

# Business Matters

Issue 1 2018

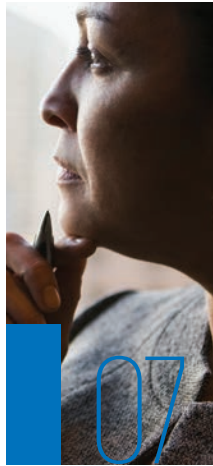
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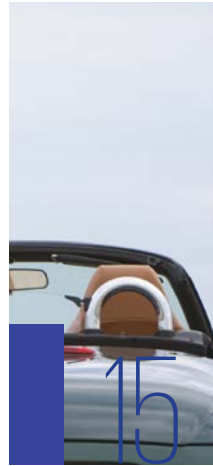
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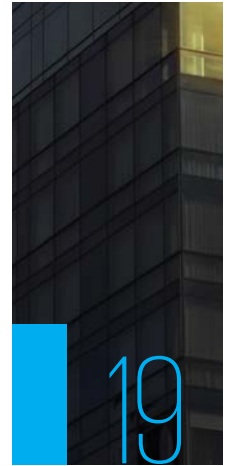


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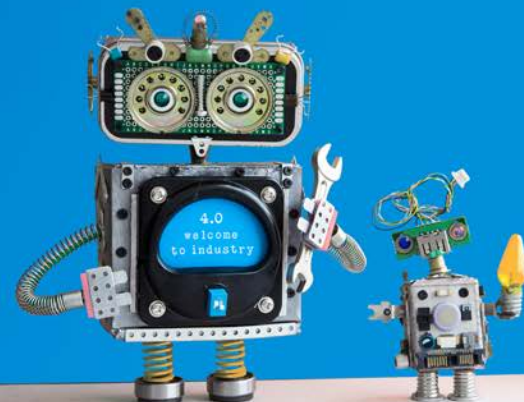
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# Nurturing a privacy-conscious culture

By: **Mark Thompson**, Global Privacy Lead & **Chris Eaton**, Cyber Lead, KPMG Islands Group

Organisations of all sizes and across all industries are busy getting their houses in order in a bid to achieve compliance with upcoming Privacy legislation – the General Data Protection Regulation (GDPR) from the EU, which takes effect May 25, 2018, or the much anticipated Personal Information Protection Act (PIPA) in Bermuda which is scheduled to come into force before the end of the year.

The new rules will transform the way that personal information is collected, stored, used, disclosed and disposed of.

While meeting regulatory obligations is a must, there is a danger of treating privacy as a one-off, 'tick the box' compliance activity, rather than a deliberate move towards a privacy-conscious culture, where transparency, citizens' rights and accountability become second nature to all employees.

In this brief overview, we discuss five issues for you to consider as you seek to make privacy an integral part of the way your organisation does business.

## **1. Put customers and employees at the heart of your privacy strategy**

Much of what's been written about privacy legislation centres on penalties. Although these have the potential to be severe (for GDPR, non-compliant firms can be fined up to 4 percent of turnover or 20 million Euros, whichever is greater), they should not be the driving force behind change. It's more important to begin to instill the right habits and behaviors, so that everyone in your organisation appreciates customers' rights to privacy and choice.

In order to help build and cement trust, your business should make customers aware of what kinds of personal information you hold and how you use it, with transparency and accountability as your guiding principles. Customers are entitled to know what is being done with their personal information — and expect you to tell them. This means understanding the customer journey, and making privacy an essential feature of that journey — and an integral part of your wider business strategy.

And as you map the customer journey, it's the touch points that should receive the highest priority. These are the public-facing aspects of your business, like handling customer complaints and queries, or targeting individuals with personalized offers. In an omni-channel world, where customers interact via phone, apps, online chats, email and post, these touch points need to offer a consistent experience.

Touchpoints offer an ideal opportunity to showcase transparency, and to explain how you're using customers' personal data responsibly. By paying close attention to the quality and integrity of such interactions, you can present a positive picture of how your organisation manages privacy, in the process enhancing your reputation with customers and employees, and reassuring regulators.

You may want to introduce incentives that encourage appropriate values and behavior.

And you'll certainly want to nurture an environment where any risks and issues can be discussed openly, and processes challenged where necessary. Training and communications can help spread the word and equip employees with the skills and awareness of privacy issues.

## 2. Understand that data is an asset and a liability

Meeting the legislative requirements is not simply meeting a static deadline. It's part of a journey towards better management and use of that most valuable resource: personal data.

The potential liability of data derives not just from the financial penalties, but also from any loss of customer trust and brand and reputational damage resulting from a breach and/or unacceptable behavior.

On the flip side, viewing data as an asset opens the door to exciting investments that can create value: transforming the operational infrastructure and accelerating a wider and longer-term shift to simpler, less costly and more powerful data systems. All of which, should help enable your organisation to not only gain more confidence in its privacy capabilities; but to also enhance other functions that depend heavily on customer data, like fraud detection, marketing and customer analytics.

You may also want to think about the skills you have within your organisation. In addition to lawyers and compliance and risk professionals, you need access to technology and data experts who can help you embed the privacy requirements as part of your overall data strategy.

## 3. Don't rush into major technology investments

It's tempting to believe that privacy software solutions can ensure compliance. In reality though, without a clear privacy strategy and documented roadmap, and a pre-existing culture of transparency, technology may simply add more complexity — at considerable cost.

By concentrating on activities that will add value to your privacy efforts and by seeking advice from knowledgeable experts, you should have a better chance of making the right technology choices. Don't forget that preparations don't simply finish on an effective date — on May 25, 2018 for GDPR as an example — privacy regulations should continue to evolve, so avoid large investments today that may leave you with something that isn't fit for tomorrow.

Before considering which solutions to invest in, you must first get the basics right — starting with strong privacy governance. Once a simpler, more streamlined set of processes and roles are in place, you can then seek the appropriate applications to meet your needs and to help automate repeatable processes.

## 4. Be prepared for questions

Privacy is a hot topic and only likely to get hotter. Reputational damage — as a result of breaches or unethical activity — can be immense, and there is a small but growing community of journalists and other stakeholders that are eager to ask difficult questions. The answer is to be media ready at all times, with a well-briefed communications team and a senior, credible, privacy-aware spokesperson/people.

When dealing with customers, it's vital that all staff are fully trained and able to anticipate questions. It only takes one poor or uninformed response — especially where a customer has a good understanding of her/his rights — to create a negative experience, as well as an investigation.

## 5. Organisations located outside the EU

Any company dealing with data from EU data subjects needs to comply with the GDPR, and the globalisation of business means that many organisations are likely to handle such data in some form — even if this means just one customer or employee. The GDPR impacts collection, use and disclosure of data, on a global scale, for organisations outside of the EU, which is likely to have considerable impact.

With today's international organisations typically involved in a complex web of subsidiaries and outsourced providers, the onus is on your data controller to ensure that every part of the value chain applies the same high standards of privacy. And it's not just about customers; employees in the EU also fall under the GDPR. Any financial, health and other sensitive, personal information needs to be handled in a way that meets the new standards. You will probably have to align any HR systems with relevant EU laws.

Some non-EU companies may lack strong relationships with and understanding of the various EU regulators, and may be uncertain about their stance. If an organisation is from a country where privacy laws are relatively relaxed, and penalties are modest, then a possible non-compliance



fine of up to 4 percent of turnover — in addition to the other powers given to privacy regulators — make the GDPR a daunting prospect. It's therefore essential to gain a good understanding of both local GDPR requirements and the various regulatory authorities across the EU that are responsible for enforcing it.

### Privacy as a source of competitive advantage

Compliance deadlines inevitably focus the corporate mind. Any attempts to meet regulatory obligations should not be at the expense of a longer-term strategy that acknowledges privacy as a source of competitive advantage.

By considering how your organisation can meet the needs of customers and employees, you can build a privacy-aware culture, and a governance infrastructure, which puts the right information at everyone's fingertips and consistently demonstrates transparency.

### KPMG's privacy expertise

We support clients in resolving complex privacy issues, from niche challenges specific to certain organisations to end-to-end privacy compliance programs in complex and highly regulated industries.

Our privacy team has deep experience in helping organisations to address the challenges posed by privacy risk, with a structured and flexible approach to meet the needs of diverse organisations. The global reach of KPMG member firms helps to enable us to work effectively across multiple territories at a local level.

**Areas where we are frequently engaged include:**



**Assess** — Provide an independent assessment of your current privacy risk profile and how this compares to desired state



**Design** — Work with you to design a privacy compliance program



**Strategy** — Work with you to develop a pragmatic privacy strategy and gain buy-in from senior management



**Implement** — Support the implementation of robust and sustainable privacy processes, policies and controls to allow you to mitigate your Privacy risk



**Operate** — Provide ongoing support and advice to assist you in operating your privacy control environment



**Monitor** — Support you in maintaining your privacy control environment



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# Your Business Matters

KPMG Enterprise is devoted to your business. We will even help you with stocking shelves.

KPMG Enterprise believes that performance is not only measured by the service provided, but also by how well we understand our clients' business and their needs. We go to great lengths to engage with your business in order to deliver clear customised solutions to our broad spectrum of Bermuda clients.

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# On the horizon: IFRS 15 impacts lessors

By: **Felicia Govender**, Director, KPMG Enterprise

Accounting by lessors for service and other non-lease elements included in a lease arrangement may change on transition to the new IFRS revenue standard.

## What's the issue?

In addition to the right to use the asset, lease arrangements often include services and other non-lease elements that lessors provide to lessees — e.g. common area maintenance (CAM), structural maintenance, utilities in the leased space, and operating services over the asset subject to the lease. We expect most services and other non-lease elements included in the lease agreement to be in scope of the new revenue standard (IFRS 15).

IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 is effective one year before the new

leases standard (IFRS 16), unless IFRS 16 is adopted early. Because of the interaction between the two standards with respect to non-lease elements, lessors may want to consider adopting IFRS 16 at the same time as IFRS 15.

We expect this issue to be relevant to lessors in many industries, but especially significant to lessors in the real estate industry. The extent to which any lessor is affected by IFRS 15 will depend on the nature and materiality of its leasing arrangements and the non-lease elements in those arrangements.

## What's required?

The following main standards are referenced in the discussion that follows (*see Fig 1*).

**Fig 1**

IFRS	US GAAP
<b>New standards</b>	
IFRS 15, Revenue from Contracts with Customers	ASC 606, Revenue from Contracts with Customers
IFRS 16, Leases	ASC 842, Leases
<b>Existing lease standards</b>	
IAS 17, Leases	ASC 840, Leases
IFRIC 4, Determining whether an Arrangement contains a lease	



### Reminder of current requirements

Current lease accounting guidance (IAS 17 and IFRIC 4) requires lessors to:

- separate the non-lease element(s) of an arrangement from the lease element(s);
- allocate payments between lease and non-lease elements, based on the elements' relative fair values; and
- account for non-lease elements by applying relevant accounting standards (e.g. IAS 18, Revenue).

### Accounting for service elements in existing lease arrangements on adoption of IFRS 15 and before IFRS 16 is applied

On adoption of IFRS 15, non-lease services provided or directed by lessors will be accounted for under IFRS 15.

When an arrangement is only partially in the scope of IFRS 15, an entity applies the allocation guidance in other applicable standards (to the extent there is any). Therefore, before adopting IFRS 16, lessors should continue applying the guidance in IFRIC 4 to allocate contract consideration between the lease and non-lease elements of an arrangement.

Lessors apply IFRS 15 for identifying performance obligations, determining whether the lessor is a principal or agent with regard to the services, and recognizing non-lease revenue from contracts with customers. Lessors will need to assess whether the pattern of revenue recognition and the accounting for variable consideration will be different from their current accounting practice under IAS 18.

### Accounting for service components in lease arrangements after adopting IFRS 16

IFRS 16 also requires lessors to account for lease and non-lease components separately. However, the new leases standard does not carry forward the allocation guidance from IFRIC 4 and instead refers to IFRS 15 for allocation purposes. Therefore, lessors will generally have to apply the guidance in IFRS 15 for purposes of allocating the consideration in the arrangement to the lease and non-lease components.

Under IFRS 15, the total consideration in the arrangement will be allocated between lease and non-lease components based on the relative stand-alone selling price of each component (instead of relative fair values as required by IFRIC 4). However, in many instances, relative stand-alone selling prices may approximate the relative fair values of lease and non-lease components. IFRS 15 also has prescriptive allocation guidance for discounts and variable consideration.

### Other issues to consider

Lease agreements often provide for lessee payment (whether to the lessor or directly to a third party) of lessor costs of property taxes and insurance on the underlying asset. We

believe that lessee payments for property taxes and insurance are typically not related to performance obligations of the lessor; instead, they relate to the lessor's costs of ownership that the lessor would have incurred regardless of entering into the lease, or are incurred primarily to benefit the lessor (e.g. to protect its investment in the underlying asset). Therefore, lessee payments for lessor costs of property taxes and insurance are not in the scope of IFRS 15.

As a result, until IFRS 16 becomes effective, we believe lessors may continue to apply their previous accounting for those payments.

Under IFRS 16, reimbursement (or direct payment to a third party) of lessor costs of property taxes and insurance will not be treated as components of the contract. Fixed or variable payments (whether to the lessor or a third party) for property taxes and insurance included in fixed payments and variable payments will simply be allocated among the lease and non-lease components using the IFRS 15 allocation guidance.

### Transitioning to IFRS 16

The transition guidance in IFRS 16 states that lessors are not required to make any adjustments to their lease accounting at transition (except for intermediate lessors in subleases). Note: This assumes the lessor appropriately applied the requirements of IFRS before the effective date of IFRS 16.

Therefore, on transition to IFRS 16, lessors will have an option to not reassess components and not to reallocate consideration to various components of a pre-existing lease unless the lease is modified on or after the effective date of IFRS 16. We believe it will be acceptable for lessors to continue their previous accounting for lessee payments of property taxes and insurance for leases that commenced before the effective date of IFRS 16. This may result in a difference between accounting for new leases compared to leases that existed before transition to IFRS 16.

Alternatively, lessors may choose not to take advantage of this transition practical expedient. Reassessing existing lease arrangements on transition to IFRS 16 may permit lessors to achieve more consistent accounting across their entire lease population.

### Next steps

On adoption of IFRS 15, lessors will have to evaluate their existing lease arrangements and identify the non-lease elements, including maintenance, to determine the effect that IFRS 15 will have on the accounting for these elements, including potentially:

- allocating the consideration (including any variable consideration) between lease and non-lease elements under the existing principles of IFRIC 4;
- identifying performance obligations;



- determining variable consideration to be included in the transaction price for the non-lease elements;
- determining the pattern of revenue recognition (i.e. over-time or point-in-time); and
- principal versus agent considerations.

**Example:** Lessor application of IFRS 15 before adopting IFRS 16 for a lease with variable CAM, property tax and insurance payments.

Lessor owns a multi-story building. Lessor leases all of the space in the building to multiple tenants and incurs costs for CAM, which it bills to tenants at no margin. Lessor also bills tenants for taxes and insurance incurred as the owner of the building.

On January 1, 2018, Lessee and Lessor enter into a five-year lease for Lessee to lease one floor of the building. Lessee will pay Lessor:

- a fixed payment of \$106,000 for Year 1, increasing by \$5,000 per year (\$580,000 in total);
- a variable payment for Lessee's pro rata portion of Lessor's actual CAM costs (billings occur on a pass-through basis at no margin); and
- a variable payment for Lessee's pro rata portion of Lessor's actual property tax and insurance costs estimated at \$10,000 per year (the most likely amount based on current tax assessments and the insurance policy in place – billings occur on a pass-through basis at no margin).

**Expected billings are as follows:** (see Fig 2)

On January 1, 2018, Lessor adopts IFRS 15 but does not early adopt IFRS 16 – i.e. the lease arrangement is accounted for under IAS 17 and IFRIC 4 at that date. The lease is classified as an operating lease.

**Fig 2**

Year	Rent	CAM	Taxes and insurance	Total
1	\$106,000	\$16,000	\$10,000	\$132,000
2	\$111,000	\$22,000	\$10,000	\$143,000
3	\$116,000	\$18,000	\$10,000	\$144,000
4	\$121,000	\$24,000	\$10,000	\$155,000
5	\$126,000	\$20,000	\$10,000	\$156,000
<b>Total</b>	<b>\$580,000</b>	<b>\$100,000</b>	<b>\$50,000</b>	<b>\$730,000</b>

### Identify non-lease elements

Lessor determines that CAM payments are not for the right to use the underlying asset. Rather, Lessee receives a service that it would otherwise have to undertake itself or pay a third party to perform. Lessor therefore identifies the CAM services as a non-lease element in the scope of IFRS 15.

Lessor further concludes that the CAM services constitute a single non-lease element, which therefore is accounted for as one performance obligation under IFRS 15. This is because the individual activities that comprise CAM are not distinct in the context of the contract. In addition, Lessor concludes that its single integrated promise to Lessee to maintain the common areas of the property over the lease term is a series of distinct goods or services that have the same pattern of transfer to Lessee.

- Each month's CAM services are substantially the same because Lessor provides the same overall maintenance each month, even if the underlying tasks or activities vary.

- Each month of CAM services is satisfied over time because Lessee simultaneously receives and consumes the benefits provided by Lessor as the CAM services are performed.
- The same method is used to measure progress toward complete satisfaction of the performance obligation. One possible way to measure each month's obligation to provide CAM services is using an input measure (e.g. cost-to-cost approach); however, other patterns of progress measurement may apply depending on the facts and circumstances.

Lessor determines that Lessee's payments for taxes and insurance are neither for the right to use the underlying asset, nor for goods or services received. As a result, the property taxes and insurance are not service elements of the contract in the scope of IFRS 15. Rather, they represent a reimbursement of Lessor's costs. Lessor determines that it is appropriate to carry forward its previous accounting policy for property taxes and insurance and not to include these variable payments in the total consideration to be allocated to the

lease and non-lease elements in the agreement. Therefore, these costs are ignored in the allocation of consideration that follows.

## Case Study

### Allocation of consideration between the lease and CAM services

*The following is an example of how the allocation and revenue recognition requirements may be applied; in other circumstances, other methods may be appropriate.*

Under IFRIC 4, payments and other consideration in the arrangement are allocated between the lease and non-lease elements on the basis of their relative fair values. However, neither IAS 17 nor IFRIC 4 provides guidance that specifically addresses the allocation of fixed versus variable payments. Consequently, there may be more than one acceptable approach in determining how to allocate the fixed and variable payments to achieve the overall allocation objective under IFRIC 4 — i.e. allocating total consideration on a relative fair value basis.

#### Step 1: Determine the consideration to be allocated

The arrangement consideration to be allocated between the lease and CAM services is \$680,000:

Fig 3

Element	Fair Value	Allocation	Calculation
Lease	\$600,000	\$558,904	$(600,000/730,000) \times 680,000$
CAM	\$130,000	\$121,096	$(130,000/730,000) \times 680,000$
	<b>\$730,000</b>	<b>\$680,000</b>	

The total amount allocated to CAM is \$121,096 (\$100,000 estimated variable CAM payments plus \$21,096 as a portion of fixed rent payments).

### Accounting for the lease and non-lease elements

Lessor recognizes lease income of \$558,904 on a straight-line basis over the lease term — i.e. \$111,781 of lease income per year, in accordance with the guidance in IAS 17 for operating leases. [IAS 17.50]

#### CAM services

Lessor recognizes the CAM revenue of \$121,096 in accordance with IFRS 15, as follows. [IFRS 15.B18–B19]

- **Variable payments (\$100,000).** Recognized in each distinct service period because the variable portion reflects Lessor's efforts to fulfill the CAM service in that period.

- total fixed rent payments of \$580,000; plus
- total estimated variable CAM payments of \$100,000.

#### Step 2: Determine the fair value of each element

The fair values are assumed to be as follows.

- CAM of \$130,000. This is the estimated actual CAM cost reimbursements plus an assumed market-based profit margin for those services.
- Lease of \$600,000. This is an estimate of what a lessor would charge for the lease without providing CAM (while still recovering its property tax and insurance costs through the fixed lease payments).

#### Step 3: Allocate the consideration on a relative fair value basis (proportionately)

Allocation of only the CAM variable payments to the CAM element would not be consistent with the allocation objective in either IFRIC 4 or IFRS 15 because that allocation would include no margin on the CAM. Therefore, the variable payments alone do not reflect the price at which Lessor would sell CAM separately to a customer. The following allocation approach results in a further amount being allocated to CAM (see Fig 3).

- **Allocated portion of the fixed payments (\$21,096).**

Recognized in proportion to Lessor's fluctuating efforts to fulfill the single, integrated performance obligation (the CAM services) over the lease term — i.e. the allocated fixed payments are recognized on the basis of CAM costs incurred as compared to total expected CAM costs (a cost-to-cost based input method).

This pattern of revenue recognition results in a consistent allocated CAM margin throughout the lease term.

Assuming that actual CAM billings each year equal the estimated billings, Lessor will recognize CAM revenue as seen in Fig. 4.

**Fig 4**

Year	Fixed payments	Variable payments	Total CAM revenue	Allocated CAM margin
1	\$3,376	\$16,000	\$19,376	21%
2	\$4,641	\$22,000	\$26,641	21%
3	\$3,797	\$18,000	\$21,797	21%
4	\$5,063	\$24,000	\$29,063	21%
5	\$4,219	\$20,000	\$24,219	21%
<b>Total</b>	<b>\$21,096</b>	<b>\$100,000</b>	<b>\$121,096</b>	<b>21%</b>

**Note:**

As an example, Year 1's proportionate share (\$3,376) of the total allocated fixed payments (\$21,096) is calculated as the Year 1 variable CAM (\$16,000) divided by the total estimated variable CAM (\$100,000) multiplied by the total allocated fixed payments:  $(\$16,000/\$100,000) \times \$21,096$ .

Because the above allocation approach results in variable CAM payments being allocated entirely to the CAM services, a change to the consideration in the contract resulting from a change in the estimate of that variable CAM payment will be allocated entirely to the CAM non-lease element. For example, if in Year 2 Lessor's actual CAM billing is \$24,000, or if in Year 3 Lessor's actual CAM billing is \$17,000, Lessor will recognize the actual variable CAM earned in each distinct service period. Lessor is not required to reassess the fair value each service period based on actual CAM billings.

However, the amount of allocated fixed payments recognized each year of the lease term may be adjusted if the measure

of progress is revised. For example, although the total fixed payments allocated to CAM will not change, the attribution of those payments to the individual periods may fluctuate based on the actual pattern of variable payments that are allocated to CAM, which may result in changes in the overall margin rate on CAM.



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# Making a secure transition to the cloud

By: **Jackie Hennessy**, Director, KPMG Ireland

To ensure success, businesses must take a strategic, flexible and long-term view when adapting to a cloud environment.

As the world becomes more and more connected, organisations are increasingly adopting cloud based services to meet their business needs. Cloud computing is a very clearly defined computing model with essential characteristics such as pervasive, convenient, on-demand, measured, network access to a shared pool of configurable computing resources. It is a game-changing technology, which is driving – and will continue to drive – cost reduction and innovation across organisations.

## Risk and concerns

While the potential benefits of cloud computing are compelling, the use of cloud computing services is driving new risks, security and privacy concerns, and opportunities that impact all elements of the business ecosystem. There is no doubt that organisations need a strategic, flexible and end-to-end security, risk and compliance capability to enable secure cloud transition and business cloud transformation.

Furthermore, regulators are becoming increasingly more interested in cloud computing. It is understood simply as

a version of IT outsourcing and with that comes legal and regulatory requirements which must be monitored, reported and adhered to.

As part of cloud adoption and transformation, organisations must identify and prioritise threats and risks; then design, implement, and operate risk and cost-appropriate controls to address them. Legacy security, risk, control and compliance capabilities are not sufficient to address cloud risks. Organisations must evolve their security, risk, control and compliance capabilities to enable cloud transformation of the business and benefits realisation. It is good practice to ensure that an organisation's cloud security capabilities address these key guiding principles:

## Business and stakeholder mindset

Legacy security mindsets won't work. Security must operate with an agile business risk advisory mindset with understanding of cloud architecture and operations. Cloud is fundamentally changing all aspects of the digital business ecosystem. Security focused on technology will fail to deliver the required benefits; it must instead meet the current – and enable future – needs of a broad range of stakeholders.



### **Risk focused**

Security exists to reduce business risk. Cloud security must enable and provide solutions to understand and reduce risks to acceptable levels. Existing capabilities are often insufficient to address new cloud security risks. A continuous threat and risk management capability and secure operations capability should therefore be developed for current and planned cloud deployments.

### **Protect the cloud**

Cloud security architecture and solutions should address security across multiple levels and use cases (infrastructure as a service, platform as a service and software as a service).

### **Cyber and privacy compliance**

Cloud security capabilities should be implemented and operated to demonstrate and enforce cyber and privacy compliance to appropriate frameworks and regulations. Cloud adoption and transformation will likely mean expanding the use of third-party suppliers and collecting, storing and transacting user data across geographic and political boundaries. Organisations are responsible for ensuring compliance and protection of user data across the global landscape. The cloud security strategy must include a process whereby the organisation will achieve and maintain compliance to privacy laws, principles and regulations.

### **Agile, on-demand and seamless**

While security fundamentals still apply, the security technology, process, people and delivery models must adapt to enable cloud adoption and operations.

### **Invest smart**

Legacy investments are not enough. Agile, application programming interface (API) driven and purpose-built solutions for the cloud are required (security as a service, for example).

### **Security guidance**

There are many industry-leading control frameworks that can be adapted to ensure organisations are managing the risks associated with cloud computing. Cloud security should align to common control domains, such as those addressed in leading control frameworks.

The Central Bank of Ireland released guidelines in September 2016, which deal with IT outsourcing risk (including cloud service providers) and these should not be ignored in the context of outsourcing to the cloud. In particular, organisations should note the requirement to complete adequate due diligence and the requirement to have appropriate contracts in place with cloud service providers. In addition, the European Banking Authority recently released a set of recommendations relating to the reporting and monitoring requirements for organisations that are outsourcing to the cloud. The principle of proportionality should be applied throughout the recommendations and the recommendations should be considered in a manner proportionate to the size, structure and operational environment of the organisation as well as the nature, scale and complexity of its activities.

The recommendations include guidance on the security of the data and systems used. They also address the treatment of data and data processing locations in the context of

cloud outsourcing. Organisations should adopt a risk-based approach in this respect and implement adequate controls and measures, such as the use of encryption technologies for data in transit, data in memory and data at rest.

### Regulatory interest

It is clear that regulators are interested in the growing utilisation of cloud environments. Regulators are not averse to cloud computing, but their new and increasing focus on the area of outsourcing means organisations must ensure that they manage the risks associated with cloud computing to address regulators' expectations. Table 1 summarises some of the areas of focus and regulator expectations. All areas should be included in the scoping phase and those most relevant to your cloud journey should be selected for assessment.

### Conclusion

To summarise, transitioning securely to the cloud is not a piecemeal, one-time endeavour. Organisations need to adapt a strategic, flexible and well-planned approach to enable cost-

effective adoption of multi-cloud environments and business cloud transformation.

Organisations need to ensure that the adaptation of a cloud environment is beneficial for them from a long-term strategic perspective. Now, more than ever, it is crucial for organisations to have a fully-aligned business and IT strategy in place to drive the business forward in a fast-changing technological world.



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**Table 1: Areas of regulatory focus**

Area	Expectation
Cloud security governance, risk & compliance (GRC)	<ul style="list-style-type: none"> <li>Identify regulatory, privacy and security requirements associated with the particular cloud outsourcing arrangement including the business process being supported.</li> <li>Implemented a cloud governance and security framework including the documentation of policies and procedures where appropriate.</li> </ul>
Cloud strategy	<ul style="list-style-type: none"> <li>Define and document a cloud strategy ensuring overall business and IT strategy alignment.</li> <li>Complete cloud service provider selection and sourcing due diligence procedures in line with organisation procurement and sourcing policies and procedures.</li> </ul>
Cloud architecture and integration	<ul style="list-style-type: none"> <li>Define system performance and interface requirements as defined by the relevant end user.</li> <li>Define cloud integration strategy.</li> <li>Understand and define application structure and placement.</li> </ul>
Cloud migration	<ul style="list-style-type: none"> <li>In order to move services to the selected cloud provider smoothly, ensure there is a clearly defined migration plan and program governance in place to include people and process change management.</li> </ul>
Running cloud IT	<ul style="list-style-type: none"> <li>Ensure adequate contracts in place with documented and defined exit strategies.</li> <li>Carry out regular performance assessments against defined key performance indicators to ensure the cloud service is providing adequate services as well as value for money.</li> <li>Ensure the right to audit clauses are executed on a regular basis.</li> </ul>





# Countries are preparing for autonomous vehicles

By: **Lori Rockhead**, Senior Manager, Advisory

KPMG surveyed 20 countries across the globe to understand their readiness for adopting autonomous vehicles (AVs). The factors measured were: legislation and policy, technology, infrastructure and consumer acceptance.

AVs are being piloted in a number of countries and are running on public roads, albeit only in a handful of locations such as Phoenix, Arizona and Singapore. At the current speed of adoption, the burgeoning revolution has far-reaching implications for policymakers.

The rapid development and adoption of AVs is being fostered by the alignment of private developers and public authorities.

Major vehicle manufacturers, technology giants and specialist startups have invested US\$50 billion over the last 5 years to develop AV technology, with 70% of the spending coming from outside the automotive sector.

At the same time, governments can see that AVs offer huge potential economic and social benefits. AVs could eliminate the 90–95% of road accidents caused by human error, saving as many as a million lives every year. Assuming AVs are electric, they should also reduce road pollution, improving citizens' health. AVs offer mobility benefits to people who are unable to drive, including the elderly. And the hours spent driving which will become productive creates a potentially

gigantic economic boost, with one study estimating that the US economy could see an uplift of US\$1.3 trillion a year.

For these reasons and others, many governments are keen to move towards an AV future as soon as possible. But why act now rather than wait to see how quickly AVs are adopted? A key reason for policymakers to consider AVs now is because the spatial planning and infrastructure investment decisions that are made today will determine the development of our countries and cities for decades.

AVs imply changes to road infrastructure, including on-road telematics, signage, crash barriers, lane widths and curbs. They may also affect business cases for public transport schemes, which will need to integrate with AVs, as well as parking schemes and multimodal transport ticketing. AVs will also affect the placement and development of homes and businesses.

Plugging the job and revenue gaps AVs will create will also have major impacts on public policy outside of transport. For example, many professional drivers are at risk of being replaced by technology. There are also implications for government revenues. Taxes on fossil fuels generate billions of dollars, while electric vehicles receive subsidies in many countries. This means a shift to electric AVs would create a hole in tax revenues. Authorities need to think through how to recover that lost revenue, for example, through road pricing, which might also help tackle congestion.

Different countries may come to different conclusions across the myriad of issues. Indeed the optimal AV future of one city may differ from another nearby, depending on patterns of travel and availability of public transport alternatives. But basic standards of interoperability will need to be put in place across countries and potentially entire continents. The reality is, AVs will have far-reaching implications across numerous areas of policy-making for countries around the world.

To find out more about how the 20 countries surveyed compared, you can read [KPMG's Autonomous Vehicles Readiness Index -](#), Assessing Countries' Openness and Preparedness for AVs.



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# Sugar - the new sin tax

By: **Lori Rockhead**, Senior Manager, Advisory

Given increasing levels of adult and childhood obesity, and evidence connecting the consumption of sugary drinks to obesity and type 2 diabetes, it is not surprising that the Government of Bermuda is proposing to follow the growing trend of influencing consumer behavior through public health taxes on sugar.

We are at the dawning age of sugar taxes, whereby refined sugars are poised to become considerably more expensive. The lessons learned from decades of imposing sin taxes, particularly on cigarettes, are being applied to counteract the negative health consequences of consuming excessive amounts of sugar.

In 2006, the City of New York implemented a bold plan to reduce the consumption of sugary drinks. The City's efforts included mass media advertising and excise tax. Perhaps the most memorable aspect of New York's campaign was the attempt to cap the portion size of sugary drinks served in food establishments. Referred to as the 'big gulp' tax, New York attempted to preclude food establishments from selling sugary drinks over 16 oz.

Although ultimately the City's efforts to ban 'big gulps' did not succeed in the courts, the effort highlighted an important aspect of the public health issue, that is the super-sizing of foods and beverages. The increasing availability of beverages in 32 or 44 oz sizes, is skewing the perception of what constitutes 'normal' consumption.

Initial reports suggest that the City's public health campaign has been effective with a 35% decrease in the number of New York City adults consuming one or more sugary drinks a day and a 27% decrease in public high school students doing so (data period: 2007 to 2013) <sup>1</sup>.

Some countries ' earmark ' or segregate sin or public health tax revenue to fund health promotion or prevention efforts. According to the World Health Organisation (WHO), at least ten countries earmark revenue from taxes on consumables that can negatively affect health (e.g., sugar-sweetened beverages). Notwithstanding the debate over whether to earmark sin taxes to fund health related campaigns, sin taxes can discourage consumption, reduce negative health consequences and possibly reduce demand for health

<sup>1</sup> <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4358191/>



services, all of which benefit society. Similar to the decades' long campaign to reduce smoking, it is likely that a multi-prong approach will have the greatest long term impact.

WHO recommends a 20% tax on sugary beverages, and there is evidence that targeted taxation does work to reduce soft-drink consumption although it is unclear that this can be linked to health system savings. The Government of Bermuda is proposing a 75% customs duty on top of duty rates which currently range from 0% to 35%. The consultation paper seeks views on a duty rate of up to 150%. It is impossible to make a direct comparison between Bermuda's proposed tax rate and the WHO recommendations owing to Bermuda raising most of its tax income through payroll tax and duties.

Generally, health authorities have targeted foods with a high proportion of empty calories. i.e., without nutritional value. The Government of Bermuda's consultation paper mirrors this approach by proposing to increase duty on candies, table sugar, and sugary beverages.<sup>2</sup> On the flip side, the 2018 Budget Address promotes healthier eating through plans to reduce customs duty on nutritious food choices (e.g., eggs, potatoes, cauliflower, broccoli, carrots, turnips, oranges and apples).

Recently, the Government of Chile implemented what is thought to be one of the most progressive strategies to transform the eating habits of Chileans and promote healthy eating amongst children by banning certain foods (e.g., Kinder Surprise, the chocolate eggs with a hidden toy), requiring mandatory packaging and labeling requirements which prevent marketing high sugar products to children.

<sup>2</sup> Sugar Tax Consultation Document

Finally, it would be naive to believe that governments are purely interested in public health outcomes when imposing or increasing sin taxes. Sin taxes generate considerable revenue and are one of the few areas where increasing tax rates generally receive modest resistance. In part because sin taxes are essentially a voluntary tax — if you want to smoke, consume alcohol or imbibe sodas, it is a choice not a necessity. As well, the consequent impact on healthcare costs tends to support that the financial burden should be borne, at least in part, by the consumers. The fiscal reality is that once a sin tax is established, 'dialing' up the rate becomes easier in subsequent years. And the reality is that 'sugar tax' has the potential to generate considerable tax revenue. The UK Government is about to launch its own version of a sugar tax and estimates £500 million will be generated from taxing sugary beverages<sup>3</sup>.



**Lori Rockhead**

Senior Manager, Advisory

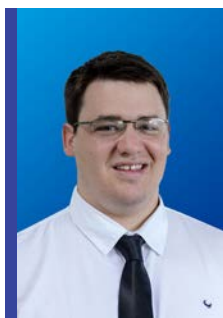
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<sup>3</sup> <http://www.telegraph.co.uk/business/2018/01/29/coca-cola-launches-three-new-drinks-ahead-uk-sugar-tax/>



# In the spotlight



## **Gareth Yeomans**

Audit Senior

Gareth was born and raised in Bulawayo, Zimbabwe. In 2011 at the age of 18 he relocated to Pretoria, South Africa to further his studies at the University of Pretoria. Gareth graduated from University in 2014 with a BCom degree in Accounting Sciences.

Gareth began his professional career with a small firm in Pretoria, South Africa. In January of 2015 as a Trainee Accountant. He began his CA (SA) qualification the following year. He became a qualified accountant in 2017 at which time he had progressed to a Senior Auditor. Gareth worked on various clients in South Africa ranging from retail and manufacturing clients, to schools and government departments.

In January 2018, Gareth joined KPMG in Bermuda as an Audit Senior in the Enterprise department. He believes that working in the Enterprise department will provide him with more exposure to new clients and different accounting frameworks. In his new role, he is hoping to expand his knowledge through learning about the various systems utilized by KPMG.

In his spare time, Gareth enjoys watching sports as well as playing sports and socializing with new people.

Gareth is looking forward to starting his new role as an Audit Senior in the Enterprise department and is excited to take on new challenges and experiences in both the work and living environment in Bermuda.



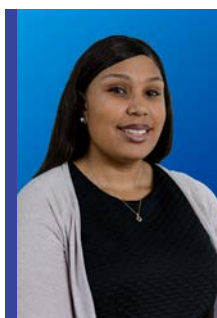
## **Ranisha Simmons**

Staff Accountant

Ranisha recently graduated from Mount Saint Vincent University in Canada in 2018 with a Bachelor of Business Administration degree. She obtained a major in Accounting and minor in Information Technology. Ranisha previously worked at KPMG in Bermuda as a summer intern

in 2017 and joined the KPMG Enterprise team as a Staff Accountant in January 2018. In her free time she enjoys reading, music, and art.

She will soon be pursuing her Canadian CPA designation in hopes of becoming a qualified accountant. Ranisha believes working in the Enterprise department will help her grow professionally and looks forward to the new experiences and challenges in her new role.



## **Simone Wales**

Staff Accountant

Simone recently graduated from Alabama (A&M) University ("AAMU") in Huntsville, Alabama with her Bachelor's degree in Accounting. Before attending AAMU, Simone received an Associate's Degree in Business Administration from Bermuda College. Her love for

accounting began at Berkeley Institute where she had the privilege of taking two Accounting principles classes. Simone interned with KPMG in Bermuda during the summer of 2016 in the Financial Services department. Upon graduation in May 2017, she worked at Clarien Bank in the Business Support Unit and then transferred to the Financial Crime and Compliance Department before joining the Enterprise department at KPMG in Bermuda in January 2018, where she is currently studying for her CPA (US) designation.



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