

As we welcome 2021, I enjoin all of you to extend the same level of support to our new IAFEI Officers.

TOGETHER, we can win over this, STRONGER AND BETTER!

Merry Christmas and a Happy and Better New Year!

Thank you!

Sincerely,

Eduardo "Ed" V. Francisco
Chairman

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Sustainability: A new integrated framework for enterprise performance management

By **Elisa Bolognesi**, Accenture, Managing Director, and **Mauro Marchiaro**, Accenture, Managing Director, and **Aldo Pozzoli**, Accenture, Senior Manager

1. Greenwashing days are over

Sustainability is increasingly at the center of every business agenda. Its importance grew to such an extent, that having an explicit sustainability strategy is now mandatory to secure most companies' long-term business viability. In fact, sustainability is regarded as highly relevant not only by customers and the general public, but also by investors, suppliers, clients and regulators, requiring companies to be actively engaged.

Investors, regulators and financial institutions are increasingly basing investment and lending decisions on the sustainability of the company. In the Sustainable Finance world, the key decision drivers when evaluating companies are:

- **risks reduction:** institutional investors would stay away from companies that have bad reputations or are exposed to/do not mitigate sustainability risks by ignoring externalities and related broader impacts;
- **value creation opportunities:** shift of focus from pure financial profits and risk reduction to long term value creation pursuing opportunities arising from sustainability engaged companies; this aspect has also been thoroughly studied by Harvard Business School by monitoring stocks of listed American companies for over twenty years, demonstrating that the “sustainable” ones had superior performance.

Financial markets are adopting investment strategies that favor companies that go beyond traditional,

financial short-term profit, and maximize long-term value of business and society as part of credible and tangible strategic commitments. In this context, actively managing Environmental, Social and Governance (ESG) performance of the business will be becoming crucial for companies' competitiveness and value generation, as much as managing financial performance is. Considering the role of sustainability topics in financial valuations, investors need to track ESG impacts of their investments in the same way that they monitor financial returns and firms need to make this an easy, transparent, reliable and connected experience. Investors, along with regulators, insurers, and the public, need a clear picture of how companies are managing sustainability-related questions. Companies and Countries that do not respond to stakeholders and address sustainability risks will face growing skepticism from the markets and ultimately a higher cost of capital. Companies that champion transparency and demonstrate their responsiveness to stakeholders, by contrast, will attract investment more effectively, including higher-quality and more patient capital. The emerging EU Sustainable Finance regulation and the 2021 Disclosure Regulation confirm all the above.

2. Sustainability performance management is the new enterprise performance management

40% of CEOs say sustainability and trust is creating revenue growth today. On the other side, 57% of global investors identified the lack of structured information as a reason why they do not invest in sustainable businesses. Most investors still believe that companies in which they invest are not properly equipped to

1 “Principles of Sustainable Finance”, D. Schoemaker, W.Schramade (2019)

2 “The Impact of Corporate Sustainability on Organizational Processes and Performance”, Robert G. Eccles, Ioannis Ioannou, and George Serafeim (2014)

Set out and act on their strategy to seize opportunities presented by sustainability. While most companies are developing sustainability strategies, many organizations are not yet ready to measure its value, link it to business performance, embed it in management objectives and daily operations.

The increasing relevance of ESG performance requires CFOs to start monitoring indicators that had never been under their lens before, with the need to embed them in their enterprise performance management (EPM) frameworks. For this purpose, a three imperatives are particularly important for Finance Leaders:

- **Integrate sustainability initiatives within strategic planning** to support target-setting and new products/business valuation with a sustainability logic;
- **Link sustainability to business performance**, enlarging the traditional Planning & Control model (based on P&L/Balance Sheet/Cash Flows analysis) to include ESG factors and related accountability principles across the whole enterprise;
- **Improve the process of ESG data planning, tracking & collection, analysis and reporting**, making the value from sustainability measurable and easily disclosable.

The Finance function has skills, knowledge and the exhaustive oversight of the enterprise data which can help define the business case for sustainability strategies and initiatives. Finance will have to level up as the function accountable for tracking ESG performance and identifying value drivers within the business while ensuring focus on the right set of ESG metrics is maintained.

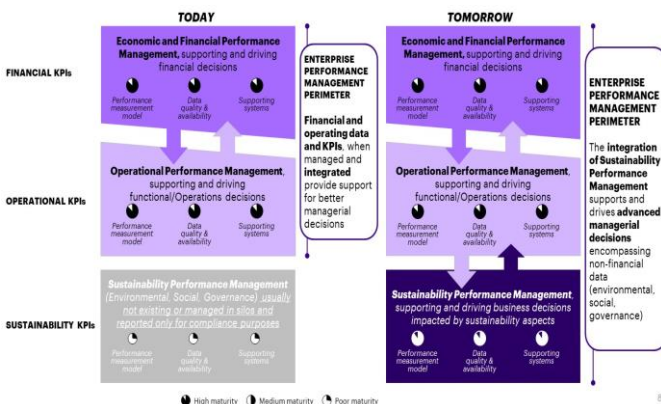


Figure 1 "From the EPM to the S-EPM"

By bringing the rigor and discipline used in accounting to the collection, analysis and reporting of sustainability data, CFOs are perfectly placed to incorporate meaningful sustainability metrics into business planning and reporting processes.

Now is the TIME to trigger the combination of traditional EPM (Financial and Operational) with a structured approach also for Sustainability Performance, creating what we define as **Sustainability Enterprise Performance Management (S-EPM)**.

1. S-EPM: how to make this real

S-EPM provides opportunities to engage stakeholders, optimize risk-return management and enhance leadership on value creation for business and society.

Prioritizing S-EPM in the CFO agenda, we have identified three concrete steps that help CFOs to reinvent their performance management frameworks:

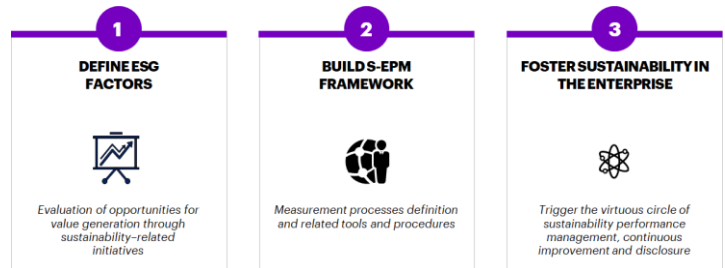


Figure 2 "Accenture Approach to S-EPM"

- 1) **Define ESG Factors:** the starting point of the model set up is aimed at defining its core elements, such as:
 - identify the most relevant ESG factors, derived from the strategic objectives cascade and from the industry leading practices;
 - define KPIs, metrics and related targets to track each ESG factor, taking into consideration also the Sustainability Reporting Standards ;
 - shape the accountability model for each ESG KPI and related impacts on the organization, to make it actionable.

3 "The decade to deliver – a call to business action" UN Global Compact – Accenture CEO Study 2019

4 "Measuring Stakeholder Capitalism- Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", WEF, 2020

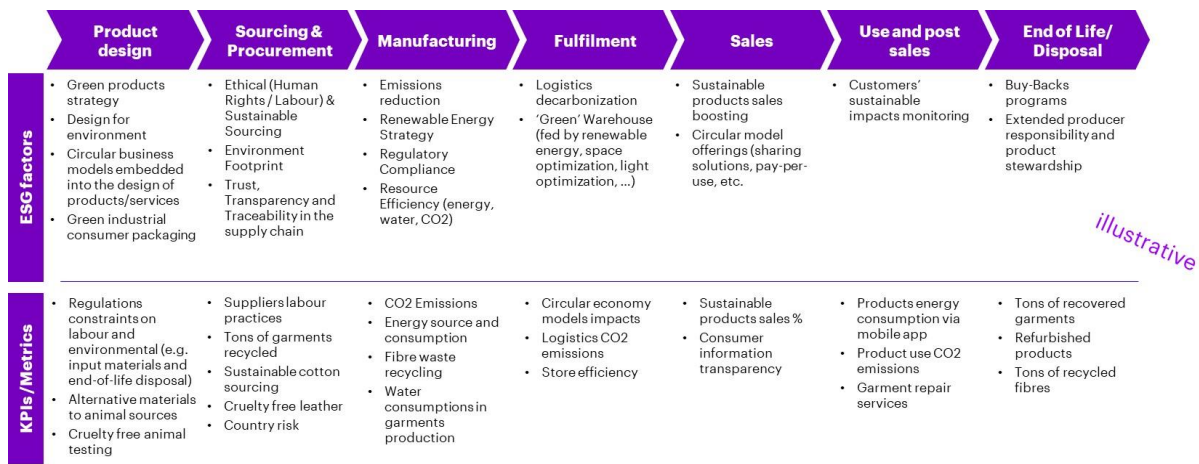


Figure 3 "Example of ESG Factors and KPIs across the value chain"

2) **Build S-EPM framework:** the crucial difference between merely measuring and actually managing sustainability is about embedding it in the Enterprise Performance Management processes and systems, allowing to measure, manage and report effectively. Below are the key steps to be taken by the CFO:

- design the planning, tracking and reporting processes related to ESG factors identified;
- embed the ESG KPIs into supporting tools for specific planning, measurement and reporting, such as leading edge CPM tools ;
- activate accordingly policies and procedures for quality controls on measurement, eventual changes in the operative model and include ESG KPIs in the incentives setting;

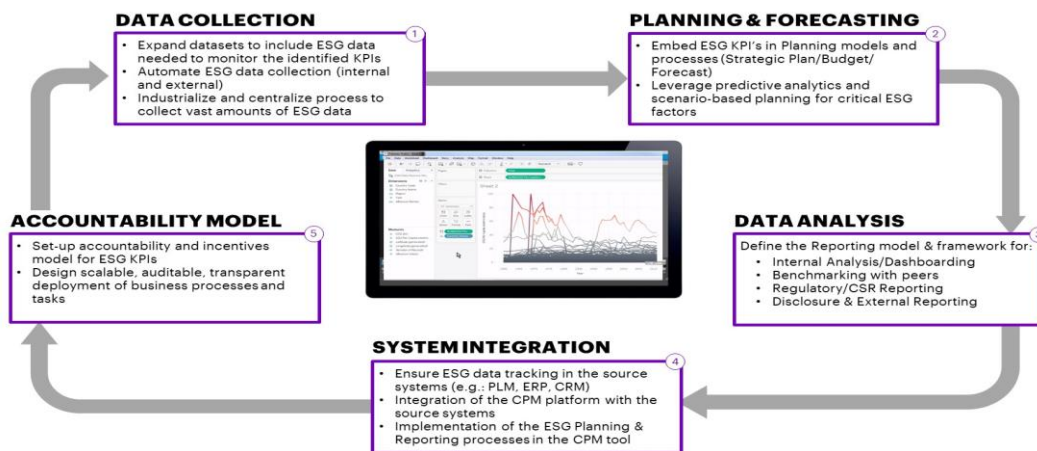


Figure 4 "Key elements to extend EPM process and CPM platforms to sustainability measurement"

3) **Foster sustainability in the enterprise:** leverage S-EPM to create sustainable value and embed Sustainability topics into company culture triggering continuous improvement in an enhanced performance management. S-EPM will allow the CFO to:

- monitor KPIs to evaluate sustainability performance and identify action points;
- evaluate initiatives with a Sustainability Value Framework, which computes the total value of initiatives maximizing both business and ESG value;
- report and disclose clear and effective sustainability performance results, ensuring transparency and building trust towards all stakeholders;

4 "Measuring Stakeholder Capitalism- Towards Common Metrics and Consistent Reporting of Sustainable Value Creation", WEF, 2020

5 CPM: Corporate Performance Management Tools (such as Oracle EPM Cloud, SAP SAC, Tagetik, Anaplan,...) mostly used to manage financial data

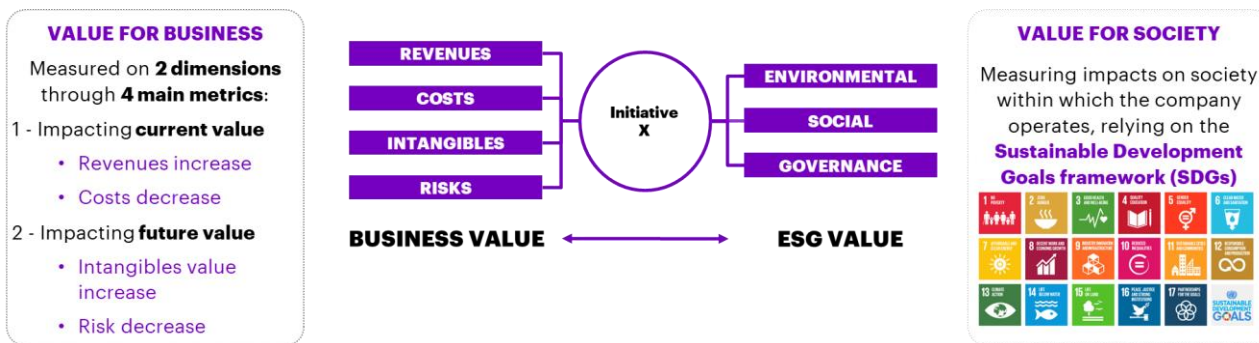


Figure 5 "Accenture Sustainability Value Framework"

1. Main benefits of S-EPM

S-EPM redefines the boundaries of traditional EPM by fulfilling strategic requirements of sustainability management. Having an integrated view of sustainability, as well as other business performance indicators provides CFOs with greater flexibility and clarity in defining performance objectives, encompassing the entire value creation strategy of the company. In addition to the internal use for valuation and monitoring of sustainability KPIs impacts, S-EPM can serve as an essential element for prioritization and target setting to ensure overall strategy achievement. Lastly, being fully integrated with business performance, S-EPM helps assessing initiatives within sustainability strategic planning and evaluating investments in new products/business development with a sustainability framework, supporting investments decisions providing total value analysis, meant, maximizing the total value for business and society.

From a reporting perspective, the S-EPM acts as a control tower, offering an integrated view and the levers to manage all non-financial aspects of the company, helping measure, analyze and define improvement targets. S-EPM shall continuously communicate through an interactive dashboard with all the managers and support in identifying the accountable roles for each individual environmental performance. S-EPM, by being connected with existing systems such as those for monitoring financial and operational performance, will further support company's evolution towards the data driven enterprise model.

Finally, S-EPM will strengthen the CFO's equity story by articulating in a more compelling and robust way the shareholder and stakeholder value generated by the company's sustainability strategy, thus attracting new investors, increasing brand equity and stakeholders trust. S-EPM will be an essential enabler for a deeper, broader, integrated storytelling on sustainability, backed by a consistent set of targets and performance indicators that are truly in use for the Management to drive the business.



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Corporate Tax Policy Key Priorities & Q&As

Prepared by the CFE Tax Technology Committee
Submitted to the EU Commission Platform for Tax Good Governance
15 September 2020

CFE Tax Advisers Europe is a leading European association of tax institutes and associations of tax advisers. CFE is part of the European Union Transparency Register no. 3543183647-05. We would be pleased to answer any questions you may have concerning our Opinion Statement.

For further information, please contact Piergiorgio Valente, CFE President, or Aleksandar Ivanovski, Tax Policy Manager at info@taxadviserseurope.org. For further information regarding CFE Tax Advisers Europe please visit our web page <http://www.taxadviserseurope.org/>

CFE AT THE EU PLATFORM FOR TAX GOOD GOVERNANCE

Membership: CFE has been a member of the Platform since its inception in 2012, and has just reappointed for its 3rd mandate at the Platform.

Current Representatives: Piergiorgio Valente (President of CFE and Chairman of the Global Tax Advisers Platform - GTAP) and Aleksandar Ivanovski (Tax Policy Manager of CFE and Secretary-General of GTAP).

CFE AT A GLANCE

CFE Tax Advisers Europe represents members from over 33 national professional tax adviser organisations in 26 European countries, making CFE the most representative voice of tax professionals in Brussels. CFE invokes a broader European perspective concerning the work it undertakes, rather than representing the views of any particular industry or country. CFE is also a founding member of the Global Tax Advisers Cooperation Platform, GTAP.

GTAP was established by CFE Tax Advisers Europe, AOTCA and WAUTI, who collectively represent more than 700,000 tax advisers in Europe, Asia and Africa.

GTAP is an international platform that seeks to bring together national and international organisations of tax professionals from all around the world.

CFE aims are: to safeguard the professional interests of tax advisers; to exchange information on national tax laws and contribute to the development of tax law in Europe; to maintain relations with the authorities at national and international levels, and share with the authorities of the European Union the experience and insight of our member tax advisers from all areas of taxation and professional law; to promote the co-ordination of national laws governing the profession, and to achieve the protection of each national tax adviser's title in Europe; to inform the public about the services that tax advisers provide; and to seek to provide the best possible conditions for tax advisers to carry out their profession.

The Executive Board is responsible for the devising the work priorities and output of CFE Tax Advisers Europe and reports to the General Assembly, the governing body of CFE.

Work is managed through three committees, the Fiscal Committee, the Professional Affairs Committee, and the Tax Technology Committee, which are each chaired by a member of the Board.

CFE's Fiscal Committee is comprised of two Sub-Committees: the Direct Taxes Subcommittee and Indirect Taxes Subcommittee which monitor and respond to taxation developments in the EU and worldwide. The Fiscal Committee also comprises an ad hoc working group, the ECJ Task Force, a group of tax academics and renowned tax practitioners which meets regularly to discuss and issue Opinion Statements on selected decisions of the Court of Justice of the European Union. The Professional Affairs Committee engages in policy areas that concern and affect the exercise of the tax advisory profession, such as ethics, professional codes and qualification requirements, reporting requirements, cooperative compliance, amongst many others. The Tax Technology Committee was established in 2018 as a response to the importance of digitalisation and the impacts of technology on taxation and the way the tax profession is carried out.

The CFE Technical Committees produce technical position papers which are sent to significant EU and global stakeholders, including the European and OECD institutions, concerning tax policy developments and matters concerning the professional affairs of tax advisers or way technology impacts on the tax profession. In addition, the leading European tax law journal European Taxation, edited by IBFD, regularly publishes CFE Opinion Statements and articles on CFE conferences.

CFE is an active member of multiple taxation expert stakeholder groups, including the European Commission Platform for Tax Good Governance, Aggressive Tax Planning and Double Taxation, the European Commission VAT Expert Group, the European Commission VAT Forum and the UN Committee of Experts in International Cooperation in Tax Matter.

10 KEY PRIORITY POLICY AREAS

1. Taxpayers Rights and Tax Certainty
2. Taxation of the Digitalising Economy
3. Common Approach to Anti-Avoidance and Substance Measures
4. Mandatory Disclosure Rules
5. Tax and Climate Change – Sustainable Tax Policies
6. Tax Systems & Tax Competition
7. Double Taxation and Dispute Resolution
8. Anti- Money Laundering
9. Simplification of Indirect Taxes
10. Global Tax Policy within the Global Tax Advisers Platform (GTAP) - Ulaan Baatar Declaration & Torino-Busan Declaration

THE FUTURE OF CORPORATE TAX POLICY - KEY Q&A

1. What is the nature of the problems we currently face when it comes to the global tax debate?
2. What are the global tax principles that should guide any response?
3. Is there now general agreement that digital companies or a digital economy cannot be separated out from the economy as a whole?
4. Is it simply a matter of strengthening anti-avoidance rules?
5. Do we need more fundamental reform of the CT system?
6. Are there other alternatives to CT – for instance can indirect, land and other taxes be applied more effectively and fairly than CT?
7. How is any of this accomplished without “tax wars”, or adding layer upon layer of complexity or double taxation?
8. Are responses meeting future developments and challenges?
9. Are the institutions we have capable of delivering any new agenda – do they need developing or do we need new bodies?

POLICY AREAS FOR THE NEW EU COMMISSION – 10 KEY PRIORITIES

1. Taxpayers Rights and Tax Certainty

CFE has strongly advocated in favour of binding, or other equally effective, mechanisms that set out in clear terms the rights and obligations of taxpayers so that these can be adhered to and followed by tax administrations and relied on by taxpayers. This needs to be the case not only in Europe but also in all other countries in the world. We believe the fundamental rights of taxpayers need to be enshrined in law or in arrangements which have the full support of tax administrations. CFE has fully endorsed the EU's approach and views expressed by the European Commission that a Code or Charter on Taxpayers' Rights can enhance the efficiency and effectiveness of tax systems and can also increase the tax morale of European citizens.

After a public consultation in 2012 and an intensive work programme the EU Member States published Guidelines for a Model for a European Taxpayers' Code, which we believe could form the basis of future work by the European Commission in this area.

Certainty is one of the fundamental rights and is one of the Fundamental Principles in the broad ranging CFE Model Taxpayer Charter, which we published in conjunction with two other international organisations, AOTCA and STEP.

The second Fundamental Principle is that tax systems need “to be designed and administered to provide as far as possible certainty, clarity and finality in one’s tax affairs”.

Taxpayers face similar tax obligations in most countries in Europe but they are not guaranteed equal rights by the different Member States of the EU. Specifically, in relation to the obligations imposed by the Directive on Administrative Cooperation and Exchange of Information in relation to reportable cross-border arrangements (DAC6), CFE has raised concerns about potentially different implementation among the Member States. To address these issues, CFE encourages the Commission and the Member States to ensure consistent transposition throughout the European Union to satisfy the tax certainty and equal treatment requirements. CFE is strongly in favour of better and earlier initial consultations taking place with stakeholders, which give consideration in particular to practical implementation issues, far in advance of proposals being released.

CFE has recently written an opinion statement on tax competitiveness touching on issues concerned with tax administration. It can be located in the link below. A further statement on tax certainty can be viewed in the link below. (GTAP), has strongly supported OECD’s proposition that increased tax certainty and strengthened taxpayers’ rights could serve as a proxy for increasing tax morale among individuals and businesses. To that end, in order to protect the rights of both taxpayers and tax administrations, mandatory obligations on both should be established in these charters or cooperative compliance programmes.

As a means of providing advance certainty for taxpayers by tax administration, CFE is supportive of any programmes that establish such protection for taxpayers. We support both cooperative compliance programmes and tax ruling practices that comply with the OECD and the EU tax good governance standards and primary EU law rules. Equally, cooperative compliance was recently endorsed by the IMF/OECD, on the basis that “cooperative compliance programs could reduce uncertainty for low risk companies, assist tax administrations to better focus their resources and promote a culture of greater trust”.

In the same vein, where tax administrations provide tax rulings and Advance Pricing Agreements (APAs)

These have proved to be an effective tool for the prevention of tax-related disputes, especially with respect to transfer pricing issues.

They provide the taxpayer with advance knowledge of the tax treatment of particular transactions and therefore allow certainty for taxpayers in planning for the future, and also prevent the risk of subsequent disputes. The EU should harmonise measures that would outline an EU framework of tax rulings. All Member States should be required to establish simple and effective procedures for the conclusion of bilateral/multilateral APAs and/or confirmative tax rulings.

Such a coordination of national procedures would benefit investment and competitiveness by providing clarity and a more predictable tax environment, as well as by simplifying the rules applicable in the EU Single Market. However, in order to balance these measures to protect taxpayers’ rights, mandatory obligations on both taxpayers and tax administrations should be established, such as in the horizontal monitoring in the Netherlands. This is particularly the case considering the importance being placed on personal data security and confidentiality following the GDPR which came into force on 25 May 2018. Although the majority of tax treaties since the mid-1900s have included provisions for exchange of information, recent measures have progressed to agreement, both within the European Union and at international level, which have enhanced investigative powers of tax administrations and increased the amount of taxpayer information required to be provided to tax administration.

In a time of immense change in the international tax environment, CFE believes that tax certainty must become a priority of policy makers. Whilst CFE appreciates the importance of measures to tackle aggressive tax avoidance schemes and base erosion and profit shifting (BEPS), it believes that the balance of legislation must be redressed to promote certainty for individual taxpayers and business and, consequently, economic growth.

In redressing the balance between taxpayers and tax administrations, CFE believes that tax certainty is only one element of the equation. We would encourage EU-level measures to encourage consistency of treatment of taxpayers by tax authorities to reinforce certainty. To that end, an EU-wide charter on taxpayers’ rights should encompass both the concept of certainty and the concept of consistency of application and treatment. In addition, cooperative compliance programmes, and a system of broader advance rulings would help with both certainty and consistency of treatment and application.

1. <http://www.taxpayercharter.com/charter.asp?id=15>

2. <http://taxadviserseurope.org/blog/portfolio-items/opinion-statement-on-the-oecd-consultation-on-draft-report-on-tax-morale-2/>

1. Taxation of the Digitalising Economy

Under the designation “taxation of the digitalising economy”, we are witnessing perhaps the most fundamental change in the design and *modus operandi* of the international tax system. We recognise the difficulties in pinpointing all digitalising business models as current definitions are likely to become outdated in due course. However it is precisely because of the fast-paced change of the digital environment that today’s solutions must be future-proof and consistent with the principles of aligning profit with underlying economic activities and value creation. As noted in CFE’s submission to the OECD public consultation on the tax challenges of the digitalising economy³, it emerges that a new international tax framework would be required to make the new profit allocation methods operational in a global setting: new legal instruments, guidance and widespread multijurisdictional consensus. Inevitably, the issue of double taxation would arise, which is already difficult to address considering the bilateral nature of double taxation treaties and inadequacy of tax dispute resolution mechanisms at present.

Under the designation “taxation of the digitalising economy”, we are witnessing perhaps the most fundamental change in the design and *modus operandi* of the international tax system. We recognise the difficulties in pinpointing all digitalising business models as current definitions are likely to become outdated in due course. However it is precisely because of the fast-paced change of the digital environment that today’s solutions must be future-proof and consistent with the principles of aligning profit with underlying economic activities and value creation. As noted in CFE’s submission to the OECD public consultation on the tax challenges of the digitalising economy³, it emerges that a new international tax framework would be required to make the new profit allocation methods operational in a global setting: new legal instruments, guidance and widespread multijurisdictional consensus. Inevitably, the issue of double taxation would arise, which is already difficult to address considering the bilateral nature of double taxation treaties and inadequacy of tax dispute resolution mechanisms at present.

In absence of a common approach, we are increasingly facing an uncoordinated international tax landscape, consisting of unilateral actions being taken by individual countries. Such actions inevitably lead to misalignment of tax bases globally, resulting in double taxation and significant compliance burdens for businesses. As a consequence, such actions will stifle economic growth and innovation.

A longer-term view seems appropriate to evaluate the entirety of the remaining BEPS issues. Within the EU, a number of anti-BEPS legislative measures have been introduced, such as the ATAD directives, which significantly reduce the incentives to shift mobile tax bases to low-tax jurisdictions.

From an EU perspective, this is particularly the case where policy initiatives such as the introduction of CFC rules are designed to achieve the same objective as the OECD’s income inclusion rule.

In addition, the EU’s objectives as set out with establishment of the “blacklist” of non-cooperative jurisdictions for tax purposes are closely aligned with those of the BEPS project, which is to increase transparency and encourage compliance with anti-BEPS measures.

CFE believes that a *de minimis* threshold should be considered in relation to the global anti-base erosion proposals to prevent these rules from becoming a barrier to business development, innovation and new markets. This is relevant in particular as the risk of increased profit shifting concerns large global companies of a particular size, and not SMEs or emerging businesses.

As tax advisers, we would not like to see proposals which continue to put pressure on the existing transfer-pricing framework. Any disparity in the implementation of minimum tax rate proposals will inevitably lead to double taxation in instances where countries fail to take into account tax already paid under such regimes (under CFC rules or under the GILT regime in the United States).

The outcomes of a global minimum tax rate will differ significantly depending on the chosen model: jurisdiction-by-jurisdiction approach vs. an average rate approach. The complexities in designing a minimum tax rate in a global context should not be underestimated. It will be technically very challenging and, as such, will require significant efforts by the OECD and the Inclusive Framework jurisdictions to ensure close international coordination.

CFE Tax Advisers Europe is supportive of a coordinated international policy response on the issues that arise from digitalisation in order to avoid fragmentation of the EU Single Market, and the risk of double or multiple-taxation. We therefore strongly support collaborative work towards a future-proof, longer-term reform of the international tax system that addresses the tax challenges of the digitalisation of the economy.

Given the rate of transformation of the global economy, the solutions that we discuss need to be ambitious and sustainable in the long-term, able to follow the pace of emergence of new business models. To that end, CFE Tax Advisers Europe encourages redoubling of efforts to achieve an early consensus among the Members of the Inclusive Framework on the way forward.

3. Opinion Statement FC 1/2019 CFE Response to the OECD Consultation Document: Addressing the Tax Challenges of the Digitalising Economy Issued by the CFE Fiscal Committee Submitted to the OECD on 5 March 2019, available to view at: <http://taxadviserseurope.org/wp-content/uploads/2019/03/CFE-Response-OECD-Consultation-Taxation-of-the-Digital-Economy.pdf>

3. Common Approach to Anti-Avoidance and Substance Measures

A related point follows regarding tax certainty, which CFE would like to draw focus on, concerning issues related to anti-avoidance and substance measures. Taxpayers and tax advisers have had to ensure they are compliant with an unprecedented scale of recently introduced anti-avoidance measures, which brought with them new concepts such as the Principal Purpose Test (PPT), the GAAR introduced by ATAD, substance requirements based in CFC rules, as well as local and different approaches aimed at reducing tax evasion. These new concepts, as well as new approaches which must now be applied to some old concepts (such as beneficial ownership, given the new approach of the CJEU in the Danish beneficial ownership cases), create a hard-to-follow path where the same terms are used differently by different Member States. Moreover, the distinction between them appears to be difficult to draw in many cases. The reason is that, generally speaking, these concepts refer to “business substance” requirements—a non-defined term, currently used as a major test for granting tax benefits.

While it is fully understandable that certain actions are needed in order to preserve tax fairness, **it would be highly desirable to create a common EU understanding under which substance-related terms are applied and understood. CFE would accordingly welcome and join any initiative aimed at producing further guidelines and clarifications aiming at better, fair and certain use of the anti-avoidance measures.**

4. Mandatory Disclosure Rules

Following the implementation of the European Union Mandatory Disclosure Rules Directive (DAC6) will continue to be a priority for CFE Tax Advisers Europe. In the course of the implementation of the Directive, CFE has set out its expectation that European Union Member states will fully respect the legal professional privilege reporting waiver of Article 8ab(5) of DAC6 in the transposition of this Directive, in those Member states where such rights exist for tax advisers under domestic law. As discussed *supra*, CFE would welcome a coordinated transposition across the European Union.

5. Tax and Climate Change – Sustainable Tax Policies

Climate change affects us all. CFE members aspire to share their unique knowledge on tax with governments and other international stakeholders in the process of transition to a low carbon global economy. Tax policy is a key tool to internalise environmental costs and foster the transition to a low carbon economy, for the generations to come.

CFE can accordingly see merit in policy proposals being subject to a thorough climate change and environmental assessment. Future-proof tax systems are an equilibrium between today’s public finance needs and tomorrow’s sustainable policies.

6. Sustainable Tax Systems & Tax Competition

Tax competition and competitiveness is a question of balance in tax policy in general. It is not only a matter of EU Member States following primary and secondary EU law, but all Inclusive Framework jurisdictions (in the case of BEPS initiatives) implementing and adhering to agreed initiatives. If this is not the case, issues of competitiveness arise. The EU is at the forefront of providing equilibrium in this respect.

Reducing complexities and distortions in the tax system is crucial to improving tax competitiveness. It requires the introduction of simple and easy to understand tax laws which ultimately work well in practice. In this respect, legislation should set clear general principles, which seek to prevent misinterpretation of the rules by both taxpayers and tax administrations. At EU and international level, coordination should be pursued in order to avoid mismatches and loopholes that create opportunities for double interpretations. The established standards should also provide for best practices within the legislative process. In particular, stakeholders should be given the opportunity to meaningfully engage with legislators prior to the introduction of legislation and during the implementation stage of new legislation.

Additionally, tax policy choices between Member States (and within Member States) should be able to support quality healthcare, security, public safety, education and infrastructure, as basic pillars of the social model underpinning the European Union. From our perspective, sustainability of tax systems should be seen as an equilibrium of investment and growth-friendly tax policies that support the social goals of each Member State and the EU Single Market as a whole. We welcome coordinated measures that reduce cross-border tax barriers on doing business and compliance burdens, such as the introduction of instruments such as the Mini One-Stop-Shop (MOSS) (soon to become OSS). We also welcome any measures that ensure clear guidance and that are fit for purpose to allow taxpayers to do business in a simple, efficient and coherent manner throughout the EU. CFE is pleased to be part of the Human-Centred Business Model Project, which seeks to create a practical business model that provides a real choice for entrepreneurs who are looking for an opportunity to conduct their enterprises in a sustainable manner (creating an alternative approach to doing business that potentially combines profit-seeking with the social and environmental sustainability).

Notwithstanding the above observations, we would also like to emphasise that it is not only the process of achieving harmony in tax competition and competitiveness which may, ultimately, boost economic growth and benefit EU citizens. It is also a question of balancing other policy areas from safety through to judicial systems, transport policy and a properly functioning financial market, to name but a few. Achieving economic growth which will benefit EU citizens can only be achieved if the system is balanced across these complex and interrelated areas.

7. Double Taxation and Dispute Resolution

Given the ever-increasingly complex interplay of tax legislation for taxpayers involved in cross-border trade, dispute resolution will become a more significant issue in taxation. To that end, CFE's Forum in June examined issues concerning dispute resolution and a statement surrounding the outcomes of the panel discussions at the Forum will be produced. A previous statement concerning disputes can be found [in the link below](#).

Double non-taxation remains an issue, as does the problem of double taxation and the negative effect on the world economy, consumers and taxpayers. In particular, in relation to new proposals addressing the tax challenges of the digitalising economy, any new tax measures must be designed in a manner to avoid double taxation, and must come within the ambit of double taxation treaties. Otherwise, the whole tax treaty system, which the international taxation is built upon, and network will be completely undermined. CFE understands the challenges in designing new tax rules that are not going to produce unintended consequences and lead to double taxation.

8. Anti- Money Laundering

CFE Tax Advisers Europe is closely following EU developments in relation to the European anti-money laundering framework and will continue to participate in the ongoing dialogue with the European Commission and other stakeholders at EU level, putting forward experts' opinions of tax advisers as obliged entities for anti-money laundering purposes. CFE continues to support the baseline scenario that would entail full implementation and enforcement of the existing EU anti-money laundering framework that is already in force (4th and 5th Anti-Money Laundering Directives) as well as the introduction of more robust feedback mechanisms, where appropriate.

CFE would also welcome a discussion on the effectiveness of the EU AML Directives in reducing the risk of money laundering and terrorism financing. CFE has invited the European Commission to consider why, with all the existing AML directives and procedures, the risk for tax advisors as a whole, has not reduced over the years, compared to the initial risk assessments.

9. Simplification of Indirect Taxes

CFE Tax Advisers Europe supports proposals that aim to simplify and streamline the operation of the VAT system within the EU, and views engagement on the topic of the proposed definitive VAT regime as a key priority for the organisation. CFE also believes it is important that efforts are taken to minimise double taxation and to minimise the increasing burdens placed on business by new non-harmonised reporting requirements, payment obligations and systems that have been implemented by some Member States.

Even in a national context it can frequently be very difficult to determine the appropriate rate at which to tax supplies. This can be particularly true with supplies of services, when difficulties can arise in determining whether there is one composite or multiple supplies for VAT purposes, or whether supplies are closely linked to supplies that are exempt. Particularly in relation to small and medium-sized businesses, the CFE is therefore concerned about the implications of enacted and proposed reforms which will increasingly require suppliers to account for VAT in the country where their customer is established. The issue will clearly be particularly serious if traders become subject to penalties, particularly significant penalties, on account of errors. If care is not taken, the CFE is concerned that such measures may discourage businesses from operating in the internal market.

CFE Tax Advisers Europe considers that it would be desirable to ensure that innocent errors are not penalised and certainly not unduly penalised (this might be done by having harmonised maximum penalties). Furthermore, it is of fundamental importance that accurate, and preferably binding, guidance is available to traders who are not established in that state. This should ideally be available in a number of languages, otherwise a business established in another state may find the information difficult to locate. Ideally it should be available from a single portal, so that traders throughout the EU know that there is one source to which they can turn for guidance.

10. Global Tax Policy within the Global Tax Advisers Platform (GTAP)

Within the GTAP, CFE takes a prominent role in promoting collaboration with our partner organisation in Africa, Asia and Australia-Oceania. GTAP was established by CFE Tax Advisers Europe, AOTCA and WAUTI, who collectively represent more than 700,000 tax advisers in Europe, Asia and Africa. GTAP is an international platform that seeks to bring together national and international organisations of tax professionals from all around the world. GTAP serves a unique purpose: to encourage tax professionals to take up the challenge of proposing a new system: simple, flexible, and fit for purpose, a system that can reclaim taxpayers' confidence

Key topics on which GTAP is focused include: domestic revenue mobilisation, capacity building, tax morale, climate policy and taxation, digitalisation of tax, and other global policy relevant issues.

Conclusion

1. The EU should take the lead in helping Member States create tax systems which contribute to an environment which is business friendly and attracts investment. Private sector investment creates growth and jobs, whilst the current state of the economy calls for tax policies that give priority to an investment-friendly environment. Ideally, tax policy decisions would as little as possible distort the investment forms and choices, in the longer-term interests of the EU internal market. In absence of common EU action the investment decisions could be driven by fiscal factors, and Member States should retain their powers to influence such decisions to the extent these decisions take into account EU's criteria for tax good governance and the commitments made in the OECD BEPS process.

2. A common approach for the Single Market is crucial. On the other hand, fiscal sovereignty of Member States and their liberty to design tax policies fit for their social and economic systems needs to be respected, to the extent these policies comply with primary EU law (fundamental freedoms and State aid rules) and secondary EU law. The latter concerns harmonised areas of taxation (such as VAT, the DAC framework and directives relating to corporate tax that affect the functioning of the Single Market).

3. Simpler and more coherent tax rules throughout the EU would also contribute to making the EU Single Market a more dynamic and business-friendly environment. As such, coordinated measures among EU Member States' rules would prevent mismatches among national legislations, which is an element to consider for a competitive tax environment, taking the interest of

The Single Market as whole. From CFE's perspective, simplicity must be a key design-element in relation to the tax challenges of the digitalising economy in particular. We will not have achieved much if in reality it becomes impossible for tax administrations, taxpayers and tax advisers alike to work with any new rules on a multilateral basis

4. By continuing to work together, as we have done for many years in CFE Tax Advisers Europe, tax policy stakeholders will meet the challenges of inclusive policy making, whether they concern the taxation of the digital economy, addressing tax avoidance and evasion, helping our respective governments detect and deter money laundering, assisting governments to develop stable economic environments in which businesses can start, grow and prosper or indeed with issues yet to emerge.

THE FUTURE OF CORPORATE TAX POLICY – 10 Key Q&A

1. What is the nature of the problems we currently face when it comes to the global tax debate?

It is now widely recognised that the digital economy poses unique tax policy challenges for policymakers in a global context. The immediate concerns are two fold:

The existing international tax rules are unable to fully address the increasing reliance on data and business-to-customers sales in host jurisdictions from a tax perspective, hence their corporate tax presence in host jurisdictions is not being recognised within present framework, ie. nexus issues;

Multinational group companies with digital business models are currently subject to only a very low effective rate of tax worldwide, with a public perception that these companies are not paying "enough" tax anywhere in the world.

Taking a step back, it is worthwhile reminding ourselves that we live in a different world, to the one when today's guiding principles of the tax system were designed by the League of Nations back in 1920s.

Current tax rules were not designed for the digital business models that rely on little, if any physical presence at all. As a result, there is a perceived mismatch between **where the value is created and where taxes are paid**, which affects the perception of **fairness** in our tax systems. Hence it is no doubt clear, as admitted by the OECD, that under the designation "taxation of the digital economy" we are witnessing perhaps the most fundamental change in history of the design and *modus operandi* of the international tax rules.

As CFE, we have supported the proposal to focus on the economic link between the users/ market jurisdictions and the value created therewith. We believe that in arriving at a global solution, it is important that traditional concepts of international tax law are not forgotten in the process. The solution should remain consistent with the OECD's long-standing approach to the international tax framework that corporate tax is due where the underlying economic activity takes place and where the value is created. From CFE's perspective, the existing OECD proposals appear to address these issues conceptually but are legally and technically very complex.

2. What are the global tax principles that should guide any response?

Simplicity, administrability and fairness.

Simplicity, as we already operate in a global tax environment which is increasingly complex. Proverbially, tax advisers are said to be the ones who benefit from the complexity of tax rules.

The truth is, tax advisers are an inherent part of administering a tax system. Be it simple or complex, tax advisers make tax systems work. We would welcome solutions which are simple to understand both conceptually and practically, which as a result will provide more breathing space to focus on what really matters – helping companies to be more innovative, productive and committed to the societies where we live in.

A related point follows i.e. **the principle of administrability**. If any upcoming reform results in rules that are too difficult to administer, we will have not achieved much as a result. If tax administrations in European countries are already struggling with resources, what will happen with developing countries, how much time and effort will it take to acquire the expertise and human resources needed to administer the new rules, where the existing ones are already too complex to grasp?

Fairness of our tax systems has rightly taken precedence over other principles, as seen not least in the recent EU tax avoidance initiatives. There is public perception of mistrust in the institutions and more generally in the world order that we operate in.

Restoring trust and the sense of fairness that our tax systems are delivering on the goals that matter for our citizens should be a priority for policy makers. The implications of the sense of unfairness in a tax system has a potential to undermine tax collection, tax morale in general, and in particular the voluntary compliance on which most of the tax administrations rely on.

Finally, the global trends of **transparency** and the tax justice campaigners urge for public country by country reporting (public CbCR) are a corollary to the above discussion on the principles. If we address the public trust in the institutions, and we restore the public perception of fairness of our tax systems, there will be less pressure for more transparency initiatives. Transparency should not be a goal to itself. More corporate or more tax-related data and MNEs information in the public domain will not solve anything, instead restoring the trust in our institutions and improving their capacity in a meaningful way should certainly be a guiding principle of this global tax policy response.

3. Is there now general agreement that digital companies or a digital economy cannot be separated out from the economy as a whole?

The problems are very complex and inevitably highly political.

It is widely understood, per the OECD BEPS Action 1 proposition, that the digital economy should not be ring-fenced from the rest of the economy for tax purposes due to the increasingly prevalent nature of digitalisation and the evolving nature of the digital business models. However, it is also evident that the tax challenges that we are facing do not arise from the traditional business model, rather from the digital business models.

Indeed, efforts to address the whole international tax framework, rather than the specific challenges related to the digital economy, has a significant potential to defocus our efforts from the important problems, and will make it potentially more challenging to address the fundamental underlying issues.

4. Is it simply a matter of strengthening anti-avoidance rules?

Indeed, the issues under scrutiny are much deeper and wider, and certainly go beyond avoidance issues and BEPS.

However, the OECD acknowledges that digitalisation of the business models does not generate unique BEPS risks, but some of the key features of digitalisation compound existing BEPS issues. Some time should be allowed to evaluate the full effect of the BEPS-related anti-avoidance measures, before any new anti-avoidance measures are being legislated.

Some of these measures are still under implementation in most countries of the Inclusive Framework.

Consequently, a longer-term perspective seems more appropriate to appreciate the entirety of the remaining BEPS issues. Within the EU a number of anti-BEPS policy and legislative measures have been introduced with the ATAD and ATAD2 directives, which significantly reduce the incentives to shift mobile tax bases to low-tax jurisdictions.

5. Do we need more fundamental reform of the CT system?

The larger issue at stake is what the impact of the OECD proposals will be beyond the digital economy (transfer-pricing in general), and the related question how to allocate taxing rights among jurisdictions, hence this operation is inevitably going to result in a more comprehensive corporate tax reform.

What should follow, is a debate on a common understanding of what constitutes “nexus” for taxation purposes. This must be addressed as a matter of priority, which will make it then simpler to discuss the allocation of profit rules.

As CFE, we welcome the evaluation of the merit of users’ contribution to value creation within digital business models, however, for reasons of tax certainty, CFE has called to keep as much as possible to the well-established principles of international tax law.

Whilst giving some value to users’ value participation and data for digital business models, the existing Authorised OECD Approach (AOA) that relies on **assets, risks and people functions** should likely be kept for all other business models. This approach has so far resulted in a globally accepted profit allocation standard in line with the operation of the arm’s length principle and the OECD Transfer-Pricing Guidelines.

In that sense, under the functional transfer-pricing analysis that underpins profit allocation between different arms of a multinational group company, the AOA approach takes into account the distinct contributors to the value creation, such as functions performed by people, which takes into account the used assets and the assumed risks.

As a reminder, Article 7 and Article 9 OECD Model embody the international tax policy consensus under which countries exercise taxing rights on the business of resident taxpayers (Article 9) and the circumstances under which business profits are attributable to a non-resident PE in a source country (Article 7).

Revision of these fundamental principles of international tax law should remain as close as possible to the existing OECD framework, ie. the OECD Model and the accompanying Commentary.

6. Are there other alternatives to CT – for instance can indirect, land and other taxes be applied more effectively and fairly than CT?

Some commentators have advocated to abolish Corporation Tax altogether, considering that the incidence of all taxes falls on the final consumer from an economic perspective. In that sense, sales taxes and other forms of indirect taxation remain thought-provoking as a tax policy alternative to the whole debate on reforming corporate taxation, which increasingly yields less revenue compared to indirect taxes. At present, however, such alternatives are not worth pursuing given the absence of political support, hence the viability of such ideas.

7. How is any of this accomplished without “tax wars”, or adding layer upon layer of complexity or double taxation?

In absence of a common agreement, we are increasingly facing a tax war indeed, an uncoordinated international tax landscape, consisting of unilateral actions being taken by individual countries. Such actions inevitably lead to misalignment of tax bases globally, resulting in double taxation and significant compliance burden for businesses. Therefore, unilateral actions will stifle economic growth and innovation.

The issue of double taxation is already difficult to address at present, considering the inadequacy of tax dispute resolution mechanisms. We therefore welcomed the developments with the EU Tax Dispute Resolution Mechanisms and have called on expediting existing MAP procedures.

We have called on the EU to give due consideration to the possibility to extend the existing mechanisms to double tax disputes arising from the unilaterally introduced digital services taxes (DST) around the EU. DST are not income taxes, but revenue or turnover taxes. It is widely accepted in the academic literature that turnover taxes do not fall within the scope of the OECD Model and tax treaties. Considering that revenue or turnover taxes are substantially similar to indirect taxes, they do not qualify for treaty relief. Specifically, if a tax is not a “covered tax” under article 2 of the OECD Model Tax Convention, it would consequently not be covered by either the “distributive” articles of the OECD Model, nor would it qualify for dispute resolution under the mutual agreement procedure (MAP) of Article 25 of the OECD Model. Accordingly, such indirect taxes would not qualify for relief from double taxation under Article 23 of the OECD Model in the residence jurisdiction of the taxpayer, and will involve double or multiple taxation.

In recognition of the disputes and double taxation that any new solutions could give rise to, CFE advocates for **early certainty mechanisms for taxpayers**. Increasingly, taxpayers in different States are facing equal tax obligations but are not treated equally by tax administrations in terms of their rights in different states.

Consequently, the administration of the new OECD proposals should not give rise to double taxation in multiple jurisdictions or entail significant compliance burden for businesses.

8. Are responses meeting future developments and challenges?

We recognise the difficulties in pinpointing the features of all the digital business models as current definitions are likely to become outdated in due course. Digital business by its nature is a fast-paced environment. We should not forget still that precisely because of the fast-paced change of the digital environment, today’s solutions ought to be future-proof and consistent with the principle of aligning profit with underlying economic activities and value creation.

9. Are the institutions we have capable of delivering any new agenda – do they need developing or do we need new bodies?

Considering that the issues under scrutiny will inevitably involve reallocate taxing rights among jurisdictions, we support the work of the work of all involved institutional actors, such as the UN, the OECD and the European Commission. They all seek to explore the extent to which these new forms of business activity generate value and how will such value be attributed among jurisdictions for taxation purposes.

The OECD has played a prominent role in evaluating international tax standards in the context of the BEPS process and is becoming a global forum which brings together governments, stakeholders like CFE and citizens, seeking to address issues such as the taxation challenges of the digitalising economy.

As a next step, we need to restore trust in the institutions again and to work on building capacity where this is nonexistent or insufficient.



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Company valuation in COVID19 times

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2020 is a year that took us by surprise, in which the strong crisis caused by the Covid-19 pandemic has caused everything to change, perceptions, needs, and of course the value of a company could also be in question raised that it is thought of taking advantage of new present opportunities, but also future ones.

This perception of the value of a specific company can be explained by multiple reasons and it becomes worse in times of pandemic

Dear reader, An important point that we must keep in mind before continuing is that value is not equal to price, because in general, a company has different value for different buyers and for the seller, so the value should not be confused with the price, which is the amount at which the seller and buyer agree to carry out a transaction for the sale of a company.

Therefore, the valuation technique of a company is a fundamental exercise to understand not only its competitive position in the market, but its share and its sustainability.

Today, different decision makers need to know how much the value of a company has changed with Covid 19., Therefore, Valuing a company becomes more than ever essential, regardless of the valuation method chosen, it becomes a process in which they must, while quantifying the current elements that constitute the company and the competitive position it holds within your sector, future expectations of wealth generation.

Now more than ever it is important to distinguish the companies that have the financial capacity to withstand

This crisis from those that will have to be sold to avoid bankruptcy.

However, today we find ourselves in a situation in which, sure that our scale of values has changed, probably, many of us today value intangible issues that at the beginning of the year we barely granted any value or even did not value it.

The impact of the coronavirus on goods, not only intangible, but also tangible, has taken a toll on practically the entire business fabric, with the exception of certain sectors that the crisis has given additional value such as food, the health sector, and entertainment digital and all those who have adapted their production to the new needs of the consumer and the movements of the law of supply and demand.

In these times, we can affirm that the health crisis has caused the value of everything to be in question, positively or negatively.

Today, an updated valuation of the business projected for the future, can help make strategic decisions for business viability or, even, to take advantage of new opportunities

Given this, how to assess a company in times of a Pandemic? What valuation methods are the most common and which one should we use now?

Although it is true that financial valuation methods seek to determine the value-creating elements to specify a value range that serves as support for an informed opinion of what the company can be worth, the important thing before applying the methods is to know the needs to obtain the value of a company since these can be several, by purchase and sale operation, to compare the value obtained with

the price of the share in the market, for a settlement, etc. That is, depending on the purpose of the valuation and the parties involved, the value base to be used may be different and depending on this, the final result will be different.

Three of the most used methods to value a company are the following:

- **Discounted cash flows:** Whose focus is on income and is the generally accepted method of valuing a company. The expected net cash flows in the next 5 years are generally calculated and the residual value is estimated at the end of the period. Likewise, an appropriate discount rate is applied based on various risk premiums.
- **Multiples:** Which has a market approach in which comparative parameters of transactions of similar companies are used, both in sector and in size.
- **Net book value:** By which the company is valued by the difference between the sum of the book value of its real assets and the sum of the book value of its enforceable liability.

Before determining which one to use, especially in times of pandemic, in the following, let's see the advantages or disadvantages of the three most used methods.

Method	Advantage	Disadvantage
Discounted cash flows	Its close relationship with the entrepreneur's objective: to obtain future benefits.	The subjectivity required to estimate these future flows..
Multiple	A quick and easy assessment	Believe that the company being valued will have similar ratios to those of the companies with which it is comparing. Furthermore, such comparative data are not always available
Net book value	Is based on objective data, directly from the statement of financial position	It is based on historical data, does not take into account present and future returns and the possible existence of capital gains or losses

These methods have these enormous advantages and disadvantages, but an important point to evaluate is that in times of crisis and especially in these times of pandemic, with uncertainty, in order to be able to choose the most realistic.

It is important to know and use the correct technique. The most common is to use a combination of several valuation methods, such as the application of the cash flow discount method together with the comparable multiples, and take special attention to the projection of business as well as the importance to the intangibles of the company, powerful factors for its valuation.

Conclusion

Valuing a company is a fundamental task to sell your company or know your market, very few companies do it.

On the other hand, as we have stated, no valuation method is exactly perfect for each situation, so knowing the characteristics of the company and the market, especially in these times of crisis will allow selecting the method that best suits the situation. This is why it is important to have the data validated and its coherence with the strategic approach as well as to know the intangibles of the companies to make a reliable projection and therefore an objective assessment

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Record High of Global Debt: How much debt is too much?

By *Anastasios Rodopoulos*

If you ask people which word in the English language is most associated with business, 99 out of 100 people will answer the same way.

YOU: What's the one word you most associate with the business world?

ANYONE: **Money!**

Every business deals with money. That's what makes it a business! Businesses sell goods and services for money. Money is not only the basic molecule of business, it's also what makes a business "a business" rather than a hobby.

Money is at the center of every conversation about how to succeed in business, how to start a business and how to keep a business thriving.

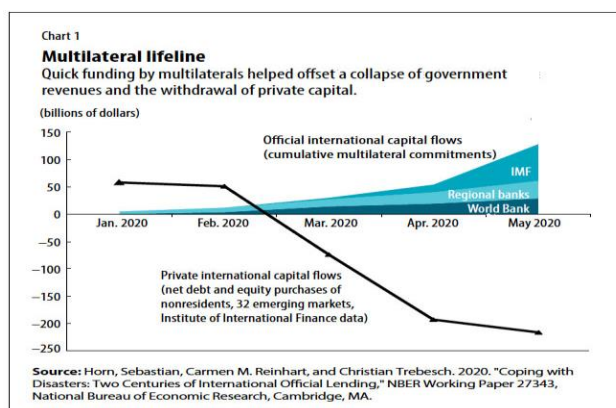
And where we find "the money" **we borrow Money!**

The pandemic prompted a sweeping array of relief measures, growing debt levels to near-record levels as debt-to-GDP ratios near their post-WWII highs. While economists are less concerned about these skyrocketing debt figures than in years past (the cost of borrowing is remarkably low), **there is nevertheless an upper limit on how much debt a central bank can issue: investor confidence in present and future net tax revenues.** If the government doesn't make enough to meet its obligations, it won't be able to roll over maturing debt by issuing new debt as investors doubt its ability to pay off its future obligations.

Assuming it cannot generate additional tax revenues, the only feasible option for an advanced economy government (other than default) is higher inflation.

Such a response would still cap borrowing as investors demand premiums for inflation risks, raising interest rates. While this is not a call for immediate austerity (targeted pandemic investment in households and firms will translate to future revenues), **public spending must acknowledge its limits and not rely on magical monetary thinking.**

The IMF, the World Bank, and other multilaterals acted quickly to provide much-needed funding amid the pandemic as government revenues collapsed alongside economic activity, while private capital flows came to a sudden stop (see Chart 1). In addition to new loans from multilaterals, Group of Twenty (G20) creditors granted a debt moratorium to the world's poorest countries. They have encouraged private lenders to follow suit—albeit with little success.



So far, the pandemic shock has been limited to the poorest countries and has not morphed into a full-blown middle-income emerging market debt crisis. Thanks in part to favorable global liquidity conditions conferred by massive central bank support in advanced economies, private capital outflows have

Moderated and many middle-income countries have been able to continue to borrow in global capital markets. According to the IME, emerging market governments issued \$124 billion in hard currency debt during the first six months of 2020, with two-thirds of the borrowing coming in the second quarter.

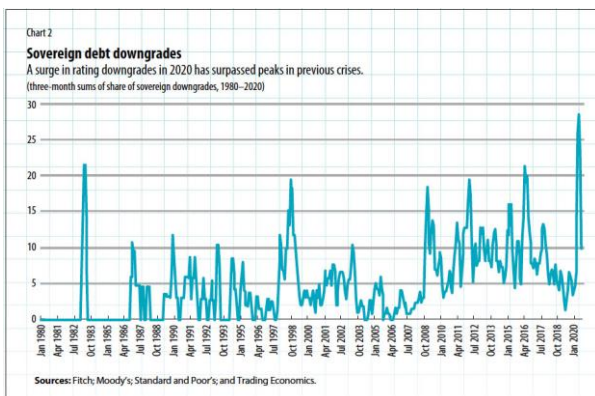
But now comes **inequality effects... Inequality Reduces Growth!**



Yet, there are still reasons for concern about sustained emerging market access to capital markets. The riskiest period may still lie ahead. The first wave of the pandemic is not over. Experience from the 1918 influenza pandemic suggests the possibility of an even more severe second wave, especially if it takes until mid-2021 (or later) for an effective vaccine to become widely available.

Even in the best-case scenario, international travel will face roadblocks, and uncertainty among consumers and businesses is likely to remain high. World poverty has risen sharply, and many people will not be returning to work when the crisis passes. The political ramifications of the crisis in advanced economies are also still unfolding. The backlash against globalization, already rising before COVID-19, may intensify.

Rising budget pressures have been accompanied by a new wave of sovereign debt downgrades, surpassing peaks during prior crises (see Chart 2). They have persisted even as major advanced economy central banks have eased credit conditions.



Central bank purchases of corporate bonds to provide support for local firms in emerging market and developing economies have also handicapped their debt ratings.

History shows that it is not unusual that countries can keep borrowing even when default risk is high. A review of 89 default episodes from 1827 to 2003 shows the typical experience to be a sharp rise in borrowing, both external and domestic, in the run-up to default (Reinhart and Rogoff 2009). Ideally this time will be different, but the record is not encouraging.

Although many emerging market governments have succeeded in borrowing more in local currencies, businesses have continued to accumulate foreign currency debt. Under severe duress, it's likely that emerging market governments would yield to pressure to bail out their corporate national champions, just as the United States and Europe have done.

On top of the dramatic retreat in private funding, remittances from emerging market citizens working in other countries are expected to drop by more than 20 percent this year. At the same time, borrowing needs have skyrocketed, as emerging market and developing economies contend with the same budgetary stresses as advanced economies. Health systems must be strengthened and support must be provided for citizens whose lives are affected most acutely. Borrowing needs will only rise further as the economic damage mounts.

The new conventional wisdom in these unconventional times is that advanced-economy governments can take advantage of today's ultra-low interest rates to borrow and spend without limit in order to support the economy. But the fact is that there is always a limit, and it may come into view sooner than many realize.



As the COVID-19 pandemic rages, governments in advanced economies have opened their coffers to support households and small businesses, spending on the order of 15-20% of GDP in many cases.

Cumulative debt levels now exceed GDP in many developed countries; and, on average, **debt as a share of GDP is approaching post-World War II highs.**

Nonetheless, according to Olivier Blanchard and other economists, advanced economies can afford to take on much more debt, given the low level of interest rates. Calculations using International Monetary Fund data show that in the two decades before the pandemic, sovereign interest payments in these countries fell from over 3% of GDP to about 2%, **even though debt-to-GDP ratios increased by more than 20 percentage points.**

Moreover, with much of the newly issued sovereign debt now paying negative interest rates, additional borrowing stands to reduce interest expenses even more. In this strange world of ultra-low interest rates, what limits are there on government borrowing?

According to advocates of **Modern Monetary Theory (MMT)**, there are none, at least not for countries that issue debt in their own currency and have spare productive capacity. After all, the central bank can simply print money to pay off maturing debt, and this should not result in inflation as long as there is sizable unemployment. No wonder MMT has become the go-to idea for politicians advocating government spending to alleviate every problem.

Of course, **any “theory” that promises a free lunch should be approached with skepticism.**

To see why, suppose we were in a normal environment with positive interest rates. The central bank could decide to print money to buy government bonds, and the government could then spend that money by transferring it to citizens. As a practical matter, however, there is only so much cash that someone will hold in her purse. If she already had enough on hand before the central bank started printing money, she will deposit the government transfer in her bank account, and her bank will deposit all the cash it has accumulated in its reserve account with the central bank.

Ultimately, the central bank will have bought government bonds by issuing reserves to commercial banks, which will then want to be paid interest on those excess reserves. The government could just as soon have issued Treasury bills directly to commercial banks. The interest cost would be more or less the same. **The only difference is that there would be no appearance of a free lunch.**

In today’s abnormal environment, the central bank can finance the purchase of government bonds by issuing zero-interest-paying reserves to commercial banks, which in turn are willing to hold large quantities of such highly liquid reserves. **That sounds like MMT nirvana!**

Yet, again, the government could just as soon issue Treasury bills paying zero interest to commercial banks. If commercial banks do not balk at holding vast quantities of claims on the central bank (reserves), they should not balk at holding vast quantities of claims directly on the government, of which the central bank is a subsidiary.

In other words, the monetary financing advocated by MMT is just smoke and mirrors. Yes, the government can avoid short-term disruptions in money markets by financing via the central bank. Over the medium term, however, this approach does not allow it to borrow any more than it could have by financing directly. In fact, if long-term interest rates are also low or negative, it is far better for the government to lock in those rates by issuing long-term debt directly in the markets, bypassing the central bank altogether.

That brings us back to the initial question of how much debt a government can issue!

It is not enough for a government to ensure that it can afford to make its interest payments; it also must show that it and its successors can repay the principal. Some readers will protest that a government does not need to repay debt, because it can issue new debt to repay maturing debt.

But investors will buy that new debt only if they are confident that the government can repay all its debt from its prospective revenues. Many an emerging market has faced a debt “sudden stop” well before it reached full employment, triggered by evaporating market confidence in its ability to roll over debt.

Put differently, the investor in new debt needs to be confident that the government’s current and future tax revenues (net of critical spending) will be sufficient to repay its accumulated debt. There is a limit, but if the funds raised through new debt are invested in high-return infrastructure projects, it probably will never be tested – additional future revenues will pay for the additional debt. If, however, the money is spent on much-needed support for poor and vulnerable households, the limit eventually will come into view.

In this case, if the government is already raising as much revenue as is politically feasible from tax revenues, it will have to reduce the stock of existing debt to create room for new issuances. The simplest way to do this is to default on old obligations; but most advanced-economy governments would consider this unthinkable.

The other option is to allow for higher inflation, which would erode the stock of debt denominated in current dollars vis-à-vis future tax revenues. Inflation, in this case, would emerge not because the economy is at full employment (as MMTs would have it), but rather because the government had reached the limits of the debt it can repay. New debt holders would demand higher interest rates – including perhaps a premium for inflation risk – and the curtain would drop on the era of ultra-low interest rates and unlimited borrowing.

To be sure, advanced economies will not become Zimbabwe any time soon – if ever. **But some of them are permeated by divisive politics that typically encourages higher spending but not higher revenues – as many an emerging market can attest.** If so, it would not be surprising to see somewhat higher inflation in a few years! This is not an argument for immediate austerity.

To the extent that governments can target spending to protect the economic capacity of households and firms during the pandemic, they will recover those investments through future revenues.

Public spending, however, must be sensible, not based on magical monetary thinking.

The global pandemic is a once-in-a-century shock that merits a generous response from official and private creditors toward emerging market and developing economies, including preserving the global trading system and helping countries weather debt problems.

However, let's see what is happening in the money markets.

Global equities approach record-highs!!!

Weekly Market Update, December 5, 2020

Equities	Current	Weekly	Monthly	YTD
U.S.				
Dow Jones	30,218.26	1.03%	9.96%	5.89%
S&P 500	3,699.12	1.67%	7.43%	14.50%
Nasdaq	12,464.23	2.12%	11.68%	38.91%
Global				
MSCI World	2,621.28	0.76%	8.47%	11.14%
Europe				
FTSE	6,550.23	2.87%	11.34%	-13.16%
DAX	13,298.96	-0.28%	7.91%	0.38%
Asia				
Nikkei	26,751.24	0.40%	12.90%	13.08%
Shanghai	3,444.58	1.06%	5.10%	12.93%
Currencies				
EUR/\$	1.212	1.30%	3.34%	8.07%
S/Yen	104.180	0.09%	-0.33%	-4.08%
UK/\$	1.343	0.87%	3.38%	1.28%
Bonds				
2 Year	0.15	-0.002	0.006	-1.418
10 Year	0.97	0.134	0.208	-0.947
Moodys AA	2.41	0.020	-0.200	-0.730
High Yield	3.85	6.000	-0.990	0.490
Commodities				
WTI	\$ 46.05	1.14%	22.28%	-24.58%
Brent	\$ 49.01	1.72%	18.87%	-25.74%
Gold	\$ 1,842.30	3.03%	-3.92%	18.46%

Returns			
Sector	1 Week	1 Month	YTD
Communication Services	1.84%	6.25%	36.06%
Materials	0.04%	9.73%	37.07%
Energy	4.47%	35.57%	9.76%
Consumer Staples	0.89%	4.87%	14.18%
Consumer Discretionary	-0.42%	3.05%	36.99%
Financials	1.81%	17.83%	27.19%
Healthcare	2.84%	2.44%	12.97%
Industrials	0.43%	12.07%	38.45%
Technology	2.78%	7.11%	42.78%
Real Estate	1.38%	4.44%	9.24%
Utilities	-2.20%	-2.50%	4.93%



Source: funds-europe .com



Anastasios Rodopoulos

Germany CFO Interview: Infineon stepped on the brakes early on

Dr. Sven Schneider, CFO of Infineon Technologies AG, issues a warning about the negative effects of the trade dispute between the U.S. and China on Europe - sanctions against Huawei hit the chip producer.

The interview is not addressing developments after September 19, 2020. from the Börsen-Zeitung, Frankfurt am Main, Germany, September 19, 2020, article provided by GEFIU, Association of Chief Financial Officers Germany, the German IAFEI Member Association. Translator: Helmut Schnabel. The interview was conducted by Stefan Kroneck.



Mr. Schneider, Infineon's share price is presently trading above its level in February, before the coronavirus pandemic. How do you explain this price recovery?

I see several key reasons for this recovery. For one, the coronavirus pandemic has accelerated trends that are having a reinforcing influence on our structural growth drivers. These include digitalization in the areas of streaming, cloud servers or 5G infrastructure. In addition, demand for electromobility is increasing, not least because of government subsidies. Another key reason is the huge pool of liquidity currently in capital markets. And, finally, our investor relations work on the takeover of Cypress was very successful.

What specifically do you mean with regard to Cypress?

We explained the rationale for the largest takeover in Infineon's history to the financial community well. Investors understand why the acquisition will pay off. Another plus is that we have basically already concluded the refinancing of the €9 billion acquisition. This is an important factor for investors in terms of risk evaluation. We see tremendous support for the acquisition in our investor base.

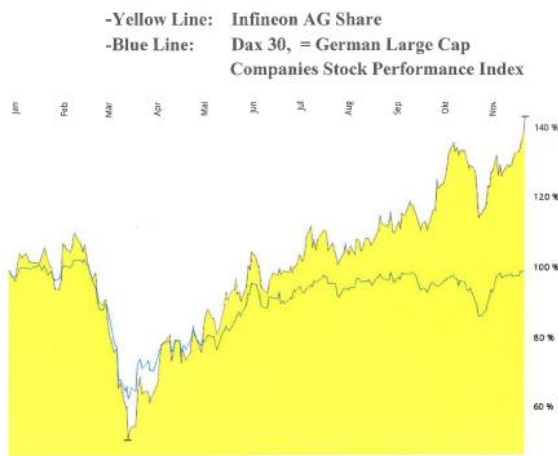
Did you expect the share price to bounce back so quickly?

I always thought it would bounce back. It was the speed that surprised me a bit. At the end of February, our share price was €22. It dropped to €10 in March. Today, September 19, it is about €24 — in spite of the diluting effect of the equity increase in May. This fits right into the target corridor set by analysts, a range that extends from more than €20 to €30 on occasion.

All in all, this is a development that reflects the strong trust that markets have in Infineon.

Infineon AG, 29,52 €
Share Price as of November 30, 2020, on German Stock Exchange Xetra

Index Chart, Index-base as of January 2, 2020 = 100



Did the two past capital increases cause any significant changes to your shareholder structure?

Our shareholder structure has not changed significantly. Around 10% of our shareholders are private investors, and 90% are institutional investors. A total of 50% of our investors come from the U.S. and the UK, followed by Germany, Norway and Switzerland. We have always had a strong Anglo-Saxon base of shareholders. Our major shareholders have remained consistent overall: Blackrock holds a stake of more than 5%. The Norwegian sovereign fund Norges and Allianz each hold almost 5%, while the DWS Group owns almost 4%.

Why are you continuing to forego major restructuring projects, something that your major customers in the automobile industry have made big headlines with?

Infineon stepped on the brakes early on. We already saw the first signs of a light cooling-off in individual markets back in the summer of 2019. We then took some strong cost-cutting measures in the fall of 2019 – we imposed a hiring freeze around the world, we put off salary increases where possible, we restricted business travel, and we cut our budget for external consultants. These steps were implemented very well throughout the company and stabilized our earnings. So far, we have managed the challenging situation caused by the global coronavirus pandemic quite well and are cautiously

optimistic about how things will continue to progress. In addition, automotive business is bouncing back strongly after being hit especially hard by the pandemic.

What's the situation regarding short-time work?

We are continuing to use this option, but have reduced the number of employees affected. It currently covers around 2,000 Infineon employees and temporary staff at the production sites in Warstein and Regensburg. We hit a peak of more than 3,000 people at four locations in the spring. We have already stopped short-time work at our plants in Dresden and Villach.

How has your investor relations work changed since you expanded in the U.S. through the acquisition of Cypress?

The main change has been the increased number of physical conversations with the investors since completing the largest acquisition in the company's history – before the pandemic hit. We sent out three teams at the same time to the main regions when we announced the deal, and we also boosted the number of roadshows.

What do you need to explain to the investors right now?

When and how the automobile industry will recover, and how electromobility is developing. And, of course, how the integration of Cypress is proceeding. We are making good progress here, in spite of all restrictions due to the coronavirus pandemic. We have planned it well.

Did Cypress managers leave after the takeover?

It was soon clear who would leave. Most of the really good management team at Cypress has taken on a role in the joint company and stayed on board.

How are you controlling the numbers at Cypress?

Through our internal controlling and reporting systems as well as our external auditor covering the organisation globally. That's standard.

Will you replace the Cypress auditor?

Up to now, KPMG has audited Infineon and will also audit the new entire group in the future. Cooperation with the former auditor of Cypress is therefore being phased out over time.

How do you assess the high acquisition price of €9 billion that was paid for Cypress?

The acquisition price wasn't cheap, but when you look at it in terms of comparable transactions in the semiconductor industry, it was justified and appropriate. Cypress complements our portfolio. We can now offer complete solutions to our customers while simultaneously opening the door for new applications.

Will Infineon have to get rid of some of the Cypress locations, as it did after the acquisition of International Rectifier?

You can't really compare the two. Sure, you will certainly find a location or two that you could merge. Overall, however, the integration of Cypress will strengthen Infineon's business model and make it more robust. The main driver will come from revenue synergies, not cost synergies. The Cypress production sites are being integrated into the Infineon production network as, for example, the Cypress major front-end site in Austin, Texas.

The acquisition of Cypress was financially challenging. Did you reach the limits of your financing ability for major acquisitions?

We are well positioned and are not planning any further major acquisitions. We are now focusing on tapping all of the potential that the acquisition has to offer. We are naturally keeping an eye on small deals that could round up our know-how should the opportunity arise. Deleveraging is one of the key goals of our financial policy. Our medium-term goal is to have gross debt that amounts to a maximum of twice our earnings before interest, taxes and depreciation, EBITDA. Our current level is 3.6 times, also caused by the high cash reserves of more than €3 billion that are being held to appropriately address the current situation of the world economy. Net gross debt is about 2.2 times EBITDA.

In the spring quarter, Infineon recorded a net loss due to purchase price allocation effects. You have warned that charges should also be expected in future quarters. Do you expect to report further losses in the three-month period?

We plan to issue our guidance for the upcoming fiscal year at the beginning of November. For the current quarter, however, we are planning a profit again. The reason for this is that the purchase price allocation included non-recurring items that weighed heavily on the previous quarter. This is quite a normal effect in an acquisition. Over time, further charges through depreciation taper off. Positive effects from the operating business can overcompensate this.

What's your assessment of the debt and liquidity situation of Infineon?

The long-term structure of the debt is a very important point. Our heavily oversubscribed bond issued in June of €2.9 billion contains four tranches with maturities of up to twelve years. The next relevant maturity date for us is September 2022. In addition, past refinancing of equity capital and debt capital has helped us to completely pay off the bridge financing facility for the Cypress acquisition ahead of schedule. The outstanding acquisition-related loans total about €3 billion and have maturities until 2024. In other words, we have plenty of time and flexibility.

Infineon Technologies Group at a Glance

Group Numbers,

Sales, Million €	2018	7599
	2019	8029
Operating Earnings*), Million €	2018	1353
	2019	1319
Earnings after taxes, Million €	2018	1075
	2019	870
Free Cash flow, Million €	2018	618
	2019	39
Capital Expenditure, Million €	2018	1254
	2019	1451

*) of the segments

How do you assess this situation in light of Standard & Poor's decision to lower its rating to "BBB-?"

An investment grade rating is a core element of our financial policy.

We paid careful attention to this issue while we were putting together the financing for the Cypress deal. From the beginning, we said we wanted to finance about 30 % of the transaction with fresh equity. S&P Global Ratings currently gives us a “BBB-” rating with a stable outlook. This rating falls within the corridor that we expected. You also have to remember that the rating was issued in April, at a time when macroeconomic data had already significantly deteriorated due to the coronavirus crisis. You have to keep one other point in mind as well: By taking forceful action, we removed the financing risks from the transaction, particularly those risks related to equity, very quickly. Finally, I can say that we did all of this before all regulators had approved the transaction, so we can be very satisfied.

What are your financial objectives after the acquisition?

For Infineon, we continue to expect somewhat stronger growth of more than 9% per year over the cycle. We have raised the target for the segment result margin from 17% to 19%. At the same time, we are reducing capital intensity, and expect an investment quota of 13% instead of the previous level of 15%.

What is your timeframe for reaching these targets?

We want to reach them gradually through the cycle – after we have fully integrated Cypress and as soon as we can conduct our business normally again without having to deal with the coronavirus pandemic.

Where does Infineon stand with the margin compared with the competition?

Our major growth drivers, like electromobility, renewable energies, digitalization and the Internet of Things, IoT for short, are intact. Over the past 20 years, Infineon has grown two to three percentage points above the market average. This requires us to invest more, but also leads to less free cash flow. Regarding the margin, this means that we perform much stronger in growth phases. Our profitability is declining right now because we are unable to fully utilize our in-house production capacities. Compared with many other companies, however, we are in good shape. We also have some competitors that generate higher profitability as they employ a different strategy and focus on special products.

Where do Infineon’s weaknesses lie?

There are always issues that we work on. These include new technologies like silicon carbide.

In the automotive segment, we see a lot of future market opportunities. We have already had some major successes here, also in the industrial sector. This is also a business field that we want to focus on more closely.

What advantages do these new technologies provide?

Silicon-carbide semiconductors enable higher power levels while being more compact. They can therefore help increase the efficiency and range of electric vehicles.

What are the disadvantages?

Silicon carbide is expensive compared with silicon. It is not yet being used as much as silicon is. But design wins like those we have already achieved will help increase the penetration of this technology in the market in the next few years. Infineon is already well positioned here. This is also reflected in the company’s financial valuation.

How high are underutilization costs?

We estimate that underutilization costs will be around €600 million for the fiscal year that will end on September 30, 2020. The largest share can be attributed to the automotive segment. These costs have a direct impact on earnings. This amounts to around five percentage points in terms of group revenue, which we have estimated at €8.5 billion. Around €450 million of these costs are due to cyclical underutilization. The rest is the result of required maintenance and other effects like structural changes.

Have these costs increased?

Yes, they have. The coronavirus crisis is having a major impact here. At the annual press conference in November 2019, we estimated that these costs would total around €400 million for this fiscal year.

Infineon Technologies AG

Shareholder Structure, as of March , 2020

Black Rock	10,3 %
Norway	4,9 %
Allianz Global Investors	4,9 %
DWS Investments	3,9 %
Free Float	81,0 %

Market Capitalisation,

as of November 30, 2020 **38,5 billion €**

What is Infineon's average capacity utilization right now?

It is between 70% and 80% in the front end. Of course, we are targeting to increase utilization. A number in the high nineties would be desirable – this is also a level that we have achieved in the past.

What impact is the trade dispute between the U.S. and China having on the semiconductor industry and on Infineon?

We are worried about the increasing international fragmentation we see. Global challenges like climate change and the coronavirus pandemic can only be solved jointly and globally. We at Infineon are clear advocates of globalization and international competition. We also believe that sanctions and tariffs are the wrong approach to take. Europe must make sure that it does not get caught up in the competition for the technological leadership between the U.S. and China.

What is the situation with your customer Huawei?

Like all major semiconductor producers, Infineon also manufactures products that are affected by new U.S. regulations. We take compliance with current regulations very seriously. Our customer portfolio, however, is very diversified. It will also be important for us to see how U.S. officials handle the licensing of products for Huawei in the future.

China now accounts for 29% of group revenue. How can you justify such business activities with a country that disregards human rights and keeps a tight grip on its own population?

This is a question that we have to examine from different perspectives. Let's start with the business point of view: We think that we are well positioned in China. Opportunities in the country remain good. We have been doing business in China for more than twenty years. We want to shape it further by performing in a positive manner. Public lecturing is not our way.

What sort of impact do you think the Wirecard balance sheet scandal will have on the financial center of Germany?

The case has certainly damaged investor confidence in the financial center. This trust must be won back. But I am sceptical about wishing to achieve this too hastily or with additional regulation. The existing regulations in Germany are good. Companies and government officials have to implement them rigorously and monitor compliance accordingly.

About the person

Taking off

Dr. Sven Schneider passed his trial by fire at Infineon with flying colors. Shortly after leaving the Linde Group and becoming CFO of Germany's leading semiconductor group, the holder of a PhD in business administration had to put together the financing package for the company's €9 billion acquisition of Cypress. The top manager, born in Berlin, got the job done quickly and took off in his new position. In devising the financing concept for the largest acquisition in Infineon's history, Schneider benefited in part from liquid capital markets and low interest rates.

The 54-year-old has been the CFO of the Dax-listed company based in Neubiberg, near Munich, since May 2019. Thanks to its good market position, the company has been able to fend off the negative impact of the coronavirus crisis even though the

Pandemic has significantly affected the automotive division of the company. But the ship called Infineon remains on course in these heavy seas thanks to corrections made at an early stage to address an automotive business that was already performing weaker.

Schneider is already well-acquainted with mergers and acquisitions. During the controversial merger of the Linde Group and Praxair, he assumed the positions of CEO, CFO and Labor Director at the Munich-based maker of industrial gas. At Infineon, he replaced Dominik Asam who assumed the same position at the Airbus Group at the beginning of April 2019. Schneider, the married father of two sons, has quickly found his place on the management team at Infineon. His contract runs until the end of April 2022.

FinTech and the digital disruption in financial services

By Alessandro Valente, Co-chair of the Ethics and Sustainable Development Working Group at IAFEI and Member of the Tax Technology Committee and of the New Tax Professionals Committee at CFE

1. Introduction

The most considerable application of Blockchain, in the form of a **distributed ledger technology** (DLT), has the potential to transform well-established financial institutions and bring lower costs, in addition to faster and more secure transactions, improved transparency, auditability of operations, among other benefits. Particularly relevant will be the **disruption** of payments for financial institutions, as well as for customers by reducing the cost and time of money transfers.

Blockchain technology has already begun to impact on the world's financial sector. Blockchain has the potential to displace any business activity built on transactions occurring on traditional corporate databases, which is what supports nearly every financial service function. Any financial operation that has low transparency and limited traceability is thus vulnerable to disruption by blockchain and artificial intelligence (AI) applications. For these reasons, FinTech has been steadfast in experimenting with these technologies to improve activities in finance and focusing on better and cheaper access.

Among the most revolutionary tools available to the FinTech industry is **Supply Chain Finance** (SCF). Its main contribution is the simplification of the integration of physical and financial flows. This is due to the blockchain, the Internet of Things (IoT), AI, machine learning, and Big Data Analytics.

Moreover, these technologies can help reduce many supply chain financial risks.

Governments, financial institutions - including FinTech start-ups - form an ecosystem. All the participants of this ecosystem face different challenges and opportunities which allow for a more dynamic and complex landscape along with its continuous evolution. As the financial service sector is moving from the exploration phase to the application phase, it is very important for both financial institutions and experts to understand the role of disruptive technologies and capitalize on their potential.

To this end, this article is structured in three parts. Following this introduction, section 2 focuses on the disruption caused blockchain and AI and their application to FinTech. Section 3 focuses on the technological innovation in **Supply Chain Management** (SCM) and Supply Chain Finance (SCF). Section 4 concludes that such revolutionary tools are far from perfect, and require continuous improving and monitoring, particularly in light of their growing popularity.

2. Fintech - the Digital Disruption

Payments and cross-border transactions have historically been slow and expensive. Blockchain endeavours to change that, allowing near real-time, point-to-point transfers of funds. This will also translate to increased profitability due to lower operational costs and over-head.

2 Financial Technology (FinTech) generally refers to digital innovation in the financial sector. At its inception, the understanding of FinTech was limited to innovative ways of facilitating payments and transactions. Underpinned by revolutionary shifts in Internet and mobile technology in recent years, the realm of FinTech has witnessed explosive growth. Nowadays, it refers to a wide variety of technological interventions within the financial services arena, such as crowdfunding, online customer acquisition, mobile wallets, P2P lending, MPOS, MSME services, personal financial management, private financial planning, Blockchain and crypto currencies.

Supply Chain Management (SCM) and Supply Chain Finance (SCF). Section 4 concludes that such revolutionary tools are far from perfect, and require continuous improving and monitoring, particularly in light of their growing popularity.

2. Fintech - the Digital Disruption

Payments and cross-border transactions have historically been slow and expensive. Blockchain endeavours to change that, allowing near real-time, point-to-point transfers of funds. This will also translate to increased profitability due to lower operational costs and over-head.

FinTech, or financial technology, is the provision of financial products and services through the most advanced information and communication technologies. This is achieved by redefining and creating new applications, processes, products, and business models. The major innovative and revolutionary technologies that support the incoming disruption within the traditional banking system are blockchain, AI, and machine learning.

Among these technologies, blockchain has arguably been at the forefront in terms of innovative power, having been applied to a multitude of business and corporate areas. An excellent example of such applications is **smart contracts**, which automatically regulate payments, adjust accounts, and coordinate records among multiple organizations. Moreover, blockchain technology is at the core of **e-invoicing**, which does not simply translate into the production and management of electronic invoices and often represent a relevant piece of the financial value chain and supply chain dematerialization.

In addition, blockchain technology allows for greater trade accuracy, and a shorter settlement process. Today, we have commercial and investment banks, payment institutions, hedge funds, and private equity

that carry out various functions like providing businesses with access to capital, underwriting deals, holding deposits, lending money, and confirming transactions/exchanges. In this context, blockchain will likely solve identity management issues while smart contracts will streamline the process. Furthermore, blockchain can also improve the real-time visibility of the transaction to institute regulatory and customs oversight.

On the other hand, AI will **significantly improve** FinTech by increasing the accuracy and personalization of payments, lending, and insurance services, while also helping to discover new borrower pools. AI and machine learning are thus proving to be very **effective** at interpreting and recommending actions based on real-time data streams.

3. The Supply Chain

The technologies that make up the so-called “**Fourth Industrial Revolution**” have generated shockwaves within the financial system, the implications of which will spread beyond the FinTechs that spearheaded their use in financial services. Value chains have been a crucial component of the financial industry for decades and are currently being disrupted with ramifications for customers, regulators and nearly every stakeholder operating in the financial world.

Among the greatest challenges for Fintech adopters is to identify a reliable set of indicators that are also able to capture and to synthesize the interactions between the **Financial Value Chain and the Supply Chain**. The objective is to come up with a revolutionary model of company score and analysis based on **real time digital information** and driven mainly by the e-invoicing system. Providing valid support to all the relevant stakeholders through the use of mathematical and statistical tools, blockchain technology is able to not only provide relevant data in relation to cash flow throughout the supply chain, but most importantly, to forecast solid plans of credit in case of future material investments.

3 Blockchain is a “distributed ledger technology” because it is formally based on a technology that reduces errors to a minimum, increases efficiency, reproduces the individual movements (blocks) in real time and in a chronological way. The Blockchain also identifies its pre-eminent characteristics in the concept of trust, responsibility, and community. The Blockchain technology disrupts centralized ledgers; improves efficiency, security and transparency. The Blockchain is an immutable distributed ledger which replaces the inefficient use of multiple centralized ledgers.

4 Machine Learning teaches computers and robots to do actions and activities in a natural way like humans or animals: learning from experience (or better, through machine learning programs). In essence, Machine Learning algorithms use mathematical computational methods to learn information directly from data, without mathematical models and predetermined equations. Machine Learning algorithms improve their performance in an “adaptive” way as the “data” from which to learn increase.

Supply chain management involves the flow of goods and products from the initial to the final stage. Supply chain management is not a one-person job to perform as there are different entities involved in it. **Smart contracts** in the supply chain can record ownership rights while the products are transferred through the supply chain. Everyone in the network can track the location of the product at any given time. The final product can be checked at each stage throughout the delivery process until it reaches the end customer. If an item is lost in the process, smart contracts can be used to detect its exact location.

Moreover, if any stakeholder fails to meet the contract terms, it becomes transparent for the whole system to witness. Ultimately, smart contracts bring **transparency** to the overall supply chain system. In addition, smart contracts have certain advantages for many industry sectors such as, reducing overhead costs, providing transparency, and saving time. While more reliable, secure, efficient, and trustworthy when compared to paper contracts, care still needs to be taken to avoid the risks of code corruption.

Furthermore, **SCF**, also known as **supplier finance** or **reverse factoring**, is the set of solutions that allows a company to finance its **working capital**, leveraging not only on its economic, financial or business characteristics, but also on the role it plays within the supply chain in which it operates (production chain).

Currently, Small and Medium Enterprises (SMEs) and growth businesses, find maximizing liquidity to be a challenge, as well as accessing funding, particularly amid the COVID-19 pandemic. At the same time, many smaller businesses, particularly in emerging markets, find that they lack the credit rating required to access bank finance.

Although traditionally seen as a solution for large companies with solid credit history, SCF is creating opportunities to help SMEs access working capital through the greater availability of digital options. In 2018 alone, Supply Chain Finance saw a 25% growth in the DACH region, and 23% in the US and Latin America region in the second half of 2019.

Examples of SCF are:

Advanced Reverse Factoring (ARF) (with platform): like Reverse Factoring, it is based on the opportunity for suppliers to have their invoices paid exponentially quicker (approximately **7-10 days**) and at cheaper rates, as suppliers receive liquidity at a cost commensurate with the risk of the buyer, who presents the suppliers to the financial institution. The innovation of the **ARF**, is the fact that the disbursement of the credit takes place in the presence of more operational information (e.g. data on the operational performance or sustainability of the suppliers), against a lower risk and a consequent reduction in the cost of the loan. It is based on a technological platform where electronic invoices, the mainstream of digital information flows on permissioned blockchain in which relevant stakeholders can monitor the whole process and where smart contracts are enabled, relating to the customer-supplier relationship transaction, and allows the supplier to select which invoices to discount;

- **Inventory Finance:** traditionally it refers to the short-term financing of stocks through a credit line. More recently, solutions are also identified as Inventory Finance in which a Logistics Service Provider - often in partnership with a financial institution - purchases goods from a supplier and owns them for the duration of transport and storage, optimizing trade receivables and payables of the supplier and his customer;
- **Dynamic Discount:** a technological solution that allows the customer to pay in advance for a discount by the supplier on the invoice amount proportional to the days in advance, dynamically agreed for each transaction;
- **Invoice Auction:** a “**marketplace**” for the advance invoice based on a technological platform that allows third parties with available funds (financial institutions, companies, and individual investors) to invest in invoices issued by companies, according to an auction mechanism between several possible buyers;
- **Purchase Finance:** conceptual extension of the Invoice Discount (advance invoice) to all documents that belong to the Order Cycle and that precede invoicing (on all, Purchase Orders, Order Confirmations, or Transport Documents and Shipping Notices).

5 A **smart contract** is the “translation” or “transposition” into a code (set of instructions) stored in a Blockchain of the elements of a contract, so that the fulfilment of certain conditions is automatically verified (basic data control of the contract) which is followed, always automatically, by the realization of predetermined effects.

6 Blockchain, artificial intelligence, cloud computing, robotics, 3D printing, the Internet of Things, and advanced wireless technologies.

4. Conclusions

Blockchain, as well as AI, machine learning, the IoT, and Big Data Analytics are quickly becoming essential tools to support innovative solutions. **Smart contracts** provide an instantaneous and unchangeable enforcement of the obligations contained in them. A smart contract operating on a Blockchain will guarantee certainty of execution of contractual obligations, transparency of contractual obligations, immutability of recorded transactions, ability to find an agreement in the absence of trust. Nonetheless, smart contracts still have fundamental flaws such as having difficulties in managing complex contracts, in managing subtle differences in legal categories, and in correctly determining the territorially competent court.

Following the pandemic and the likely recession that will follow, FinTech solutions will lean toward more personal financial operations, as consumers attempt to optimize their finances. Financial institutions will make **debt consolidation** and **alternative forms of finding money** a priority in an attempt to meet consumers' demand. **FinTech** will inevitably keep growing in assisting the supply chain with financial services. However, it is crucial to keep ensuring that those who develop the solutions maintain the highest level of security.



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⁷ With the term “*Fourth Industrial Revolution*” the author refers to a way of describing the blurring of boundaries between the physical, digital, and biological worlds. It represents a fusion of advances in artificial intelligence (AI), robotics, the Internet of Things (IoT), 3D printing, genetic engineering, quantum computing, and other technologies. It is the collective force behind many products and services that are fast becoming indispensable to modern life.

⁸ DACH Region is composed of Austria, Germany and Switzerland.

A CFO's role in organization compliance and transparency

*By Jacques van Wyk, JGL Forensic Services /
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Transparency and compliance are critical to how your business does business.

There's no doubt that good compliance policies help you meet demanding global compliance and privacy requirements - and avoid fines!

But regulations are constantly changing, the amount of data to track is increasing at exponential levels, and many of the policies companies follow are actually way out of date.

A lot of them, in fact, were written over 10 years ago. Some, significantly longer than that.

At that time, we were living in an era of mostly paper content. Storage was simple - it was either held in house or sent to a vendor. Periodically, it was reviewed and then destroyed.

In the decade since then however, almost everything has changed – except those antediluvian compliance policies.

Most of our work is now done electronically. Content storage has moved on from on-premises only to either hybrid or fully cloud models. The sheer volume of data that companies produce every single day makes any decisions based on manual reviews or a document-by-document assessment impossible.

Combine this with the rapid evolution of privacy legislation and a host of other, ever-changing data governance regulations, and even policies created only a few years ago are probably already well overdue for an update and review.

This continually shifting landscape is a headache for even the most experienced and level-headed CFOs.

Not surprising then, that they frequently feel frustrated by the pressure of having to meet compliance requirements that are different today than they were yesterday - but likely not the same as they'll be tomorrow.

It's also not surprising that CFOs tend to look at compliance as a drain on both company finances and human resources.

Surely there's a way for CFOs to update their companies' compliance strategies, bring their policies into the digital age and still ensure policies are both consistent and simple?

There is.

The best way to do so is to adopt a proactive, instead of reactive, approach to governance. Being proactive makes everyone less reliant on the end user when it comes to making governance decisions.

It also avoids inconsistency, missed steps and wrong decisions.

When you have built-in compliance, there's no longer a burden on users to understand the policies relating to it. They can simply continue to do their jobs, secure in the knowledge that those policies are working away tirelessly in the background.

Baking compliance policies into every strategy gives you consistent application across the organisation.

The Weaponisation Of Compliance

There's no getting away from the fact that right now, compliance seems like a necessary evil. Something we do to make sure all the right boxes are checked so we avoid any punishments.

But what if we were to shift our perspective a little, and view compliance as a lever? One that makes operating your business a whole lot easier because it gives you greater visibility into your operational and enterprise risk.

Having a comprehensive risk and compliance framework in place gives your organisation a strategic advantage. A well-designed compliance strategy can, when properly planned and precisely executed, become a secret weapon, giving you a distinct edge over your less compliant competitors.

Effective compliance risk management in these modern times requires increasingly responsive and predictive processes and monitoring. In order to manage costs while still expanding risk coverage, this needs to be supported by regular policy updates, ongoing training and communication, and high levels of efficiency.

There's no doubt that a strong, technological underpinning will help compliance functions operate effectively in real time. This helps companies become more agile and effective in their compliance and ethics risk management efforts, and ultimately more productive and competitive as a business.

The Threat of Fraud

Automating compliance efforts increases enterprise visibility. The more holistic your view of your business, the easier it is for your executives to make decisions that have a decreased likelihood of putting your enterprise at any kind of risk – including fraud.

So many incidents of fraud are either never discovered at all, or only found out after the fact. And even then, it's not always possible to recoup any fraudulently dispersed funds from the bank.

Experts estimate companies lose, on average, around five percent of their annual revenue through fraud alone.

Imagine the difference a comprehensive compliance programme would make!

But while fraud is a very real – and potentially very expensive – problem, mitigating what we in the industry call catastrophic risk is the function of the most advanced levels of organisational compliance.

Savvy CFOs are often the first to recognise the very real dangers of catastrophic threats, and this is usually more than enough motivation to take responsibility for the implementation of enhanced compliance procedures.

Typically, this includes a company-wide compliance framework, including all the technology, processes and people needed to ensure the efficacy of the programme.

Security And Compliance

It's critically important for CFOs to include security in any compliance procedures to safeguard content so only the right people have access to it. However, while this helps to prevent potential leaks of sensitive information, if the controls are too tight, they can actually serve to reduce governance and compliance.

If the system is so slowed by security protocols that it interferes with productivity, for example, users will simply find other ways to work – including using unauthorised systems.

Their intentions are undoubtedly good - if a customer needs something, employees may bypass security measures to make sure the customer gets what they need quickly. And yet this simple, well-meaning act can be devastating.

Nearly 90% of all cyberattacks are the result of human error or behaviour. Your compliance policies should address these needs in a secure, easy manner while including the appropriate guardrails.

Is all this expensive? Undoubtedly.

But not nearly as costly as the failure to detect and prevent a breach of your financial system, violation of anti-corruption mandates, or hacking of your sensitive financial information.

Most CFOs who have implemented these kinds of systems are quick to extol their virtues. They will invariably tell you that not only do they soon pay for themselves in terms of losses prevented, but they also help improve operations, reduce waste and increase controls.

But Why Do Compliance And Transparency Fall Under A CFO's Remit In The First Place?

Although the CFO's role has always officially ranged anywhere from a fiduciary one (preserving value) to a visionary one (creating value), traditionally, the business model was always more fiduciary than visionary.

But things are changing. Fast.

CFOs are moving away from pure accounting and finance. They're focusing more on strategy than stewardship, as well as value, optimisation, and the future of the business.

In his article, *"The Role of the CFO as a Corporate Governance, Transparency and Social Responsibility Leader,"* Dr TS Rangan says:

"The CFO needs to adapt and thrive regardless of the turbulence of an increasingly dynamic environment. Besides acting as a strategic partner to the CEO, the CFO plays a vital role in presenting the public face of the company to investors, regulators and policy makers. He/she should be a total believer in principle-based governance which can steer an organisation through any landscape - unlike rule-based governance, which quickly grows out of date."

The role of the CFO is often described as "One face, four roles," each of which has its own unique responsibilities.

Let's take a closer look at what these roles are:

- **Organiser** – to preserve and protect the company's assets and comply with financial reporting and control requirements.
- **Operator** – to create centres of excellence to handle specific operational tasks such as Accounting, Human Resources, IT, Legal, Compliance and Taxation.
- **Strategist** - to set the future direction of the company to enhance business performance and shareholder value.
- **Catalyst** – to understand what it takes to get things done and build a framework for its disciplined execution.

Honesty, integrity, accountability and mutual respect are the key elements of good corporate governance and transparency, and they are embedded in every one of these roles.

"Governance and leadership are the yin and yang of successful organisations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference."

Mark Goyder (Director of Tomorrow's Company)

Any decisions a CFO takes are done so within a political environment containing a web of stakeholders. Their interests and influences must be understood, acknowledged and managed with transparency and openness - without distorting information.

Benefits For The Board

Of course, CFO-driven transparency and compliance initiatives are not just good for the ongoing prosperity and success of a company, they also give Boards of Directors the chance to bask in some vicarious glory.

In South Africa, board performance – or perhaps, more accurately, the lack of Board performance – has featured quite prominently on our country's business landscape over the last few years.

Unfortunately, we are not short of examples of poor oversight, mismanagement and lacklustre governance of some high-profile private sector businesses and state-owned entities.

So often, "tough economic conditions" are blamed for poor performance. And while this is undoubtedly a cause for increased pressure at board level, it cannot, or rather should not, be used as a convenient scapegoat for overall poor performance.

As time goes on, and incidences of poor governance become more frequent, stakeholders are growing tired of continually having to excuse and forgive poor board performance – regardless of how challenging or complex the prevailing operating environment.

Surely it is now time for all businesses - state-owned, public, private, profit or non-profit - to take board evaluations far more seriously, and to ensure the results are used to drive continuous improvement.

We no longer have the luxury of viewing board evaluations as box-ticking exercises for compliance purposes only. They are, in fact, excellent early warning systems, designed to give management time to proactively address any potential performance and compliance issues.

Laws, regulations, and norms are absolutely necessary for governance and serve as safeguards against arbitrariness in practice. Yet by themselves, they cannot be effective. It is incumbent on all CFOs to ensure the ethical behaviour of our organisations by assuming the role of a corporate governance, transparency, and social responsibility leader.

So, you can choose to look at your compliance efforts as something you do to keep your executives out of jail, or you can decide to embrace the tools and processes necessary to automate your programmes, increase efficiency and accelerate cost savings.

Yes, doing so effectively incurs costs, but CFOs have to do more than pay lip service to their communities, employees and clients.

What About Transparency?

Transparency tends to have slightly different meanings for different organisations, but essentially it boils down to this:

Don't hold back valuable information from your employees.

It doesn't matter whether that information is good, bad or neutral, employees need to be kept in the loop. More importantly, they need to *feel* as though they're being kept in the loop.

Most employees genuinely care about the success of your organisation as much as you do. The more you tell them what's happening, and what the state of the company is, the more they'll feel part of the team, and the more committed and engaged they will be.

There are many benefits to building a transparent culture within your organisation, but these are the most important:

- Transparency is key to building trust
- It is good for recruitment - 87% of people want to work for transparent companies.
- It's a great motivator.
- Transparency boosts employee engagement
- Transparent companies are more profitable

Of course, transparency is not always easy, and there will be times when you will have to answer some tough questions. But this is when it's more important than ever to be transparent.

Remember that to have good levels of transparency, you have to have good levels of communication.

Ultimately, a transparent work environment leads to greater trust, and trust is paramount to any organisation's success.

With local and international investors increasingly demanding more transparency and 'no surprises', the role of the CFO is undoubtedly coming under immense scrutiny.

Where the role was once well-defined and comfortably (and comfortably) limited, CFOs are now increasingly being seen as key organisational assets to drive business competitiveness and effectiveness.

They, perhaps more so than most executives, are expected to create internal controls that deliver not only a compliant and transparent business, but also a proactive and risk-managed one.

What's more, we also look to them to be the custodians of the 'risk and control' mindsets required to achieve that objective.

With a dramatic increase in focus on corporate governance from both shareholders and regulatory bodies, the role of the CFO is more stretched and diverse than ever before, and there is a huge amount of increased responsibility and influence that are part and parcel of this vital strategic role.

Transparency and compliance should be at the heart of all decisions by a CFO – from those pertaining to process optimisation to ones concerning growth and expansion. They need to evolve from being purely financial authorities to visionary leaders encouraging a company culture firmly rooted in ethics and integrity.



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The increase importance of tax risk management

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Financial crises, well-documented corporate collapses and creative accounting practices are taking their toll on the general public's trust in our institutions.

Customers, communities and regulators are increasingly expecting more, and the bar continues to lift on what a good corporate citizen entails. The complexity of tax legislation is adjusting to the complexity of international trade, and this is placing a resultant compliance burden on companies.

One of the biggest issues is that tax law is not standardised across all countries and continents. As a multi-national company, you need local tax expertise in every country in which you operate, yet you have to consolidate your financials in your home country. This is where it all becomes a little tricky.

Just as one man's trash is another man's treasure, one country's tax compliance could be another's tax structure. Thanks to the various tax treaties between countries, where relevant information is exchanged between tax authorities, non-compliance in one country may well have a knock-on effect in another.

Even traditional tax havens are now coming under the scrutiny of some of the world's more prominent countries. So, if your business has its head office in a tax haven, you might now find yourself the target of much-unwanted attention. You might even end up being the subject of an intense investigation, accused of base erosion and profit stripping.

This could then lead to additional scrutiny by other countries, and the risk of reputational damage if your local company is branded a tax evader or not paying what is due, is significant.

eCommerce, virtual trade, decentralised operations, crypto-currencies results in more dynamic business and economic trends. We're talking about digital economies, blockchain, e-business and AI (Artificial Intelligence), to mention just a few.

The creators of tax legislation could never have envisioned the multitude of ways in which transactions are concluded today. Every new development presents new challenges for tax advisors, revenue authorities and multi-national enterprises (MNEs) alike.

Because the global tax landscape is growing ever more contentious and volatile, we are seeing more incidents of controversy and tax disputes. Wide-reaching tax reforms in the US and EU, not to mention the plethora of complicated tax rules relating to Brexit, all have far-reaching implications for MNEs.

This constantly changing tax landscape and the rapid pace of changes to tax laws means companies are always aiming at a moving target when it comes to tax compliance. Get it wrong, and businesses find themselves slapped with insanely costly penal taxes and interest payments. Investors, too, are quick to punish a company for any tax breaches – intentional or otherwise.

Many tax authorities are making it mandatory for large companies to be more transparent about the amount of tax paid and their tax strategies. Board members too can no longer hide behind their accounting teams. They are expected to have an understanding of, and take responsibility for, the tax risks of the companies for whom they act. Managers and directors at the top of the food chain may even find their jobs at risk as a result of willful non-compliance.

It is true that risk is an inherent part of any business. Managing risk is part of everyone's role, and a core responsibility of every company. But tax compliance has actually now become a corporate governance issue, and unprepared companies and executives face severe reputational and financial consequences if their compliance is found wanting.

As a result, tax risk management and tax compliance are no longer issues top managers can afford to delegate. They have to be tackled at a strategic level.

Thanks to dramatic changes in the tax landscape for corporate taxpayers in recent years, tax authorities are becoming more assertive against those businesses that transgress. Emboldened by high profile successes against deliberate and aggressive tax evasion, and armed with new powers bestowed on them by global governments, they are becoming ever more willing to pursue businesses for the slightest perceived offences.

With the world increasingly concerned about who is and who isn't paying their "fair share" of tax, both multi-national corporates and tax authorities are continually worrying about tax governance.

But what does that actually look like?

The efficacy of any company's tax control framework is directly impacted by its governance culture. Tax risk is often created by decisions made that don't even involve tax people! This is why it's critically important that leadership understands that every single transaction at the transaction date affects their tax risk profile.

Of course, it's not usually reasonable, feasible or even desirable to reduce tax risk to zero. But the more businesses understand about their potential exposure, the better. In this way, they can ensure all necessary risk management and tax governance frameworks are not only in place but also aligned with the company's wider governance framework.

Developing A Tax Control Framework

A Tax Control Framework has five essential elements:

Appetite – how much risk are you prepared to take?

Identification – what risks are you trying to manage?

Management – how do you plan to manage those risks?

Responsibility – who needs to do what to make sure those risks are managed?

Governance – how is the whole process monitored and overseen?

Once you have a framework in place, the next step is to ensure your tax risk policy is published both internally and in your annual report.

When it comes to the actual execution of the elements in your tax control framework, there is always some debate about what can be done in house and what needs to be outsourced. Processes and controls are critical. Do your teams need upskilling? Is it better to transfer your compliance and tax risk management to a third party? It's vitally important that whatever your sourcing strategy, you have the most competent people doing the right work.

Why Is A Tax Control Framework So Important?

Naturally, even with robust strategies in place, zero tax risk is not achievable. The frequent updating of tax laws, the multitude of different tax laws in different countries, and the many interpretations of these laws, make it an impossible landscape to navigate completely risk-free.

The optimal goal for companies is to manage, mitigate and minimise risk - wherever possible - to a level that fits within the bounds of their culture. Different companies achieve this in different ways, depending on their levels of risk tolerance. Internal stakeholders need to be made aware of the risk areas that most need attention in order to reduce unacceptably high levels of exposure.

An increasing number of tax authorities around the world use tax control frameworks in both their regulations and auditing frameworks. Being unprepared makes an audit far more time-consuming and expensive.

In addition, if your tax controls are transparent, it's far easier to spot red flags early on, before they become big enough problems to cause irreparable damage to your reputation.

At the end of the day, a strong tax control framework is your main defence against any allegations of misconduct. Challenges are bound to arise: Standardised processes may not always cover exceptions not outlined in tax guidelines, for example, or data isn't always in the correct format. But if you have strong controls in place – and if those controls are based on a strong governance culture, you are better able to accurately assess your levels of compliance. It will also be easier to navigate those areas of tax law that are more ambiguous and open to interpretation than others.

Avoiding Undue Tax Risk

Tax legislation is complex and is in the majority of cases subject to interpretation. This uncertainty in itself results in tax risk. Tax risks *always* arise when the tax authority in the country concerned disagrees with your company's tax filing position.

To help avoid these situations as far as possible, there are steps you can take:

- Try not to enter into any transaction that cannot be commercially justified.
- To the best of your ability, only carry out transactions that are reasonable and defensible under the tax laws of the countries in which you operate.
- Ensure all tax returns are prepared in compliance with local laws.
- Appreciate that, especially in the case of multi-national operations, there will, at times, be uncertainty about the application of tax laws, and a corresponding risk when determining your tax liabilities.
- Assess the materiality of such risks according to the degree of financial and non-financial impacts – including health, safety, environmental, community, reputational and legal impacts – as well as the effectiveness of your controls.
- Understand that in a large multi-national corporation, the sheer size and complexity of the operation, coupled with geographic scope, affects your risk exposure.
- Try to understand any actual or potential changes in legislation and in the interpretation of those laws, when filing tax returns in multiple countries.
- Engage regularly with local advisors to ensure you are always aware of any changes in tax laws that may impact your organisation.
- Regularly (at least once a year) assess all material risks on the basis of the effectiveness of their controls.

Tax Risk Management During A Crisis

As we've already seen, keeping tax risks in check can be challenging at the best of times. During crises however, it becomes even more difficult – but also even more important.

The COVID-19 pandemic hit the world with frightening speed, but it is taking its time to go away. Across the globe, business leaders scrambled to keep both their employees and their companies safe and secure in this new and unpredictable environment.

It is in this kind of situation that tax teams really need to step up, helping companies identify and manage the impacts of the crisis on the future sustainability of their organisation, and meticulously manage any associated tax risks.

Because so many companies have employees working from home at the moment, sticking to normal tax risk management protocols can be tricky. This is a high-pressure situation, filled with unknowns. It's easy – and understandable given the chaotic times we're currently living in – to miss tax filing and payment deadlines. Review and escalation processes – usually routine – can easily be forgotten. The constant need for on-the-fly, shooting-from-the-hip operations means there is little time to review and assess risks as they occur.

Fortunately, most tax authorities are showing much-appreciated levels of tolerance and mercy at this time. But the situation is fluid and evolving quickly. What we know for sure is this: Most businesses will be forced to accept amplified levels of tax risk for the short term at least.

This is not, however, the time to be complacent, letting all vigilance slide and using the pandemic crisis as an excuse. There are still areas business leaders can focus on to help mitigate risks. These include:

Accountability And Responsibility

Tax responsibility in a crisis is more important than ever. Governments the world over have had to assemble emergency relief packages in a rush. There simply hasn't been time to pay the usual levels of attention to eliminating the potential for abuse.

Your company's tax and legal teams can support good tax governance by helping you access only the concessions to which you are entitled. This mitigates the risk for severe penalties down the line.

Use Technology

One thing we're all grateful for in this pandemic is technology! Tax technology not only keeps your team and stakeholders connected, but also helps with streamlining processes, highlighting potential issues and keeping track of deadlines. Try looking at new ways to leverage your existing tech – what can you automate or outsource?

Keep Your Eyes On The Guys At The Top

What are governments and tax authorities doing? There have been numerous efforts in many countries

To ease the burden on taxpayers who are struggling during the pandemic. This relief has come in the form of deferred tax payments, suspending tax audits and extending filing deadlines, among others. Quite what will happen once the crisis is over is unclear. Governments that have spent billions in support packages will be eager to start bringing in revenue.

What Does Our Government Say?

Published information by the National Treasury states, in summary, that:

- The COVID-19 pandemic has led to a sharp deterioration in the economic and revenue outlook. The fiscal position, which was already unsustainable, will require significant adjustments as the immediate health effects subside.
- In 2020/21, the consolidated deficit is projected to increase to 15.7 per cent of GDP. If this trend is not reversed, South Africa is likely to face a sovereign debt crisis.
- Government remains committed to achieving fiscal sustainability. Over the next several months, the government will prepare fiscal consolidation proposals that will be published in the October 2020 Medium Term Budget Policy Statement (MTBPS).
- Gross national debt is now expected to reach 81.8 per cent of GDP in the current year.

From a tax perspective, what is notable from these statements is that there will be an increase in, and focus on, improved tax collection and administration. These are essential elements in achieving fiscal stabilisation.

The South African Revenue Service (SARS) will aim to increase tax receipts by, inter alia:

- Focusing on international taxes, particularly aggressive tax planning using transfer pricing.
- Increasing enforcement to eliminate syndicated fraud related to VAT refunds and import valuations.
- Expanding the use of third-party data to find non-compliant taxpayers.
- Improving the collection of debt due to the fiscus, and ensuring that outstanding taxpayer returns are filed and liabilities paid.

If this is a not an explicit warning, then I don't know what is. I would, therefore, urge companies and their Audit and Risk Committees (ARCs)

To ensure that they re-evaluate and stress test their tax risk management policies. The ARCs will have to ensure that all tax returns are filed, and that their filing positions are well documented, based on sound principles and assumptions, and, where needed, backed by independent tax opinions.

The extent of tax litigation as a result of the above - if you are in any of the above categories and or have outstanding tax returns - will increase exponentially. In fact, we are seeing the the start of it already.

Belts and braces are not fashionable, but they do keep your trousers up in lean times!

The time for seeing your tax compliance as a low business risk is gone. The ship has sailed, and you'd better have your lifeboat lowered, your oars in the water, and the strongest team of rowers in the boat if you are to weather the tidal waves that are about to hit.

Tax compliance and tax collection is the easiest way for the government to alleviate - to a certain extent - the reliance on foreign debt.

To pave a road to fiscal discipline, you have to fix a collection system that has been lacking for some time in this country. It does not take a rocket scientist to figure out that if you collect what is due, the levels of borrowing can be reduced. This will then ensure that the anticipated relief measures that have been announced can be financed.

Tax risk and compliance irks have increased, and will continue to do so exponentially as a result of the pending world depression. Which, if the experts are to be believed, will, in all likelihood, exceed that of the 1910 depression.

Is There Any Good News?

Yes! There are relief measures in place to help struggling employees and businesses:

- An increase in the employment tax incentive by R750 per month for eligible employees, and a further R750 per month incentive for all other employees who earn less than R6 500 per month from 1 April 2020 to 31 July 2020.
- A 35 percent deferral of employees' tax liabilities (pay-as-you-earn) for businesses with a gross income of up to R100 million for four months from 1 April 2020.

- A 35 percent deferral of the first or second provisional tax payments to be made between 1 April 2020 and 30 September 2020, and of the second provisional tax payment to be made between 1 October 2020 and 31 March 2021 for businesses with a gross income of less than R100 million.
- A four-month exemption in the skills development levy from 1 May 2020.
- A 90-day deferral for payments of alcohol and tobacco excise duties from 1 May 2020.
- A three-month postponement of the filing and payment date for carbon tax liabilities to 31 October 2020.
- Postponement of measures to broaden the corporate income tax base (restricting net interest expense deductions, and limiting the use of assessed losses carried forward) to at least 1 January 2022.
- A four-month 10 per cent increase in the available tax deduction for donations made to the Solidarity Fund from 1 April 2020.
- Consideration of applications to the South African Revenue Service, on a case-by-case basis, to defer tax liabilities without penalty if the business can show it is incapable of making payment due to the pandemic.

In Conclusion:

There are undoubtedly many tax risk management strategies which should be considered during an economic crisis. Initially, business leaders will need to focus mainly on protecting cashflow and other liquidity issues. But it is also essential to think about optimising your tax position for the future.

Areas to focus on include:

- Third-party debt arrangements
- Corporate rescue tax exemptions
- Reviewing intergroup debt

At the end of the day, if your business has clear risk management policies in place, as well as procedures to minimise financial risk, tax authorities will find it much more difficult to successfully challenge your tax affairs, and your levels of risk will be lower.



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