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BUSINESS WORLD

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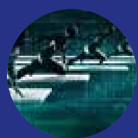

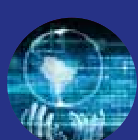

Stephen Hamlet
CEO
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Foreword

Our network continues to grow from strength to strength. We continue to welcome new member firms and we welcome new people. And it's all about TRUST!

This year, one of our founding members, Lubbock Fine celebrates their 90th anniversary. We congratulate them on such a milestone achievement. As I write this, I've just returned from India and our firm there will also celebrate 90 years in three years' time.

The beauty of our network is the mix between long-standing firms, with a tremendous history, and newly created firms of younger, yet experienced, professionals who have often come from a Big Four background.

Our meeting in Chennai was themed around exactly that: 'what can the younger generations learn from the older and vice versa?' It was interesting to hear that these days, younger people are more willing to make mistakes and can accept failure. This makes the new generations more adventurous, taking risks and potentially reaping much greater rewards. This is particularly true of Asia, where previous generations feared anything but a stable environment.

Turning to our profession; your accountant should be an extension of your team. Does it matter that our London office has amazing views of the magnificent St. Paul's Cathedral? Does it matter that our members are celebrating milestone anniversaries?" Well, to both of those - Yes. Image and appearance are important, and a long-standing history is also important.

BUT... what is more important is that the people who are looking after your affairs and giving you professional advice are trustworthy, empathetic and really care about your business; as if they were part of your business.

This is why Russell Bedford holds several events throughout the year, to connect people to similarly minded individuals around the world, so they can service their clients beyond boundaries; being confident that the treatment they receive will be of the same personal, professional and quality standard that they provide themselves.

Technology is changing our lives, but it should not change the importance of LIFE! Machines can help and assist, but you need to meet PEOPLE, talk with them and get to know them in order to trust them. A fancy name and address in a posh building is not enough. This is why I travel a lot; to get to know people and build relations in person. As Chief Executive, I need to be sure that the people in our network promote our brand; portraying the correct ethos, regardless of cultural differences. After all, a chain is only as strong as its weakest link and we cannot afford to have any weak links.

I witnessed some unique and unfamiliar customs in India and I also wrote an article recently about the amount of care you are given and attention you receive, which can be overbearing at times; but I always travel with an open mind and enjoy embracing these wonderful experiences. I am fortunate to be greeted with such immense hospitality wherever I go, and to witness our members' genuine desire to want to get to know others and share knowledge and experience. This certainly earns my trust.

Our profession is changing rapidly, and new and innovative techniques should be embraced by our people, without losing sight of how important those PEOPLE are.

We have accountants and business advisors all over the world, offering their services to internationally expanding businesses. They're good. They're really good. And they care. TRUST ME!

Technological evolution – the challenge for business leaders

About the author

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Justin is a partner of Russell Bedford's Sydney member firm Camphin Boston. He joined the firm as a cadet accountant in 2000. With expertise in audit and assurance, management accounting, financial statement preparation, self-managed superannuation and valuations, Justin has helped advise and grow family businesses through to publicly listed corporations across a vast range of industry sectors.

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A great deal has been written about how automation and artificial intelligence will threaten traditional business models. Much of this focuses on the technical details of various products, or presents a doomsday perspective. However, as business leaders, you need to steer the conversation in the right direction and focus on things you can control to navigate successfully through technological evolution. Here are some of the things your business should consider:

Establishing a change mindset

Before you can create the right mindset in a business, there are a few myths to debunk. Chief among these is a pervading pessimistic view of a world where technology makes people redundant. This is destructive in many ways.

If your people adopt this view, how can your business possibly implement change successfully? How will you convince bright young candidates to join you? How will you invest in your business with confidence? To counter this, you must be optimistic and promote technological evolution as an exciting time for business. You must paint a picture of a future where people skills and technology come together to build a successful business in which everyone can prosper.

Some experts suggest that a new phase of technological disruption is beginning. I challenge this negative representation and prefer to call it a technological evolution. Technology has been evolving since the abacus. It's the pace of change that has accelerated, although not as quickly as we may think. Some viewed the first Industrial Revolution as a threat to people's livelihoods; this didn't happen. The reality is that these technologies became valuable tools that improved efficiency. Why will the effect of modern emerging technologies be any different? Ask yourself what developments have happened in your own field of business, that didn't exist ten years ago, that have now become a way of life. Businesses can, and do, adapt.

Using technology to achieve positive results

Leading your business through technological evolution is not just about implementing new technology. These developments will create opportunities for your business, providing more time to develop new and valuable products and services. Further, the development of artificial intelligence will give you the ability to model and test products and services, and measure the value your business creates for customers. Technological evolution will not only create opportunities, it will help to build competitive advantage and challenge you to continually re-evaluate your business model.

Reviewing your investment in staff

Technological evolution will, of course, present you with new staffing challenges. Even though more basic processes will become automated, everyone needs to start a career somewhere. Think about your own business. What does the pathway from trainee to qualified professional look like in the future?

You may think the answer is to recruit fewer junior staff members, but will this help your business to prosper in the longer term? Recent years have seen a trend towards outsourced staffing models, buying in staff and services on an as-required basis. However, this has created its own problems. Take Australia as an example, where competition for mid-level staff has become so intense that businesses face increasing costs when trying to attract good quality staff. Further, many firms that outsourced their junior staff requirements now find themselves depending on recruitment firms to fill middle and upper level vacancies because no-one is coming through the ranks to fill the gaps left by people leaving.

I believe the cost of developing junior staff is a necessary and worthwhile investment to create future leaders who can build and maintain healthy businesses.

Engaging with regulators

Government agencies are investing in technology so that businesses can become more connected with regulators. As an example, the Australian Tax Office (ATO) is increasing the connectivity between business payroll systems and its database. From 1 July 2019 all businesses must transmit their payroll data to the ATO every time they process a payroll. This will give the ATO almost live data on employee earnings.

While we don't yet know how far this connectivity will go, or whether there is a limit to how much businesses will tolerate government access to their information, engaging with regulators in this way may yield benefits to businesses in the future.

Strong leadership is vital

Emerging technology makes for an exciting time for businesses everywhere. At the same time, businesses will need strong leadership to manage the change if they are to thrive in an environment of technological evolution.

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Jaime is a partner of Navarro Llima Abogados S.L., Zaragoza, a member of Russell Bedford International, and he specialises in tax and commercial law. Jaime has particular experience in international transactions and the provision of advice to Spanish branches or subsidiaries of overseas companies. He has worked as consultant to Spanish regional governments in attracting foreign capital and investments. He is a member of the Association of Certified Fraud Examiners (ACFE), International Association of Young Lawyers (AIJA) and the International Fiscal Association (IFA).

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Directors of Spanish companies – financial reporting duties

Many of the companies established in Spain are subsidiaries of foreign parent companies. Often, we find the board of directors of a Spanish subsidiary comprises members who are non-resident and have little experience of Spanish financial reporting obligations and are unaware of the potential liabilities of failing in their duties as directors. We've even seen examples of board minutes written in Spanish with no corresponding translation for foreign directors to read and sign. This is dangerous.

In this article we look at some of the basic financial reporting duties applying to directors of Spanish companies.

Preparing, publishing and depositing financial statements

The board of directors must prepare and sign financial statements within three months of the end of the company's financial year. So, 31 March for a company whose financial year ends on 31 December. This date is important as it is the point at which directors, by definition, are aware of the contents of the financial statements and cannot claim otherwise. The financial statements contain the company's:

- balance sheet
- profit and loss account
- statement of changes in net worth
- cash flow statement
- annual accounts report

The board of directors must also submit the financial statements for independent audit to verify their accuracy. The auditor has one month to produce a report.

Once published, the financial statements must be approved by shareholders no later than six months after the end of the financial year. So, in this example, by 30 June. Within one month of this deadline, 31 July, the company must deposit its financial statements with the Commercial Registry. At this point, the financial statements and all the information they contain, enter the public domain. Anyone who is interested can access an online copy by paying a fee of €10, useful for stakeholders with a financial interest in the company, such as banks, customers, suppliers, and employees.

The audit report

The audit report verifies the accuracy of the information in the financial statements. It is mandatory for Spanish companies meeting two of the following conditions:

- assets exceeding €2.8m
- turnover exceeding €5m
- more than 50 employees

However, although the audit report verifies the financial statements, it does not protect the board of directors against liabilities that may arise as a result of the published information – there are certain responsibilities that are not removed by the audit report or shareholder approval.

Responsibility to monitor the company's financial position

Perhaps the most important responsibility is one that requires directors to ensure the financial health of a company. If losses reduce the net worth of a company below one-half of the issued share capital, the board of directors must act to rectify the situation by injecting capital or refinancing. The only alternative is to dissolve the company by law.

If there is no agreement to rectify the financial situation of the company, the board of directors must call a meeting of shareholders to adopt the dissolution agreement. This meeting must happen within two months of the directors becoming aware of the situation. In our example, as the directors, by definition, become aware on 31 March, the meeting must take place by 31 May.

If the directors do not fulfil their obligation, they can become personally liable for any debts arising after this date. This sanction also applies if the directors do not deposit the financial statements with the Commercial Registry.

It is important to be aware of these potential liabilities given that any creditor can check a company's financial position and, if necessary, claim against the directors for repayment of debts.

"Perhaps the most important responsibility is one that requires directors to ensure the financial health of a company"

Five lessons from the last US tax season

About the author

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Karen is a principal at Russell Bedford's Chicago member firm Cray, Kaiser Ltd. She oversees CK's tax division, with niche expertise in closely held and family-owned businesses. In her tax planning work, she minimizes liability at the entity and individual level by helping clients think through the tax implications of their decisions throughout the year. Having successfully navigated evolving tax codes for more than 20 years, Karen leads seminars on tax law updates at the firm.

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When US taxpayers filed their tax returns this year, it was the first time they dealt with significant tax reform in more than 30 years. The Tax Cut and Jobs Act became law in 2017 and overhauled much of how individuals and businesses are taxed. Understanding how the law would impact our clients and implementing the law on tax returns brought challenges. In this article we discuss our top five learning points.

Tax withholding tables

The IRS adjusted the federal tax withholding tables to reflect the reduced tax rates applying in 2018. As a result, many employees enjoyed higher pay cheques because of reduced federal tax withholding. But there was a problem: the tables failed to consider other changes in the law, including the loss of tax deductions by those on higher incomes. Many paid insufficient tax and faced unexpected and significant tax bills.

If you want to avoid an unexpected tax bill, work closely with your adviser to ensure you minimise taxes and determine your appropriate federal tax withholding rate.

Qualified Business Income (QBI)

The 20% deduction for Qualified Business Income (QBI) was one of this year's most discussed topics. It was not until the summer of 2018 that we received more clarity on specified-service businesses. However, the law is still uncertain, and we hope for further guidance. That said, many of our clients took advantage of the new deduction and the advance planning surrounding maximising the QBI was effective.

On the flip side, we saw a significant delay in tax reporting from partnerships and S corporations that hold businesses that may generate QBI. Hedge funds will face extremely challenging reporting requirements for the QBI. We expect that some K1s, reporting shareholder and partner income, will arrive even later in the summer of 2019.

Decrease in individuals claiming itemised deductions

For the 2018 tax year, the standard deduction increased to $12,000 for single filers and $24,000 for married filers filing jointly. Given the $10,000 limit on the income and real estate deduction, as well as the elimination of miscellaneous itemised deductions, many taxpayers' standard deduction was higher than allowable itemised deductions. Taxpayers finding themselves in this situation would likely anticipate that the standard deduction might be more beneficial in the short term. Those taxpayers should consider steps to plan controllable tax deductions better to maximise the benefit of the deduction.

Increase in notices

Our clients are now receiving tax notices from both the IRS and the Illinois Department of Revenue, our local state tax agency. Our advice is don't panic. Most of these notices are showing disallowed deductions or credits, but that doesn't mean the notice is correct; the revenue agencies are simply asking for more information. If you receive such a notice, send it to your tax adviser who will be able to provide the necessary information to support your tax position and rectify an apparent underpayment.

Theft identity protection PIN

Sadly, fraud and scams are on the increase, and tax returns are no exception. As an added protection, the IRS has assigned a six-digit Identity Protection (IP) PIN to affected taxpayers to help prevent the misuse of Social Security Numbers on fraudulent federal income tax returns. Taxpayers with a PIN must use it on their tax returns for the IRS to accept the tax filing.

While it's easy to relax at the end of another tax season, it's important to keep learning and prepare for next year.

Transfer pricing – overview of Japanese tax reform

As business has become more globalised, internal transactions between international subsidiaries of global organisations has become commonplace. The value at which these transactions take place is known as the transfer price. Often these transactions exist simply to move profits from high-tax to low-tax jurisdictions and involve intangible assets that are difficult to value. The OECD's Base Erosion sand Profit Shifting (BEPS) report, and the guidelines arising from it, attempt to deal with this issue.

Japan has recently introduced its own tax reforms with the intention of bringing its treatment of transfer pricing in line with the guidelines contained in the OECD final report arising from the BEPS project. The reforms also implement the OECD guidance on hard-to-value intangibles (HTVI) and its views on the shifting of profits.

The reforms contain several changes, including:

- clarifying the definition of intangible assets
- adopting discounted cash flow (DCF) as a method of transfer pricing
- extending the statute of limitations from six to seven years
- formalising the use of an interquartile range

In this article we take a high-level look at each of these areas.

Defining intangible assets

Intangible assets by their nature are vague and esoteric. This is what makes them difficult to value. Physical assets such as property and machinery, and financial assets such as cash and equities, are relatively easy to value. The OECD's transfer pricing guidelines clarifies an intangible asset as *…something that is not a physical asset or a financial asset, which is capable of being owned or controlled for use in commercial activities…* Examples include:

- intellectual property such as patents
- rights under commercial and government licenses
- goodwill
- brands and trademarks.

Using the discounted cash flow method

The DCF method is not new to Japan, it has been in use for more than 40 years. What has changed, is that Japanese law has now formalised its use. At its heart, DCF gives a current valuation based on a discounted future value derived from assumed future cash flows.

Where companies fail to supply the necessary documentation for establishing an arm's length transfer price (the price at which two unconnected companies would realistically transact), Japan's National Tax Agency (NTA) can use the DCF method to estimate tax by calculating an arm's length price.

The DCF method isn't only available to the NTA, it exists for taxpayers to use also. Legislating for its use has the effect of formally permitting its use as a way of valuing intangible assets, something that didn't exist previously in Japanese law.

Extending the statute of limitations

The period in which the NTA can legitimately correct tax decisions has extended from six to seven years. This gives the NTA more time to see the effect of an asset in action enabling it to more accurately determine whether an arm's length price is commercially reasonable.

Formalising the use of interquartile range

Again, Japanese law is formalising something that is already in use. The interquartile range is a system of adjustment that can be used to modify a transaction price where a lack of accurate and quantitative data exists.

More detail expected

While the legislation is in place to make these changes happen, we still await some of the finer detail explaining how it will work in practice. Given the new rules will apply to businesses from April 2020, we expect to see this later in 2019.

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Masatoshi is a partner of Shinsei International Tax Co., the Tokyo member firm of Russell Bedford. He was a national tax expert for the Tokyo Regional Taxation Bureau (TRTB) before moving to the National Tax Agency (NTA) of Japan for 26 years.

He worked in the field of transfer pricing for 11 years, which involved the handling of Mutual Agreement Procedures, Advance Pricing Arrangement, court cases, and tax reform.

He teaches a variety of seminars such as business research at Mizuho Research Institute Ltd and has written a book called "How to prepare Transfer Pricing Documentation", published by Chuo Keizai-sha in December 2018.

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Managing one of the overlooked aspects of growth: business change

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Hartley is a partner of Russell Bedford's Toronto member firm KRP. He has over 30 years of experience with the firm and is responsible for a large and diverse client base of owner-managers, entrepreneurs, family-owned businesses and not-for-profit organisations. Hartley brings expertise in multiple disciplines including accounting, audit, financial management, as well as estate, corporate and personal tax planning. He has published several articles and presented seminars—on topics ranging from financial reporting and business acquisitions, to taxation and succession planning—to various industry groups and professional organisations.

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So, you've founded a company, survived the first few years and now employ around 20 people. The good news: you've come further than the average entrepreneur, who, statistics show, starts several businesses before eventually succeeding, if they succeed at all. The challenge now isn't how to maintain a lucrative growth trajectory, it's about how you manage change – an aspect of starting and growing a business that few entrepreneurs consider.

In the early years, surviving from one month to the next is enough to keep any businessperson occupied. Factor in daunting tasks such as attracting and retaining new clients, and it's easy to see why concerns over managing that change tend to fall away. But this is a major oversight that comes back to bite many CEOs. Every business is dynamic and undergoes constant change. Mostly these shifts are subtle – picking up a new client or adding a new product or service – but they can be dramatic, such as a capital injection that turns a small business into a large business that can suddenly compete globally.

Most leaders find managing that change difficult because they either aren't qualified to run a large business, or they're so immersed in the business detail that they can't focus on the wider strategic picture.

Managing change is important and can dictate the future of a business. Here I will focus on six high-level operational considerations that every entrepreneur should address as their business grows and needs to adapt. They could make the difference between success and failure.

1. Rely on grounded forecasting

Every entrepreneur is an optimist at heart. If not, they would never embark on the, often tumultuous, journey of starting a business. Many make exaggerated assumptions about their revenue potential: 'If I can just capture 1% of my industry's market share, I'll be in great shape,' is a harrowing refrain heard too often by accountants and business advisers. Yet achieving even that seemingly modest goal can be difficult. Optimism is wonderful, but it must be tempered by realism. This means:

- constantly re-evaluating business risks and opportunities
- assessing which profit centres you can cultivate
- analysing your market for vulnerabilities you can exploit
- taking action to protect against areas of concern
- being ready to evolve your business model, simultaneously monitoring metrics such as cash flow.

2. Analyse to remain competitive

Even if your business reaches the pinnacle in its industry, you can't guarantee it will stay there. To continue to compete in your industry you must monitor your competitors closely while continually improving your systems and processes, and your products and services. Fix processes before they fail and don't wait until a product or service becomes outdated before readying a new improved version.

3. Keep a close eye on your books

The idea of maintaining strong cash flow is one that confuses many entrepreneurs. An outstanding invoice is worthless until it's paid, and just a month or two with no cash flow can break a business.

Managing your cash flow needs thorough planning, this includes forecasting future revenue and agreeing alternative funding sources to cover periods when cash flow dries up. Keeping costs under control, while still pursuing growth opportunities, is a delicate balance, and one that can elude even the best-intentioned entrepreneur. If you sell products, keep tabs on stock levels and be prepared to sell at a discount when they run high. Also, find ways to shorten receivable timelines. Always be aware of customers or suppliers in financial distress. Signs include drawn out payment terms and missed payments.

Crucially, make sure your accountant is equipped with the knowledge and expertise to handle your growing business, you will need to rely on their expertise.

4. Reassess talent

The people who help you start your business aren't necessarily the right people to take it to the next level. This can include you the business owner. Successful businesses shuffle their staff regularly, especially in periods of change. It can even make sense for a business founder to hand the reins to a more qualified CEO to manage day-to-day operations when change dictates the need for a more advanced skill set. Whatever the circumstances facing your organisation, be prepared to continually re-evaluate your team and to ensure you always have the right talent, in the right place, doing the right things.

5. Implement new systems

Systems that work today aren't necessarily effective tomorrow. Everything from your critical software to production equipment to employee policies and induction programmes should be under constant scrutiny. If there are ways to improve these systems, implement them. If some are outdated and need to be discarded altogether, do so. Many SMEs tied to old ways of doing business, see their competitors leave them behind. Don't put yourself in this position.

6. Embrace change

Identifying and embracing change when it's needed is key to business success. This takes strategic insight, careful planning and pinpoint execution. When you get it right, implementing effective and strategic changes can help your business survive almost any challenge.

> *"The people who help you start your business aren't necessarily the right people to take it to the next level."*

Cyber resilience – a good place to start

About the author

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Steven is a special projects manager at Saward Dawson, the Melbourne member of Russell Bedford International. He joined the firm in 2012 having previously worked for a large accounting software provider. He has found a niche in getting the maximum from accounting software and making it work for his clients.

Steven enjoys developing his understanding of business processes and then improving them with the help of technology – his mission is to automate whatever can be automated. Through the combination of his expertise in tax, accounting software and his passion for Excel modelling, he thrives on assisting clients while developing and implementing practical solutions to business problems

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The growing recognition that cyber-attacks and data breaches are on the rise puts the onus on all businesses and organisations, in both the public and private sectors, to protect their data and their systems from malicious intrusion. You don't have to be a prominent government agency to be of interest to tech-criminals.

Cyber resilience is the ability to identify, protect, detect, respond to and recover from a cyber-attack. It covers governance, information security, systems security, and incident response and notification.

It can and will happen to you

"Why would anyone want to hack our systems?" It is a fair and reasonable question. Your organisation might have data on a lot of clients or maybe not much at all. You may not even have a lot of intellectual property of significance, but whatever you do have is important to you. At the very least, a hacked computer may represent an inconvenience but often sensitive information is involved and this is a risk to you or your business if outsiders have access to it.

We live in a day and age where emails can contain highly sophisticated software (or links to such systems) enabling hackers to infiltrate your device. A malicious email could be disguised as an innocent email that you regularly expect to receive. By the time you have clicked through and realised that it is a fake, it is too late, the damage has already been done.

Why do hackers want access to your device?

Two attack scenarios are common:

1. Ransomware – you get locked out of your computer and a message says that for just $500, 'they' will release it for you. Never give your payment details to these criminals. Why would you trust them? It is now too late; you must rebuild your computer from scratch.

2. Your device is used as a proxy by hackers – to prevent themselves from being tracked, hackers like to use other people's computers to do their dirty work for them. This may be perpetrated using software, possibly introduced through innocent web-ads of which you are completely unaware, that connects your computer to others across the internet and does who knows what. The malicious programs that allow hackers to do this are referred to as 'trojans'.

It is only a matter of time before your devices and systems become a target and you may be totally unaware of this.

The question that every organisation needs to ask is, 'Are we confident that our systems have not been compromised?'

Government intervention

Many jurisdictions have begun to legislate to improve cyber security and you need to be aware of any regulation that exists in your own country. Here in Australia, for example, the Commonwealth Government's Protective Security Policy Framework (PSPF) provides policy and guidance on protective security best practice across corporate and non-corporate Commonwealth entities. It also serves as a blueprint to guide state governments in developing their own security policies. Broadly, the framework contains 36 mandatory requirements across the following:

- Governance
- Personnel security
- Information security
- Physical security

In Europe, the General Data Protection Regulation imposes obligations in relation to data collection, data retention and data breaches and readers in Europe should consider the specific requirements applicable to them.

Regardless of whether there are regulations that are applicable in your jurisdiction, protection of private information and your own computer devices is imperative for all businesses and a risk that should be deliberately managed.

Mandatory breach reporting

The Australian Government has also passed mandatory data breach laws that came into effect in February 2018. Organisations bound by the Privacy Act are required to report to the Privacy Commissioner if they suspect a breach, and to carry out specific steps to manage this process. In the event of an actual breach, it is mandatory for the Commissioner and affected clients to be notified immediately.

Where to start with information security

Certainly, there is crossover between protective security domains and the requirements are very broad. However, the following steps will set any organisation on the right path towards information security management.

Define a clear direction

Start by defining a clear direction on information security by developing and implementing an information security framework (ISF) covering people, policies, processes, and controls.

Answering these questions will help you shape your framework:

- Where is information stored?
- Is information stored in the same manner and location both for internally and externally generated information?
- Who has access to your information?
- Who are your responsible persons managing information internally and externally?
- Do your IT consultants actively monitor unauthorised access?
- Do you have controls that can detect information breaches?
- What are your breach response procedures?
- Do you know what your reporting channels are?
- What are your recovery and continuous improvement procedures?

Keep it relevant to you

Organisations come in all shapes and sizes. With untold amounts of information flowing into and out of your organisation, it is important to understand:

- The legislation, if any, that governs your information
- The information your organisation is permitted to retain
- The difference between personal, sensitive, and confidential information, and whether you need to hold this information legally.

Document and implement procedures

To ensure that information, human processes, systems and network tasks are managed securely and consistently, make sure they are clear and known. Things that could be considered include:

- Planning information security awareness workshops
- Producing data breach escalation procedures
- Producing data breach notification procedures
- Ensuring third party service agreements reflect current privacy and data security requirements
- Identifying external data breach response agencies and contact points.

Make the importance of cyber security well known in your organisation

Having frequent conversations and regular updates within your organisation about data security will keep this at the front of mind. Even encouraging staff to regularly change their passwords and keeping their passwords hard to guess, would go a long way to prevent IT security breaches. Remember that every person with access to a device connected to your systems is a point of vulnerability.

Seek external advice and opinions

By going through these steps you will be in a position to assess your current processes and their suitability. You may find that while your IT people are keen to be involved, this may not be their area of expertise. These issues are complicated, and they are often outside the sphere of knowledge of people within the organisation. It may be that you require an independent opinion or guidance on what could be an extensive review. In our organisation we employed an expert to undertake penetration testing to confirm that our firewalls were strong and to report on points of vulnerability that we could improve.

The rise of FinTech in banking

Innovation has transformed many industries during the last twenty years; this is no truer than in the financial services industry. Traditional banks have been able to maintain their dominant position in everyday financial life, both commercial and domestic, largely due to high levels of regulation acting as a barrier to entry. However, technology has changed everything, and the banks are witnessing the arrival of high-tech new competitors that threaten their dominance.

Perhaps surprisingly for the traditional banks, many of the new financial competitors are innovating and growing in emerging countries where the growth potential for banking services is huge. In Asia, Africa, and Latin America, 60% of the population still has no bank account, yet they do own mobile technology such as smartphones. Of the new entrants, financial businesses founded on technology, collectively known as FinTechs, are the most specialised. In this article we will look at FinTech businesses and how Mexico is dealing with their arrival.

The FinTech business model

FinTechs operate as intermediaries in money transfers, loans, crowdfunding, purchases and sales of financial securities, as well as providing financial advice services. They have three key characteristics.

1. They focus on a single product or service and do it well. Without the overheads of traditional banks, they can concentrate on the user experience by providing their service more cheaply, more efficiently, and more resourcefully. An example is TransferWise, an application that enables international money transfers.

2. They have a clear customer focus. Without the cumbersome legacy systems with which the traditional banks grapple, FinTechs can focus on solving their customers' problems. The application Fintonic, for example, allows users to efficiently manage their bank accounts and savings.

3. They all use modern technology that gives them a competitive advantage. Kabbage, an American lender to small businesses, can collect large amounts of data, using artificial intelligence, to grant loans in just ten minutes.

These characteristics enable FinTechs to supply their products more efficiently and at lower cost than the traditional banks.

Regulating FinTechs in Mexico

According to a US Treasury report, more than three thousand new FinTech businesses were formed between 2010 and 2017, generating investment exceeding $22 billion. This rapid growth has made the issue of regulation a pressing one, particularly as traditional banks have been tightly regulated for decades.

Mexico's National Banking and Securities Commission (CNBV) governs FinTechs under a new Financial Technology Institutions Law. This law allows FinTechs to operate using one of two business models:

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He is certified by the Mexican authorities as a compliance officer and external auditor for AML.

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1. Electronic payments institutions permitted to issue and manage monetary balances electronically, perform domestic currency operations, and act as money transmitters.

2. Crowdfunding institutions permitted to conduct financing operations involving debt, equity, or profit sharing.

FinTechs must meet the following stringent licensing requirements:

- A minimum share capital of UDI 700,000 equivalent to around $217,000
- At least two shareholders, Mexican or foreign, individuals or other entities
- A management body comprising a single manager or a board of directors
- An overseeing body that supervises the management body
- Sufficient representatives to ensure the business can fulfil its corporate purpose.

Where next for FinTechs?

Until now FinTechs have focused their attention on payments, automation and open data. However, 2020 will see a shift in focus as the market seeks to control the full range of FinTech services through regulation.

What tends to follow regulation is a surge of new entrants into the mass market. This will happen quickly, especially in areas where the take up of traditional banking services is less common. This is likely to represent the beginning of a new era in financial services.

News in brief

HMV Group appointed as Russell Bedford member in Brisbane

Russell Bedford has further enhanced its position in the Asia-Pacific region with the appointment of HMW Group in Brisbane, completing the network's coverage in Australia's major cities.

HMW Group partner, James Whitelaw, said: "As a group on a clear path towards significant growth and development, we at HMW have been eager to join an international network in order to support our growth plans. We are confident that our new membership will aid us in developing our group and in supporting our clients' growing international needs."

Russell Bedford exhibits at AICPA Engage in Las Vegas

Developing the network in the US, the world's largest market, is always high on Russell Bedford's list of priorities. In support of its growth strategy, Russell Bedford exhibited at one of the largest accounting conferences in the world, AICPA Engage 2019, held in Las Vegas in June.

Russell Bedford's Isle of Man member SMP Group completes MBO

SMP Group Limited has successfully completed, and have received regulatory approval for, a management buy-out as part of the planned leadership succession of the business. Backed by Palatine Private Equity LLP, the deal sees former Group Business Development Director, David Hudson, move into the role of Group CEO, supported by an executive board drawn from within the existing leadership team.

It is expected that the funding brought by this move will allow SMP to invest in and develop all areas of their business.

Russell Bedford appoints HannawayCA as member in Belfast

HannawayCA has joined the Russell Bedford network as its member firm in Northern Ireland. The firm, which has been shortlisted for an Accounting Excellence Award in the category of 'Fast-track Firm of the Year', is a grouping of three companies which consists of Chartered Accountants HannawayCA Limited and its specialist subsidiaries HCA Business Recovery and HCA Corporate Finance.

Singapore retains second place in 2019 World Bank Doing Business ranking

Singapore has retained second place in the world ranking for the ease of doing business in this year's World Bank Doing Business study, coming after New Zealand for the third consecutive year.

Russell Bedford firms, including Singapore member Steven Tan Russell Bedford PAC, contributed to the report's Paying Taxes survey in which Singapore moved up one place to eighth position.

Russell Bedford's Romania member supports ACCA / CECCAR event

3B Expert Audit, Russell Bedford's member firm in Romania, was the main supporter of an ACCA-CECCAR event in Bucharest, which took place on 11 July 2019 and was attended by financial, accounting and auditing professionals from the region. Managing partner of 3B Expert Audit, Adriana Badiu, was the main speaker at the event.

Russell Bedford announces 54% increase in revenue growth in Moscow

IAS, Russell Bedford's Moscow member firm, has announced a 54% increase in revenue growth for 2018 – five times higher than Russia's audit market growth rate. The figures published by RAEX, a leading Russian rating agency, showed the IAS has moved up four places to 16th in the league table of Russia's major auditing companies.