

# Take 5

for business

Volume 8 Issue 3 - 26 March 2020

The resilient enterprise  
COVID-19 preparedness

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow chevron shape pointing to the right.

Building a better  
working world

# Impact of COVID-19

The COVID-19 pandemic is evolving at such a rapid pace that the Government has imposed a Movement Control Order and further extended it to curb the outbreak in Malaysia.

The ensuing uncertainties require organizations to action rapid assessments to mitigate the adverse impact on business operations, financial performance and legal liabilities.

To help organizations stay resilient during this challenging period, we have developed this alert which can help you and your teams navigate across key priority areas - people safety, business continuity, liquidity management and stakeholder management.

## Did you know?

### > US\$6t loss

In global stock markets in one week  
*Reuters, 19 February 2020*

### > US\$1t

of potential loss to global economy  
*UNCTAD, 9 March 2020*

### 10-year low

Malaysia's KLCI declined to 1,280.63  
*Bursa Malaysia, 16 March 2020*

### Extensions of time

for tax filings and payments  
*Inland Revenue Board, Royal Malaysian Customs Department, February 2020*

### 6-months automatic moratorium

on all loans by individuals and SMEs  
*Bank Negara Malaysia, 25 March 2020*

**1. Put people safety first**

**2. Protect business continuity**

**3. Build and secure liquidity**

**4. Engage stakeholders**

**Four actions**  
to respond to  
COVID-19

# 1. Put people safety first

People, your key assets, are subject to high stress when dealing with fear, anxiety, ambiguity and uncertainty given the extent of the **Covid-19 impact on a personal level and on work.**

**Safety, health, wellbeing, care and job security become immediate priorities** to deal with the present and coming challenges.

Your team will also need **clear and transparent communications** on how the Government's stimulus package may help them.

## Actions to take

### 1. Be extraordinarily human

- ▶ Actively listen to employee concerns
- ▶ Practice empathy
- ▶ It's fine to acknowledge you may not have all the answers at this point

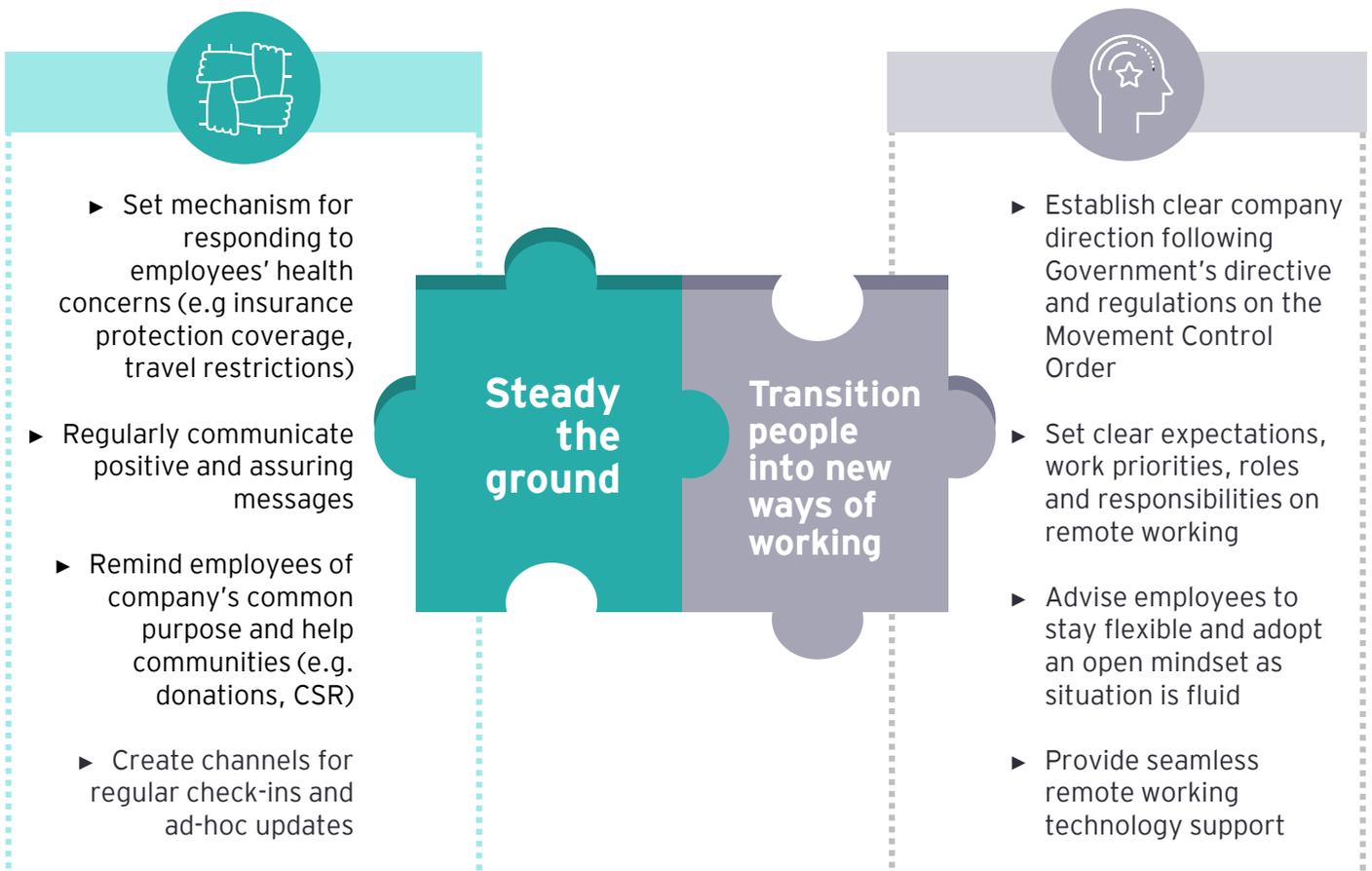
### 2. Be persistent

- ▶ Communicate regularly
- ▶ Personalize messages
- ▶ Build trust

### 3. Be creative

- ▶ Explore new ways of working remotely
- ▶ Register for a new learning course
- ▶ Share experiences and tell stories

Companies need to do their best to steady the ground and transition people into new ways of working.



Sources: EY

## 2. Protect business continuity

The COVID-19 pandemic has disrupted economic activities, including **supply chain networks**.

Businesses lose clarity on demand as **buying behavior shifts** drastically.

Ripple effect emerges as companies' sources of supplies are disrupted, compounded by temporary suspension of support services.

It is imperative for businesses to **rapidly assess, recover and respond** to their supply network disruptions.

### Actions to take

- 1. Visibility and monitoring**
  - ▶ Is there a single view across your supplier and customer networks on supply chain capacity, availability and product flows?
- 2. End-to-end supply chain risk assessment**
  - ▶ Are your supply chain ecosystem partners proactively engaged to identify risks and close gaps?
- 3. Contingency and scenario planning**
  - ▶ Is contingency and scenario planning in place with standardized emergency response processes?
- 4. Supplier network diversification**
  - ▶ Is there clarity on your supplier base and dependencies, with alternate suppliers in place?
- 5. Stimulus and incentive packages**
  - ▶ Have you considered available tax, financing, and other moratorium benefits?

Building a resilient supply chain is key to mitigating economic risks.



### 3. Build and secure liquidity

COVID-19 will disproportionately impact highly leveraged businesses and those with low cash buffers already facing tough trading conditions. Liquidity tightening across the markets will cascade, from business to business, impacting the supply chain network.

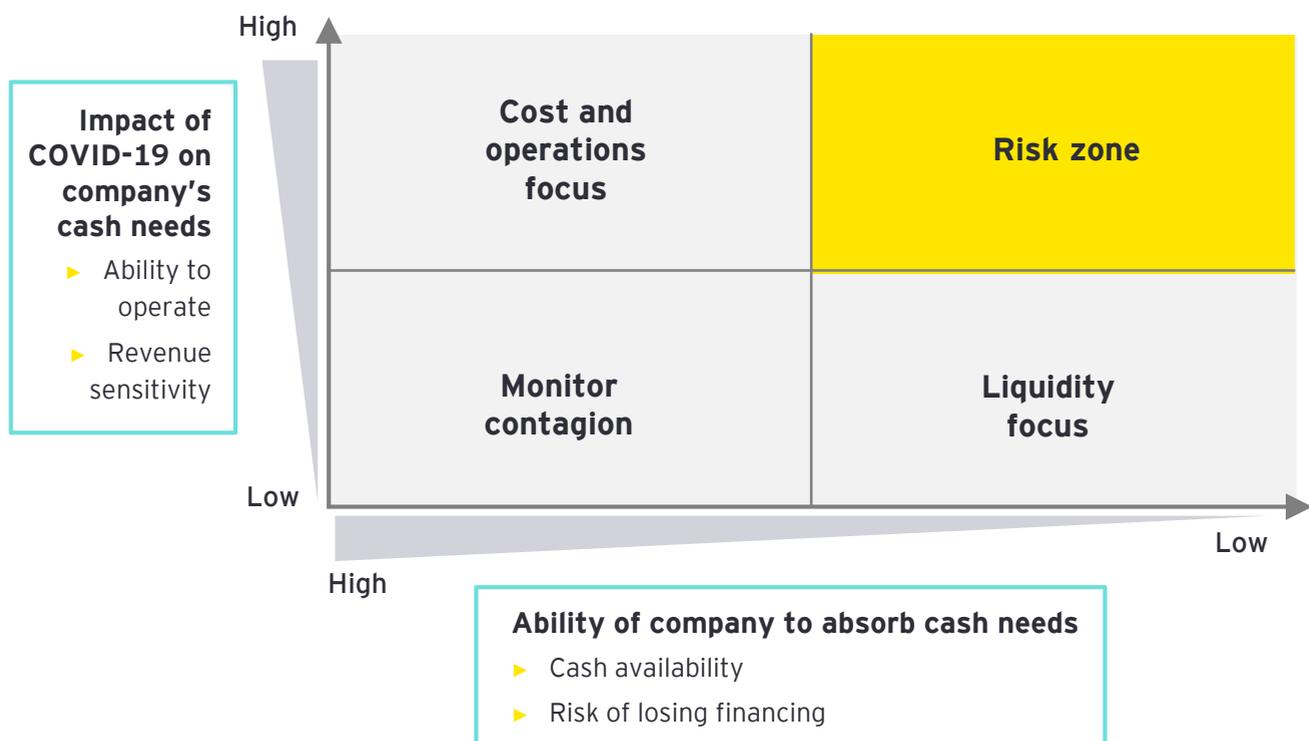
Key questions for CFOs to consider:

1. Have you assessed the **liquidity impact** on the range of stress-test scenarios presented by COVID-19?
2. Has management agreed on an appropriate **contingency funding plan** based on the stress-test scenarios?

#### Actions to take

1. **Identify available cash and due payments**
  - ▶ Track down cash buffers, calculate available cash and unutilized credit lines
  - ▶ Identify urgent payments (e.g. invoices and treasury settlements)
2. **Allocate cash reserves**
  - ▶ Identify opportunities to pool liquidity
  - ▶ Monitor the financial status of entities within the group
  - ▶ Allocate liquidity to entities in need of cash
3. **Forecast cash flows**
  - ▶ Establish a cash forecast including various scenarios
  - ▶ Calculate the group's cash forecast to identify cash bottlenecks and surplus
  - ▶ Provide adequate liquidity reserve to prevent insolvency
4. **Monitor financial covenants**
  - ▶ Regularly review forecast to ensure compliance with financial covenants

Both internal and external factors will tighten liquidity during COVID-19 and rapid assessment is needed to test different scenarios.



# 4. Engage stakeholders

With most businesses planning to reshape their organization to sustain in these challenging times of the COVID-19 pandemic, **stakeholder engagement** is more important than ever.

Lack of communication or unclear messaging may trigger speculations and raise doubts among stakeholders. This may result in the **loss of stakeholder confidence** and lead to an **adverse shift on how the organization is perceived**.

In time, this may have long-term financial and operational impact on the organization.

## Actions to take

- 1. Understand stakeholders' critical priorities**
  - ▶ Identify key stakeholders and their short to medium term priorities
  - ▶ Examine the impacted stakeholders due to the current economic situation
- 2. Create a cross-functional response team to address challenges/issues and track position daily**
  - ▶ Identify the decision-makers within the organization
  - ▶ Establish daily cadence and appropriate governance to address issues and risks
- 3. Prepare a targeted engagement plan to address needs and priorities**
  - ▶ Establish a proactive and comprehensive communication plan to address both external and internal stakeholders
  - ▶ Designate single points of contact to facilitate seamless engagement with internal and external stakeholders
- 4. Address legal liabilities**
  - ▶ Establish process to notify and engage with regulators proactively
  - ▶ Establish mitigation action on any potential lawsuits and negative brand impact to the organization

Building confidence and trust will be a key differentiator.

Assess			Prevent	Detect	Restore	Recover
Identify	Prioritize	Plan	Implement	Monitor	Respond	
<b>Define stakeholder impact</b>	<b>Categorize risks and impact</b>	<b>Identify disruption</b>	<b>Enforce control and policy</b>	<b>Align data and insights</b>	<b>Drive pandemic resilience</b>	
Customers	Customer and branding risk	Change in customer demand	Customer communication	Customer safety and brand insights	<ul style="list-style-type: none"> <li>▶ Create customer marketing plan</li> <li>▶ Respond to brand impact</li> </ul>	
Employees	Employee and human capital risk	Employee health and safety impacts	Employee safety and awareness training	Working capital credit tax and insurance	<ul style="list-style-type: none"> <li>▶ Communicate organization's response to safety and security concerns</li> <li>▶ Identify affected employees</li> </ul>	
Investors and capital markets	Concentration risk and liquidity	Financial and tax impacts	Financial risk monitoring	Concentration risk	<ul style="list-style-type: none"> <li>▶ Monitor impacts to liquidity, capital and credit</li> <li>▶ Respond to financial and tax incentives</li> </ul>	
Regulators and external organizations	Regulator risk	Regulatory compliance	Regulatory check and coordination	WHO and local regulatory information	<ul style="list-style-type: none"> <li>▶ Contact external agencies and confirm alignment to suggested policies</li> <li>▶ Monitor regulation impacts and compliance</li> </ul>	
Third parties	Vendor outage risk	Goods and service disruptions	Remote work capability and IT resilience	Vendors' situation	<ul style="list-style-type: none"> <li>▶ Contact vendors and determine service-level agreement gaps/outages and concentration</li> <li>▶ Define contingency plans for third-party gaps</li> </ul>	
Technology ecosystem	Technology availability and IT risk	Technology availability and cyber threats	Third-party risk assessment and control	Technology infrastructure & cyber resilience	<ul style="list-style-type: none"> <li>▶ Enable remote work IT programs</li> <li>▶ Confirm changes are cyber-secure and resilient</li> <li>▶ Drive IT risk resiliency programs</li> </ul>	

Brand, marketing and communications strategy

Sources: EY

# Assess your tax risks and opportunities

## 1. People considerations



Does your organization have employees stuck outside their home countries?

- ▶ Do work visas need to be extended?
- ▶ Will employees still qualify for anticipated time-based personal tax exemptions? If exemptions don't apply, who will bear any additional tax?
- ▶ Will employee actions (e.g. signing or approving contracts abroad) create taxable presence risks for the employer? Assess the position immediately and put in place strict dos and don'ts to mitigate risks.

## 2. Protect business continuity



- ▶ Are you planning to invest to prepare for the recovery? Invest in 2020 to enjoy:
  - ▶ Accelerated capital allowance on machinery and IT equipment
  - ▶ Deduction of up to RM300,000 on renovation costsAlso consider applying for matching HRDF grants to upskill employees
- ▶ Can your transfer pricing (TP) policy withstand the shocks to the system? What TP risks and opportunities will the downturn bring?
- ▶ Understand and maximize the extensions of time for tax filings so you can focus on your business
- ▶ Do you have a Labuan entity looking to elect to be taxed under the Income Tax Act 1967? There is an extended deadline to elect.

## 3. Build and secure liquidity



- ▶ Review and revise your tax estimate in the third instalment month, to manage cashflow
- ▶ Maximize extended deadlines for tax payments, including withholding tax payments
- ▶ If you are in the tourism industry, you can defer your corporate tax instalments which are due between April and September 2020.
- ▶ Do you have large tax or GST refunds due? Now is the time to follow-up.
- ▶ Consider availability of incentives or grants

## 4. Engage stakeholders



- ▶ Do you have a tax incentive?
  - ▶ Assess ability to meet incentive conditions
  - ▶ Engage with authorities early to re-negotiate or appeal
- ▶ Do you have a Licensed Manufacturing Warehouse ("LMW") or have you considered a LMW but don't meet the conditions? It may be time to re-evaluate:
  - ▶ The LMW (and Free Industrial Zone) scope has been expanded to include supply chain management, strategic procurement support and total support solutions
- ▶ Does your organization have a company struggling to meet tax residency requirements or a Labuan entity struggling to meet substance requirements, due to travel restrictions? Evaluate the impact and mitigation options early.
- ▶ What are the pain points highlighted by the pandemic?
  - ▶ Now may be the time to re-assess supply chains and business models, including from a tax standpoint

# EY contacts



**Dato' Abdul Rauf Rashid**  
EY Asean Assurance Leader  
Malaysia Managing Partner  
Ernst & Young PLT

Tel: +603 7495 8728  
abdul-rauf.rashid@my.ey.com



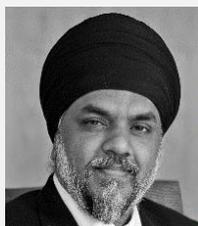
**Chow Sang Hoe**  
EY Asean Advisory Leader  
Malaysia Advisory Managing Partner  
Ernst & Young Advisory Services Sdn Bhd

Tel: +603 7495 8696  
sang-hoe.chow@my.ey.com



**Yeo Eng Ping**  
EY Asia-Pacific Tax Leader

Tel: +603 7495 8288  
eng-ping.yeo@my.ey.com



**Amarjeet Singh**  
EY Asean Tax Leader  
Malaysia Tax Managing Partner  
Ernst & Young Tax Consultants Sdn Bhd

Tel: +603 7495 8383  
amarjeet.singh@my.ey.com



**George Koshy**  
Malaysia Transaction Advisory Services  
Managing Partner  
Ernst & Young PLT

Tel: +603 7495 8700  
george.koshy@my.ey.com



**Datuk Stephen Duar**  
Malaysia Restructuring Leader  
Ernst & Young PLT

Tel: +603 7495 7878  
stephen.duar@my.ey.com



**Low Choy Huat**  
Malaysia People Advisory Services Partner  
Ernst & Young Advisory Services Sdn Bhd

Tel: +603 7495 8640  
choy-huat.low@my.ey.com

EY | Assurance | Tax | Transactions | Advisory

## About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation is available via [ey.com/privacy](http://ey.com/privacy). For more information about our organization, please visit [ey.com](http://ey.com).

©2020 Ernst & Young Advisory Services Sdn Bhd  
All Rights Reserved.

APAC no. 07002072

EDNone

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

[ey.com/en\\_my](http://ey.com/en_my)

## Further reference

