



ICAI Singapore Chapter

Chartered Accountants e-Magazine

June 2020 Edition



Happy Chartered Accountants Day

ICAI Singapore Chapter

 22 Malacca Street, #04-03 RB Building, Singapore- 048980

 icaisingapore@gmail.com  <https://icai.org.sg>

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“

CA Kala Krishnamoorthy

Chairperson
ICAI Singapore Chapter



My Dear Professional Colleagues,

Warm greetings.

I trust this communication will find you safe and healthy.

On behalf of ICAI Singapore Chapter, we wish all members a Happy Chartered Accountants Day...!!!

The motto of the ICAI – “Ya Aeshu Suptaeshu Jagruti” – meaning the **“One who is awake in those that sleep”** defines the life of a Chartered accountancy students and professionals alike. The hard work and dedications that goes into becoming a chartered accountant lays a strong foundation for the challenges a CA faces in his professional life.

The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge.

COVID-19 Pandemic marks an unprecedented time in world history that will require the best of humanity to overcome. We wholeheartedly thank all members for putting the best efforts and generous contribution in our chapter's Charity Drive to migrant workers and supporting the Government, local machineries and all front line people and making ICAI feel proud.

Our Alma Mater, The Institute of Chartered Accountants of India under dynamic leadership of our **Honourable President CA Atul Kumar Gupta** has ensured to provide enough useful content on elearning and focusing on Skills Development of the Members through various seminars by learned speakers and made available on digital platforms to allow members and students to access the content on future dates also.

In the current COVID-19 situation, we appraise the challenges being faced and strategise our approach- **“turning adversity into opportunity”** by taking various innovative measures for the betterment and benefits of our chapter and members by arranging various virtual events with eminent speakers for members and knowledge series specifically designed to provide a platform to our members (for the members and by the members). We are invoking the valour and tackling the challenge with the confidence in these tough times.

We are happy to share the news of successful registration of ICAI Singapore branch office .We thank CA Atul Gupta and his entire team for their support and help in setting up the branch office in Singapore. We would also like to thank our Patrons Mr. R. Narayana Mohan & Mr. P Somasekaran who have been the Pillars of support in setting up the branch office and supporting the growth of the chapter and its members.

It's not about doing the best and doing great things, it's all about doing better always and do small things that are great. I, along with my entire team, shall put all the best possible efforts to ensure our standing with mother body ICAI, our Nation and Humanity. We seek your love, support for all our future endeavours.

It is my great pleasure to extend heartfelt greetings to the readers of the first issue of the year 2020 of the e magazine of ICAI Singapore Chapter. It will be useful, informative and beneficial to all members.

Do things for people not because of who they are or what they do in return, but because of who you are

Stay safe, stay healthy.

”

Patron's Message

Mr R. Narayana Mohan
Founder & Patron,
ICAI Singapore Chapter



“

Dear Fellow members,

I am very happy and delighted to pen down my thoughts about our Chapter. Congratulations for launch of e-Magazine of ICAI Singapore Chapter.

The Past Chairpersons have all worked very hard and gave their valuable time for the growth of this Chapter. I am very proud to see our members join the Chapter to give strength and unity to our profession in Singapore.

Whoever I meet every day - a businessman, a banker or a private banker or a Trader - they are saying that they are basically a Chartered Accountant besides our fellow CFO & Accountants in companies and in the profession.

You all will be puzzled if I say the number of CAs in Singapore will exceed 1500, which I am telling everyone for the past 10 years. I congratulate the present Chairperson and her Team, and they will certainly take our Chapter to greater heights professionally.

”

Mr P. S. Somasekharan
Founder & Patron,
ICAI Singapore Chapter



“

Dear Kala & Team,

Congratulations on bringing out the e-Magazine. It will be a useful, informative and handy resource which will benefit all members.

We are going through trying and troublesome times now; times we must endure and cooperate with the advisories of the government in their arduous task of fighting this pestilence called Corona. With all our concerted and dedicated efforts, we should be able to come out of this vexing situation soon.

I wish to place on record the efforts of the team which has arranged several webinars which have been useful and informative.

Once again Kudos to the team and wishing you all the best in your endeavours.

”

OFFICE BEARERS



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Chairperson

Director & COO ENAM
Asset Management



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Vice Chairman

Corporate Finance
Manager Venus Drilling



Ashish Goyal
Secretary

Business Head Kams
Singapore



Rama Diwakar Prasad
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Founder & Executive
Director Zen Corp



Mr P. S. Somasekharan
Member ICAI, ISCA
CPA (Australia)



Mr R. Narayana Mahan
Senior Partner
Natarajan & Swaminathan
Chartered Accountants

OUR PATRONS

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Chairman 2012-13



S V Padmanabhan
Chairman 2013-14



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Chairman 2015-16



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Chairman 2016-18



Alagappan Perianan
Chairman 2018-19



Rajeev Gupta
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Member

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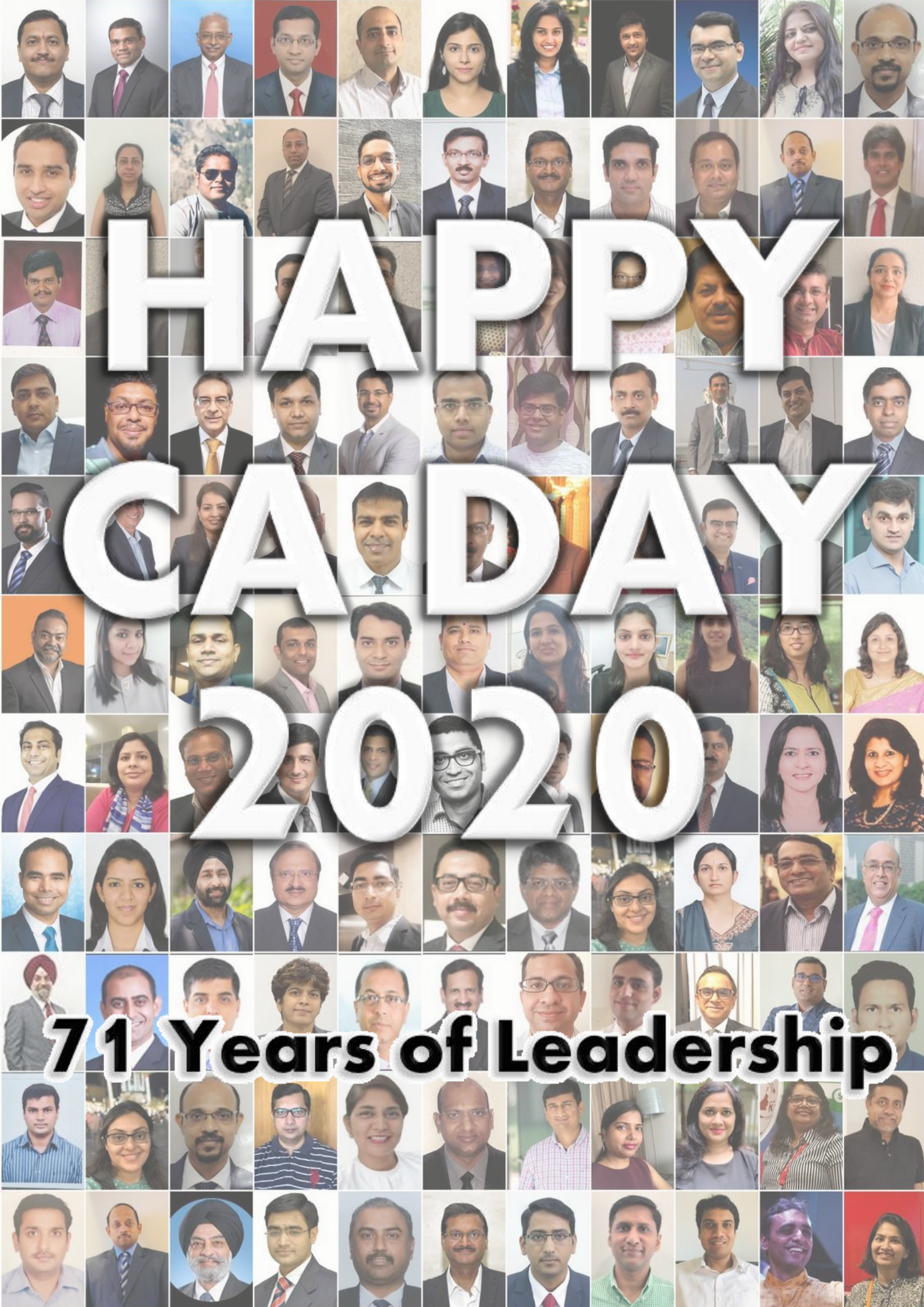
Shweta Roongta



Vinodhinee

Events hosted ICAI Singapore Chapter

DATE	EVENT	VENUE	SPEAKERS
21 January 2020	Valuation Of Tech Start Up And Internet Based Companies	SBF center, 160 Robinson Rd #06-01 SBF Center, Singapore 068914	Mr. Ashish McLaren (Duff & Phelps)
05 February 2020	Talk on Indian Budget	SBF center, 160 Robinson Rd #06-01 SBF Center, Singapore 068914	Mr. Gagan Malik Mr. Gaurav Ashar
18 March 2020	Singapore Holding Company and VCC a Game Changer	Virtual Platform	Mr. Mahip Gupta
02 April 2020	ICAI SINGAPORE CHAPTER AGM 2020	Virtual Platform	Committee Members
06 April 2020	NRI-Taxation, Resident Status and Recent Amendments	Virtual Platform	Mr. Ved Jain
17 April 2020	Wellness and Immunity	Virtual Platform	Ms. Meenu Agarwal
27 April 2020	Negotiation Skills (as Knowledge Series Initiatives)	Virtual Platform	Mr. Prashant Aggarwal
01 May 2020	Charity Drive- on Labour Day (for Migrant Workers)		
06 May 2020	Investment Outlook on Indian and Emerging Markets	Virtual Platform	Mr. Prashant Khemka
16 May 2020	Music Masti Nights	Virtual Platform	Social Event
27 May 2020	COVID Impact on Banking, Biz Transformation and Markets (as Knowledge Series Initiatives)	Virtual Platform	Mr. Ramky S Mr. M Sundaram Mr. Venkat Iyer
04 June 2020	Future of Profession and AI Application in Finance and Fin Tech	Virtual Platform	CA. Narasimhan Elangovan.
13 June 2020	Advanced Excel Training- Part 1	Virtual Platform	Mr. Ambarish Tarte
20 June 2020	Advanced Excel Training- Part 2	Virtual Platform	Mr. Ambarish Tarte
21 June 2020	International Yoga Day- Isha Kriya (Guided Meditation Program)	Virtual Platform	Isha Foundation Singapore
23 June 2020	Turn Setbacks into Comebacks	Virtual Platform	Mr. Shiv Khera
29 June 2020	The Arm's Length World of Transfer Pricing	Virtual Platform	Mr. Nipun Arora Mr. Dinesh Agrawal Mr. Vinay Sudhakar



HAPPY

CADAY

2020

71 Years of Leadership



Trade Finance In Turmoil

Author : CA. Manoj Vembu

CA. Manoj Vembu

Touted as the most promising stable asset class for banks and alternate finance asset class for private investors, Trade Finance has been shattered by a known but invisible storm - Frauds

"I had given instructions to the finance department to prepare the accounts without showing the losses and told them that I would be responsible if anything went wrong," "In reality we have not been making Profits for the last few years"-Chairman of a defunct Oil trading company in Singapore

"My father (chairman of the Company) suddenly left us and flew out of Singapore on or around December 21, 2019. I understand that he went to China. I do not know if he intends to return to Singapore."-CEO of a defunct Agro Commodity company in Singapore whom banks have alleged of committing a systematic fraud

Known to the finance world as the oldest structured finance model – Trade Finance amounts to a global market size of \$ 50 trillion. Traditionally a strong forte of Banks, Trade Finance has attracted a huge influx of private Capital an estimated \$ 10 billion, with an Alternate Asset class tag.

Marred by a series of Trade finance frauds – from Qingdao Metals to Access World Metals to Agri Trade to Hin Leong to Phoneix to Zenrock, the list has unlimited entries in the recent past. Traditionally known to be a secured lending landscape – Banks were able to salvage their losses by realising the value of the underlying goods, the recent events involving blatant fraudulent acts by the borrowers have left Banks / FI's, Private funds baffled.

Its time for Trade Finance to do a overhaul of the whole process and bring back credibility in its Lost Kingdom.

Some say Letter of Credits and some say

Discounting, Some call Back to Back and Some call it Factoring – if we look into the detail its all about some sort of levered financing structures. What do they leverage upon – an underlying commodity trade. Most of the times what misses the eye of a financier is the sheer number of times a borrower has levered the trade to access funding. Not just the financier – many a times these levered financing cannot be traced by Banks, alternate funds, Statutory Auditors and some times by risk team of an entity themselves.

If one could look at the above recent happenings in the trade finance market, it surely makes us to wonder what is the use of so many stringent lending guidelines, compliance and Risk assessments the banking sector has been emphasising on off late ? What happened to the so called reporting guidelines and going concern assessments used by statutory Auditors of these corporates ? As some one who has been in the thick of trade finance, I can confidently state



that nothing beats the integrity of the Promoters. If they could follow a strict Corporate Governance in their business, there is no other substitute for the same.

Lets dig in a bit - How does a plain trade finance happen ? When a Buyer wants to purchase any material from a Supplier, he has to either pay the consideration by cash or by way of a credit guarantee. Now, the Buyer seeks assistance of his bank / a funder to pay his Supplier and wait till he gets paid from his Customer. Simple right. This is how it all started. But human mind is not that simple – trader is a human, his banker is a human and the whole ecosystem of trade consists of humans. How can the system be allowed to remain simple with humans around?

“Time Value of Money was converted into leveraged structures in Trade finance”

The whole system created a sub system to take leverage of the time gap between the Purchase and the actual physical delivery of goods to the End buyer. Eg if a Vessel load of fuel is shipped from USA to China and it take around 50 to 60 days to reach the destination port, the time its on the High seas was utilised to build multiple financing on the same underlying commodity. The First leg buyer sells it to a second entity to unlock its funds, the

second to third and so on. This goes on till the commodity reaches its destination.

Banks were happy to fund the trade as long as they are in control of the original Bill of Lading (BL). However, when the structure was extended to Trust Receipts (where the BL's are handed over to the Borrower) and Discounting of BL's under Acceptance basis (where BL's are handed over to the Buyer before payment), the control over BL's were let loose. This is the triggering point of “Double Financing”. Since the Original BL's are handed over to the Borrower, it enabled the Borrower to handover the already financed BL's to other unrelated Banks / FI's for another round of financing. As long as the working capital cycle can be managed within the due dates, this double financing was not posing a threat and hence were given a blindeye from the Banks / FI's as well. However, lack of a centralised information sharing platform between banks, a lack of understanding of business practices by the Bankers, the statutory Auditors and the Risk controllers, trade finance will not move away from its woes any time soon. Yielding stable income for the banking segment, its unlikely to be shunned by the Banks.



Payment Services Act

Author : CA. R. Narayana Mohan

CA. R. Narayana Mohan

INTRODUCTION - PAYMENT SERVICES ACT

The Payment Services Act 2019 ("PS Act") which repeals the Payment Services (Oversight) Act ("PSOA") and the Money-Changing and Remittance Business Act ("MCRBA"), was brought into force on 28 Jan 2020. MAS has also published guidelines on Licensing for Payment Service providers and a frequently asked questions (FAQs) on the act.

Regulators today recognize the integral role of non-banks. In the old days only banks were the only institutions offering financial services. Regulators wanted the act to change the fundamental thinking by introducing activity based regulations. In Europe if they want to lend money out in mortgages only reserved by the banks to do. The rest of the financial services can be performed by companies that meet relevant regulatory requirements. The acts limits on e-wallet for individuals at \$5000/- cap on balances and \$30,000 cap on annual outflows. The cap do not apply to banks.

Besides, Monetary Authority of Singapore Act (Cap. 186), the following acts are also monitored, regulated and licensed by Monetary Authority of Singapore.

Banking Act (Cap. 19) Insurance Act (Cap. 142)

Securities and Futures Act (Cap. 289) Payment Services Act

Financial Advisors Act (Cap. 110) Variable Capital Companies Act Trust Companies Act

MAS has provided the useful online resources and the information for the common public to be aware. A list of finance institutions regulated by the MAS and the activities they are authorised to provide can be accessed and verified in their website (eservices.mas.gov.sg).

A list of individuals who conduct activities regulated by MAS and who are issued the licenses can be accessed (www.mas.gov.sg).

A list of persons and entities that are unregulated and may have been wrongly perceived as being licensed or authorised by MAS and the list is available and can be accessed (www.mas.gov.sg/IAL). More than 450 list of companies are in the investor alert list for cautioning the public.

I. DIGITAL BANKING LICENSES

Digital Banking licenses are going to be issued during the middle of the year 2020, the digital banks which are prevalent in other jurisdictions in the world offer banking services through email, online chat, mobile app, and phone calls and are not having physical branches. A guideline has been issued by MAS under the Banking Ordinance for the licensing requirements and will be issued during the middle of the year, to



commence their operations during the next year.

Digital Wallet:

A digital wallet also known as "e-Wallet" refers to an electronic device or online service that allows an individual to make electronic transactions. This can include purchasing items on-line with a computer or using a smartphone to purchase something at a store. Money can be deposited in the digital wallet prior to any transactions or, in other cases, an individual's bank account can be linked to the digital wallet. Users might also have their driver's license, health card, loyalty card(s) and other ID documents stored within the wallet. The credentials can be passed to a merchant's terminal wirelessly via near field communication (NFC). Increasingly, digital wallets are being made not just for basic financial transactions but to also authenticate the holder's credentials. For example, a digital wallet could verify the age of the buyer to the store while purchasing alcohol. The famous top 10 payment gateway are: Samsung pay, Ali pay, We chat pay, Amazon pay, Google pay, Union pay, Paynow (Singapore).

Type of License:

There are 3 types of licenses issued under the act and they are Money changing license, Standard Payment Institution license (SPI) and Major Payment Institution (MPI). Under the payment services act the following 7 activity types are defined and licenses shall be issued by MAS for carrying out the operations in Singapore.

The seven activity types of license are grouped under SPI and MPI and they are Account issuance service, Domestic money transfer service, cross border money transfer service, merchant acquisition service, e-money issuance service, digital payment token service, and money changing service.

Base Capital and Security Capital Requirements:

The base capital requirement under the act for SPI license is \$100,000 and for MPI license is \$250,000. There are security deposit requirement before obtaining a license and for a MPI license applicant must provide security either in the form of cash or bank guarantee of \$100,000 if the average, over a calendar year, of the total value of all payment transactions in one month does not exceed S\$6 million for any one payment service and for all other cases \$200,000.

II. DIGITAL BANKING LICENSES (Cont'd)

Exemption from Applying a License:

A bank licensed under the Banking act, a merchant bank approved as a Financial Institution, a Finance Company licensed under the Finance Companies Act, a person licensed to carry on the business of issuing credit cards or



charge cards and any other person or class of persons prescribed by the act are exempted under Sec. 13 of the act from the requirement of a payment service license.

Letter of Responsibility and/or Letter of Undertaking:

Where appropriate, MAS may require applicants to procure a Letter of Responsibility and/or Letter of Undertaking from the applicant's majority shareholders, parent company and/or related company.

Anti-Money Laundering and Countering the Financing of Terrorism ("AML/CFT") Requirements: A license must comply with the AML/CFT requirements as set out in the Notices on the Prevention of Money Laundering and Countering the Financing of Terrorism [PSN01 and/or PSN02] and Notice on Reporting of Suspicious Activities & Incidents of Fraud [PSN03].

Annual Audit Requirements:

A licensee must, on an annual basis, appoint an auditor to carry out an audit of its accounts and transactions, and compliance with regulations and requirements. The licensee must ensure that the auditor submits a report to MAS in Form 4. The applicant must have in place plans to meet the annual audit requirements as set out in section 37 of the PS Act. The auditor must be appointed at the applicant's own expense to carry out an audit of its accounts & transactions,

and compliance with the relevant regulations and requirements.

Applying MAS Guidelines:

Licenses should also understand and apply the relevant MAS Guidelines such as the Guidelines on Technology Risk Management and E-payments User Protection Guidelines, and keep abreast of regulatory changes.

Control of Share Holding in Licensee:

A person must not become a 20% controller of a Licensee without first applying for and obtaining the approval of the authority. The authority will look into the persons' ability to conduct its business prudently and comply with the provisions of the act, any other written law administered by the authority and is in the public interest. The authority has powers to remove any person for non-compliance or for misconduct under the act.

II. DIGITAL BANKING LICENSES (Cont'd)

Approval of CEO, Director or Partner of Licensee:

A licensee incorporated in Singapore must not appoint an individual as its CEO or director or partner unless an application has been made and obtained the approval of the authority. The authority may refuse an application of an applicant if he has been convicted whether in



Singapore or elsewhere, an offence involving fraud or dishonesty, has had execution against the individual in respect of a judgement debt or entered into a compromise or scheme of arrangement that is still in operation, has in force against the individual a prohibition order issued while he was a director in a institution that is being wound up by a court or their licenses cancelled or withdrawn by the authority.

Obligation of Operator or Settlement Institution to have place of Business Registered Office:

An operator of a designated payment system and a settlement institution, must establish a permanent place of business or Registered Office in Singapore. The Company, must appoint a person to be present on such days and such hours, to address any queries or complaints from any customer. In the permanent place of business or registered office, the license must keep or cause to be kept books of all the transactions of the business. It is also the duty of the license to inform the change of address to the authority. Section 48 elaborates various circumstances and events if it takes in the company, place must notify the authority as soon as practicable after the occurrence.

Periodic Returns:

A licensee must submit periodic regulatory returns in relation to its payment service activities and are clearly defined in the MAS Notices:

PS01	:	Notice on Prevention of Money Laundering & Countering the Financing of Terrorism- Specified Payment Services.
PS01A	:	Notice on Prevention of Money Laundering & Countering the Financing of Terrorism- Persons Providing Account Issuance Services who are Exempted under the Payment Services (Exemption for Specified Period) Regulations 2019.
PS02	:	Notice on Prevention of Money Laundering & Countering the Financing of Terrorism- Digital Payment Token Service.
PS03	:	Notice on Reporting of Suspicious Activities and Incidents of Fraud.
PS04	:	Notice on submission of Statement of Transactions and Profit/Loss.
PS05	:	Notice on Technology Risk Management.
PS06	:	Notice on Cyber Hygiene.
PS07	:	Notice on Conduct.
PS08	:	Notice on Disclosures and Communications.
PS09	:	Notice on Specified Matters and Forms.
PS10	:	Notice on Prevention of Money Laundering and Countering the Financing of Terrorism- Exempt Payment Service Providers.



CA. Nipun Arora

Importance of TP Documentation

Author : CA. Nipun Arora

To whomsoever it may concern!

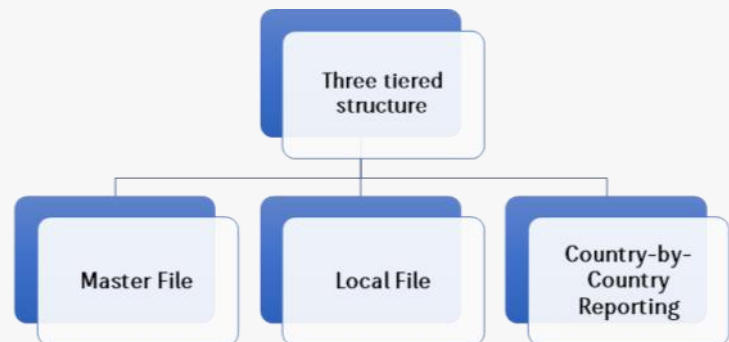
The routine Transfer Pricing Documentation ('TPD') compliance required to be done at the end of the financial year has now gained importance due to the current situation. A complete TPD would include description of supply chain, business models & strategies, value drivers of profit, industry analysis, description of intangibles assets and the related functions, financing arrangements, restructurings within the group and rationale for the same, assumptions behind the rejig of supply chains, commercial factors considered while taking decisions regarding shifting of functions and risks, benchmarking analysis and economic adjustments.

The holy trio as per Action Plan 13 of Base Erosion and Profit Shifting project

In the year 2013, the Organization for Economic Co-operation and Development ('OECD') and the G20 countries had developed a 15-point Action Plan to address Base Erosion and Profit Shifting ('BEPS Project'). On 5th October 2015, the final package of the Actions to combat Base Erosion and Profit Shifting was released by the OECD.

One of the Action (Action – 13) pertains to Transfer Pricing Documentation wherein a three-tiered documentation structure was

introduced as follows:



Master File: To provide tax administrations with high-level information regarding their global business operations and transfer pricing policies.

Local File: To provide detailed transactional documentation specific to each country, identifying related party transactions, the amounts involved and the arm's length analysis.

Country-by-Country Report: To provide factual data for each tax jurisdiction where the entity conducts business, covering, revenue, profit before income tax and income tax paid and accrued, number of employees, stated capital, retained earnings and tangible assets.

Singapore Regulations

In February of 2018, the Inland Revenue Authority of Singapore ('IRAS') introduced the mandatory Transfer Pricing Documentation requirements and the rules were framed thereunder – Income Tax (Transfer Pricing Documentation) Rules, 2018 ('Rules'). These Rules have effect for the basis period for the year of assessment 2019 and every subsequent year of assessment.



The Rules require a TPD to have two levels of information – Group level and Entity level. This is a combination of information/data required in a Master File and a Local File as per OECD Action 13.

The IRAS also published the fifth edition of e-Tax Guide on Transfer Pricing Guidelines in February 2018 ('TPG'). It explains IRAS' transfer pricing compliance programme and position regarding various transfer pricing matters.

Role of tax function

The tax function in an organization has greatly evolved from a tick-the-box compliance approach to a highly value-adding function of managing risk and reputation. Critical business decisions cannot be taken in isolation without understanding as to how the tax/ transfer pricing risk is being managed. The objectives of the key stakeholders have to be aligned with the overall corporate strategy and tax/ transfer pricing positions of the group.

The tax function today has a wider role to formulate, execute and manage the changes in the transfer pricing policies of the group. This ensures timely identification of any inconsistency and detection of transfer pricing risks.

An ounce of prevention is worth a pound of cure

In today's world, the tax authorities around globe are working in a coordinated manner wherein taxpayer information can be shared in a transparent manner. Singapore signed a Tax

Information Exchange Agreement ('TIEA') with the United States of America on 13 November 2018 (effective date 1 January 2021) and with Bermuda on 29 October 2012 (effective date 1 January 2013). The TIEA permits Singapore and the corresponding tax authority to exchange information that is foreseeably relevant for the administration and enforcement of the respective domestic tax laws. Therefore, tax controversy is not confined to a single jurisdiction now. The taxpayer has to ensure that the transfer pricing positions adopted and documented are in sync with the value created by each entity in the group/ based on economic substance.

There is a famous dialogue in the Bollywood movie *Badla* - *sach wahi hota hai, jo saabit kiya ja sake!* To prove that the related party transactions have been undertaken at arm's length, the primary document is the TPD. The TPD (along with the inter-company agreements) is the critical defense document for the taxpayer during the course of Transfer Pricing audit as it depicts the understanding of the related party transactions and the corresponding functional, asset and risk analysis.

If the taxpayer is unable to provide the TPD, the tax authorities may conclude that the taxpayer is not aware that the related party transactions are being undertaken on an arm's length basis and therefore, will determine the arm's length price that may lead to adjustment and subsequent penalty.



Due to the subjective nature of transfer pricing, tax authorities are always interested in scrutinizing the related party transactions. Therefore, it is imperative that the taxpayer is prepared with the documentation (TPD, inter-company agreements, invoices, minutes of meetings, sample e-mails, etc.) to prove that the inter-company pricing is at arm's length.

Alternate dispute resolution

The IRAS provides a Singapore taxpayer to resolve tax disputes arising as a result of adjustments made by IRAS or a foreign tax authority to the transfer prices of its related party transactions. The taxpayer may choose to resolve the issues through:

- Requesting IRAS to resolve the double taxation through the Mutual Agreement Procedure ('MAP').
- Avoiding transfer pricing disputes by applying for an Advance Pricing Arrangement ('APA') for its related party transactions for future years.

Para 8.32 of TPG clearly states that the success of the above mechanisms depends on the cooperation from the taxpayers and therefore, one of the factors mentioned by IRAS is that the taxpayer should provide access to the TPD.

Thus, it becomes imperative for the taxpayer to have the TPD in place as the document would be critical during discussions. Absence of TPD and other supporting documents may lead to the discontinuance of MAP/ APA.

Conclusion

It concerns all businesses (that have intra-group transactions) irrespective of the scale!

Singapore Transfer Pricing Regulations require a taxpayer to prepare year-end TPD if the gross turnover of the Singapore entity exceeds S\$10Mn or the entity was required to prepare TPD in the past year. Singapore Transfer Pricing Regulations also provide for past qualifying documentation, i.e. TPD prepared for a particular year may be used for subsequent two years if the prescribed conditions are satisfied. Thus, there is exemption from preparation of fresh TPD, however, the related party transactions still need to be at arm's length. Therefore, as a best practice and from view point of corporate governance, the taxpayer must undertake the Transfer Pricing benchmarking analysis (in case a full-fledged year-end compliance documentation is not applicable) to make sure that the related party transactions undertaken during the financial year comply with the arm's length principle from Singapore Transfer Pricing perspective. The analysis will also aid in substantiating the Transfer Pricing positions in case of a tax authority challenge.

The taxpayers should endeavor to adopt technology that enables the correct recording of related party transactions on a real time basis and the corresponding inter-company balances. The key management personnel along with the other internal stakeholders must continuously monitor the inter-company pricing policies to ensure that the group is achieving the desired milestones along with corporate governance objectives. This will go a long way in maintaining and enhancing the reputation of the group.



CA. Jayesh Gajare

Introduction

Sir David Tweedie, a Former IASB Chairman quoted in April 2008 “one of my greatest ambitions before I die is to fly in an aircraft that is on an airline’s balance sheet...”. His wish came true when the International Accounting Standards Board (“IASB”) published IFRS 16 – Leases (“IFRS 16” or “the new standard”) in January 2016. The new standard is a result of a joint project of the IASB and the US Financial Accounting Standards Board (“FASB”) in response to the concerns of lack of transparency of the information about the operating lease obligations.

IFRS 16 is effective from January 2019 onwards. The FASB has also published the new leases standard

i.e. Topic 842 – Leases, effective from January 2019 onwards for public companies in the US. Similarly, the Singapore equivalent of IFRS 16, SFRS(I) 16 / FRS 116 are effective from January 2019 onwards.

The implementation of the new Standard would improve the transparency and comparability of the financial statements. Investors and analysts will be able to see a Company’s own assessment of its liabilities calculated using a prescribed methodology provided under the new Standard.

This article summarises the key accounting

changes on account of the new Standard and its impact.

Lessee accounting has substantially changed

IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an ‘identified asset’ for a period of time. The standard provides more prescriptive guidance on how to apply the lease definition, compared to IAS 17 – Leases (“IAS 17”). However, in practice, a lease identified under IAS 17 are generally expected to be a lease under IFRS 16, except in cases of certain service contracts.

However, lessees are not required apply ‘lessee accounting’ principles under IFRS 16 for the short – term leases (i.e. leases of 12 months or less) and leases of low-value assets (e.g. leases of laptops). In such cases, lessees are likely to recognise the lease payments as an expense on a straight-line basis over the lease term.

Impact on the Balance sheet

Under IAS 17, lessees distinguished between on-balance sheet operating leases & off-balance sheet operating leases. Under IFRS 16, there is a single, on-balance sheet accounting model, similar to finance lease under IAS 17. That is, the lessee recognises Right-of-use (“ROU”) asset (the Company’s right to use the asset) and lease liability (an obligation to make the payments to the lessor) in the financial statements.







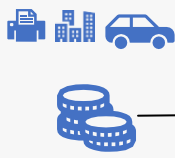
Lessee accounting has substantially changed

IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an 'identified asset' for a period of time. The standard provides more prescriptive guidance on how to apply the lease definition, compared to IAS 17 – Leases ("IAS 17"). However, in practice, a lease identified under IAS 17 are generally expected to be a lease under IFRS 16, except in cases of certain service contracts.

However, lessees are not required apply 'lessee accounting' principles under IFRS 16 for the short-term leases (i.e. leases of 12 months or less) and leases of low-value assets (e.g. leases of laptops). In such cases, lessees are likely to recognise the lease payments as an expense on a straight-line basis over the lease term.

Impact on the Balance sheet

Under IAS 17, lessees distinguished between on-balance sheet operating leases and off-balance sheet operating leases. Under IFRS 16, there is a single, on-balance sheet accounting model, similar to finance lease under IAS 17. That is, the lessee recognises Right-of-use ("ROU") asset (the Company's right to use the asset) and lease liability (an obligation to make the payments to the lessor) in the financial statements.

	IAS 17		IFRS 16
	Finance lease	Operating lease	
Assets		---	
Liabilities		---	
Off-balance sheet rights and obligations	- - -		- - -

At the inception of lease, the lease liability is a present value of the lease payments to be made over the lease term, whereas ROU asset is sum of lease liability, adjusted for prepaid lease payments, initial

direct costs (e.g. commission), initial estimate of restoration, removal and dismantling costs reduced by any lease incentives received.

Impact on the Statement of profit or loss

Under IAS 17, operating lease expenses are recognised in profit or loss on a straight-line basis over the lease term. However, under IFRS 16, depreciation charge on ROU asset would be recognised on straight-line basis and interest expense on the lease liability.



	IAS 17		IFRS 16
	Finance lease	Operating lease	
Revenue			
Operating costs		Rent expense	
EBITDA			↑
Depreciation & amortization			→
Operating profit			↑
Finance costs			→
Profit before tax			↔

The lessor accounting substantially remains unchanged under the new Standard.

Impact on key financial ratios

Lessees would recognise the liability that attract interest, along with a new asset on the Balance Sheet. Accordingly, lessees' balance sheet would look more asset-rich but also more heavily indebted.

In early years, the lessee recognises higher interest expense and total lease expense. This would result in higher EBITDA, but lower profits and earnings per share in early years of lease, compared to the IAS 17 operating lease accounting.

Key sectors impacted

Companies with large volume of assets that are on operating leases have significant impact on account of the new Standard. The sectors that are heavily impacted include airlines, retail and consumer products, telecommunications, mining, oil and gas, banking, etc. However, almost all companies in every sector have some leases. The impact on their financial statements could be material depending on the nature of the lease

(such as land and building, office space, etc.), duration of the lease (including the extension period, if any), discount rate (to compute the present value of lease payments), etc.

Conclusion

IFRS 16 provides different transition options and practical expedients to implement the new Standard and has the impact on the costs and efforts required for implementation. Most companies have already implemented the New Standard and depending on the volume of leases and transition options, the impact on the financial statements varies. The new Standard also affects the systems and processes, especially to capture the leases and to measure ROU asset and lease liabilities.

Though the day-1 and first-year financial reporting under IFRS 16 has been completed by most companies, it is important to continuously assess the impact on day-2 accounting, mainly on account of the changes in the terms of the lease contracts and during these unprecedented times, the impact of COVID-19.



Author : CA. Mahip, CA. Vishal & CA. Mansi

The onset of the year 2020 was marked by one of the most remarkable regulatory developments in the history of Singapore's asset management industry.

Long awaited and finally launched on 15th January 2020, the Variable Capital Company (VCC) framework is all set to address several limitations/constraints of the conventional corporate fund vehicle. Half a year into the launch, the VCC framework has been gearing up the asset management industry to bring funds, which have been traditionally set up overseas, to Singapore.

This article attempts to elaborate the rationale behind introducing the VCC framework, additional benefits offered in Singapore, and overall tax and regulatory aspects of a VCC structure in Singapore.

Overview of Singapore's asset management industry

Located in the heart of Asia, Singapore has emerged as a leading wealth management hub due to its conducive business environment and stable tax framework. With nearly 900 fund managers regulated by the Monetary Authority of Singapore (MAS), Singapore serves as one of the most attractive locations for fund managers as

well as an increasing number of global investors, including sovereign wealth funds and pension funds. Furthermore, the attractive tax and regulatory environment further deepens Singapore's foothold in this sector.

In the year 2018, while global assets under management declined by 4% to United States Dollars (US\$) 74 trillion, Singapore registered a 5.4% growth to Singapore Dollars (S\$) 3.4 trillion.

Singapore's investment funds industry is regulated by the Securities & Futures Act (Chapter 289) (Securities Act). The MAS, Singapore's central bank, regulates all financial institutions in Singapore, including fund managers.

The VCC framework – A brief introduction

Until recently, a conventional company has been a popular fund vehicle among private equity funds investing overseas as it allowed them to take advantage of Singapore's wide array of tax treaties with regions/countries across the world. Notably, the island's cross-border tax treaties apply only to corporate funds.

The new VCC framework aims to plug the gaps in the conventional fund ecosystem. Its features are designed to offer greater flexibility and a seamless business experience for investment



funds in Singapore, by allowing setting up of sub-funds under an umbrella VCC and less cumbersome capital maintenance requirements.

The VCC structure provides the flexibility much desired by the fund management industry and brings Singapore onto a par with other popular international fund domicile jurisdictions such as Ireland and Luxembourg, which have long offered similar structures. This should go a long way in boosting the country's attractiveness as an international fund management center.

Therefore, with the launch of the VCC framework, Singapore, traditionally an asset management hub, is now also thriving as a leading fund domiciliation hub. The new corporate structure for funds encourages co-existence of fund management and domiciliation activities in Singapore.

Salient features of Singapore VCC

- Structurally, the recently launched Singapore VCC regime rather resembles the segregated portfolio/protected cell structures in offshore jurisdictions such as the Cayman Islands, British Virgin Islands and Mauritius.
- Retaining the essence of segregated portfolio/protected cell structures in other jurisdictions, the Singapore VCC regime was

launched with following key features:

- **Confidentiality of information:** While VCCs must maintain a register of shareholders, the same is not bound to be made public, thereby ensuring the utmost privacy to investors. However, this register must be disclosed to public authorities upon request for regulatory purposes.
- **Capital issuance/redemption:** As the name suggests, a VCC has a variable capital structure, which provides flexibility in the issuance and redemption of its shares. Redemption of capital at the fund's net asset value (NAV) does not require a solvency statement and shareholder's approval.
- **Dividend out of capital:** Unlike the conventional corporate structure, a VCC enjoys the flexibility to pay dividends out of capital.
- **Ring-fencing:** A VCC can be set up either as a single standalone fund or an umbrella fund with two or more sub-funds, each holding a portfolio of segregated assets and liabilities. The umbrella fund structure offers economies of scale and cost efficiencies by allowing various sub-funds to share a board of directors, fund manager, custodian, auditor and administrative agent. It may be noted that



the VCC Act voids any arrangements that are inconsistent with segregation.

- **Open-ended and closed-ended:** A VCC can be used for both open-ended and closed-end fund strategies.
- **Inward re-domiciliation:** The MAS encourages fund managers to either incorporate new VCCs or re-domicile their existing comparable/similar overseas investment funds structures by transferring their registration to Singapore.
- **MAS VCC grant scheme:** The MAS launched a Variable Capital Companies Grant Scheme (VCCGS) to co-fund qualifying expenses paid to Singapore-based service providers for work done in Singapore, in relation to the incorporation or registration of a VCC in Singapore. This scheme is effective till 15 January 2023. Under the VCCGS, the MAS co-funds up to 70% of costs involved in incorporating or registering a VCC (paid to Singapore-based service providers). Each fund manager can avail a grant for a maximum of three VCCs.

Singapore VCC tax framework

From a tax perspective, a VCC will be treated as a single entity, i.e. sub-funds will not need to undertake separate tax compliance. A VCC will

also be eligible to apply for Singapore fund tax exemptions under section 13X or 13R of the Income Tax Act (ITA), as well as other Withholding Tax exemptions and Goods and Services Tax (GST) remissions available to conventional corporate funds. A VCC may also be eligible to access Singapore's tax treaty network where it is considered a Singapore tax resident.

Furthermore, the 10% concessionary tax rate under the Financial Sector Initiative – Fund Management Award scheme has been extended to fee income received by the fund managers, from managing/advising incentivised VCCs.

Income tax incentives for funds in Singapore

Conceptually, funds managed by Singapore-based fund managers potentially have a taxable presence in Singapore. Accordingly, income derived by such funds is typically subject to tax in Singapore, on account of being sourced in Singapore.

To offer an enticing and robust tax environment for its expanding fund management industry, Singapore offers specific tax exemption schemes (sections 13R, 13X and 13CA) to funds managed by fund managers in Singapore.

Depending on the size and nature of fund and fulfilment of relevant conditions, Singapore's ITA offers tax incentive schemes under which



“Specified Income” derived by the fund from “Designated Investments” is exempt from Singapore income tax.

Certain key features and requirements of section 13R and section 13X tax incentive schemes are as follows:

Particulars	13R – Singapore Resident Fund scheme	13X – Enhanced-tier Fund scheme
To benefit	Singapore resident corporate funds managed by a Singapore fund manager	All funds over S\$50 million managed by a Singapore fund manager
Fund Manager	Prescribed Singapore fund manager [i.e. registered with the MAS as a registered fund management company (RFMC) or who holds a capital markets services (CMS) licence for fund management or is exempted from holding such a licence]	
Investors	<u>More tax efficient if each investor is a Qualifying Investor¹, otherwise any non-Qualifying Investors will have to pay an amount equivalent to the tax on their share of the fund's income</u>	No restrictions
Legal Form	Singapore Company	Company, Limited Partnership or Trust
Fund's Residence	Must be Singapore resident <i>Inter-alia all board meetings to be conducted in Singapore</i>	No restriction
Fund Administrator	Must be Singapore-based	Must be Singapore-based if the fund is a Singapore-incorporated & resident company
Prior Approval from MAS	Required	Required
Fund Size	No restriction	Minimum S\$50 million
Fund Expenditure	Must incur at least S\$200,000 expense (including management fees, remuneration and other operating costs) annually	Must incur at least S\$200,000 expense (including management fees, remuneration and other operating costs) annually

¹Broadly, a Qualifying Investor is either (a) an individual investor; or (b) a bona fide non-resident corporate investor; or (c) a Singapore resident corporate investor owning not more than 30% of the fund (or not more than 50% if there are greater than 10 investors)



Particulars	13R – Singapore Resident Fund scheme	13X – Enhanced-tier Fund scheme
Eligibility of Singapore VCC	Yes	Yes (Singapore-incorporated or redomiciled to Singapore)
Availability of Singapore Tax Treaties	Yes	Yes (where fund is set up as a Singapore corporate entity)
Annual declaration to tax authority on non-qualifying investors	Yes (obligation of the fund manager)	Not applicable
Annual statement to investors	Yes (obligation of the fund manager)	No
Annual declaration to MAS	Yes	Yes

GST Remission Scheme

Funds are generally not required to be GST registered, on account of not exceeding the threshold for taxable supplies. To promote the asset management industry, the Singapore government allows incentivised funds (13R / 13X / 13CA) to recover GST incurred on prescribed expenses at an annual fixed recovery rate, even through such funds are not GST registered. This scheme has been specifically extended to Singapore VCCs as well.

The recovery rate is decided by the Inland Revenue Authority of Singapore (IRAS) annually. The remission is currently available till 31 December 2024 and the remission rate is prescribed at 88% for calendar year 2020 (87% for calendar year 2019).

Concluding remarks

The VCC framework provides flexibility to the fund managers to pool funds in Singapore itself.

Further, the VCC will have a Singapore-based investment manager, custodian, administrator, etc. This will significantly strengthen the commercial substance for investment funds and strengthen the case for treaty access in this post- BEPS era. One may also explore re-domiciliation of existing offshore pooling vehicles to Singapore with the similar intention of realignment with commercial substance.

The introduction of the VCC framework in Singapore is a significant development for the investment fund industry investing in the Asia-Pacific region, and thus could prove to be a game-changer development.



Dheeraj Sharma [Chairman, Gurugram Branch of NIRC of ICAI], CA by Profession and a Social Reformer by Passion. He has expertise in Internal Controls and Business Process Engineering. Besides CA profession he is Corporate Trainer and research scholar also. He has undertaken several research projects and certifications from prestigious institutions like IIT, IIM etc. Also he is a Social Activist and working on Skill Development, Spiritual Leadership and Sustainable Development related projects.



CA. Sanjay Singh Panwar

Guest Article



Emotional Intelligence & Business Leadership

Author : CA. Dheeraj Sharma | Co-Author : CA. Sanjay Singh Panwar

Emotional Intelligence

Emotions are psychological phenomenon. There is considerable universality in emotion appraisal, expression, physiology, and recognition of emotions in others. Such emotional processes allow us to adapt, respond and cope with problems in life.

Emotional intelligence is not about being emotional always, it is all about being smart with our own emotions. It is not about being nice at all places, it is more about being genuine. No one is born with a knowledge of history, literature or science etc. But almost every child can learn these subjects to a base level; but some can learn to an advanced level. However, genetic inheritance controls the personality traits that the person develops, but emotional intelligence plays a vital role in creating interest of anyone in a particular subject or segment.

Emotional intelligence can be defined as an array of interrelated emotional and interpersonal competencies, skills and behaviours which determines how effectively we understand and express ourselves, understand others and relate with them and cope with day to day demands, problems and pressure.

Essential competencies of Emotional Intelligence:

Intrapersonal

Self-Regard: To perceive, understand and accept oneself

Self-Awareness: The ability to identify & understand own emotions and their effect on others

Assertiveness: To effectively and constructively express one's emotions

Independence: To be self-reliant and free from emotional dependency on others

Self-Actualization: To strive to achieve personal goals and actualizing one's potential

Self-Regulation: The ability to control emotions and ensuring to think before act

Interpersonal

Empathy: Understanding the emotional psychology of others and treating people according to their emotional reactions

Social Responsibility: Identifying responsibilities with social group and cooperation with others

Interpersonal Relationship: Proficiency in managing relationships and building networks

Adaptability

Reality-Testing: To objectively validate individual feelings and thinking with external reality

Flexibility: To adapt and adjust individual feelings and thinking to new situations



Problem-Solving: Solve problems effectively (personal and interpersonal in nature)

Stress Management

Stress Tolerance: To effectively and constructively manage anger, anxiety and stress etc.

Impulse Control: To effectively & constructively control emotions

Business Leadership Today

Leadership relies more on personal power than positional power. Leadership can be defined as the process of social interaction where the leader's ability to influence the behaviour of followers can strongly influence performance outcomes. It is intrinsically an emotional process, whereby leaders recognise followers' emotional states, attempt to evoke emotions in followers, and then seek to manage followers' emotional states accordingly.

In the new era of business management subordinates do not accept the autocratic style as adopted by leaders in historical models of leadership. Now a days Leadership has had to evolve to match a growing sense of something like democracy & independence. Its central concern is coping with change, inspiring and motivating followers to realize the organization's vision. Business leaders now need to manage and

lead the workforce and go beyond the consultative, cooperative and democratic styles.

Emotional Intelligence in New Era Business Leadership

Now a days the application of Emotional Intelligence at work place became an important tool for business leaders. Research suggests that interventions that strengthen emotional intelligence could well promote progress in professional development. Based on research skills resulted from abilities based on emotional intelligence are as below:

Ability	Skills
Perceiving	<ul style="list-style-type: none"> Identifying emotions in thoughts of own and others Expression of emotions in accurate manner Discrimination between accurate and inaccurate feelings
Using	<ul style="list-style-type: none"> Prioritise thinking by directing attention Generate emotions to assist judgement Problem solving through emotions
Understanding	<ul style="list-style-type: none"> Understanding complex feelings and relations within emotions Interpretation of emotions Recognising emotional transitions
Managing	<ul style="list-style-type: none"> Accepting emotions open heartedly Engaging or detaching from an emotion Monitoring and managing emotions



Research provides that a business leader must possess the ability to identify emotions within himself and allows himself to identify the emotions of team members, to express their emotions. The ability to understand and experience other's emotions, is an important component of emotional intelligence. Understanding the emotional intelligence provides functional insights into human behaviour & individual perceptions.

Major competencies of Emotional Intelligence in Business Leadership

Competencies	Key Identifiers
Self-awareness	<ul style="list-style-type: none">• Self-confidence• Realistic self-assessment
Self-regulation	<ul style="list-style-type: none">• Integrity• Comfort• Boldness to change
Self-motivation	<ul style="list-style-type: none">• Optimism• Commitment• Positivity
Empathy	<ul style="list-style-type: none">• Cross cultural sensitivity• Willingness to service
Relationship Skills	<ul style="list-style-type: none">• Effectiveness in leading change• Quality to build team• Persuasiveness
Emotions regulation	<ul style="list-style-type: none">• Controlling emotions in good and bad situations.

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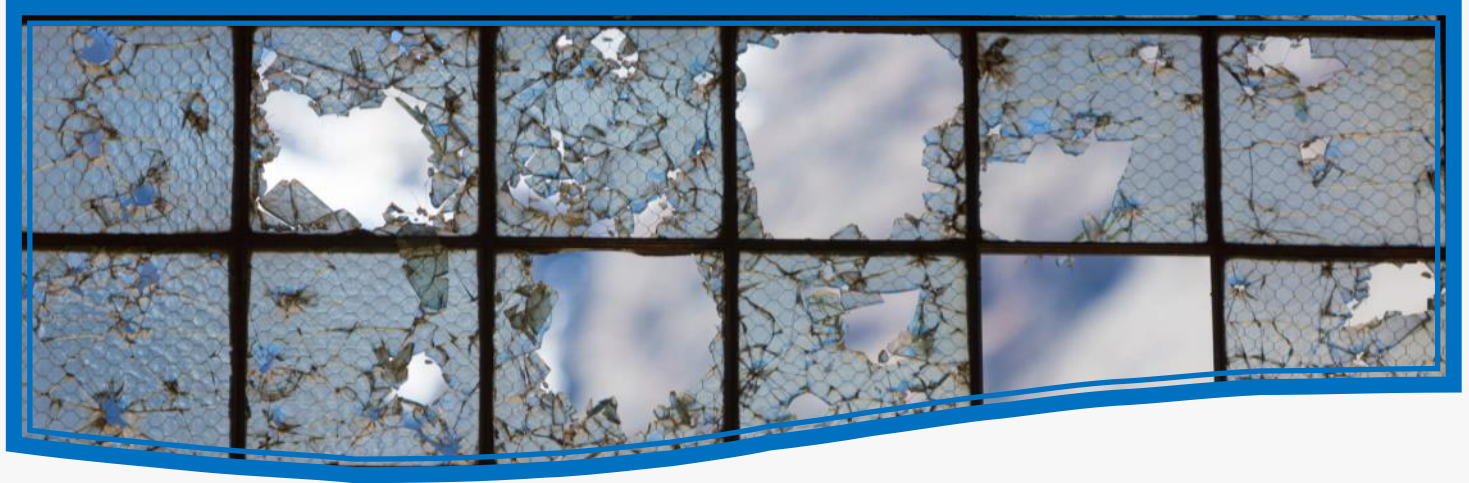
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Don't Ignore Broken Windows

Author : CA. Amish Gaglani

CA. Amish Gaglani



Little things matter. No matter how busy we are, if we let small things go they can become the norm.

What is the broken window theory?

Imagine a building with a few broken windows, they may seem like minor damage, but if these windows aren't repaired and left broken, people are likely to break more windows, and it could also lead to more serious damage.

Why?

The broken window sends the message that nobody cares. On the flip side, when an environment is well taken care of and issues are addressed as they happen, people tend to have more positive attitudes and are more committed to good management and maintenance.

The broken window theory doesn't just apply to our physical environments. When people are stressed, overworked and disconnected, little things can quickly snowball. If we don't do something when problems first arise, they can quickly become major issues. So, don't ignore what might seem to be 'small' issues – by paying attention to small problems you can prevent the bigger issues from happening.

In New York during the mid-1980's, the 'Broken Windows' theory was put into practice. Authorities led campaigns to remove graffiti from the subway, police more strictly enforced laws on things like fare evasion, public drinking and other crimes that affect quality of life. During this time, rates of petty and serious crime fell significantly, and crime in New York continued to fall over the next ten years.



Kids Corner

Author : Ms. Sanjana Kanamarlapudi

Ms. Sanjana Kanamarlapudi

My name is Sanjana Kanamarlapudi and I am 10 years old. I have been writing books since I was 8 years old. My first book was called Cupcake the Unicorn, which I turned into a series of books by adding Cupcake the Unicorn in Candyland and Cupcake the Unicorn Family. I've also written two other books called I love my dog Teddy and Bella Clarke and the Cave of Mysteries. I'm planning to turn Bella Clarke into a series as well.

Below is a brief description of each of my books.

Cupcake the Unicorn: Cupcake is a funny unicorn who wants the reader to keep reading his book. He tries to convince the reader by making himself look like the coolest unicorn ever but doesn't end up doing a good job.

Cupcake the Unicorn in Candyland: Cupcake is back but with a great adventure ahead of him! He off to Candyland to make new friends, find out his heritage and defeat the evil!

I love my dog Teddy: Do you like having a fluffy friend by your side? Well then this is the book for you! This book is filled with the funniest and cutest pictures of my dog Teddy that will melt your heart. This book represents the reason why dogs are called "Man's best friend."

Cupcake the Unicorn Family: After Cupcake gets married, he has two kids with his mate, Frosting. Their kids are Sprinkles and Cherry. This book is about a year in the family's life.

Bella Clarke and the Cave of Mysteries: Bella Clarke, Emily Lexi and Lilly Pruett come together in the magical Forest Bay Academy, where

exciting adventures, magical creatures and Lord Balthazar awaits them. The book describes how Bella's shield, Emily's courage and Lilly's knowledge stops him and saves the enchanted forest, together with the help of their magical friends who help them overcome the obstacles that await them in the Cave of Mysteries.

I dream of being a famous author someday like J.K. Rowling, so please go read my books. They are available on Amazon Kindle. Thank you to all of you who have supported me through my journey so far. I hope you enjoy the books! All my books can be found at this link ([Click Here](#)).

About Sanjana Kanamarlapudi:

Sanjana was born in 2009 in Kuala Lumpur, Malaysia and currently lives in Singapore. She first started writing and illustrating stories for young children when she was 5 years old and published her first book in 2018. Besides writing books, she has also been learning Kathak for four years and violin for three years. She also enjoys making miniature clay sculptures and figurines.

Father – Lakshman Gupta Kanamarlapudi, COO & Co-Founder, Qapita Pte. Ltd.

(CA – May 1997 batch)

Mother – Sunaina Dhanuka, Head of Procurement (ASEAN) & Commodity Risk Management & Procurement Analytics Director, Coca-Cola Asia Pacific Pte. Ltd.

(CA – May 1999 batch)



