

# EDITORIAL

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This issue of the Journal of Economic and Financial Sciences is a historical one with the inclusion of four articles within the field of Financial Planning investigating burning issues both from a quantitative and legal point of view.

In their article, **Paul Snyman** and **Nico Smith** looked at volatility and risk of equity in retirement portfolios where financial planners often manage volatility believing that it is the same as managing risk. Using the FTSE/JSE Top 40 Index (Topi) and the FTSE/JSE All Share Index (Alsi) as samples to investigate volatility and risk in equity investments, a target return was determined as a benchmark for required return. Five sets of actual investments in the Topi and Alsi were then simulated. The internal rate of return (IRR) of each investment was determined and compared with the target return. This revealed that the risk of each of the five simulated sets of investments was acceptable for a retirement portfolio. It was concluded that volatility analysis of monthly returns was not suitable to determine the risk of equity investments in retirement portfolios.

**Henda Steyn** conducted an analysis of post-constitutional case law relevant to the amendments of discriminatory provisions in charitable testamentary trusts and focuses on the evaluation of the *ratio decidendi* of the court's judgments in recent court cases. One of the major benefits of a testamentary trust is the ease with which a testator's wishes, as contained in his/her will, can be interpreted and implemented. The Charitable testamentary trust has even more unique characteristics and due to its aim – a charitable intent, it has the effect that South African courts are struggling to reconcile the different elements of existing legal principles in amending these types of trusts. It is the generally excepted approach that charitable testamentary trust will not summarily be declared invalid if the trust purpose or beneficiaries are not clearly defined. The charitable testamentary trust has a trifecta of legal fields relevant to govern it. There is a close interaction between the law of succession and the law of trusts applicable to testamentary trusts as well as some common law principles that must be applied. The existing political and social environment in South Africa, as supported and endorsed by the principles embodied in the Constitution of the Republic of South Africa (hereinafter referred to as the Constitution), however, is resulting in a greater limitation on individual freedom of testation. The current trend is that if a testamentary trust is created and a public institution, such as a university is involved, the testamentary trust will be amended if any of the provisions contained therein can be classified as discriminatory.

**Mabutho Sibanda's** article seeks to provide new evidence on the stock market and exchange rate relationship in Zimbabwe. The bivariate vector autoregressive approach was used to establish the relationship between the stock market and exchange rates. The results show that no relationship exists between the stock market and the proxy exchange rate. The findings contradict the expectation that exchange rate movements would influence domestic stock market prices. This finding is especially interesting given the fact that Zimbabwe uses a basket of currencies for

transacting purposes, albeit with the United States dollar as a major currency for reporting and stock market pricing purposes. The findings provide new evidence of a disconnect between the stock market and exchange rate movements which have implications for international portfolio diversification and the use of foreign currency as an asset class in an economy using a multiple currency system.

Arguments about money represent one of the most common reasons for divorce. South African and several Western cultures consider communication about money as uncivil and taboo – even more so than sex and death. In their article, **Liezel Alsemgeest** and **Chrizaan Grobbelaar** conducted an investigation to determine newly married couples' views of gender roles in marriage with regard to financial management. Questionnaires were distributed amongst couples that have been married for less than 10 years. The results show that both genders consider men to be superior concerning financial behaviour whereas the women indicated that they are not as self-confident with regard to their own ability and knowledge of financial management, despite major advances in the empowerment of women and the fact that many women are breadwinners in their homes. The indication by men that they have little faith in their wives' abilities to discern between luxuries and essentials was statistically significant. The sensitivity of the topic was once again emphasised by, in particular, the strong reaction from men about the completion of the questionnaires.

In her article **Nadia Rhodes** reports on the transformative design principles that were generated during the process of better aligning accounting education with accounting practice. Managing the risk of a disparity between accounting education and practice by matching the dynamics of the workplace and education arena could create value for the accounting graduate and the employer. In the process of change necessary for the integration of accounting software skills in accounting education, certain transformation design principles were identified as imperative ground rules. The development and conceptualisation of the transformation design principles were drawn from iterative cycles, unique coding and analysis from the infusion of two research methods. The transformative design principles developed are demonstrated to have generic properties that could be applied to other environments.

**Marina Bornman** reports on the determinants and measurement of 'trust' in tax authorities as a factor influencing tax compliance behaviour. Trust is valued as a relational variable providing the base for voluntary cooperation. Her article aims to determine, by reviewing studies on the effect of trust in tax authorities on tax compliance, the determinants, effect and measurement of trust in this context. Findings from a number of studies indicated that trust in tax authorities is positively related to tax compliance, and it was found that perceptions of fairness, treatment by authorities, norms and attitudes, and subjective tax knowledge are the main factors determining trust in tax authorities. However, many studies use very limited descriptors when measuring perceptions of trust in authorities, and it is suggested that a standardised survey instrument could be developed to measure such perceptions.

**Marina Bornman** and **Lilla Stack** analysed taxpayers' attitudes and beliefs. In a society the tax climate is determined by the interaction between taxpayers and tax authorities. In a 'service and client' climate, taxpayers do not expect authorities to automatically suspect them of being tax evaders. Evidence suggests that recognising good tax behaviour with strategies of rewards has a positive effect on voluntary tax compliance. Principles derived from the cognitive evaluation theory predict that when feelings of competence are affirmed and this is accompanied by a sense of autonomy it can enhance the intrinsic motivation for an action. The present research surveyed the attitudes and beliefs of taxpayers involved in small business on being rewarded for tax

compliance. Results were corroborated with the principles of the cognitive evaluation theory and it was found that the principles of the theory are applicable to rewarding tax compliance behaviour.

In their article **Anculien Schoeman, Theuns Steyn** and **Karl Homeier** explored the VAT practices of mobile telecommunication service providers in South Africa. Firstly some literature was consulted where after the Melbourne Agreement, which specifically deals with the VAT on international telecommunication services, was considered. As the provisions of the general VAT principles as portrayed in the VAT Act (89/1991) and those of the Melbourne Agreement differ, the tax managers at three major South African telecommunication service providers were interviewed to determine which principles they apply in practice. From the interviews conducted, it was clear that South African telecommunication service providers apply the principles of the Melbourne Agreement and levy VAT at 14% on international telecommunications services provided to its customers and VAT at 0% to foreign network operators for services rendered to non-residents while in South Africa. This is, however, contrary to the normal VAT principles that a service is zero-rated when a service is exported and consumed outside of South Africa and VAT levied at 14% when the service is provided to a non-resident present in South Africa at the time the service is rendered.

International Accounting Standard 38 (IAS38) prohibits the recognition of internally generated brands as assets. **Pieter van Aardt van der Spuy** explores the implications of this prohibition for the usefulness of financial statements, focusing on the implications for note-disclosure. A theoretical doctrinal research approach is taken in which the literature on intangible assets and current accounting standards is examined and evaluated. The article highlights the information content relevant to unrecognised brand assets that is not currently disclosed to users of financial statements. Furthermore he argues and explains how this situation may compromise the usefulness of financial statements. Practitioners compiling financial statements may find the conclusions and recommendations useful in improving voluntary note-disclosure when a reporting entity owns significant unrecognised brand assets.

Environmental policy integration is essential in achieving environmental sustainability goals across non-environmental sectors. Dilution of environmental goals in environmental policy integration should be avoided. The conservation tax incentive of the repealed section 37C(5) read with section 18A of the Income Tax Act 58 of 1962, replaced by section 37D, represents environmental policy integration in tax legislation. In her article, **Ellané van Wyk** wanted to determine whether the replacement will benefit contracted landowners, using historical comparative methodology. Secondly, a historical review of the literature on environmental policy integration and alternative incentives for private conservation efforts was performed. Although contracted landowners might obtain a smaller tax benefit annually, they will receive the same total tax benefit over the entire period of the deduction. They will have certainty regarding their annual tax benefit. As certainty is preferred by most landowners, the study concluded that dilution of environmental policy integration goals will not result from the amended legislation.

The threats of climate change have compelled humans to consider the environmental impact of their decisions, including those relating to agricultural practices. Organic agriculture is believed to be a mitigating factor when it comes to climate change. **Josette Jordaan-Marais** and **Riëtte Eiselen** explore the perceptions of organic farmers regarding the benefits of organic agriculture, from a financial and non-financial perspective in their article. They also highlight the trade-off between the perceived non-financial and financial benefits of organic agriculture. Results indicated that the perceived non-financial benefits of organic agriculture were considered to be

the most important consideration for the decision to farm organically. The results confirmed and augmented those found by other authors, namely that the environmental benefits of organic agriculture were considered to be very important to organic farmers.

