

Global Insight – January 2019



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Delivering the benefits of gender diversity



The importance of promoting the benefits of more women in decision-making and leadership positions.

Other than complying with the self-evident principle that promoting women in decision-making roles facilitates the much broader goal of achieving substantive gender equality, studies have overwhelmingly shown that increasing women's participation in leadership positions has significant economic benefits.

The potential benefits are particularly significant in countries where women have traditionally been under-represented in business.

Theory and reality

An overwhelming majority of Europeans claim to support equality between men and women in leadership positions. According to a Eurobarometer Special Survey carried out by the European Commission¹, 88% of Europeans agree that: "Given equal competence, women should be equally represented in positions of leadership in companies".

¹ "Women in decision-making positions," Special EU Barometer, March 2012
http://ec.europa.eu/commfrontoffice/publicopinion/archives/ebs/ebs_376_sum_en.pdf

Three-quarters (75%) of Europeans are in favour of legislation on gender balance on company boards as long as qualifications are taken into account.

Although this survey indicates that people generally realise there are inequalities and expect governments to take action to address the issue, the reality is often vastly different.

Cyprus, for example, is among the bottom three EU countries when it comes to representation of women in decision-making and leadership positions.

According to the latest Gender Equality Index published by the European Institute for Gender Equality EIGE² only 9.2% of board members in the largest Cypriot companies are women. Women account for less than a quarter of managers in Cyprus (22%), trailing significantly behind the EU average of 35%. On a slightly different note, the gender pay gap in Cyprus is currently at 13.3% and has been steadily declining in recent years. However, this figure can be misleading, as it does not take into account part-time work that is predominantly performed by women.

Benefits of diversity

In the light of these findings, it is particularly important for businesses in countries such as Cyprus to understand the benefits of greater gender diversity.

It has been proven that the presence of women on boards enhances innovation, reduces conflict and produces more effective board development activities. Especially where governance is weak, female directors usually exercise stronger oversight, resulting in a 'positive, value-relevant impact' on the company. Thus, a gender-balanced board is more likely to pay more attention to managing and controlling risk.

Women at senior levels can bring diverse perspectives to the strategic agenda, contributing to broader insights into economic behaviour and consumer choices. This can mean that products and services become more responsive to consumer needs and preferences.

Having more women in decision-making positions can also mean better retention of highly skilled staff. Companies that do not actively promote women within their ranks may be losing out on a large talent pool and may not therefore be hiring the best of the best.

² Gender Equality Index 2017, European Institute for Gender Equality <https://eige.europa.eu/gender-equality-index/2015/countries-comparison>

Gender blind recruitment and evaluation

Our experience, like many other companies aiming to actively promote gender equality, underlines the importance of adopting a 'gender blind' perspective in the recruitment and evaluation process. This means downplaying and de-emphasising gender differences and supposedly male characteristics.

This includes emotional stability, results-orientation, directness and being strategic, while focusing more on the individuality and uniqueness of every professional, adopting a gender neutral perspective.

From my experience, a gender blind frame of mind has actively assisted me as a woman in being more confident, more vocal and more assertive.

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Shrinking the gender pay gap in Canada



Although Canada has not yet reached parity in gender pay, its recent ranking as 16 out of 144 countries surveyed shows that some of the country's legislative measures are working.

In the World Economic Forum's latest annual survey measuring the gender pay gap in 144 countries across the globe, Canada ranked 16, and 1 in the world for educational attainment³.

According to the Canadian Government, several contributing factors⁴ have led to a disparity in wages between men and women. These include:

- Women are more likely to be employed in part-time roles and historically low-paying sectors.
- Women are under-represented in senior leadership positions.
- Women face gender-based discrimination in hiring, promotion and compensation.
- Women conduct a larger share of unpaid work than men.

³ World Economic Forum, "The global gender gap report 2017," www3.weforum.org/docs/WEF_GGGR_2017.pdf

⁴ Government of Canada, "Government of Canada introduces historic proactive pay equity legislation," www.canada.ca/en/employment-social-development/news/2018/10/government-of-canada-introduces-historic-proactive-pay-equity-legislation.html

In Canada the regulation and enforcement of gender pay equity is a provincial responsibility. In Ontario, for example, businesses are governed by the Pay Equity Act⁵. When the Act was introduced in 1987, the gender wage gap was 36%. Since then it has dropped to 26%.

What's next for Canada?

The Government has recently tabled⁶ new legislation that would model Ontario and Quebec's equal pay regulations and enforce them at the federal level. It focuses on taking action to benefit women and increase their participation in the workforce. Although this legislation is at a very early stage, it is expected to nudge the needle even further towards equality for Canadians in the coming years, and will hopefully generate growth in the economy that will benefit everyone. What remains clear is that the gender wage gap and pay equity are complex issues with multiple contributing factors, which cannot all be addressed through legislation.

A three-step approach to pay equality

In our experience, gender pay equality can be ensured through a three-step unbiased approach.

1. Creating detailed job descriptions.
2. Benchmarking salaries based on market rate.
3. Assessing salary rates between team members of the same role annually. This takes into account factors such as the number of years with the company, performance reviews and professional designation.

Applying a simple formula to calculate pay equality can ensure that two employees of opposite genders, who share identical professional details, receive exactly the same annual salary.

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⁵ Pay Equity Commission, "What is the Gender Wage Gap?"

www.payequity.gov.on.ca/en/GWG/Pages/what_is_GWG.aspx

⁶ Government of Canada, "Government of Canada introduces historic proactive pay equity legislation," www.canada.ca/en/employment-social-development/news/2018/10/government-of-canada-introduces-historic-proactive-pay-equity-legislation.html

Closing the gender gap in Latin America



The gender pay gap has attracted a great deal of focus in recent times. But it is important not to forget the fight for equal employment opportunities between men and women, especially in Latin America.

At the G20 summit held in Buenos Aires, Argentina, at the end of 2018, just 3 out of the 38 global political leaders present were women. This makes it one of the lowest percentages of women in attendance compared with previous G20s.

Although progress has been made in recent years, the results of a survey carried out by La Nación, one of Argentina's main broadsheet newspapers, show that 58% of women are working or looking for a job, while the corresponding percentage for men is 80%. Globally, women represent 32% of supervisor positions, 26% of management positions and just 9% of executive positions.¹

Understanding the gap

Latin America's male dominated-society or 'macho' culture is a key reason for the gap in equality in the region.

¹ Estol, C. (2 December 2018). El camino hacia la paridad de género es un hecho y ya no hay vuelta atrás. [The road to gender equality is already a fact and there is no turning back] *La Nación*, p.15. (Section: Economy and Genre issues)

Technology has obviously enabled a more flexible working environment, making it easier for women to continue working in some sectors after they have children. However, many continue to suffer career slowdown as a result.

Benefits of equality

Single gender teams lack the advantages of a range of different ideas, perspectives and ways of thinking that come with diversity². Diversity should be seen as an asset rather than a drawback.

Making progress?

According to another survey carried out by La Nación³, inequality around the gender pay gap in equal roles in Argentina is less of an issue than in reaching more senior positions.

Although there continues to be considerable room for improvement in addressing such inequality, progress has been made in recent years. Women are starting to take much more of a front seat in politics in many countries around the world, although there is clearly much progress still to be made.

An increased awareness of these issues and global campaigns such as 'Me Too' are changing perceptions around male-dominated culture. As global awareness of the gender gap has grown, it has been shown that greater diversity at every level of the workforce can improve productivity and creativity.

Many organisations have introduced minimum quotas for the number of women in leadership roles. In many countries maternity and paternity benefits enable mothers to continue working and share parenting responsibility with their partners, although this, unfortunately, is not yet usually the case in Latin America.

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² Hostnik, G. (2 December 2018). Los equipos diversos tienen más posibilidades de éxito [Diverse teams are more prone to be successful]. *La Nación*, p.14. (Section: World of Work)

³ Urien, P. (2 December 2018). Los hijos traen un mejor salario a los padres, pero uno menor a las madres [Fathers have higher wages than mothers]. *La Nación*, p.13. (Section: World of Work)

Tackling unconscious bias in the financial sector



Mandatory reporting of gender pay gaps could be the start of positive change. Yet perhaps we should begin with a deeper look into why the gap exists in the first place.

In recent times we have seen a great deal of focus on the lack of gender diversity in senior business positions. The world's major financial institutions and professional services firms have produced some particularly poor results in this area.

Unconscious bias could be a key underlying reason for the lack of promotion or stalling careers of the industry's women. You only have to look at films such as *The Wolf of Wall Street* to get a glimpse of the 'alpha male' personality type in action. Although the main character in *The Devil Wears Prada* is a woman, she essentially has an alpha male persona, but is clad in killer heels. The unconscious bias that these types of personalities, more commonly found in men, are best suited to leadership roles is long standing and permeates the very culture of our industry.

Rather than blindly promoting females simply to boost numbers, a conscious decision to achieve more diversity at the top and at every level of an organisation is needed.

A turning point

The finance industry is at a crossroads in terms of fintech, artificial intelligence and potential great change in the way we do business. So we have a real opportunity to make the most of the skills of a much more diverse workforce and banish unconscious bias for good.

This can only happen if recruitment strategies from the ground up focus on a wider range of skills and personality types from both genders. Our employment policies will also need to be flexible enough to accommodate their needs. This will require investment in our employees.

For example, women will usually need to take at least some time off from work to have children, so businesses should offer more flexible working conditions. Companies that invest in such areas are likely to be rewarded with longer-term loyalty if employees feel truly valued for their skills, regardless of their gender or family circumstances.

Successfully challenging unconscious bias will not happen overnight. It will almost certainly be harder to achieve in some cultures around the world where it is more deeply ingrained. However, we can all help make a start now by promoting good gender diversity practices across our firms and providing positive female role models in senior positions. The rest will surely follow.

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Does success depend on being a giver or a taker ?



Research shows that businesses can benefit from a more giving style of management.

Jack Ma, founder of Alibaba, says he is stepping down as executive chairman to focus on philanthropy and teaching. He follows in the footsteps of Bill Gates, who has given most of his wealth to charity.

Then there is the story of Dashrath Manjhi who spent 22 years carving a path through the Gehlour Hills in India. This was to give his village easier access to medical attention after his wife died in an accident as there has been no hospitals within reach. The path reduced the distance between two sectors of the district from 80km to 3km. Although initially mocked for his efforts, Manji's work has made life much easier for people in his village.

These stories, and others like them, can be inspiring for business. In his book Give and Take, American psychologist and author Professor Adam Grant defines three types of people in any organisation.

1. **Takers:** they are selfish and put their interests before others, who do not believe in team spirit. They are insecure and always eager to take undue credit for themselves.
2. **Givers:** they believe in the joy of giving, put others' interests first, with principles and value systems opposite to that of a taker.
3. **Matchers:** they sit somewhere between takers and givers and believe in quid pro quo.

Perhaps surprisingly, of these personality types, Grant says a large proportion of both the least and most successful people come from the giver category. While takers may sometimes appear to win in the short term, in the long run they tend to fall fast and are often disliked. Research shows that people tend to envy successful takers and look for ways to knock them down.

Most people fall into the third category: matchers. They may be more popular than takers, but Grant say they will often only rise to the middle level of an organisation because they subconsciously choose the middle path.

Givers, on the other hand, tend to go to the top. However, they can sometimes tire of the organisation and slide down, or become aimless without clear goals.

The dynamics of giving

Giving includes much more than charity. It can encompass sharing knowledge and advice, helping friends or doing something extra with no expectations other than self-satisfaction or for love and compassion. American investor, businessman and philanthropist Charlie Munger says the "best thing a human being can do is to help another human being know more".

In my experience, being a giver engenders goodwill and is a sure way to succeed in any organisation, with people often supporting and rooting for them. An inner giving motive can take you a long way when dealing with or being dependent on other people.

Grant says spending five minutes each day helping others can be very effective and fulfilling. He also suggests that it is generally better to be around a disagreeable giver than an agreeable taker.

Disagreeable givers can be the best fit for an organisation. They may be tough on the surface but have the best interests of others at heart.

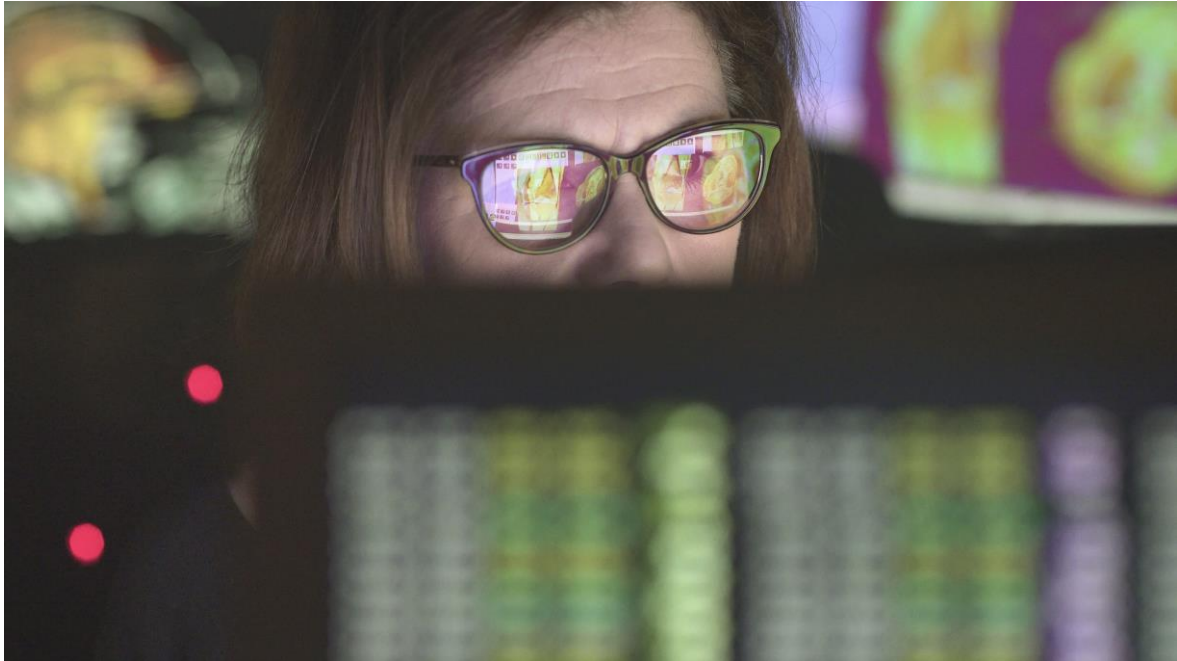
This outlook suggests that 'success' has a broader meaning. It is not about fame or fortune, but about your contribution and what you want to get out of life. As Grant says: "When takers win, there's usually someone else who loses."

Givers succeed in a way that can create a ripple effect, enhancing the success of the people around them. This is often seen in the way that they create value through their success, instead of just claiming it.

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2019: The year of the cyber defender



Cybersecurity is finally becoming a top priority as executives realize that security breaches are not merely a cost of doing business – but an existential threat to their companies and careers.

According to Verizon's 2018 Data Breach Investigations Report, there were more than 53,000 security incidents and more than 2,200 confirmed data disclosures over the 12-month reporting period. Because of insecure internet-facing web servers, much of the data compromised was sensitive and included user credentials and personally identifiable information.

Research by the Ponemon Institute says it takes companies an average of 69 days to contain a cyber attack with a total estimated cost of US\$3.9 million. In addition to legal penalties, organizations can be forced to pay fines to a range of regulatory agencies and other organizations with contracts with the company.

According to [CSO Online](#), cybercrime damages will cost the world US\$6 trillion annually by 2021.

The good news is that if 2017 was the year of the hacker, 2018 was the year of the defender. Companies are starting to make meaningful improvements in their cyber defense efforts but they still

have a long way to go. For example, organizations took an average of 191 days to identify a breach in 2017, down from 201 days the previous year¹.

Protecting your business

The first step to be a good defender is to develop your cybersecurity strategy, which will outline how to best protect your 'crown jewels' – your critical digital assets and infrastructure.

Components of an effective cybersecurity strategy should include a comprehensive cyber risk assessment of your organization to identify the highest areas of risks and vulnerabilities based on several characteristics. These include your operating model, products and services, third party relationships and adoption of best practices and industry standards such as NIST (National Institute of Standards and Technology) in the U.S.

During this assessment process, you should determine how much risk your organization can accept, your mitigation strategy, the level of financial investments and other cyber risk transfer options, including managed security service providers and cyber insurance policies.

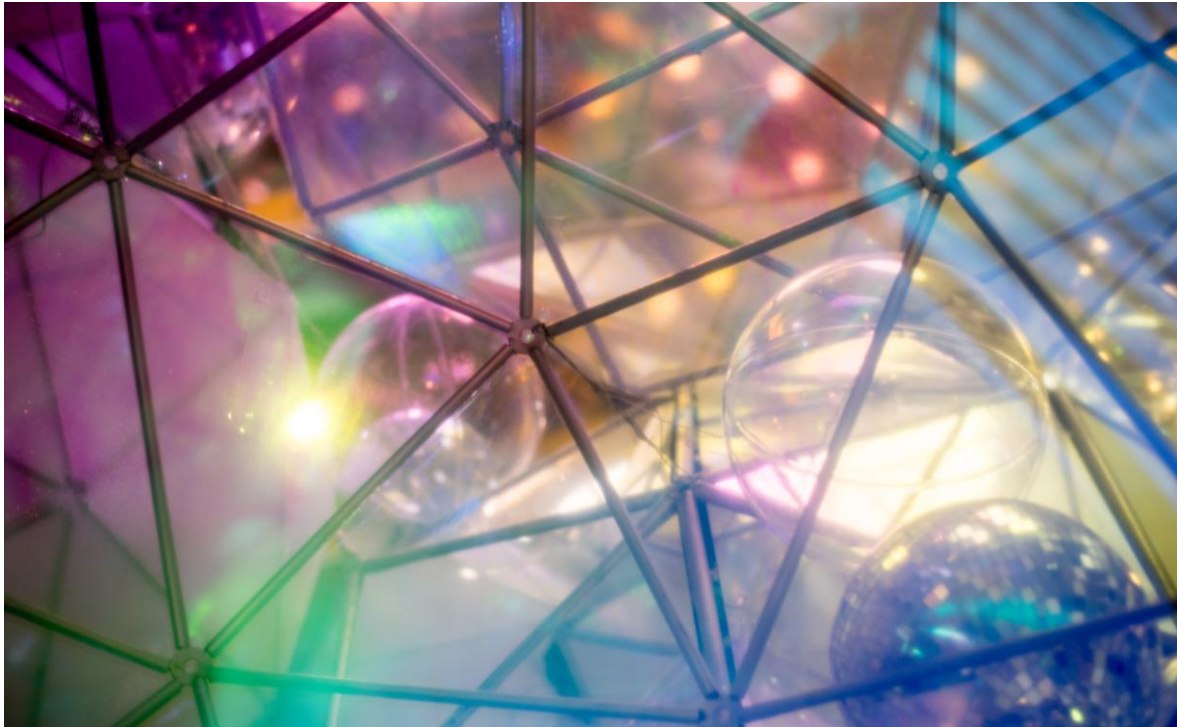
Until now, the cyber war was not a fair fight. The hackers had the upper hand. But it is now taking companies a shorter time to identify and contain breaches and the battlefield is starting to tilt in favor of the good guys.

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¹ Ponemon Institute 2017, Cost of Data Breach Study

Protecting your business in a data-driven world



Businesses need to be aware of developments and possible weaknesses in their digital environment so they are protected from cyber attacks that could derail them.

Information technology is now the cornerstone of nearly every business. Management can no longer adopt an 'out of sight, out of mind' mentality and delegate data security to the procurement or IT department.

The data governance triangle: process, technology and people

Good data governance is built from a solid foundation of sound business processes, the effective use of technology and a well trained workforce.

Business processes are often vulnerable when new IT systems are implemented in a company. They are particularly susceptible if the management team does not communicate with IT when the infrastructure is being upgraded, or if the business does not consider existing work flows when new software arrives. If new compliance requirements are thrown into the mix it can lead to gaps in previously well established processes.

Implementing new technology is supposed to revitalise a company and improve efficiency, but it can also open a backdoor to expose confidential information. Promises of radical improvements to system bottlenecks can prove to be an irresistible temptation. There can be a huge pay off if carried out correctly.

The people who execute the processes and create and manage data in a company are the third key to good data governance. Hackers often target the weakest links and rely on untrained people in the workforce clicking on bogus links to create a domino malware effect. They may also have their identity stolen through unsecured webpages, or neglect to protect their passwords and other personal data. Ransomware, phishing emails and social engineering scams are now not just IT jargon, but daily newspaper headlines.

Safeguarding the business and its data

Cybersecurity is a recognised global concern and many governments around the world have introduced legislation to limit the risk and raise awareness of cyber defence and hygiene. Yet the fine line between ensuring transparency and managing the burden of compliance can be difficult as attacks step up in scale and volume.

In addition to meeting regulatory requirements, businesses should of course also consider whether their use of technology is effective and efficient for their purposes and factor new technologies into their risk planning. This could include:

- Artificial intelligence and machine learning.
- Cloud solutions, remote access to data and other tools enabling a mobile workforce.
- E-commerce, e-wallets and cryptocurrencies.

It is critical to consider the existing environment and potential scalability when implementing these new technologies, as this can make the difference between a successful launch and a flop.

Having considered compliance and IT security of the business, management may feel that the remaining risks need to be mitigated. This is where cyber insurance may be useful.

A holistic view

The responsibilities of management and boards of directors have grown along with developments in technology. The challenges can be daunting. For example, it is vital that customer databases are stored in a secure location and suitable backups are readily available.

Shareholders will want to know the potential cost implications of IT infrastructure upgrades if expanding to another country.

For charities and non-profit organisations, there may be additional reputational risks that can affect the willingness of donors to support their causes if personal data is not seen to be secured properly.

While no industry or organisation is safe from the lure – and threat – of a fully digital organisation, an ounce of prevention may be worth several million dollars' worth of cure.

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IFRS 9 and intercompany loans



It is important not to underestimate the challenges of applying the new IFRS 9 model to intercompany loans.

The majority of related company loans (including intragroup loans as well as loans to associates or joint ventures) are debt instruments that fall within the scope of IFRS 9.

This means that even though some loans may seem similar to a capital contribution, they should typically be accounted for in accordance with IFRS 9 instead of IAS 27 (i.e. at cost less impairment) or IAS 28 (i.e. using the equity method).

Similarly, a loan to an associate or joint venture that is not equity accounted but, in substance, forms part of the net investment (i.e. a long-term interest) is also within the scope of IFRS 9.

This means that a loan could be subject to both the IFRS 9 Expected Credit Loss (ECL) requirements, and the impairment requirements of IAS 28.

Undocumented loans are typically considered to be repayable on demand from a legal perspective and also fall within the scope of IFRS 9. In some jurisdictions, it is possible that under local laws an undocumented loan is considered a capital contribution. In such cases, entities should consider seeking legal advice to support this conclusion.

Meeting criteria

While many related company loans will meet the criteria to be classified at amortised cost because they are held in a 'hold to collect' business model and meet the 'solely payments of principal and interest' (SPPI) test, this cannot always be assumed to be the case.

For example, loans that are linked to underlying asset or borrower performance, such as a profit-linked loan, will fail the SPPI test. In addition, certain non-recourse loans, i.e. loans where the debtor's claim is limited to specified assets, may also fail the SPPI test. In these cases, the loan must be classified at Fair Value through Profit Loss (FVPL) irrespective of the business model in which it is held.

All related company loan receivables (including term loans and demand loans) that are not classified at FVPL are within the scope of IFRS 9's ECL requirements and are subject to the General Approach (unless the loan is credit impaired at initial recognition).

Under the General Approach, at each reporting date the lender must determine whether the loan is in Stage 1, Stage 2 or Stage 3 and recognise 12-month ECL or Lifetime ECL accordingly. Related company loans are never eligible for the Simplified Approach.

This means that a minimum of 12-month ECL must be provided for all loans, including those that are not past due and are considered to be of a high credit quality.

Challenges

This new forward-looking model is a major change from the previous incurred loss model and entities should not underestimate the application challenges it presents. This includes:

- Sourcing and incorporating forward-looking information.
- Assessing for significant increases in credit risk.
- Estimating a risk of default.
- Estimating the ECL.

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UK to extend capital gains tax for non-residents to all UK real estate



UK commercial property disposals are due to come under the non-resident CGT regime from 6 April 2019.

Prior to April 2015, non-UK residents (individuals, corporate or trustees) were not subject to UK capital gains tax (CGT) on disposal of UK real estate, whether residential or commercial. Non-resident CGT was introduced for non-residents disposing of residential property from April 2015.

It was confirmed in the 2018 Autumn Budget that the non-resident CGT regime is to be extended to UK commercial property disposals from April 2019.

Draft legislation has been published on proposed changes to the CGT regime for non-residents. The changes, which are due to take effect from 6 April 2019, include the following:

- UK commercial properties will now fall within the charge to tax, in addition to residential properties.
- Disposals of shares in 'UK property rich' companies will be taxed.
- Annual tax on enveloped dwellings (ATED)-related CGT will be abolished, in order to simplify the regime (at least in theory).

Commercial property includes business premises, care homes and student accommodation.

A 'UK property rich' company is one that derives at least 75% of its gross assets value from UK real estate.

The non-resident CGT will apply at the same rates of tax that a UK resident would pay. Corporation tax rates for non-resident companies (currently 19%, reducing to 17% from 2020); 20% for non-resident trustees, and 10% or 20% for individuals, depending on whether the individual has any basic rate band remaining.

It is also proposed that non-UK resident companies with UK rental income will be subject to corporation tax (rather than income tax, as is currently the case) from April 2020. This means that net rental profits within companies will be subject to corporation tax at 17%, rather than income tax at 20%.

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