



DRIVING BUSINESS SUCCESS

Issue 8 Volume 15 August 2019

PLUS:

PROFILE

Guy Norman, Value Creation
and Crisis Management
Partner at Deloitte China

ACCOUNTANT PLUS

Raymond Lo, Chief Financial
Officer at FWD Hong Kong
and Macau

SECOND OPINIONS

What will it take to be a good
CFO in the next 10 years?



THE CRIME SCENE SPECIALIST



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Special report: Why forensic
accountants are more in-demand
than ever in an age of big data

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Certified Public Accountants
香港會計師公會

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Regular price:

\$585 /member



IT CONFERENCE 2019

Smart CPAs in the Era of Smart Everything

Accountants in the future world of machines

Date: Saturday, 19 October 2019

Time: 9:00 a.m. – 1:00 p.m.

Venue: Ballroom, The Ritz-Carlton, Hong Kong, International Commerce Centre,
1 Austin Road West, Hong Kong



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“The forum helps you understand the focus and work of the Institute and allows you to express your views relating to issues affecting the accountancy profession, as well as your expectation of the Institute.”



Dear members,

In my message last month I noted that while August is a month with no Council meeting, the Institute keeps on running. With this in mind I have two important announcements to begin with.

I am pleased to announce that Council has decided to have a full membership fee waiver for 2020 for members who were on the register of members at 31 December 2017. As a background, the Council, back in May 2018 decided to introduce a membership fee waiver for 2019 and 2020 for members on the register of members at 31 December 2017, subject to sufficient reserves being maintained to meet the operation need. Following the full fee waiver for 2019, the Council has recently evaluated the latest financial projections of the Institute and determined to have a full fee waiver for 2020. The impact of the full fee waiver two years on the roll would be fully reflected in the coming two financial years.

To enhance communications between members and the Institute, a series of Members' Forums will be hosted from mid-September to apprise members of the Institute's latest developments. The forum helps you understand the focus and work of the Institute and allows you to express your views relating to issues affecting the accountancy

profession, as well as your expectation of the Institute.

Your voice and views are very important to us, join any session of the forum to share your thoughts. The forums are free of charge and a CPD hour will be given. Register by 6 September. I, together with the two Vice Presidents and Chief Executive & Registrar look forward to meeting you and listening to you at this event.

The Institute held information sessions on the registration of the auditors of public interest entities, to prepare practising members for the transfer of their regulation from the Institute to the Financial Reporting Council. The Institute explained the new regime, the transitional arrangements, and answered their questions on the matter. The Institute will communicate major regulatory developments to members and give them time to prepare for important changes.

One major event this month for me was the annual president's presentation to CPA Australia. I spoke on sustainability reporting, and how accountants can lead the transformation of companies from focusing on just financial metrics, to integrated thinking and reporting their wider environmental, social, and governance performance. The reporting landscape is changing, and this is not being driven by

regulators, but by investors demanding that the companies they invest in act ethically and consider the planet and stakeholders. This also creates opportunities for accountants, in helping to transform reporting, and assure investors and stakeholders of the accuracy of reported numbers.

This month's *A Plus* features a new quarterly special report series on specialisms in the profession. The focus is forensic accounting, and it discusses the life of forensic accountants, the technology they use, how they work with their clients and other professions, and how members interested in becoming forensic accountants can join the specialization. There is also a new feature on continuous professional development, introducing a series you may be interested in studying. Finally, the life section has been revamped to focus on recommendations from your fellow members on where to dine and stay in a city, and interesting books to read and music to listen to. I hope you enjoy this new content.

With September coming it's time for Council to meet again, and while the weather will soon be cooling down, the Institute's activities will be heating up. I hope to see many of you in the coming few months at our events.

Patrick Law
President

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Finding the truth



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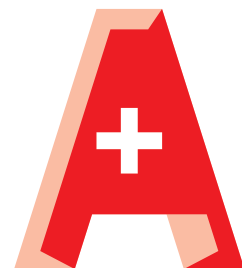
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DRIVING BUSINESS SUCCESS

About our name

A Plus stands for Accounting Plus. It represents a profession that is rich in career options, stays relevant amid rapid changes, and adds value to business. This magazine strives to present the global mindset and varied expertise of Institute members – Accountants Plus.



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Certified Public Accountants
香港會計師公會

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The digital version is distributed to all 44,498 members, 17,380 students of the Institute and 2,358 business stakeholders every month.



NEWS

Institute news Business news

Consultation paper issued on the Hong Kong Business Valuation Quality initiative

The Hong Kong Business Valuation Quality Initiative Task Force – of which the Institute is an active member – last month issued its consultation paper on the proposed framework to enhance business valuation standards and professionalism in the city. The proposed framework aims to improve practices by promoting competence and allowing only appropriately qualified professionals to perform business valuations for listed and private companies.

The task force, led by the International Valuation Standards Council, was set up earlier this year to investigate ways to improve business valuation quality in Hong Kong.

Comments to the paper should be submitted to comments@ivsc.org and BVQI.comments@hkcipa.org.hk by 15 November. More details on the consultation are on the Institute's website.

Cross-straits, Hong Kong and Macau Accounting Profession Conference 2019

The Institute is hosting the annual Cross-straits, Hong Kong and Macau Accounting Profession Conference 2019 on 28 October

at the Kowloon Shangri-La Hotel. The theme this year is “數碼時代 – 職業化、信息化” (digital transformation). The conference is an important annual event for the accounting profession from across Greater China, enabling attendees to share knowledge on the latest developments in the profession and to network. More than 300 attendees are expected from the four jurisdictions. Registration details are available on the Institute's website.

PAIB Conference 2019 to focus on the era of digital banking

Members can now register for the Institute's annual professional accountants in business conference, which will take place on 21 September.

With the theme “Digital & Virtual Banking: tomorrow's banking today?” the event will feature a panel of speakers discussing the opportunities and challenges created by the era of smart banking. Topics such as what to expect from virtual banking and how businesses can take advantage of the environment of digital and virtual banking will also be covered.

Confirmed speakers include representatives from DBS, Fusion Bank,

McKinsey & Company, Moore Stephens, Ping An OneConnect Bank, Office of the Privacy Commissioner for Personal Data, Standard Chartered and WeLab Digital. Those interested should enrol by 13 September.

Seminar series on IRD's transfer pricing DIPNs

The Institute's Taxation Faculty is organizing a number of seminars on the Inland Revenue Department's recently released Departmental Interpretation and Practice Notes on transfer pricing. The seminars run from September to November. More information about them can be found on the Institute's website.

RSCP annual dinner and singing competition

Dicky Chan, Helen Ho and Jacqueline Hsui represented the Institute in the Recreation and Sports Club for Hong Kong Professional Bodies singing competition on 27 July. They performed in front of more than 200 attendees including Institute President Patrick Law, Vice-President Nelson Lam, and Chief Executive and Registrar Margaret Chan.

Q&As on revenue recognition now available

The Institute has issued new questions and answers (Q&As) for matters related to the revenue recognition considerations in the engineering and construction industries under HKFRS 15 *Revenue from Contracts with Customers*. They can be found on the Institute's website. The Q&As were developed by the Financial Reporting Standards Committee of the Institute and are for general reference only.

Council minutes

Council minutes from the May Council meeting are now available to read. They can be found in the Members' area on the Institute's website.



Institute members and leadership at the the RSCP annual dinner singing competition

Resolution by Agreement

Lie Kong Sang, CPA and PricewaterhouseCoopers

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 *Audit Documentation*, HKSA 330 *The Auditor's Procedures in Response to Assessed Risks* and HKSA 500 *Audit Evidence*.

PricewaterhouseCoopers (PwC) audited the consolidated financial statements of Modern Beauty Salon Holdings Limited, a Hong Kong listed company, and its subsidiaries (collectively, group) for the years ended 31 March 2006 to 2009 and expressed unmodified auditor's opinions. Lie was the engagement partner for those audits.

The group entered into prepaid service contracts with customers and recognized the unutilized portion of prepayments as revenue when customers changed the service type or transferred the unutilized service treatments to other customers before contract expiry, where the underlying service treatments had not yet been delivered. This was contrary to Hong Kong Accounting Standard (HKAS) 18 *Revenue*. The respondents failed to design and perform procedures to appropriately test that revenue recognition in relation to change in services or transfer of prepaid contracts was in compliance with the relevant accounting standard, and failed to document their evaluation of management's discussion with the group's legal advisors concerning the legal and contractual position of prepaid contracts.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:

1. The respondents acknowledge the facts of the case and their non-compliance with the relevant professional standards;
2. They be reprimanded; and
3. Lie and PwC each pay an administrative penalty of HK\$50,000, and jointly pay costs of the Institute and the Financial Reporting Council (FRC) totalling HK\$117,599.

Disciplinary findings

Chan Chi Kei, Ronald, CPA (practising), Ho Yiu Hang, Ricky, CPA (practising) and Asian Alliance (HK) CPA Limited

Complaint: Failure or neglect by Chan and Asian Alliance to observe, maintain or otherwise apply HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 230 *Audit Documentation*, HKSA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements*, HKSA 500 *Audit Evidence*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, HKSA 620 *Using the Work of an Auditor's Expert* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by Ho to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. Failure or neglect by Chan and Ho to observe, maintain or otherwise apply sections 100.5(c) and

130.1 of the Code of Ethics for Professional Accountants.

Asian Alliance audited the consolidated financial statements of Natural Dairy (NZ) Holdings Limited, a Hong Kong listed company, and its subsidiaries for the year ended 31 May 2011. Chan was the engagement director and Ho was the engagement quality control reviewer of the audit.

The Institute received a referral from the FRC about audit irregularities. The consolidated financial statements included the company's equity interest in a foreign company which had acquired several dairy farms in New Zealand. The foreign company's request for the local authority's retrospective consent to its acquisition of the dairy farms was refused. As a result, the farms were subject to a risk of compulsory disposal by court order.

In their audit, the respondents failed to perform sufficient procedures to address the potential impact of the above circumstances on the investment, including impairment assessment. The respondents also failed to evaluate whether proper disclosure about the matter had been made in the financial statements.

In addition, the respondents did not prepare sufficient documentation of audit procedures performed on revenue recognized in the financial statements.

Decisions and reasons: The respondents were reprimanded and were ordered to pay jointly a penalty of HK\$150,000 and costs of the Institute's disciplinary proceedings and the FRC totalling HK\$221,501.

Mo Kong Fung, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity under sections 100.5(a) and 110, and the fundamental principle of professional competence and due care under sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants; Hong Kong Standard on Quality Control (HKSQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*; and being guilty of professional misconduct.

Mo is the sole proprietor of Lacubus CPA, which was subject to its first practice review in early 2017. Mo was responsible for Lacubus' quality control system and the quality of its audit engagements.

The practice reviewer identified significant deficiencies in Lacubus' system of quality control and in two of its audit engagements. In addition, Mo had deliberately attempted to mislead the practice reviewer by creating new working papers or changing other working papers after the audit report date, and making untrue statements in a meeting with the reviewer. He also falsely or recklessly provided untrue answers in a self-assessment questionnaire submitted in relation to the practice review.

Decisions and reasons: The Disciplinary Committee ordered the name of Mo be removed from the register of CPAs for 12 months, and a practising certificate shall not be issued to him for two years with effect from 25 July 2019. In addition, Mo was reprimanded and ordered to pay a penalty of HK\$80,000 and costs of the disciplinary proceedings of HK\$44,053. When making

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its decision, the committee took into account the particulars of the breaches committed in this case, the parties' submissions, and the respondent's conduct throughout the proceedings.

Wong Yuk Ming, Aaron, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of integrity under sections 100.5(a) and 110.1, and the fundamental principle of professional competence and due care under sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants. Further, the Disciplinary Committee found Wong to have breached HKSQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. In view of the severity of the non-compliances, the committee also found Wong guilty of professional misconduct.

Wong was the sole proprietor of Aaron Wong & Co. and was responsible for the firm's audit engagements and quality control system. The firm was selected by the Institute for its first practice review in August 2017.

The practice review revealed deficiencies in the firm's quality control system as well as Wong's professional competence and integrity. Wong was found to have furnished answers in an "Audit Health Screening Checklist" either falsely or recklessly, and created working papers which misled the reviewers and rendered the practice review process ineffective. In addition, Wong failed to ensure the firm had maintained an adequate quality control system for engagement performance, independence and acceptance and continuance of client relationships. Findings of insufficient audit evidence in one audit engagement and Wong's flawed concept about audit documentation raised serious questions as to whether he had carried out his work with professional competence and due care.

Decisions and reasons: The committee reprimanded Wong and ordered the cancellation of his practising certificate with no issuance of a practising certificate to him for 18 months with effect from 2 August 2019. In addition, Wong was ordered to pay a penalty of HK\$50,000 and costs of disciplinary proceedings of HK\$47,642. The committee noted that Wong's conduct raises serious doubts about his integrity, and demonstrates a blatant and intentional disregard of the Institute's ethical and professional requirements. They added that the manner in which he conducted the audit engagements could undermine public confidence in the standards of the profession and damage its reputation.

Woo Yuen Fai, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*.

Woo was the engagement quality control reviewer in an audit carried out by UC CPA (Practising) Limited on the consolidated financial statements of South Sea Petroleum Holdings Limited, a Hong Kong listed company, and its subsidiaries for the year ended

31 December 2015. The audit was selected for review in 2016 as part of the Institute's practice review.

The practice reviewer identified significant audit deficiencies in the areas of impairment assessment of investment property and prepayments of production expenses. The two areas were material. Woo failed to perform an effective engagement quality control review of them to evaluate the significant judgements made and conclusions reached by the audit team.

Decisions and reasons: The Disciplinary Committee reprimanded Woo and ordered him to pay a penalty of HK\$70,000 and costs of the disciplinary proceedings of HK\$42,960. When making its decision, the committee took into account the particulars of the breaches committed in this case, the respondent's conduct throughout the proceedings and his personal circumstances.

HLB Hodgson Impey Cheng Limited, Yu Chi Fat, CPA (practising) and Shek Lui, CPA (practising)

Complaint: Failure or neglect by HLB to observe, maintain or otherwise apply HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*. Failure or neglect by Yu and Shek to observe, maintain or otherwise apply sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.

HLB audited the consolidated financial statements of HMV Digital China Group Limited (formerly known as China 3D Digital Entertainment Limited), a Hong Kong listed company, and its subsidiaries for the year ended 30 June 2013. Yu was the engagement director and Shek was the engagement quality control reviewer of the audit.

The Institute received a referral from the FRC about irregularities in the audit. There was impairment of the company's available-for-sale listed investment as a result of a significant decline in fair value shown by a drop in the investee's quoted market price. The company did not record an impairment loss on the investment, contrary to HKAS 39 *Financial Instruments: Recognition and Measurement*. In their audit, the respondents compared the investment cost to the value of the company's share of the investee's net assets, instead of its quoted market price, and concluded that no impairment loss was required to be recorded. As a result, they failed to report the non-compliance in the auditor's report.

Decisions and reasons: The respondents were reprimanded and were ordered to jointly pay a penalty of HK\$60,000 and costs of the Institute and the FRC totalling HK\$117,055.40. When making its decision, the Disciplinary Committee noted that the breaches were mitigated by a diversity in practices regarding the application of the relevant accounting standard and the fact that the respondents had obtained independent professional valuations of the investment.

Details of the disciplinary findings and guidelines for the Resolutions by Agreement are available at the Institute's website: www.hkicpa.org.hk.

DELOITTE CHINA ACQUIRES HONG KONG ARCHITECTURE COMPANY

Deloitte China has acquired Hong Kong architecture company WCWP International Limited for an undisclosed amount, reported the *South China Morning Post*. The move will enhance Deloitte's advisory services in real estate, infrastructure and reorganization. "More than ever, our clients are looking for a one-stop shop experience, especially when it comes to mergers and acquisitions, infrastructure investment and real-estate projects," Edmund Yeung, Financial Advisory Managing Partner at Deloitte China, told the *SCMP*. The deal points financial advisory services and architecture "to an innovative new direction to create a totally new field," said Barry Will, Executive Director at WCWP.



EX-WALT DISNEY ACCOUNTANT BLOWS WHISTLE ON COMPANY

A former Walt Disney accountant has claimed that the company materially overstated revenue for years in a series of whistleblower tips filed with the United States Securities and Exchange Commission. According to a MarketWatch report, Sandra Kuba, a former senior financial analyst in Disney's revenue operations department, alleged in the filings that employees working in the parks and resorts business overstated revenue, sometimes by as much as US\$6 billion, by exploiting weaknesses in Disney's accounting system that allowed the inaccuracies to remain undetected. A Disney spokesperson said the whistleblower's claims were "utterly without merit."



KRAFT HEINZ BRINGS BACK FORMER CFO

Kraft Heinz Co. replaced its chief financial officer David Knopf with the more "seasoned" Paulo Basilio, amid the food giant facing accounting problems and falling sales. Basilio had been Heinz's finance chief when it merged with Kraft in 2015 and remained in the role in the unified company until October 2017. Under Knopf, Kraft Heinz has this year written down the value of two marquee brands by US\$15.4 billion and withdrawn its financial outlook. Basilio, currently the Chief Business Planning and Development Officer for Kraft Heinz, will take over from 1 September. Knopf will return to his role as a partner at private equity firm 3G Capital, Kraft Heinz's second largest shareholder.



LONDON STOCK EXCHANGE TO BUY REFINITIV FOR US\$27 BILLION

London Stock Exchange Group is in talks to buy financial data provider Refinitiv for US\$27 billion. The exchange said it would pay for the deal with newly issued LSE shares as currency, turning Refinitiv's existing investors into LSE shareholders who would own 37 percent of the combined company and hold less than 30 percent of the voting rights. The purchase would make the US\$2.8 billion exchange become a US\$8.4 billion exchange and market data giant, 68 percent larger than its nearest exchange rival, Intercontinental Exchange, and second only to Bloomberg in terms of market data revenue. Thomson Reuters, which still has a 45 percent stake in Refinitiv, rose 4.3 percent after the *Financial Times* reported talks between LSE and Refinitiv.

ALPHABET'S CASH HOLDINGS NOW AT

US\$117 BILLION



Google's parent company Alphabet has overtaken tech giant Apple to become the most cash-rich company in the world. The company holds US\$117 billion in liquid reserves, compared with Apple's US\$102 billion, as of the second quarter of this year. The iPhone manufacturer's reserves have fallen by US\$61 billion from its US\$163 billion peak since 2017, while Alphabet's cash reserves rose by US\$20 billion over the same period despite heavy investment in real estate as the company buys up space for offices and data centres.

CHINA M&A UNLIKELY TO IMPROVE UNTIL 2020, SAYS PWC

The value of Mainland China's mergers and acquisitions (M&As) fell by 18 percent in the first six months of 2019 to US\$264 billion, the largest single-period decline over the last decade, according to a recent report by PwC. The decline was driven by steep falls in outbound and private-equity deals, mitigated by some rise in domestic M&A. "Multiple factors are weighing on outbound M&A from China," said David Brown, PwC Deals Leader for Asia Pacific. "If there are favourable developments on these factors, we do anticipate some rebound in 2020 as the fundamental drivers of Chinese outbound M&A remain in play."

"We do anticipate some rebound in 2020 as the fundamental drivers of Chinese outbound M&A remain in play."

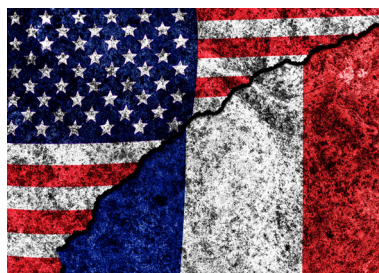
U.S. BOSSES ABANDON SHAREHOLDER FIRST PRINCIPLE

The bosses of 181 of the biggest companies in the United States have signed a letter to change the definition of a corporation's purpose, dropping the shareholder first principle of making as much money as possible for investors. The letter called for a shift from maximizing investors' profits to achieving wider customer and community targets, such as care for the environment. It was announced by lobbying group Business Roundtable, which is composed of chief executives such as Jamie Dimon from JPMorgan Chase, Amazon's Jeff Bezos and Apple's Tim Cook. The move follows mounting public and political discontent at the increasing gap between rich and poor in the U.S. and the world.



U.S. AND FRANCE REACH DEAL ON DIGITAL TAX

The United States and France have reached a compromise on a new French tax on services provided by large Internet companies. France would repay companies the difference between its digital taxes and the taxes based



off a planned framework drawn up by the Organization for Economic Cooperation and Development. The new agreement has potentially eased the threat of a trade conflict, which saw the two nations lock horns during last month's G7 meeting, with the U.S. noting that the originally proposed tax would unfairly target big American companies such as Facebook and Google.

EX-HSBC BANKER CONVICTED OF LAUNDERING MONEY

The former chief executive officer of HSBC Holdings Plc's Swiss private bank has pleaded guilty in France to helping wealthy clients hide almost €1.8 billion worth of assets. Peter Braunwalder was fined €500,000 and given a one-year suspended jail sentence. The crimes took place between 2006 and 2007, when Braunwalder opened Swiss bank accounts, set up offshore trusts and provided fake loans to help his clients evade taxes. The investigation is part of a French crackdown on tax fraud and money laundering operated through Switzerland.



7 in 10

**YOUNG JOB
SEEKERS
PREFER
FREEDOM
TO JOB
SECURITY**

Seven out of 10 young adult job seekers in the United States believe that the freedom of being their own boss is worth more than the job security of being employed by someone else, according to the MAVY Poll conducted by the American Institute of Certified Public Accountants. The study surveyed millennials who have either graduated from university within the last two years or will graduate within the next year. More than half of those surveyed stated that they are likely to start their own business in the future.

CHINESE AI COMPANY FILES FOR HK IPO

Megvii Technology, one of Mainland China's largest artificial intelligence (AI) companies, has filed for an initial public offering in Hong Kong. If the listing gets approved, it would make the company the first Chinese AI stock to trade on the Hong Kong stock market. The latest funding round, which took place in May, valued Megvii Technology at US\$4 billion. The company is the developer of Face++, a facial recognition software used in online identity authentication, and caters to Chinese technology giants such as Alibaba, Huawei and Lenovo.





SPECIAL REPORT: FINDING THE TRUTH

The role of a forensic accountant continues to evolve. With more data to crunch and fraudsters to catch, forensic accountants are now using smarter tools to assist them in tricky cases. Experts in this specialism tell [Jeremy Chan](#) how they approach investigations, and why they are now required to master these technologies – or risk falling behind

Illustrations by Gianfranco Bonadies

Imagine having to dig out a single financial statement – with an alleged illegal transaction – hidden among thousands of folders in a cramped back office, all on a tight schedule. This was often how fraud investigations took place when Keith Williamson started out as a forensic accountant 20 years ago. “It was like finding a needle in a haystack – a ridiculously painstaking process,” says Williamson, Managing Director at Alvarez & Marsal, a member of the Hong Kong Institute of CPAs and also the Forensics Interest Group Management Committee. “By human error alone, you still might miss that document you were looking for.”

The job nature of a forensic accountant has evolved. With more companies opting to store information – especially financial data – in hard drives, servers and the cloud, forensic accountants rely on specific forms of software to solve cases today. Indeed, with 95 percent of business records globally now created and stored electronically, the forensic seizure and analysis of electronic data has become a fundamental process in virtually all corporate enquiries and dispute resolutions, according to PwC. Typically, the role of a forensic accountant involves assisting courts, lawyers and clients to understand complex financial and accounting issues, and presenting that information, to solve legal cases. Investigations aim to resolve financial disputes, which can range from securities fraud, insurance claims, personal injury claims, shareholder disputes, employee thefts, to divorce cases.

Irene Siu, Associate Partner, Forensic and Integrity Services

at EY, a member of the Institute’s Forensics Interest Group Management Committee and an Institute member, notes that more companies today are taking measures to prevent cyberattacks, and rely on forensic accountants to provide solutions. “We do a mix of proactive and reactive work nowadays,” she says. “We help our clients to identify situations based on experience working with other companies and having seen different fraud schemes of possible breaches and loopholes.”

The demand for forensic specialists remains strong, particularly with fraudsters using new methods in a bid to outsmart investigators and buy themselves time, says Felix Kan, Senior Manager, Cybersecurity and Privacy at PwC and an Institute member. “Hackers are smarter now – instead of just simply accessing a file, they also make it hard for us to recover data from a hard drive,” he says. “For example, they know exactly which files to delete during the hack in order to delay an internal investigation process in catching them.”

This special report explores various aspects of one of the accounting profession’s specialist areas – forensic accounting. It looks at the latest developments in the tools and techniques that forensic accountants use to detect and prevent fraud; how they work with other specialists such as lawyers and cybersecurity experts; what companies should do to prepare for the first interaction with forensic specialists; the key skills forensic accountants should have, and how to get into the specialism; and factors that may shape their role in the future.

TOOLS TO DIG DEEPER

Data analytics as a fraud prevention tool is now the norm for forensic accountants. The process involves identifying patterns of fraudulent activities from large sets of raw data in order to draw conclusions which are further investigated. Specialists also use artificial intelligence (AI) programs to process large amounts of data, or automatically construct charts and diagrams to display crucial information, such as dubious transactions or email threads. “If you’re a young forensic accountant and you have skills in data analytics, you’re a hot commodity,” says Williamson, who heads his firm’s disputes and investigations team in Hong Kong and China.

During a recent investigation into a United States-listed company, Williamson’s team was tasked to go through six years’ worth of financial records. The software they used analysed general ledgers, accounts

payable and receivables, employee expenses and payroll.

“It gave a risk score to each transaction made. So rather than looking at millions of them and supporting documentation, it allowed us to focus on the ones posing the highest risks,” Williamson says. “This helped us to build a risk profile model and provide our client with a list of the most high-risk customers, suppliers and employees.” This approach, he adds, not only proved effective, but saved his clients time and money.

Chris Fordham, Founding Member of the Institute’s Forensics Interest Group, a member of its management committee and an Institute member, notes that forensic accountants now use technology-assisted review (TAR) software to quickly sift through files. “The software learns which keywords are relevant, and in which

circumstances. It uses a form of analytics on top of ‘e-discovery,’” Fordham says, referring to electronic discovery, or the act of completely copying data off a computer’s hard disk drive for analysis. TAR uses data analytics and machine learning to sort through millions of documents, sometimes terabytes of data to filter out suspicious documents.

Thomas Fu, Director of Risk Assurance at PwC China, also relies on various e-discovery and TAR software such as EnCase, Nuix and Relativity to image, or copy data off a computer’s hard disk drive. These tools made it possible for his team to easily copy information from more than 200 computers during a recent investigation. “The e-discovery tools processed a lot of electronic data, mostly emails and files. We absolutely need these tools, especially when looking at

“If you’re a young forensic accountant and you have skills in data analytics, you’re a hot commodity.”



unstructured data,” he says, referring to computer-based data such as emails, word processing documents, spreadsheets, videos, photos, audio files, presentations and webpages. “It uses AI and machine learning to determine whether certain keywords in emails are related high-risk keywords which might be linked to fraudulent activity,” he says.

Forensic accountants also use software with predictive and prescriptive analytics capabilities which use machine learning to predict outcomes based on data, and advise investigators on courses of action. Annie Chan, Partner and Managing Director of Corporate Recovery and Forensic Services at Mazars Hong Kong and an Institute member, says the firm recently acquired machine learning software company Zettafox, and uses its software’s AI capabilities to predict the odds of fraud occurrence. “We instruct AI what to analyse and what results we want,” she says. “For

example, if a company’s expenses are ever-increasing and reaches a stage where it looks suspicious, it will automatically notify forensic accountants.”

There are also tools to identify bribery. Katy Wong, Partner and Head of Forensic at KPMG Hong Kong, former member of the Institute’s Forensics Interest Group Management Committee and an Institute member, uses a tool to create a chart, similar to a mind map, by scanning emails for evidence of fraudulent activity. “After inputting electronic records into the AI tool, it automatically clusters all the records based on conceptual similarities. It shows the potential individuals suspected of paying bribes and the people they are corresponding with the most. We can quickly see if there are any suspicious communications between the suspect and people outside their organization,” says Wong. Investigators can then focus on particular connections directly

on the chart and view conversations.

During a recent investigation, Wong used the software to verify the claims of an interviewee. “Our suspect denied having any communications with a particular supplier – but the tool helped us identify related documents,” she says. “That allowed us to probe deeper.”

Edwin Hui, Director of Data and Analytics, Management Consulting at KPMG, utilizes the visual capabilities of the data analytics tool in anti-money laundering (AML) cases to track how criminals electronically “layer money” – or move funds to separate accounts to avoid detection. “In AML, you have ‘layers’ of people laundering money for you, so it was previously very difficult visualizing the relationship between certain individuals,” Hui says.

The tool detects anomalies, which are shown as outliers on the chart, and shows the different accounts

“If you trade using cryptocurrency, how do you prove those transactions are yours?”

Forensic accountants and virtual currency

The rising prevalence of virtual currencies such as bitcoin, present new ways for individuals to commit financial crime, and will make it difficult for forensic accountants to trace assets. Virtual currencies offering a degree of anonymity allow criminals to move financial assets across jurisdictions without government oversight or regulation.

A weak password opens up possibilities for hackers. In January, hackers stole over US\$54 million worth of virtual coins just by guessing weak wallet passwords. Fraudsters have stolen more than US\$227 million from exchanges worldwide so far in 2019, according to *Cryptocurrency Anti-Money Laundering Report, 2019 Q2* from software solution company CipherTrace Inc.

While Hong Kong's Securities and Futures Commission imposed a set of regulations to govern virtual currencies in November 2018, forensic accountants expect to take on more cases involving the recovery of cryptocurrency assets because of increased use. “We’re moving towards a cashless society, and cryptocurrencies are going to be among the most used currencies within the next 5-10 years,” says Irene Siu, Associate Partner, Forensic and Integrity Services at EY.

Because every single transaction in the cryptocurrency system is recorded in a digital ledger, known as a “blockchain,” forensic accountants can currently use traditional methods, such as investigating transactions in the cryptocurrency ledger or work with cybersecurity specialists to analyse Internet traffic through particular servers and Internet Protocol addresses. Though existing methods may work for now, the next generation of forensic technology – and forensic accountants – will need to devise ways to efficiently oversee more cryptocurrency transactions. “Unlike cash, it isn’t physical, so this raises many security concerns.”

Cryptocurrency ownership is another problem, as multiple individuals could have the password and be able to access a wallet. “Because access and ownership go hand in hand, it’s a challenge proving that you are the sole owner of your virtual coins,” says Jack Jia, Forensic and Integrity Services Partner at EY. “If you trade using cryptocurrency, how do you prove those transactions are yours? We are already being asked by companies to design software to prove that they own their virtual coins.”

and individuals that criminals are working with to launder money. “We can essentially pinpoint the ringmaster, and even see the transaction details between ringmasters and their subordinates among different major groupings.” With more evidence to work with, forensic accountants proceed by interviewing suspects to see whether their claims corroborate with their findings. Chan from Mazars says: “We interview relevant individuals such as management, staff members and even vendors to collect more information. This can lead to further investigations. We are often asked by our client to provide a fact finding investigation report with forensic analysis as well as a conclusion.”

Jack Jia, Forensic and Integrity Services Partner at EY, says programs are indeed changing the landscape for forensic accountants by cutting down on repetitive work and pointing investigators in the right direction. He uses AI-based platform EY Virtual to detect stock market manipulation, such as spoof trading, where a trader places a large order to buy or sell a financial asset, such as a stock or bond, but with no intention of executing it in order to move the market price. The trader would then place hundreds or thousands of smaller orders and profit from the cancelled order.

He uses the software’s machine learning capabilities to develop models based on its results. The software, works round the clock to detect spoof trading activity and creates a graph, where potential spoof traders appear as spikes. “By looking at past spoof trading patterns, we are able to develop more algorithms behind this platform to identify spoof traders,” he says. “You still need an investigator who understands these patterns and is able to explain them to a programmer.”

According to Y L Cheung, Forensic Leader at Deloitte and an Institute member, forensic accountants often work with banks on AML cases and now use robotic process automation (RPA) tools to alert them when unusual transactions going through a bank’s system is detected.

Employees would usually have to investigate and report suspicious transactions to the Joint Financial Intelligence Unit, a joint unit run by the Hong Kong Police Force and the Hong Kong Customs and Excise Department – though some of those transactions would usually turn out to be false alarms upon further investigation.

“Before we started using RPA, people had to go through endless records. It is now able to eliminate those false alarms,” Cheung says. “For example, if a customer performs a one million dollar transaction every month, the software learns this sort of behaviour. But a one-off transaction of a large amount of money will set off alarms, and by looking at records, the robot is able to discern between suspicious and non-suspicious transactions.” RPA, however, still needs to be programmed by a human forensic accountant. “Technology is adaptable, but every case is unique. It takes a human being to understand the background of the case and know what to look for before programming the software,” adds Fordham. “At the end of the day, we need to be able to discuss the findings with the individuals and decide whether we need to dig deeper or conduct interviews to have suspects explain discrepancies which were found via the software.”

WORKING WITH OTHER SPECIALISTS

With increasingly complex forms of fraud, forensic accounting involves a lot of cross-profession work, whether it's with technology professionals or lawyers.

"Generally, complex forensic accounting engagements will feature a law firm because there is usually a legal or disciplinary side," says Guy Norman, Value Creation and Crisis Management Partner at Deloitte China Financial Advisory, Convenor of the Institute's Forensics Interest Group Management Committee, and an Institute member. (Read more about him in the Leadership Profile feature on page 22).

He adds that the line between the professions is blurring. "Because of the broadening of both the legal and accounting professions in the past decade, there is a lot of competitive behaviour between us and many of the areas have merged. A lot of accounting firms, ourselves included, might also have relatively small legal practices and the law firms have equally tried to grow their own expertise in the accounting side of investigations."

This not only increases competition for winning business, but also creates issues over who does what. "A lot of us who are a bit older would like to go back to those old days where everyone knew where they were, and we weren't competing," he says.

Fu and his team at PwC frequently work with cybersecurity specialists to clamp down on cyber fraud, especially within banks and companies. He has seen an increase in schemes involving criminals hacking into the email account of senior employees, posing as a chief executive officer or chief financial officer of a company, and asking employees within the organization to transfer money to a specific bank account. "In these cases, the cybersecurity team determines whether the email servers were indeed hacked by a fraudster, if they had knowledge of the password, and which emails were looked through. They would also identify which emails were sent by the hacker and which were really sent by the CEO," he says. "Often times, several emails

are sent through the CEO's account, instructing the finance staff to transfer money to the hacker – who might even be using different bank accounts. Forensic accountants then have to analyse the bank transactions and quantify the losses."

Employees within the organization are most susceptible to deception, and there are cases where there is no actual hack to begin with. "A hacker could even use a different – but similar looking – email address. For example, they might replace a lower case 'L' with the number one, or a lower case 'O' with the number zero," says PwC's Kan.

Many companies in Hong Kong lack adequate cybersecurity measures to prevent such attacks. A staggering half of businesses in the city reported a cyberattack and 23 percent have no measures in place against them, according to the 2018 study *Understanding the Cybersecurity Threat Landscape in Asia Pacific: Securing the Modern Enterprise in a Digital World*, which surveyed 1,300 mid-sized and large businesses.



"Because of the broadening of the services offered by the legal and accounting professions in the past decade, there is a lot of competitive behaviour between us."

WHAT COMPANIES SHOULD EXPECT

Companies need to play their part and work closely with forensic accountants throughout a fraud investigation, which can involve frequent meetings, provision of information and contacts relevant to the case, and the correct preservation of digital data for analysis. In addition to forensic accountants, companies can expect to work with a team made up of individuals who specialize in law enforcement, external and internal audit, and computer forensics.

Investigations tend to begin with a meeting between the company's board of directors and the forensic team to discuss the issue at hand. "We need to understand the company's operations and controls to determine the nature of the fraud and where it might be concealed," says Chan of Mazars. Fordham adds: "In every investigation, the forensic accountant needs to get a full understanding of what the issues are, how the issue was discovered and the ramifications of that issue." Many investigations will involve a legal

aspect. "We would ask whether the company needs to engage a lawyer, for example, in order to preserve legal privilege," says Siu from EY. Fordham adds: "More often than not, the company has its own internal general counsel's office. If they do, they will oversee and direct the investigation to maintain a sense of control over the output of it." Additionally, companies would be expected to provide accurate details such as their legal and financial structure, methods of production and purchasing, flow of funds through the business, employee compensation methods, accounting and control systems and procedures, and whether accounting records had been properly maintained.

The investigators would produce a plan which lists the possible outcomes and methodologies used in the course of the investigation, and a timeline which must be agreed upon by both the company and the forensic team. "Any investigation plan needs to be flexible and adaptable in case things change

— such as new information is discovered," says Fordham.

It is important for companies to appoint a person of contact, usually a member in upper management or legal counsel, who will work closely with the investigators throughout the investigation. "We have to gather information such as policies, procedures, documents and data from computers and servers," says Fordham. "That person has to be the single point of contact, and has to assist in making the necessary arrangements for the investigators to do so, and for us to speak to people who may hold information. It's a critical role." Investigators may request documents such as internal audit reports in relation to the case or an organizational chart, to help them better visualize relationship hierarchies and also perform background research. "We'll also give them a list of people we want to interview," he adds. Siu adds that companies also need to consider how the investigation may impact the day-to-day operations



of the business. “If the investigation is going to be conducted discreetly, the company needs to consider how to deal with the employees who are under investigation.”

Forensic accountants would also begin the process of collecting data. “We might spend the first few days or weeks capturing and preserving all relevant document and electronic data for further investigation,” Fu at PwC says. “Any forensic accountant will require prompt and complete access to data and documentation at the company to be able to perform their work as completely and efficiently as possible,” says Williamson of Alvarez & Marsal. “Companies should expect there will be significant demands on their time and resources from the forensic accountants, particularly at the outset of the investigation.”

Companies will have to provide all relevant information to the forensic accountant for further inspection, and both parties need to sign a non-disclosure agreement, adds Fu, who says this is done as soon as possible, in order to prevent data being deleted or tampered with. In order to convict a defendant of a crime, the evidence against them must be handled in a meticulously careful manner. Both parties will also expect to sign a chain of custody during the investigation, which is a chronological document stating the collection, sequence of control, transfer, and analysis of the electronic data. It documents each person who handled the evidence, the date and time it was collected or transferred, and the purpose for the transfer. This ensures that the evidence can be used in a court of law. Cheung from Deloitte says: “Depending on the complexity of the fraud scheme, we may need to spend a significant amount of time performing detailed data analytics work on relevant databases such as hard drives and servers.”

Investigations can stretch over weeks or months, and it is crucial for both investigators and the company’s management to hold regular talks to discuss findings, resolve issues or obstacles and to ensure the agreed scope remains relevant within the investigation. “Such meetings should be much more regular during the early stages of the investigation, when most is learned and can be shared across the team, and decisions will be made that will frame the scope, timeline and cost of the rest of the investigation,” says Williamson, who adds that a good forensic team will be looking to build strong and collaborative working relationships with key members of staff.

Forensic accountants also need to deal with third parties and rely on their cooperation of banks, customers, suppliers and individuals beyond the organization’s control. “Clients generally want the answer immediately, so forensic accountants tend to work under a lot of pressure,” Fordham adds. “It’s our job to explain and manage the expectations of management as to why an investigation may take longer than expected – especially when it comes to extracting additional information from third parties.” Cheung says: “Companies should try not to exert pressure on the pace of the investigation work, its scope, or how the investigation report should be worded.”

At the end of an investigation, forensic accountants might be asked to present their findings in a report which covers the scope and objective of service, investigation approach, key findings, conclusion and recommendations. Long reports can be costly, and investigators may be expected to present their findings and results in a meeting.

“It wouldn’t be remarkable
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A day in the life of a forensic accountant

Day-to-day tasks vary, and work is done on a project basis with cases taking weeks or sometimes months to complete. Most forensic accountants agree that their jobs are diverse, and often times, unpredictable. Katy Wong, Partner and Head of Forensic at KPMG Hong Kong, sometimes starts her mornings by tending to a new case. “I might get a call from a client who has been subject to a cyber attack. I would then need to arrange for our cyber response specialists to speak to their IT department immediately to gather more information about what might have been discovered, and then suggest to the client how we can help them to contact the attack, understand analyse the root cause, and mitigate the damage.” After lunch, Wong could be asked to review a report, such as an advisory report on financial crime compliance, before it is submitted to a client. Later that day, she might be meeting with senior partners to discuss budget plans for the following year’s technology infrastructure, recruitment needs, and business development strategies.

Because no cases are the same, forensic accountants formulate a unique strategy before undertaking a case. “Unlike an audit, there are no typical steps or work programme for a forensic accountant to follow,” says Irene Siu, Associate Partner, Forensic and Integrity Services at EY. “Research is a big part of our job, for example, we perform background checks.” During investigations, they gather financial evidence, identify perpetrators, quantify losses, interview suspects and often serve as expert witnesses in courts.

In addition to handling cases locally, forensic accountants often need to travel abroad to meet with clients and interview suspects across multiple locations, sometimes on short notice. “There are days where the client needs your assistance, and it wouldn’t be remarkable for someone to join my team and find themselves in a different country the following day. It can be stressful, crazy – but it can be a lot of fun,” says Chris Fordham, Founding Member of the Institute’s Forensics Interest Group.

THE SPECIALIST SKILLS NEEDED

Forensic accounting not only calls for individuals who are fluent with numbers, but are also inquisitive, analytical, and able to put themselves in the shoes of others. “It’s almost like we need people who are able to think like a fraudster – and even one step ahead of them,” says Siu at EY. Cheung adds: “We aren’t looking for people who follow a checklist. We want people who will do what it takes to find the truth.”

Forensic accountants should also have good verbal communication and people skills, and the ability to tactfully interview suspects. “We deal with all sorts of people – regulators, law enforcement, stakeholders, and we need people who are good at gathering information.” There are both informational and confrontational interviews in forensic investigations. Informational interviews help to provide more insights into business operations, internal controls as well as the personal roles and responsibilities of employees. Confrontational interviews are more formal, and usually involve potential suspects or individuals who have knowledge the investigation team wants to obtain. “They can be asked to recall particular transaction, communications and events, and are often asked follow-up questions with reference to supporting data and documentation,” says Williamson at Alvarez & Marsal.

Chan from Mazars agrees, saying that interviewing and extracting key information from suspects is an art. “At first, you need to establish rapport with the interviewee so they understand what you are doing and find reasons to tell you the truth,” she says. “We might spend the first few minutes having a casual conversation or even talk about the weather, depending on the type of interview. We inform the interviewee who we are, the

purpose of the interview, and what we need from them. We need to be quick to respond and ask follow-up questions to obtain the crucial facts we require.” Fordham says: “You need an enquiring mind, and you can’t accept anything at face value – a bit like an auditor.”

Also like auditors, forensic accountants must be detail-oriented. They must perform adequate research before interviewing suspects, or risk being taken advantage of. “Interviewees can mention things you might not understand, so you need to prepare beforehand, such as by understanding the company’s background, the products they sell, and their operations,” says Chan. “You don’t want your interviewee to see that you haven’t got a clue about what they’re talking about.”

Williamson stresses the need to maintain composure during intense and nerve-racking interviews. “Your heart may be racing on the inside, but you have to look like you’re still in control. If you’ve lost your nerve and shown that you’ve lost your nerve, it will be harder to get them to confess any answers you need.” Carelessness is not an option on the job, he adds. “Forensic accountants need to know the consequences and severity of getting things wrong. Based on our findings, people might be dismissed, or have legal action taken against them. You really need to get things right.”

With the increase of cyber fraud around the world, forensic accountants with cybersecurity skills and knowledge are increasingly sought after. “Going forward, we expect to see forensic accountants who are specialists in cybersecurity, and cyber specialists who are forensic accountants,” says Siu at EY. “We hope for those two roles to be indistinguishable in as early as three to five years.”

Cheung at Deloitte says the

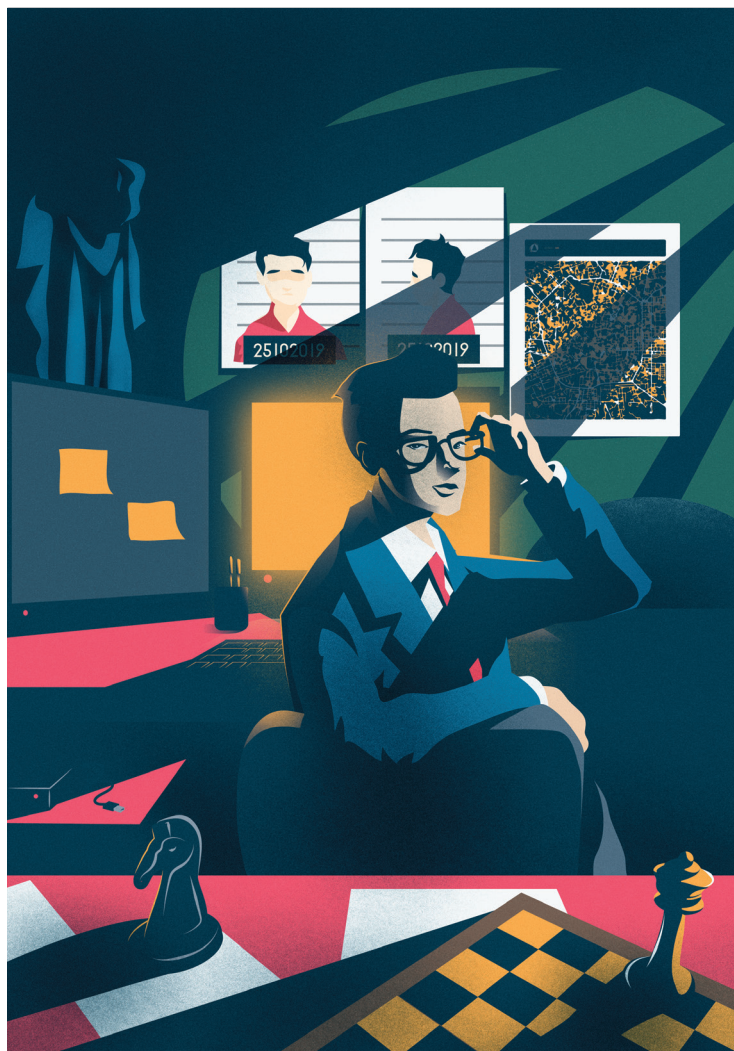
firm has already started looking for individuals with both skills.

“We are in the process of building our cyber-forensic capabilities and are looking for professionals – especially juniors – who are skilled in both.”

Despite all the technological advancements, forensic accountants should mainly use technology to their advantage and not fully depend on it, notes Cheung. “These software programs may show certain trends or patterns, but they won’t always give you the smoking gun. They are meant to provide direction during an investigation,” he says. This means specialists should continuously develop their skills in interpreting and summarizing complex financial and business transactions. “It’s a specialist field that machines won’t be taking over anytime soon – if anything, clients rely more and more on us forensic accountants to interpret what these machines find,” says Jia from EY.

Those looking to specialize in forensic accounting can start by joining the Institute’s Forensics Interest Group, which provides a platform for individuals in forensic services as well as newcomers to learn about the latest developments in the field. The interest group holds monthly events such as seminars, discussion forums and networking events. “Attending the group’s events and speaking with forensic specialists is going to give you a real head start in the profession,” Fordham says. Siu adds: “Anybody with an interest in forensic accounting who wants to know more is welcome to join. It’s a platform for practitioners to exchange ideas and to speak with professionals in the industry – you’ll learn what it’s like to be a forensic accountant and also the current issues we are looking into.”

“It’s a specialist field that machines won’t be taking over anytime soon – if anything, clients rely more and more on us forensic accountants to interpret what these machines find.”



THE FUTURE

As long as there is business competition, fraud will always exist in one form or another, says Siu, and so there will always be a need for forensic accountants. In addition to greed, factors such as pressure to meet ambitious targets could lead to fraud. “For example, a member of staff – especially senior-level staff – may face pressure when it comes to meeting target revenues and shareholder expectations. This may create an incentive for them to commit that fraud, for example in order to secure additional investments.” Fordham adds: “With so much economic uncertainty and geopolitical risks on the increase, this creates pressure on businesses to achieve results. Sometimes, good businesses go out of business,

and bad businesses create results to maintain operations. Fraud will never simply go away.”

The specialism faces new challenges such as the increased use of virtual currencies (see *Forensic accountants and virtual currency* on page 14) and dealing with data stored within the cloud. “Because more companies use cloud computing, forensic accountants need more tools to extract evidence from the cloud,” says Fu from PwC. Organizations that store data such as business records in the cloud without a backup in a server can bring about major problems, especially when criminals hack into a company’s cloud server. “Ideally, the investigators want to retrieve and download all emails

and financial data from the cloud to their local computers. But nowadays, criminals may delete the original data from the cloud,” he says.

The inevitability of fifth-generation cellular network technology (5G) will also speed up the rate and intensity of cyberattacks. 5G will be up to a hundred times faster than current fourth-generation networks and support more bandwidth, making it easier for hackers to access more data from more devices. “Hackers are already fast. They have the skills to move a large amount of files – even from several computers at once – even before someone realizes they have been hacked,” says Kan of PwC. “And with 5G, the bad guys will be even quicker,” says Deloitte’s Cheung.

Chan from Mazars says the latest advancements have breathed fresh air into the specialism, and she encourages CPAs looking for a change in pace to consider it. “Many new forensic accountants are auditors looking to try something new, and a lot of them find it to be more interesting and exciting than routine accounting work,” she says. “Things are moving very fast with new developments in technology, so I really hope we get more young professionals to join.”

Ultimately, the evolution of the specialism stems not just from its recent technological advancements and diverse role, but from the passionate individuals in the profession who never tire of exploring new and better ways to help clients and companies stamp out fraud. “It’s a very dynamic job,” says Wong at KPMG, “even though I’ve been a forensic accountant for more than 20 years, I still find it fun.”



The Forensics Interest Group organizes seminars on topics of interest to both forensic accountants and those looking to join the field. Find out about forthcoming events on the Institute’s website.

Also, look out for our upcoming video series featuring interviews with forensic experts on the Institute’s social media platforms to learn more about the specialism.

SECOND OPINIONS: WHAT WILL IT TAKE TO BE A GOOD CFO IN THE NEXT 10 YEARS?



DR. WILLIAM CHEN
CFO, QUASAR ENGINEERING AND
CHAIRMAN, CIMA HONG KONG

Business leaders are familiar with the managerial acronym, VUCA – short for volatility, uncertainty, complexity, and ambiguity. To navigate a VUCA world, now and in the years to come, the role of a chief financial officer (CFO) is shifting towards being an architect of business models for value creation, and an integrator of business processes. CFOs, therefore, will need to have digital, analytical, strong leadership and effective people skills.

Digital skills refer to having an understanding and knowledge on the impact of the latest technology, such as robotics and blockchain, on the finance function. A CFO is required to understand how digital technology can disrupt an organization's business model, and identify possible future disruptions. As the pace for technological change becomes faster and faster, a CFO must possess an agile mindset. He or she should also proactively find time for lifelong learning, and leverage that learning to continuously improve in their role.

In order to become an architect of business models, a CFO must understand what the value drivers are and how value is created. They should demonstrate strong analytical skills by using advanced analytics and visualization tools to continuously increase the level and quality of insight and foresights delivered to an executive team or board of directors. The speed of technological and business developments is a critical factor which demands a CFO has strong leadership skills to build up and motivate their finance team, so that they can act and respond quickly.

Another role of the CFO is the integrator of business processes, helping to not only eliminate waste of resources but also improve the execution speed of business strategies

“To navigate a VUCA world, now and in the years to come, the role of a chief financial officer is shifting towards being an architect of business models for value creation.”

and reaction speed for customers. It requires effective people skills for building and maintaining strategic partnerships with various functions and units within the organization.

The list, of course, doesn't end there. CFOs in the next decade will have to deal with unprecedented levels of risk and disruptive innovation.



FRANCIS AU
CFO
EKPAC HOLDING

In the coming 10 years, a good CFO must have the ability to nurture and attract different types of talents within the finance function. The training of staff will be increasingly difficult because changes in business operations may be very quick during the hi-tech Industry 4.0 and 5G era. The job nature of accounting may change drastically with all the bookkeeping, auditing, and report generation being done by “smarter” computers. Because of this, CFOs may find themselves leading a more diverse group of people, including tech-savvy accountants and programmers. Different skill sets would be needed to guide the computer to generate useful information.

When it comes to nurturing talent, the current staff would need to upskill as a lot of repetitive tasks would be done by machines. Creativity, critical thinking and complex problem-solving will be more important in the coming era. A successful CFO will lead and commit to long-term investment in the development of the workforce. Having in place a dynamic training programme that is agile and stays up to date with the latest developments would be necessary. It would be a challenge for the CFO to design and maintain efficient training internally, and source externally.

Another challenge would be understanding the learning abilities of current employees. Management would need to support their future development and help them adapt to the quick-changing environment. With tasks likely to be more focused on data analytics, data interpretation and problem-solving, jobs within the finance department would need to be redesigned and redefined. A good CFO will need to clearly communicate to staff the new functions and importance of the new roles while these roles undergo transformation and redevelopment.

“A good CFO will need to clearly communicate to staff the new functions and importance of the new roles while these roles undergo transformation and redevelopment.”

A CFO would also need to pinpoint and make good use of the important data. The ability to use the right data analytics tools is increasingly important for generating reports, which allows a CFO to develop better strategies for the organization, and steer the boat in the right direction.



LORETTA CHAN
CFO
SAPPI TRADING

From what I see, CFOs are getting more involved in setting strategies to drive growth, sustainability as well as the long-term success of the company, and this trend will likely continue in the future.

To me, the most important personality traits that a CFO should have, whether it's now or in 10 years time, include being forward-looking, adaptable, curious, and a strategic leader.

We are now in a digital era, which requires CFOs to adopt an open mind, and be flexible. All companies do planning that is fixed and inflexible for a period of time. However, CFOs should take on a flexible approach to try things out and make incremental adjustments to react to the changes in the environment, while making sure the company is on the safe path forward.

They would need to embark on a journey of digital transformation. Digitization is not only driven by the increasing market and customer needs for better solutions and services. The internal workforce also expect the company to embrace digital solutions for innovation and efficiency.

CFOs must increasingly have better insights into the company's operations, including products and customers. As a partner of the chief executive officer, a CFO should take part in shaping the company structure and changing the business model to meet market and customer demands. Proactive management and quick reactions are the keys to staying competitive in the marketplace.

People play a significant role in the organization. CFOs should be able to take the lead to appoint and invest in young people to bring fresh perspective, and a different way of thinking into the business, and to make sure that as and when people retire, the company can continue running without a shortage of skills.

Last but not least, operating in a fast changing and complex environment, CFOs will need to continue broadening their leadership capabilities. They will need to closely review and improve their skills, for example in networking, to add value to the organization.

“CFOs should take on a flexible approach to try things out and make incremental adjustments to react to the changes in the environment.”

ALWAYS ON THE CASE



Guy Norman, Value Creation and Crisis Management Partner at Deloitte China, has pieced together a multitude of financial puzzles and led numerous major investigation. He talks to **Nicky Burridge** about the changing ways of exposing fraud in the business world, and the changing role of specialists, like himself

Photography by Calvin Sit

In 2008, Siemens was fined a record US\$800 million after pleading guilty to violations of the United States' Foreign Corrupt Practices Act. The German conglomerate was accused of spending US\$1.4 billion bribing foreign government officials in 10 countries to obtain business, creating elaborate payment systems and falsifying its corporate records to cover them up.

Guy Norman, Value Creation and Crisis Management Partner at Deloitte China Financial Advisory, works on cases such as this in China and Asia-Pacific. "Some of the Asian-based investigations for multinationals are among the most complex and challenging that professionals will become involved in. While I live and am based in Hong Kong, many of them required me, personally, to be in China for several months, and on some complex investigation we have had up to 100 people working on them at any one time. Business practices in Far East Asia often have their own styles – things can be very opaque and there are often lots of grey areas," he says.

Norman, a Hong Kong Institute of CPAs member, has been working in forensic accounting for nearly three decades, investigating everything from corporate fraud to tracing the assets of the late Chinachem tycoon Nina Wang, after developing a niche specializing in private and family issues. "I really enjoy the role because in forensics every situation is different; every set of circumstances and facts is unique and often there are a lot of colourful individuals involved! It is the natural sense of the mind to be able to follow something through and get to the truth," he says.

Forensic accountants investigate suspected fraud in businesses, although Norman says there is now a growing trend for them to also carry out due diligence work when companies are making an acquisition. He explains that in a typical small- to-medium-sized investigation, forensic accountants

might be brought in to look at a particular situation, such as a specific department or area of a business, or to investigate allegations made through whistleblowing, or where something that had been flagged up during an internal audit. "In simple terms, we do a deep dive, beyond what an auditor or a reporting accountant in an initial public offering might do, as the style of enquiry will be much more focused. We might specifically look at each of the individuals who may be involved or close to the business in their own right. We would do business intelligence or background searches on them and their family members to see whether there are any links or assets in their name or indications that they might be living beyond their normal means.

"In an evolving online world filled with technology, it has been mainstream in forensics for the last 15 to 20 years to pick up, copy and inspect people's personal computers as part of an investigation. We go to the business' server and the accounting systems and look into transactions on a very granular basis. Forensics is really digging in and looking at things from numerous possible angles," he says.

The highest value fraud cases tend to involve financial statement fraud, Norman adds. "This is where companies might have gone public and it has been realized subsequently that there have been lots of circular flows of funds, such as sham companies buying and selling on the edge of their known group structure with counterparties, such as customers and suppliers, that are actually related or under their control. "There have been a lot of cases like this in Hong Kong and China with the growth of the capital markets and investment flows into Asia. In such cases, it would be trying to understand the whole business picture in a more meaningful and skeptical way."

But he concedes that obtaining a complete picture is not always possible, and one of the frustra-

tions of the job is not always being able to fully finish or completely understand a case. "The forensic accountant would love to review all the facts, interview people, look at the books and records, maybe do some background investigations into people or assets, build a picture, and ideally complete the puzzle and be confident you have got it right," he says. "Unfortunately, many of the broader situations which involve investigations are not that simple, and you may never get to the full answer. You might stop with a personal gut feeling of being 40 or 50 percent of the way through, or you may never get to the end because a company that is under a legal proceeding or regulatory action may settle and when the deal is done, the client just wants and needs to close the matter and move on."

As a Partner, Norman, who helps manage a core forensic accounting team of more than 100 people in China and Hong Kong, is not always as involved in the day-to-day ground work of investigations as he used to be. "A partner's job also includes a lot of focus on building and developing the business, and people management and development. Experienced partners take responsibility for managing and helping to bring up other partners in the business, as well as all the people underneath them. Unfortunately, we're not getting our hands as dirty as we were when we were young forensic accountants or managers," he says.

Instead he finds himself more focused on bringing in business, looking after client relationships and helping managing business growth and performance. "In Asia and particularly China, a lot of people are seeking 15 percent to 20 percent uptick in business annually and trying to achieve that is challenging."

An evolving specialism

One of the biggest changes to the forensic accounting industry that Norman has seen is the need for

"Today different industries have very complex make ups and need specialized industry terms, and forensic accountants really need a very good industry understanding in their own right."



Guy Norman is Convenor of the Institute's Forensics Interest Group Management Committee, which shapes the agenda for the 600 members of the Forensics Interest Group.

LEADERSHIP PROFILE

Guy Norman



Norman has been working in the "crisis world" since he moved to Hong Kong in 1990.

"I am a bit of a natural born organizer and that methodical way of approaching things is also important in forensic accounting."

accountants to develop specialized industry knowledge. "Ten to 15 years ago, you could feel confident, that you could deal with most reactive situations, whether it was a global bank or a healthcare company or an energy one," he explains. "But today, different industries have very complex make ups and need specialized industry terms, and forensic accountants really need a very good industry understanding in their own right." As a result, he says most of the professional services firms as well as law firms are now operating on an industry basis to ensure they have the right expertise they need.

Another big change the sector has witnessed is the focus on anti-money laundering and countering terrorist financing in the wake of the 11 September attacks in 2001, which has increased demand from financial services firms. "The need for forensic services for the financial services industry group has grown massively for most forensic accounting firms. It may only have been a handful of people five to 10 years ago, but it probably constitutes 30 percent-plus of the business

that we do now." He adds that in the past three years there have been a growing number of cyberattacks, and forensic accountants are now having to respond to that area too, while the impact of virtual currencies is also on their radar.

Unsurprisingly, another major change Norman has witnessed is the growing use of technology in forensic accounting, with forensic practices now typically having an "e-discovery" business. "We would previously employ large teams of people to go into the Companies Registry to check on shareholders and directors of companies, and who owned certain properties. Now we have a process that is robotically driven to do that."

Artificial intelligence is also beginning to be used in forensic accounting, although Norman says it is still early days, and the core service that technology provides is computer forensics, under which large sets of data taken from computer systems or individual laptops are analysed electronically. "Analytics increasingly plays a big part, harnessing huge amounts of

data, particularly transactional data, and looking for anomalies."

He estimates that technology currently accounts for 20 to 30 percent of each investigation, although there have been some occasions where e-discovery and related searches have amounted to 50 percent.

Even so, he does not expect forensic accounting to ever become fully automated. "Technology is certainly taking over a lot of the basic work and having a huge impact on the forensic world, but are robots replacing human beings? No, not yet, thankfully!"

Getting into forensics

Norman is Convenor of the Institute's Forensics Interest Group Management Committee, which shapes the agenda for the 600 members of the Forensics Interest Group. "We try to drive an agenda of providing decent training and broader awareness around forensics because it is still quite a niche, bespoke area," he says. "We aim to put on between nine and 12 hours of continuing professional development (CPD) or events each year. Outside of the core

CPD, we organize cocktails and debates just to drive a bit of community and get people to know each other.”

While most of the group’s members are Institute members working in forensic accounting, it also has other accountants and non-accountants, such as lawyers and people working in the private business sector. “The events are very well-attended and at least half the people there might not be forensic accountants. They might be accountants in practices or CFOs or internal auditors,” says Norman. “They like the sound of the forensic world, it has that *CSI* bit to it [referring to the television programme *CSI: Crime Scene Investigation*], and everyone wants to understand what is really going on under the table. It is interesting and a good way to learn and get in your CPD hours at the same time.”

As well as hosting regular events, the Forensics Interest Group Management Committee is also looking to create a formal qualification programme for forensic accountants. “We are looking to see if we can create some form of accreditation qualification, which other specialist areas, like the insolvency profession has done. We want people to be qualified to ensure the standards are high and the work is done well.”

Norman’s advice for people who would like to go into forensic accounting is to gain a good understanding of technology. “Some of the best people we have in our teams have the ability to understand technology and its applications while also being trained accountants,” he says.

Beyond that, he suggests people need to be detail-orientated because of the deep-dive nature of the work, and able to work well with other people, including those in other disciplines, such as those in technology and the legal profession. “They also need to be quite open minded because every engagement will be different. They definitely need to be logical in their approach. They also need to be flexible, as they will have to travel at very short notice and react quickly to deal with problems.” He adds that forensic accountants also need to be able to handle pressure, as they

are often going into difficult, tense situations.

An organized professional

Norman is originally from Guernsey in the Channel Islands. He left school at 16 and worked as an accounting trainee for a local firm. He left the island when he was 19 to travel around Southeast Asia.

In 1990, after spending a year working in Australia, he came to Hong Kong and joined the city’s largest local accounting firm Kwan Wong Tan & Fong, which at the time was part of the BDO network. “I worked in a very small department called specialist services which at the time was basically anything that was non-audit. There were five or six of us and we did a mixture of insolvency, bankruptcies, shutting businesses down, and overlapping with that was litigation support, where lawyers would deal with the law for court proceedings in Hong Kong and accountants would deal with the numbers and the business issues,” he remembers.

When Kwan Wong Tan & Fong merged with Deloitte in 1997, he moved into Deloitte’s insolvency division in 2006, and later went on to join forensics, which was a relatively new area for Deloitte. “I have always been in the broader ‘crisis’ world since I arrived in Hong Kong in 1990. I wanted to branch out from the restructuring insolvency side of things and get more into forensics in those days,” he says.

He thinks his first job set him up well for working in forensic accounting. “At 16, I initially trained on doing incomplete records and accounts for very small businesses like sole proprietors. I would have to put things together. I might have a box of receipts, a box of bank statements and a box of cheque stubs that people hadn’t filled in. I had to piece everything together.”

He points out that he has always enjoyed problem solving and organizing. “Even in my personal life, I like to organize social groups, and people to go out eating and drinking, or hiking holidays. I am a bit of a natural born organizer and that methodical

way of approaching things is also important in forensic accounting.”

Following his training in Guernsey, Norman became a member of the United Kingdom branch of the Association of Accounting Technicians, and attained CPA status later in his career. “I did a master of business administration in Hong Kong by distance learning, but I did not have a classic accounting degree. In my 30s, I was allowed to do the Institute’s Qualification Programme as a bit of an exception as a mature,” he says. “I was already a director and one level below partner, and the firm wanted me to be fully qualified before I became a partner.”

He admits he found going back to night school surprisingly difficult. “I thought I would know most of it, but I had to go back to the core concepts of financial management, auditing and tax – areas that I did not deal with in any great detail because they were other people’s domains. I got through it in the end and was very pleased to become an Institute member.”

When he is not working, Norman is a keen sportsman. “I spend a lot of time doing some form of sport. I try to do an hour of exercise each day. In the early years in Hong Kong, I did a lot of hiking and running. I did the MacLehose [Trail Challenge] once and the Hong Kong Green Power 50-km cross country race seven years in a row. “With age, I have lost a bit of that fitness but I still get out and run around the Peak or Bowen Road two or three times a week with friends, and I play squash and captain a squash team for the Hong Kong Football Club. I also like to play golf.”

Norman also enjoys travelling with his wife and two sons aged 13 and 14. “I need to get out of Hong Kong regularly. I have been here for 29 years, and it can be a pressure cooker. I like places where I can be more active. This year we went to Portugal. We like Australia and look forward to going back to New Zealand,” he says.

When he is not being active, he enjoys good food and wine. “I am pretty social. I am out and about around town quite a bit, and at events. I fully enjoy that part of Hong Kong.”

Read more about the role of forensic accountants and how the specialism has evolved on page 10.





Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Supporting organizations:



2019 PAIB CONFERENCE

Digital & Virtual Banking: tomorrow's banking today?



Date: Saturday, 21 September 2019

Time: 8:45 a.m. – 12:30 p.m.

Venue: HKICPA Auditorium, 27/F Wu Chung House
213 Queen's Road East, Wan Chai, Hong Kong



(For enrolment)

The Chief Executive Officer of the International Valuation Standards Council on why good valuation practice can affect both individuals and entire economies



The importance of valuation to the global financial system and to Hong Kong

When you ask most people about the importance of valuation in their own lives, let alone in relation to the global financial system, you may receive a blank look. Yet, valuation is an important component of the financial system which directly or indirectly affects almost every single one of us.

Are you buying property? Do you want a mortgage or to take out a secured loan? Are you getting divorced and need to split assets? Are you interested in listing your company on a stock exchange? What is the right amount of money to acquire or sell a business for? Does this amount include goodwill or other intangible assets? Do you invest in shares? What protection do you have as a minority shareholder? Do you rely on financial reports to make decisions? Do you audit accounts? Do regulators require your bank to maintain a certain level of capital?

Valuations also form a key part of a company's audited accounts which should provide transparency and comparability in relation to the value of companies and may impact share prices. They are therefore of interest to anyone with a pension or investment, and more broadly, any society that wishes to see financial market stability because of the link to a stable economy.

Indeed, valuation touches almost all parts of both local and global financial systems – yet we do not have a fully global approach because each territory historically had their own approach. With the world of business increasingly global in nature, flows of capital face different standards and regimes. International valuation standards would help investors by minimizing uncertainty caused by different valuation approaches – just like how global financial reporting and auditing standards have contributed to this increasingly global environment.

As markets expanded to become global, local practices in financial reporting and auditing became barriers to market efficiency, and stakeholders weren't always able to get the reliable information they needed for decision making. Global standards help to improve the comparability between financial reports, and therefore enable more international investment. For business valuations, global standards would promote comparability through standardizing valuation methodologies and approaches, and unlock potential investments and secure lending decisions on a like-for-like basis.

Preparing for future challenges

The last financial crisis demonstrated the impact of ineffective controls (including quality valuations) in relation to everything from real estate through to financial instruments. Poor valuation practice was identified by the Financial Stability Forum and the G20 as a significant contributor to the 2008 global financial crisis with a particular focus on financial instruments, where there was much inconsistency in valuation between financial institutions as

well as across national borders.

Valuations also have a significant impact on another important global discussion topic – the transfer of intellectual property rights between related parties in different tax jurisdictions, as well as in connection with determination of global transfer pricing arrangements. According to the European Commission, 72 percent of profit shifting that takes place in the European Union is done via the channels of transfer pricing and location of intellectual property; spurious valuations of assets transferred between one jurisdiction and another are contributing to the erosion of countries' national tax bases. Research by the International Monetary Fund covering 51 countries concluded that profit shifting between tax jurisdictions resulted in an average revenue loss of about 5 percent of current corporate income tax revenue – and almost 13 percent in non-Organization for Economic Cooperation and Development countries.

Securing Hong Kong's status

Hong Kong is a major financial hub attracting major flows of capital. To maintain and protect this special status, it's important to continually evolve, as this also gives confidence to investors, both domestic and international. While Hong Kong has an approach to property valuation based on International Valuation Standards, and additional guidance and qualifications from the Hong Kong Institute of Surveyors and the Royal Institution of Chartered Surveyors, other jurisdictions, including Singapore, have gone further in developing professionalism and ethical standards for all business valuations.

To protect the high-quality business valuations being performed in Hong Kong, the International Valuation Standards Council has been working closely with local professional bodies, including the Hong Kong Institute of CPAs, and businesses and regulators to produce a framework for business valuation professionalism and standards. We believe that the right solution for Hong Kong is one which brings together the best of international and local practice. These proposals can be found on the Institute's website and we welcome your input and comments on them by 15 November.

The International Valuation Standards Council (IVSC) www.ivsc.org is a not for profit, public interest organization which brings experts together to build a global approach to valuation through the adoption and implementation of International Valuation Standards, and to encourage a consistently high quality of valuation professionalism around the world. IVSC also works closely with key stakeholders such as the International Accounting Standards Board and the International Auditing and Assurance Standards Board due to the importance of valuations which underpin financial statements.

The Associate Dean (Taught Postgraduate) and Professor of Management and Strategy at The University of Hong Kong on why it's important to look beyond the rankings of MBA programmes



How to choose the best MBA

Reasons for doing a master of business administration (MBA) differ from one candidate to another, depending on their profile, experience and background. Given this, you need to find an MBA best-suited to your needs rather than the “best MBA.” Here are some key elements to consider when choosing an MBA programme:

Full-time or part-time

If you are looking for a change in location, industry and function, a full-time MBA is a better fit. Studying full-time allows you to completely immerse yourself in a new environment, which could help maximize learning, facilitate networking and help you benefit from a well-structured career service. Going part-time is a good choice if you don't want to step out of full-time employment and prefer to continue building your knowledge while enhancing your skills and network in order to get ahead in your career. Most leading programmes offer both full-time and part-time MBAs to suit the needs and aspirations of professionals from all occupations.

Location

The starting point for many candidates, especially full-time students, is location. Knowing where you want to pursue your MBA is crucial because not only would you get knowledge related to the industries thriving in that location, but you would also be able to grow your network and understand the local business environment and culture.

Matching aims and objectives

You should match your reasons for doing an MBA with the expertise, curriculum, faculty and resources of business schools. First, you should evaluate your own reasons for doing an MBA and know what you want to achieve from the programme. This then needs to be measured with the offering of different schools. For example, if your prime objective is enhancing your knowledge in the latest trends in a particular discipline, then curricula need to be evaluated in terms of faculty, subject area expertise, choice of electives and industry interface, etc. Be sure to do your research on the MBA programmes you are considering. It is important to get first-hand information from students, alumni and staff members.

It is equally imperative to attend information sessions, admissions talks, webinars and even a school visit to understand and get a better feel about the school and its offerings.

Ranking and reputation

Rankings can be taken as a reference point, but it is important to keep in mind that different rankings follow different methodologies. This makes it good practice to study individual parameters to match your objectives and aims. Most of the rankings provide a breakdown of these parameters and evaluation of schools based on their individual criteria.

As there can be large variation among different rankings, it is important to match your objectives with parameters within the rankings, rather than just look at the overall rank. Instead of concentrating on one ranking, looking at different rankings can provide a more accurate overall picture. An MBA programme that is consistently highly ranked in all major rankings is attractive, as this makes it a consensus-leading programme. Reputations of both the university and the business school are built over a period of time, and hence should be considered along with the MBA ranking, as ranking is one element of a reputation.

Alumni network

A strong alumni network allows graduates and existing students to gain career opportunities, attain knowledge, stay updated on other industries' latest trends, and give back by helping others. When choosing an MBA programme, you should not only consider the MBA alumni network, but also the wider alumni networks of the business school and the university. A proactive MBA graduate can gain access and benefit from these larger alumni networks. It is also important that after you graduate from the programme, you actively engage with your alumni network and stay updated on business knowledge and trends.

Choosing an MBA programme best for you is only half of a potentially career-changing decision. The other half is how you spend your time in the programme. To maximize the return of investment on an MBA study, set clear goals early on, and work hard towards those goals every day, utilizing all the resources your business school has to offer.

Workshops for listing on HKEX

Listing on the Hong Kong Exchanges and Clearing markets is a complex and challenging process. It requires professionals to be fully-aware of their roles and responsibilities, and be up to date with the latest regulatory developments. To help, the Institute is holding a series of workshops for listing on HKEX starting in the coming months.



Vincent Li is Audit Partner of ShineWing Certified Public Accountants LLP, a Practising Fellow of the Institute, and fellow member of ICAEW and ACCA. Li has extensive experience in providing assurance, corporate and business advisory services to international and multinational enterprises in Hong Kong and Mainland China. He has helped over 10 companies and state-owned enterprises to list on stock exchanges in Hong Kong, South Korea and Singapore.

The Hong Kong Stock Exchange ranked first globally in initial public offerings (IPO) five times in the past nine years, with over HK\$2 trillion in IPO funds raised by issuers.

Listing is a complex process, and the Hong Kong Exchanges and Clearing (HKEX) might reject an issuer's application if there are any material deficiencies in legal, accounting and tax issues of the company. HKEX focuses on the suitability and eligibility of each applicant and is prepared to reject unsuitable applications. In 2018, HKEX rejected 25 listing applications, a substantial increase from 2017's eight rejections.

The recently published Listing Decisions revealed that HKEX has heightened scrutiny on the commercial rationale for listing. Factors considered include: funding needs, business expansion issues, application of raised IPO funds, and the price: earnings characteristics of the applicant compared to industry norms.

With this in mind, it is important for accountants or finance heads assisting companies to list in Hong Kong to note that though the financial requirements of the listing applicants are met, the exchange has a discretion to accept or reject applications and in reaching their decision will pay particular regard to the whether the applicants are suitable for listing, such as 1) whether the listing applicants are compliant with law, rules and regulations; 2) the suitability of the listing applicants, such as sustainability of the business; reliance on a parent company; suitability of directors, including potential shadow directors; and 3) whether there are any material disclosure deficiencies of the listing applicants, etc. Accountants or financial heads should be aware of these issues to ensure the issuer's application gets approved or to effectively respond to enquiries and challenges by the exchange.

Continuing obligations

A company's successful listing is only the beginning of its capital market journey. Listed companies are governed by a mix of rules and regulations which set out a number of continuing obligations, such as ongoing disclosures, periodic reporting, disclosure of interest filings, corporate governance requirements, and notifiable and connected transactions. These are designed to ensure the maintenance of a fair and orderly securities market.

HKEX is active in enforcing its rules after listing and will suspend companies not in compliance with them. In March, HKEX issued the new Guidance Letter on listed issuer's suitability for

continued listing, the assessments include: shell characteristics, non-compliance with laws and regulations, material internal control failures, fraud, and a business structure which means the company is unable to safeguard its assets and shareholders' interests.

Where there are concerns that an issuer has suitability issues, HKEX has discretion to suspend trading in the issuer and give the issuer a reasonable period to address and correct concerns. If the issuer still fails to address such concerns within a reasonable period, the exchange may cancel its listing.

Accountants, therefore, need to be prepared for common issues relating to post-listing obligations, such as the continuing obligations to disclose price sensitive information. One of my clients was challenged by the exchange to publish the profit warning announcement promptly for its decline of the operating profit in accordance with the listing rules and the Inside Information Provisions of the Securities and Futures Ordinance. I discussed with the management of the company and noted that the decline was due to a significant drop in sales in last several months. The company regularly disclosed to the market its operating data in the preceding period and that such information will have a direct bearing on the company's performance, and will therefore provide those investing in the company's shares a better idea on the financial performance of the company. Further, the company regularly consulted its legal advisors over its operating performance and discussed with them the appropriate responses for the company. As a result, the exchange was satisfied with the company's explanation and no further actions or concerns have been raised.

The workshops

The Institute's continuing professional development course "Workshops for Listing on HKEX" will run later in the year. The workshops cover planning and pre-IPO considerations, IPO listing process, as well as the continuing obligations of a listed entity. The workshops aim to enhance participants' understanding of the key aspects for listing, and merger and acquisition of listing or listed entities.

By the end of the course, participants will know how to prepare prospectus, circulars, announcements, reports, letters and checklists required by the HKEX to avoid rejections and suspensions for companies. Watch for enrolment details on the Institute's website.

A CAREER FOR LIFE

Raymond Lo, Chief Financial Officer at FWD, tells [Nicky BurrIDGE](#) how innovation within the insurance sector is improving the lives of more customers, and how his CPA background continues to help him adapt to rapid changes

Photography by Calvin Sit

Despite his accounting background, Raymond Lo, Chief Financial Officer at FWD Hong Kong and Macau, sometimes finds himself having to put the numbers behind other considerations.

FWD, currently one of the fastest growing insurers in Asia, is trying to change the way people feel about insurance by overhauling its products to ensure they are both relevant to consumers' lives and easy for them to understand, even if this approach does not always appear to make good business sense.

For example, the company's innovative Savie Insurance Plan pays a set return of 2 percent a year for the first three years and allows penalty-free withdrawals.

It also includes death benefit and accidental death benefit. "From a CFO's point of view, it was a crazy idea because we would not make any money on it, we are competing directly with deposit accounts. But this simple account shows customers we are a trustworthy brand and helps us to develop a long-term relationship with them," says Lo, a Hong Kong Institute of CPAs member.

In another move designed to help build trust, FWD has joined forces with mobile wallet "Tap & Go" from HKT to enable customers to access the cash they hold in Savie whenever they want.

"Insurance companies give the impression that it is easy to give them money but really hard to get money back. We wanted to change that feeling," says Lo. "It is the first

time a life insurer in Hong Kong has been linked to a mobile wallet."

Lo explains that one of FWD's key values is openness. "We want our policyholders to understand our products more easily." He adds that in the company's brochures and on its website, it now uses layman's terms, rather than technical insurance language, to describe its products, illustrating their benefits with simple tables.

He says that Savie has been a great success, and it had to be closed to new savers after reaching the HK\$1.2 billion limit in deposits FWD had set. Lo was not surprised by the success, pointing out that FWD's savings products are still its most popular with Hong Kong consumers. "This could be attributed to the Chinese culture. Chinese people tend to save for the future," he says.



ACCOUNTANT PLUS

Raymond Lo

Raymond Lo became Chief Financial Officer of FWD in 2013. He oversees the company's financial, actuarial and office administration and procurement functions.



But he adds that people are becoming increasingly aware of the benefits protection products offer as well, particularly medical coverage. “In recent years, awareness has expanded to health-related insurance. The public health care system is way beyond the maximum capacity. If people can afford it, they will turn to the private sector.

“However, medical expenses in the private sector are quite high and they keep increasing. Insurance can reduce part of the burden to the patients who want prompt and top-tier service.”

With this trend in mind, FWD has launched four health insurance plans as part of the new Voluntary Health Insurance Scheme, which aims to encourage more people in Hong Kong to take up medical coverage through the launch of lower-cost plans that offer a set level of benefits and tax deductible premiums.

It has also been looking to innovate in this area, and launched Mind+ last year, the first critical illness policy in Hong Kong to cover mental health issues. “Our product team did a lot of consumer research to understand what the market was missing and how we could bridge that gap,” Lo says.

Shaping strategy

As CFO, Lo oversees FWD’s financial, actuarial and office administration and procurement functions, and he has also been instrumental in managing the group’s credit rating and handling bond issuances in Hong Kong.

At the same time his role involves developing and executing strategy for the chief executive officer. “As CFO, my role involves not only focusing on the numbers, but also the direction of the company. I work with the whole senior management team, as well as the distribution

channels, back office functions, IT and risk team.”

One of the biggest challenges of his job is meeting the aggressive targets FWD has set, while balancing the interests of shareholders, customers and employees. These targets include expanding FWD’s reach to make it a leading pan-Asian insurer. The FWD Group already operates in nine markets, including Hong Kong, Macau, Thailand, Indonesia, the Philippines, Singapore, Vietnam, Japan and Malaysia, and it is currently in talks to acquire the insurance arm of Siam Commercial Bank to increase its presence in Thailand.

Lo says: “FWD Group constantly looks for opportunities to grow. In fact, FWD expanded into Malaysia, our ninth market in Asia, this March.”

“Insurance companies give the impression that it is easy to give them money but really hard to get money back. We wanted to change that feeling.”

FWD is also keen to tap into the vast opportunities in Mainland China, where the announcement was made by Beijing to allow wholly-owned foreign insurers to operate there without the need for a local partner. “We have had a representative office in Shanghai for four years and we have already applied for a licence to operate in China,” Lo says. “China is a massive market and, with an expanding middle class, there is massive demand for insurance and health care-related services. Everyone knows the opportunities are there. The question is how to dip into that.”

Industry challenges

In the meantime, FWD, along with the rest of the industry is gearing up for the implementation of IFRS 17 *Insurance Contracts*. Considered to be one of the most significant changes to insurance accounting for decades, the standard will introduce a consistent way for insurance contracts to be treated on balance sheets.

But the industry faces a number of implementation challenges, ranging from ambiguity over the interpretation of the standard, to the high level of data infrastructure companies need to have in place to comply with it, to a shortage of qualified professionals to assist companies. In light of these issues, the implementation date will likely be pushed back by 12 months to reporting periods beginning on or after 1 January 2022.

To gear up for the change, Lo says FWD has set up a separate IFRS 17 project team that reports directly to him. The team’s leader is a member of the Institute’s Hong Kong Insurance Implementation Support Group and is actively involved in implementation discussions within the industry.

Lo thinks the insurance industry faces a challenge to be ready on time, particularly for smaller players. “We see a lot of challenges in the implementation. My understanding is some non-life and smaller scale insurers are not quite as near where they should be in the implementation work yet.”

He adds that FWD started the whole project more than 18 months ago, making it one of the earliest insurers in the market to begin implementation work. Even so, the company still faces challenges. “The standard is not yet 100 percent confirmed as some amendments are still under debate. There is also no readily available IT solution in the market. The



Hong Kong, Thailand and Japan are FWD’s top three markets in terms of customers. FWD Life HK accounts for almost half of the group’s assets and is the ninth-largest life insurer by premium in Hong Kong, according to a report released last month by credit rating agency Moody’s.

team also plans for contingencies because our IT solution has been delayed. It is a challenge for the whole market,” he says.

Alongside the day-to-day business challenges that FWD faces, it also has to be mindful of disruption from fintech and insurtech companies. But Lo is not too worried, believing traditional insurers and new technology companies can complement each other rather than being in competition.

“I think they supplement each other to create a win-win situation. Fintech and insurtech companies can cover the mass market with simple products and some of the non-life products like motor, travel or simple medical outpatient,” he says. “However, for more complex whole life, critical illness or wealth inheritance products, professional service is required. We don’t see people spending HK\$20,000 to HK\$30,000 annually and not expecting professional service.”

FWD is also investing heavily in innovation, and plans to spend HK\$500 million on insurtech in these five years. It will focus on three core areas, namely mobile services, the Internet of Things, and big data analytics. It plans to use these technologies to help it gain a better insight into its customers and what they need. It also wants to make it easier for customers to interact with the company.

Lo explains: “When we started the FWD journey, we invested a lot in client-facing technology, such as online purchase and sales proposal systems. Around two years ago, we believed we needed to strengthen our back office systems, such as underwriting and claims. We also needed to strengthen our data analytics capabilities.

“These investments on back end operations and know-your-customer capabilities are really important for us to keep up and continuously strengthen our

efficiency and service quality as our business volumes grow. We believe innovation needs to be relevant and not just innovation for innovation’s sake.”

FWD has won a number of awards for its innovation, including a Fintech Initiatives Award at the Shenzhen-Hong Kong Fintech Award 2018, jointly organized by the Hong Kong Monetary Authority and the Office of Financial Development Service of Shenzhen, for its collaboration with “Tap & Go” for its Savie product, while it also won 11 awards at the Bloomberg Businessweek Financial Institution Awards 2019 for everything from its medical insurance policies to its claims management and customer service.

“Technology has progressed a lot in the last 20 years. The key to success is to embrace challenges and changes in the competitive environment in Hong Kong.”

Lo attributes some of this success to the innovative culture FWD promotes in which it encourages employees to make even small changes to improve the company’s systems or processes. “Innovation may not always mean building an electric car or writing an artificial intelligence programme. It could be smaller scale, such as automating reconciliations between systems, creating a system interface for financial reporting, developing a group-wide investment trading platform, or enhancing the workflow of our underwriting,” he says. “I will be very happy if our teams can incorporate this innovative culture into their daily work. Small steps

count. We are not an IT company. We are an insurance expert.”

FWD has a strong focus on engaging with the community, looking for different ways in which to support local people in each of the countries in which it operates.

In Hong Kong, it works with the Hong Chi Association, which supports people with intellectual disabilities, to deliver the “Live Up Adulthood” Transitional Support Programme, offering training opportunities, internships and therapy to school leavers with autism and other disabilities.

Lo explains that FWD chose the charity because it wanted to help people reach their full potential. “In addition to donating money, we employ people who are helped by the charity as trainees. We want to empower people with different strengths and give them a chance to work.”

It has also signed a three-year partnership with the Special Olympics to sponsor its Unified Schools and Athlete Leadership programmes for young people with intellectual disabilities.

In addition, FWD has acquired the lease for House 1881, the historic former Marine Police Headquarters, in Tsim Sha Tsui, which it plans to use as a hub for community activities. “Through this project we have a unique opportunity to preserve and revitalize an important landmark in Hong Kong and engage with the community. We want to give back to society in meaningful and inspiring ways,” Lo says.

A solid grounding

Lo has spent more than 20 years working in the insurance sector. He credits his accounting background for not only giving him a good foundation in understanding business finance, but also helping him to adapt to the changes the industry has seen during this time.

He graduated from City University of Hong Kong with a Bachelor of Arts in Accounting,





Lo graduated from the City University of Hong Kong with a Bachelor of Arts in Accounting.

and spent the first few years of his career working as an auditor at Deloitte. He joined East Asia Aetna Insurance in 1997 as an assistant manager, moving on to Aetna Insurance and Pensions in 1999, which was acquired by ING two years later, working his way up through the ranks from a manager to become CFO in 2013. “I have led various functions including compliance, finance and operations. This detailed operation knowledge, as well as communication skills and leadership experience are critical for my leadership role now,” he says.

He jokes that when he qualified

as an Institute member back in the 1990s, everything was still done on paper, and a working paper was just that: a paper. “Technology has progressed a lot in the last 20 years. The key to success is to embrace challenges and changes in the competitive environment in Hong Kong. The ability to get through CPA training means you need to possess the basic skills of learning. Having the right attitude towards learning is essential in our environment.

“It’s too difficult for us to imagine what business will look like 10 years down the road. We can only survive with continuous learning and with

the right attitude.”

Unsurprisingly, his busy schedule does not leave him much time for leisure. When he is not working, Lo, who is married, jokes that he is a typical Hong Kong person and enjoys good food, watching movies and hiking. He also likes travelling, particularly to European destinations, such as France, Italy and Spain, which he rates for their food and culture. But he adds: “Work is extremely busy, especially because of the ease of mobile communication. People can reach me anytime, anywhere.”



Revenue recognition considerations in the engineering and construction industries

A look at changes to accounting for construction contracts when moving from HKAS 11 to HKFRS 15

Hong Kong Financial Reporting Standard (HKFRS) 15 *Revenue from Contracts with Customers* became effective for annual accounting periods beginning on or after 1 January 2018. The standard supersedes Hong Kong Accounting Standard (HKAS) 18 *Revenue*, HKAS 11 *Construction Contracts* and several revenue interpretations, including Hong Kong (IFRIC) Interpretation 15 *Agreements for the Construction of Real Estate*. This article considers the accounting treatment for contracts of engineering and construction entities (E&C entities).

HKFRS 15 provides a comprehensive revenue recognition framework for all contracts with customers with limited exceptions. Although many of the principles in HKFRS 15 are similar to those in HKAS 11, E&C entities will likely have experienced some changes to their existing contract accounting. The differences in requirements between the standards, together with the more robust guidance included in HKFRS 15, may lead to different accounting outcomes.

The following are some key areas where E&C entities are likely to encounter changes.

- **Identification of performance obligations:** Previously, HKAS 11 contained requirements for when a contract covering a number of assets was segmented and treated as separate construction contracts. HKFRS 15 introduces the new concept "performance obligation," which refers to a promise in a contract to transfer a distinct good or service to a customer. These performance obligations are the units of the contract that are accounted for separately when applying HKFRS 15. Careful analysis is required to determine whether a contract has to be "unbundled" into two or more performance obligations. Each performance obligation within a contract can have its own profit margin and pattern of revenue recognition under HKFRS 15.
- **Contract combinations:** E&C entities often negotiate several separate contracts with the same customer to provide various goods and services. HKFRS 15 makes some changes to the criteria in HKAS 11 for combining contracts. E&C entities should evaluate all of their contracts to determine whether the revised criteria are met.
- **Contract modifications:** Few construction projects are completed as planned and many are modified due to changes in scope and/or price of the contracts – for example, in the form of change orders and claims. HKFRS 15 includes more detailed requirements than HKAS 11 for contract modifications, which may affect the timing and accounting for contract modifications.
- **Variable consideration and payments to customers:** The amount of consideration in a construction contracts can vary due to discounts, penalties or incentive payments. HKFRS 15 provides more robust requirements than HKAS 11 for accounting for variable consideration and payments to customers. In particular, HKFRS 15 prescribes specific estimation techniques for variable consideration and constraints on when it can be recognized as revenue.
- **Timing of revenue recognition:** HKFRS 15 retains over time revenue recognition similar to the stage of completion accounting under HKAS 11. However, specific criteria must be met, meaning that E&C entities no longer have an automatic right to over time revenue recognition. In order to determine whether their contracts meet this criteria, E&C entities should have a full understanding of the construction process, including the nature of the promised goods and services and all contractual terms related to the transfer of control of those goods or services.
- **Measurement of progress:** Similar to HKAS 11, there are various methods that an entity might use to measure an entity's progress in transferring a good or service to a customer under HKFRS 15. However, rather than providing entities a free choice of method, HKFRS 15 requires an entity to consider the nature of the good or service being transferred to the customer in determining an appropriate method for measuring progress. Furthermore, HKFRS 15 contains more detailed guidance on

applying these methods. Consequently, some E&C entities may need to change their revenue recognition methods.

- **Capitalization of pre-contract costs:** Most E&C entities incur various costs during the bidding process for a contract. HKFRS 15 has more specific requirements than HKAS 11 for when these pre-contract costs can be capitalized. Costs not meeting these requirements must be expensed immediately.
- **Capitalization of borrowing costs:** Under HKAS 11, borrowing costs were capitalized as part of the construction costs of an asset if (i) they could be allocated to the specific contract, and (ii) the asset under construction was a qualifying asset under HKAS 23 *Borrowing Costs*. Under HKFRS 15, the pattern of revenue recognition for the contract (over time or point in time) may affect whether an entity has a qualifying asset and hence the eligibility to capitalize borrowing costs.

To help practitioners better understand the issues above and how HKFRS 15 affects E&C entities, the Financial Reporting Standards Committee of the Institute has prepared detailed questions and answers "Revenue recognition considerations in the engineering and construction industries under HKFRS 15," which are available on the Institute's website.



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Inland Revenue Department interpretations of Hong Kong's transfer pricing regime

Following the enactment of Inland Revenue (Amendment) (No.6) Ordinance 2018 (TP ordinance) in July 2018, the Inland Revenue Department (IRD) issued the following – and much anticipated – Departmental Interpretation and Practice Notes (DIPNs) on 19 July 2019 setting out the interpretation and practical application of the provisions in the TP ordinance:

- DIPN 58 - Transfer Pricing Documentation and Country-by-Country Reports
- DIPN 59 - Transfer Pricing between Associated Persons
- DIPN 60 - Attribution of Profits to Permanent Establishments in Hong Kong

Recap of the TP ordinance

The TP ordinance, a milestone in the Hong Kong tax regime, is the first piece of local legislation to explicitly address transfer pricing (TP) matters. The TP ordinance codifies the arm's length principle of TP into the Inland Revenue Ordinance through two rules and documentation requirements.

TP rule 1: empowers the IRD to impose adjustments on either income or expenses arising from non-arm's length transactions between associated persons that lead to a potential Hong Kong tax advantage. This rule is applicable retroactively to years of assessment (YOA) beginning on or after 1 April 2018.

TP rule 2: requires the use of the separate enterprises principle for attribution of profits to a permanent establishment (PE) of a non-Hong Kong resident in Hong Kong. TP rule 2 is applicable to YOA beginning on or after 1 April 2019.

Documentation: a mandatory three-tiered TP documentation requirement, consisting of master file, local file, and country-by-country (CbC) report, with certain exemption thresholds.

DIPN 58

In detail

DIPN 58 specifies the IRD's views and practices on the three-tiered TP

documentation requirement.

Master file and local file

1. Exemption threshold

The TP ordinance provides two types of exemptions to master and local file preparations to entities that engage in transactions with associated enterprises. Taxpayers are exempt if they meet either of the categories. (See table on page 40). DIPN 58 provides clarity on the applicability of the exemption thresholds.

a. Exemption based on size of business:

- "Total amount of revenue" refers to the aggregated amount of all types of revenue and income disclosed in the entity's financial statements, which include revenue and income measured through other comprehensive income.
- "Total value of assets" refers to the aggregated amount of all types of assets, after amortization and depreciation, disclosed in the entity's financial statements as of the balance sheet date and should not be net of any liabilities.
- "Average number of employees" is all full- and part-time staff and secondees who have worked for the entity and are considered to have an employer-employee relationship with the entity. This should be calculated as: the aggregate of the number of employees at the end of each month in the accounting period divided by the number of months in the accounting period.

b. Exemption based on amounts of controlled transactions:

- When determining whether the threshold is exceeded, the same type "arm's length" transactions should be aggregated.
- Both the drawdown amount of a loan and the payment of interest should be included in the "transactions in respect of financial assets" category when assessing whether the threshold is exceeded.
- Grandfathered transactions (i.e. transactions entered into or effected before 13 July 2018) and specified domestic transactions can be

disregarded in determining whether the threshold of controlled transactions is exceeded, and can be excluded in a local file.

- Transactions from which the income or profits are (or are claimed to be) sourced outside Hong Kong should still be included in the calculation of thresholds and should be covered in the local file.

2. Covered period

The master and local file requirements apply to accounting periods beginning on or after 1 April 2018. In cases where the accounting period of a Hong Kong entity differs from that of its ultimate parent entity (UPE), the Hong Kong entity should prepare its local file in respect of its own accounting period. Its master file should be prepared in respect of the period for which the whole group's consolidated financial statements are prepared and which ends within the Hong Kong entity's accounting period.

3. TP documentation and audit

The IRD expects taxpayers to retain relevant documentation to demonstrate that their TP treatment complies with the arm's length principle. More importantly, taxpayers are expected to demonstrate that they have made reasonable efforts to determine the arm's length amount. DIPN 58 emphasizes that keeping comprehensive TP documentation (including master file and local file) may lessen the likelihood of an audit and mitigate penalty exposure.

CbC report

1. Exemption thresholds for different UPEs of groups based on jurisdictions:
 - Hong Kong tax resident: threshold amount is HK\$6.8 billion.
 - Tax resident in another jurisdiction which has implemented CbC report requirement: threshold amount would follow the amount stipulated in that jurisdiction's laws or regulations.
 - Tax resident in another jurisdiction

The TP ordinance provides two types of exemptions to master and local file preparations

Exemption based on size of business (satisfies any two of the three conditions below)		Exemption based on related party category of transactions	
Total annual revenue	≤ HK\$400 million	Transfer of properties (excluding financial assets and intangibles)	≤ HK\$220 million
Total assets	≤ HK\$300 million	Transactions in respect of financial assets	≤ HK\$110 million
Average number of employees	≤ 100	Transfer of intangibles	≤ HK\$110 million
		Any other transactions (e.g. service/royalty)	≤ HK\$44 million

where there is no CbC report requirement: threshold amount is local currency equivalent to EUR750 million as at January 2015.

2. Dual residence of a constituent entity
Dual residence issues should be dealt with pursuant to the tie-breaker rules under any applicable double tax agreement (DTA) entered into between Hong Kong and the other jurisdiction. If no DTA exists, the UPE will have to comply with its CbC report filing obligation in both jurisdictions.

3. International agreement and local filing exceptions
For Hong Kong taxpayers that belong to a group that exceeds the CbC report exemption threshold and the tax residency of the UPE is outside Hong Kong, filing of a CbC report in Hong Kong will not be required in the following cases:

- The UPE's tax residence jurisdiction has neither participated in the Convention on Mutual Administrative Assistance in Tax Matters nor entered into a DTA/Tax Information Exchange Agreement (TIEA) with Hong Kong; or
- The DTA/TIEA between such jurisdiction and Hong Kong does not allow automatic exchange of information.

The takeaway

One of the key messages that the IRD wishes to deliver in DIPN 58 is the importance of proper TP documentation to effectively demonstrate the arm's length basis principle has been applied. Keeping

proper TP documentation can therefore mitigate penalty exposure.

It is also worth noting that the burden of proof rests with taxpayers to substantiate that the transactions excluded from the local file have not been entered into for tax avoidance purposes. Entities with exempted transactions should therefore retain sufficient supporting documents.

DIPN 59

In detail

DIPN 59 focuses on TP rule 1 which requires income or loss from transactions between associated persons to be computed on an arm's length basis. The notice sets out the IRD's views on the applicability and interpretation of TP rule 1, including certain exemptions (e.g. grandfathered transactions, exempted domestic transactions) with various illustrative examples.

Arm's length principle

DIPN 59 notes that TP rule 1 is to be interpreted in a way that best secures consistency with the Organization for Economic Cooperation and Development (OECD) guidelines. These refer to the associated enterprises article of the *OECD Model Tax Convention on Income and on Capital* and the *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* (TPG).

TP and locality of profits

Clarification has also been given that Hong Kong's long-established territorial source principle of taxation will not be affected

by the introduction of the TP ordinance. Instead, the TP ordinance requires the computation of income or profits from transactions with associated persons to follow the arm's length basis before the territorial source principle is applied to determine the chargeability of income or profits to Hong Kong profits tax.

Exempted domestic transactions

The following exempted domestic transactions are not subject to TP rule 1 and no adjustment will be made by the IRD:

- Domestic transactions between two Hong Kong associated persons that do not give rise to an actual tax difference and do not have a tax avoidance purpose; and
- Domestic financing transactions between two Hong Kong associated persons that are not carried out in the ordinary course of money lending or intra-group financing business, and do not have a tax avoidance purpose.

Grandfathered transactions

Related party transactions (RPTs) that qualify as grandfathered transactions may be exempted from TP rule 1. Section 4(3) of Schedule 44 of the TP ordinance provides that TP rule 1 does not apply to a transaction entered into or effected before the ordinance commencement date of 13 July 2018. Clarification is given in DIPN 59 that this applies to a transaction and not to a contract. The signing of a master agreement might not necessarily result in a transaction. The key question is whether the act or activity can constitute

a transaction on its own before the commencement date. Some examples are provided in DIPN 59.

Determining the arm's length price

DIPN 59 outlines the approach to applying the arm's length principle to determine the arm's length price, which is broadly consistent with the approach adopted in the TPG and places emphasis on the key aspects in a comparability analysis.

DIPN 59 also specifies that taxpayers should retain the freedom to apply TP methods not described in the TPG to establish that prices satisfy the arm's length principle. However, in cases where other methods are used, the IRD expects supporting documentation including an explanation as to why OECD-recognized methods were regarded as not appropriate or workable, and of the reason why the selected method was regarded as providing a better solution.

When calculating the arm's length price range, the quality of comparable data is regarded by the IRD to be more important than the number of comparables identified. The IRD will accept the full price range based on the comparable data identified, but generally gives preference to the interquartile range as it may enhance the reliability of the benchmarking analysis.

The IRD does not have any preference on the databases used for benchmarking provided that such databases are reliable. However, the IRD notes that if the data is from databases to which the IRD has subscribed (including Osiris and Orbis) then the comparable data can be cross-checked more easily and quickly.

The takeaway

RPTs which may not been challenged by the IRD in the past will likely be more closely scrutinized in the future. While in the past, the IRD may have only disallowed non-arm's length expenses charged by related parties unless anti-avoidance provisions can be applied; in the future the IRD can initiate a TP adjustment on a taxpayer's profit or loss without seeking an application of the anti-avoidance provision through the application of TP rule 1. Hong Kong taxpayers should assess whether their existing operations and TP models are appropriate and have the supporting TP analysis and documentation readily available as the first line of defence

in the event of tax enquiries.

DIPN 60

In detail

TP rule 2 seeks to attribute profits to a PE of a non-resident person in Hong Kong as if the PE is a distinct and separate enterprise. TP rule 2 is the effective adoption of the Authorized OECD Approach (AOA) for attributing profits to a PE.

DIPN 60 provides clarity on the definition of a PE, gives the reader a comprehensive understanding of the basis for the rules, detailed guidance on the application of TP rule 2, and the expected documentary support taxpayers should maintain as evidence of the rule's proper application.

TP rule 2 and the separate enterprises principle

TP rule 2 provides, with reference to the AOA, that an arm's length amount of income or loss attributed to a PE in Hong Kong is what the PE would have recognized were it a distinct and separate enterprise that:

- a. Engaged in the same or similar activities under the same or similar conditions; and
- b. Dealt wholly independently with the person.

DIPN 60 provides that TP rule 2 is to be constructed in a way which best secures consistency with the OECD guidelines and sets out the following two-step approach to attribute profits:

Step 1 – Perform a functional and factual analysis to construct a tax balance sheet for the PE

Functional and factual analysis should be undertaken to determine the extent to which the functions performed by the personnel of the PE versus those of the enterprise as a whole generate the profits of the business. DIPN 60 explicitly notes that the financial accounts of the PE should be respected for tax purposes if they accurately reflect the functional and factual analysis.

Step 2 – Apply the arm's length principle to dealings between the PE and other parts of the enterprise

Dealings between the Hong Kong PE and other parts of the enterprise are priced in accordance with the guidance set out in the TPG. DIPN 60 provides guidance on the

attribution of profits and expenses to the PE and the steps to take to calculate the capital tax adjustment.

Definition of a PE

Where the non-Hong Kong resident person is resident in a DTA territory, the PE status is to be determined in accordance with the DTA's relevant provisions. Otherwise, the PE status is to be determined in accordance with Part 3 of Schedule 17G of the TP ordinance.

The IRD has clarified that the concept of carrying on business in Hong Kong is broader than the definition of PE. Irrespective of whether they have a PE, taxpayers must still examine the facts and circumstances of their activities to determine whether they are carrying on a trade, profession or business in Hong Kong, and whether they have profits chargeable to Hong Kong profits tax.

The takeaway

TP rule 2 will likely have a big impact for Hong Kong branches of foreign banks.

Bank branches should consider any interest expense adjustment in their tax return.

Bank branches should also consider the possibility of whether they need to prepare a separate balance sheet and profit and loss statement for tax purposes which are different from the regulatory branch accounts.

DIPN 60 provides guidance for taxpayers to follow to achieve a profit attribution aligned with the legislation. Certain steps within the guidance are complex and will require a level of judgement from taxpayers. The analysis required under TP rule 2 for taxpayers to determine the business impact will take time due to the nature of the legislation and the complexities mentioned. Taxpayers should consider taking action as soon as possible for year-end tax accounting purposes, and begin preparing necessary documentation for their next tax filing.



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United Kingdom property taxes update

A basic overview of U.K. property related taxes as well as an update on recent legislative changes that may affect the way clients structured their affairs

At any given weekend, it is clear from advertisements in the local Hong Kong newspapers that United Kingdom property is being actively marketed to Hong Kong investors in a big way. At the same time, U.K. property taxes increasingly apply to non-resident investors. While welcoming investors to the U.K., it is important to ensure that they are aware of their obligations as well as the profits to be made. Advisors have an important role to play in this. At a recent event hosted by the Hong Kong Institute of CPAs, representatives from the U.K.'s tax agency, Her Majesty's Revenue and Customs (HMRC), presented on U.K. taxes, including property taxes. This article considers these taxes.

Stamp duty land tax

The basics

Your clients must pay stamp duty land tax (SDLT) if they buy property or land over a certain price in England and Northern Ireland. (Land and Buildings Transaction Tax applies in Scotland and Land Transaction Tax in Wales).

The current SDLT thresholds are £125,000 for residential properties and £150,000 for non-residential land and properties. SDLT applies when:

- Buying a freehold property
- Buying a new or existing leasehold
- Buying a property through a shared ownership scheme
- Transferring land or property in exchange for payment, for example your client takes on a mortgage or buys a share in a houses

Tax residence status in the U.K. makes little or no difference whether your client will have to pay stamp duty or not, as the charge is typically determined by factors such as where in the U.K. the transaction occurs, the type of property or land concerned and the type of purchaser.

You should note that there is a consultation ongoing seeking views on the design of a 1 percent SDLT surcharge on non-U.K. residents purchasing residential

property in England and Northern Ireland so this situation may change.

Your clients may also have to pay an additional 3 percent on top of normal SDLT rates if their purchase of a new residential property means they will own more than one property. (This higher rate may not apply if contracts were exchanged before 26 November 2015).

An SDLT return must be sent to HMRC and the tax paid within 14 days of completion. This changed this year, and was previously 30 days.

Special rules

There are different SDLT rules and rate calculations for:

- Corporate bodies
- People buying six or more residential properties in one transaction
- Shared ownership properties
- Multiple purchases or transfers between the same buyer and seller (linked purchases)
- Purchases that mean your client owns more than one property
- Buying residential property through companies and trusts

These special rules can make a big difference to the amount of SDLT due and it is important that clients take the right advice, particularly when buying property in England and Northern Ireland from overseas.

For example, SDLT is charged at 15 percent on residential properties costing more than £500,000 bought by certain corporate bodies or "non-natural persons". These include companies, partnerships and collective investment schemes. This rate doesn't apply to property bought by a company that is acting as a trustee of a settlement, or bought by a company for use as:

- Property rental business
- Property developers and traders
- Property made available to the public
- Financial institutions acquiring property in the course of lending
- Property occupied by employees
- Farmhouses

Although, specific conditions apply to these exclusions.

There is a general 3 percent surcharge on residential properties bought by companies. Further guidance on special rules is available alongside a SDLT calculator on the U.K. government website, gov.uk.

Income tax on rental income

Rental income from property situated in the U.K. arises in the U.K. and is therefore due for taxation in the U.K. – even if your client is not U.K. resident.

Individuals

If your client lives outside of the U.K. for six months or more a year, has bought property in the U.K., and that property is being let, then your client will be within scope of the Non-Resident Landlords Scheme (NRLS) and be classed as a "non-resident landlord" for these purposes by HMRC.

If so, your client's letting agent or, if your client does not have an agent, their tenants should be deducting basic rate income tax before paying the rents over to your client, so your client receives the lettings income net of income tax. The agent or tenant must pay the tax withheld to HMRC.

At the end of the tax year whoever has withheld the tax from the rents on your client's behalf should issue a certificate to your client saying how much tax has been deducted. If the tax deducted is not enough to cover your client's tax liability for the year (perhaps if tax is due at higher rates) then your client must complete a Self Assessment tax return and pay the balance due, similarly if too much tax has been deducted then your client may claim a refund.

If your client wants to receive their rental income gross (i.e. with no withholding tax deducted) they may opt to do so but they must then pay tax on their rental income direct to HMRC via Self Assessment. To do so, HMRC must give approval and an application can be made using a form NRL1i.

Your client may need to pay tax to

HMRC (as country of origin for the income) as well as the country in which your client is currently tax resident. However double taxation relief may apply if there is an applicable double taxation agreement.

Companies and trusts

Companies and trusts are also within scope of the NRLS. A company is a "non-resident landlord" if it receives income from renting U.K. property and either it's main business premises is outside the U.K., or it's incorporated outside the U.K.

If the company is resident in the U.K. for tax purposes then they are not within the scope of the NRLS. This includes U.K. branches of companies based abroad if they're registered for corporation tax.

A trust is a non-resident landlord if it receives income from renting U.K. property and all trustees live outside the U.K.

Companies can apply for rental income without deduction of tax using form NRL2i. Trusts should apply using form NRL3i.

From 6 April 2020, non-resident companies that carry on a U.K. property business or have other U.K. property income will be charged to corporation tax rather than income tax. However, where a company has tax deducted by an agent or tenant, the withholding tax will still be calculated using the basic rate of income tax.

Changes to tax relief from April 2017

Your client will be able to claim a deduction from rental income for certain expenses incurred in their Self Assessment. The amount of Income Tax Relief some landlords can get on residential property finance costs is gradually being restricted to the basic rate of tax. This will be in full by 2020-2021. Your client may be affected if they're a:

- U.K. resident individual that lets residential properties in the U.K. or overseas
- Non-U.K. resident individual that lets residential properties in the U.K.
- Individual who lets such properties in partnership
- Trustee or beneficiary of trusts liable for Income Tax on profits

Please note that residency for this purpose is defined differently than for the NRLS. You can find out more about the changes on the tax relief for residential landlords guidance webpage and the *Property Income Manual*.

Annual tax on enveloped dwellings

The basics

There has been a requirement in the U.K. since 2013 for owners of enveloped dwellings (where the property is held through a non-natural person) which meet a valuation threshold of £500,000, to file a return on or after 1 April of the relevant chargeable period. Returns must be filed and tax paid within 30 days of the start of the relevant chargeable period. Some properties are not classed as dwellings. These include:

- Hotels or similar establishments
- Boarding school accommodation
- Hospitals
- Student halls of residence
- Military accommodation
- Care homes
- Prisons

There are a range of annual charges depending on the value of the dwelling. These range from £3,650 to £232,350 for properties worth more than £20 million during the 2019-2020 financial year. Annual tax on enveloped dwellings (ATED) has fixed revaluation dates which occur every five years from 1 April 2012, with the next revaluation date being 1 April 2022.

ATED related capital gains tax

If your client was subject to ATED charges and disposed of property before 6 April 2019 then they will need to file an ATED related capital gains tax (CGT) return. Returns must be filed by 31 January after the chargeable period. ATED related CGT has been repealed for disposals on or after 6 April 2019 and replaced by corporation tax.

CGT on property disposals by non-residents

Individuals, etc.

From 6 April 2019 CGT applies to disposals of all U.K. land and property (including interests in off plan property) by individuals (including trustees, partners and personal representatives of deceased persons) who are not resident in the U.K. Prior to 6 April 2019, CGT only applied to disposals of residential property. A return must be filed and paid within 30 days of completion of the conveyance or late filing penalties may fall due. A return must be filed even if your client has no tax to pay, has made a loss, or is registered for Self Assessment.

The main rates of CGT are 28 percent for residential property gains and 20 percent for other gains. Any gains under the person's unused income tax basic rate band are charged at 18 percent (for residential property) or 10 percent.

Companies

From 6 April 2019 non-resident companies will be charged corporation tax on gains rather than CGT for all U.K. land and property disposals.

Losses

Losses are calculated following the normal CGT rules and therefore must be set to reduce any property or land related gains above the annual exempt amount (where eligible) in the year the loss arises. Excess losses may be carried forward to set against property or land related gains of future tax years. In order for a loss to be claimed a return must be submitted.

If your client's residence status changes:

- From non-resident to U.K. resident they'll be able to use unused losses on U.K. property or land against general gains
- From U.K. resident to non-resident they'll be able to use unused losses from U.K. property or land to set against gains from U.K. land and property

This article is not intended to be exhaustive and other taxes may arise during the purchase, ownership and disposal of U.K. property. If you have further questions please contact HMRC Office.HongKong@fco.gov.uk. Failure to apply U.K. taxes correctly may be considered tax evasion by HMRC and professional advice should be sought when investing in the U.K.

Actively seeking to facilitate the evasion of U.K. taxes may be considered a criminal offence of aiding or abetting and may also result in charges being considered under the extra-territorial Corporate Criminal Offences of Failure to Prevent the Facilitation of Tax Evasion.

To report concerns anonymously, please contact HMRC's fraud hotline at 44 (0) 203 080 0871 (outside the U.K.) or 0800 788 887 (inside the U.K.).



This article is contributed by Her Majesty's Revenue and Customs

TECHWATCH 202

The latest standards and technical developments

Local updates

Members' handbook update no. 230 and no. 231

Update no. 230 contains amendments to Accounting Bulletins 3 (Revised), 5 and 6 to reflect requirements in the Company Ordinance Cap. 622 as amended by the Companies (Amendment) (No. 2) Ordinance 2018, which came into effect on 1 February 2019.

Update no. 231 contains amendments to accounting standards that are effective for annual reporting periods beginning on or after 1 January 2019.

Invitations to comment

The Institute is seeking comments on:

- International Accounting Standards Board (IASB) Exposure Draft ED/2019/5 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* by 14 October.
- IASB Exposure Draft ED/2019/6 *Disclosure of Accounting Policies* by 11 October.
- International Ethics Standards Board for Accountants (IESBA) Exposure Draft *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants* by 30 September.

Q&As on revenue recognition considerations in the engineering and construction industries

The Institute issued questions and answers on revenue recognition considerations in the engineering and construction industries when applying HKFRS 15 *Revenue from Contracts with Customers*.

Feedback statement on the post implementation review of the small- and medium-sized entity financial reporting framework and financial reporting standard

In 2018 the Institute issued a Request for Information to conduct a Post Implementation Review (PIR) of the Small- and Medium-sized Entity (SME) Financial Reporting Framework and Financial Reporting Standard.

In July, the Institute published a Feedback

Statement which included an analysis of the feedback received during the PIR and the possible next steps it may take. The comment letters received and summaries of outreach meetings held have also been published.

International updates

Audit and assurance

- International Federation of Accountants (IFAC) audits of less complex entities survey.
- International Auditing and Assurance Standards Board (IAASB) June meeting highlights and decisions.

Ethics

- IESBA June meeting highlights and decisions.

Financial reporting

- July IASB update and podcast, which include summaries of the IASB's monthly meeting and its joint meeting with the Financial Accounting Standards Board.
- IASB Investor Update Newsletter highlighting the events and publications that are of interest to investors.
- Webcast published by the IFRS Interpretations Committee summarizing its discussion and conclusions on curing of a credit-impaired financial asset and relevant requirements in IFRS 9 *Financial Instruments*.
- First of a new quarterly podcast by the IFRS Foundation that focuses on the work undertaken by the IASB and the IFRS Interpretations Committee to support consistent application of IFRS Standards.
- IASB webinar providing an overview of the Exposure Draft *Amendments to IFRS 17*.
- IFRS Foundation webcast discussing some of the main elements of due process around agenda decisions.

Professional accountants in business

Conduct and duties of directors when considering corporate acquisitions or disposals

The Securities and Futures Commission

(SFC) issued a statement which outlines recurring types of misconduct in relation to corporate acquisitions and disposals that have given rise to concerns and, in some cases, led to intervention by the SFC. These include:

- Lack of independent professional valuation.
- Lack of independent judgment and accountability.
- Little independent due diligence on quality of the target businesses' earnings.
- Unfair presentation of comparables.
- Insufficient assessment of negative impact on the financial position of the listed issuer.
- Lack of verification of the vendor's ability to pay compensation.
- Undisclosed relationship or arrangement between suspicious connected parties.

Directors and their advisors are reminded to comply with their statutory and other legal duties and conduct proper investigation and due diligence when evaluating or approving the acquisition or disposal of a company or a business.

Small and medium practices

Highlights of June IFAC SMPC meeting

The small- and medium-sized practices (SMP) Committee of IFAC comprises volunteers representing a broad range of geographies and professional backgrounds. It supports IFAC's work in three main areas, namely, standard setting, resources and tools, as well as speaking out. Regular meetings are held each year for representatives from different jurisdictions to share their views. Johnson Kong, the Institute's Vice President and representative attended the meeting on 24-25 June in New York, at which various SMP-related topics were discussed, including:

- IFAC SMP-SME work plan 2019 progress update.
- IAASB activities – update & work plan.
- Audit of less complex entities – exploring the options.
- IESBA activities – update & work plan.
- Compilation of global ethical initiatives.

- The SMP of the future initiatives.

Corporate finance

HKEX publishes conclusions on proposed rule changes associated with backdoor listing and shell activities

Hong Kong Exchange and Clearing (HKEX) published consultation conclusions on 26 July on the proposed rule changes associated with backdoor listing and shell activities to strengthen the long-term health, quality and sustainability of the market.

There were 121 responses received by the HKEX to the consultation paper, including the Institute's submission. After taking into consideration comments from respondents, HKEX decided to implement the proposals with the following major modifications:

- Revising the indicative factors under the "change in control or de facto control" factor of the principle-based test of the Reverse Takeover (RTO) Rules to the following: a change in (i) controlling shareholder of the issuer; or (ii) the single largest substantial shareholder who is able to exercise effective control;
- Removing references to greenfield operations, equity fundraisings and termination of business from the "series of transactions and/or arrangements" factor of the principle-based test of the RTO Rules, to address concerns about possible application of the RTO Rules to issuers' transactions in the normal course of business;
- Removing the proposal to apply additional requirements where the issuer aborts transactions that are considered part of a series of transactions, and there is a "pre-ordained" strategy to circumvent the new listing requirements, to address concerns about regulatory uncertainty;
- Removing the proposed RTO compliance requirement for the enlarged group to meet Listing Rule 8.05 applicable to Listing Rule 13.24 issuers, to address concerns that smaller issuers would be particularly restricted; and
- Revising the proposed additional requirements on issuers that may use the extreme transaction category, to address concerns about unfair treatment of mid- or small-sized issuers.

The rules amendments will be effective on 1 October. HKEX has also published (i) three new guidance letters to provide guidance on the application of the Listing Rules as amended; and (ii) a frequently asked question on the notifiable transaction requirements relating to securities transactions.

Please refer to the press release for details.

SFC issues statement on backdoor listings and shell activities

The SFC published a statement, on 26 July, explaining its general approach to utilizing its statutory powers under the Securities and Futures (Stock Market Listing) Rules (SMLR) and the Securities and Futures Ordinance (SFO) to tackle backdoor listings and shell activities.

The SFC will work together with the HKEX to monitor the market and will intervene using its statutory powers under the SMLR and the SFO, when appropriate, to tackle these activities which harm the reputation and integrity of our markets.

The SFC will take into consideration the facts and circumstances of each case before deciding whether to exercise its statutory powers, including whether there are any red flags indicating a possible scheme designed to mislead regulators and/or the investing public or to circumvent applicable rules, or suggesting that other forms of serious misconduct have been or will be committed.

Please refer to the press release for details.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Mainland and HKSAR sign Fifth Protocol to Arrangement for Avoidance of Double Taxation.
- DIPN 28 (Revised) – Profits Tax: Deduction of Foreign Taxes.
- DIPN 58 – Transfer Pricing Documentation and Country-by-Country Reports.
- DIPN 59 – Transfer Pricing Between Associated Persons.
- DIPN 60 – Attribution of Profits to Permanent Establishments in Hong Kong.

- Stamp Duty statistics (June).

Legislation and other initiatives

Anti-money laundering notices

For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations (UN) sanctions, members should refer to the Institute's AML webpage which is updated regularly. The UN sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of the sanctions currently in force in Hong Kong.

AML/CFT guidance

For mandatory guidelines and information from the Institute on the AML/CFT requirements for members, see the Institute's *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*. Members may also wish to be aware of the Financial Action Task Force (FATF)'s recently-published, *Guidance for a Risk-based Approach for the Accounting Profession*.

Members who are licensed to provide trust or company services should see the *Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers*, issued by the Companies Registry, and may also be interested to note the FATF's recently-published, *Guidance for a Risk-based Approach for Trust and Company Service Providers*.

Members should be aware of the *Hong Kong Money Laundering and Terrorist Financing Risk Assessment Report* (in particular Chapter 6, covering designated non-financial businesses and professions, including accountants), which indicates the money laundering/terrorist financing risks and vulnerabilities in the Hong Kong market.



Please refer to the full version of TechWatch 202, available as a PDF on the Institute's website: www.hkicpa.org.hk

PICTURE PERFECT

There are countless ways to display creativity, whether it's through painting a colourful picture, stitching together an intricate dress or singing. CPA artists explain to [Jeremy Chan](#) what inspires their art, and what takes place in the mind of an artist at work

Photography by Anthony Tung

Angel Lai wanted to try her luck at making a wedding dress from scratch. With only a few months' of sewing experience – and her big wedding day only a few months away – she put aside her usual set of colour pencils and paint to focus on bringing her dress to life.

Little did she know how challenging it would be.

Lai began the project by sourcing silk and cotton in various fabric stores in Sham Shui Po for her wedding dress. She admits it was a wild idea, though deemed it a worthy challenge. "For many people, getting married only happens once in a lifetime, so I saw this as a rare opportunity to put my sewing skills to work," says Lai, Assistant Vice President of Shanghai Commercial Bank (Financial Control Division), and a member of the Hong Kong Institute of CPAs.

With the fabrics ready and a sewing book, Lai took careful measurements of herself and began stitching away. She remembers how nervous she was at the beginning. "Aside from the basic sewing skills I had learned when I was a child, I hadn't sewn anything in the last 20 years," she says.

She produced a rough sample of the dress, but wasn't satisfied. "I sought advice from a friend who rents wedding gowns and also teaches people how to make their own, I went to her every week." With all that guidance, Lai felt more confident about her skills and came up with a more accurate and fitting sample of the dress.

Over the next few months, she would head straight home from the office to work on her wedding dress, and often spent most weekends stitching away. "I'd go home, have a quick dinner, and start sewing," she adds.

Though she had sewn more

casual clothing before, Lai admits it was a challenge making sure her own wedding dress would be ready for the big day, and made well. "It's completely different from sewing a T-shirt," she says. Working with fragile fabrics, like silk, made it even more frustrating at times. "It is one of the most difficult fabrics to work with, because it's so soft – one wrong stitch will leave permanent holes in the material, so you have to handle it with a lot of care," she adds.

The ivory-coloured wedding dress began to take shape with each passing week, and in four months, Lai had done it. "I fully enjoyed doing it – and saved a lot of money doing it, too," she says, adding that typical wedding dresses can cost upwards of HK\$10,000. But Lai wasn't ready to stop there. "I made a Chinese-style red and gold evening gown for my mother-in-law using similar materials," she says. "I also made a bow tie for my fiancé."

Angel Lai and the wedding dress she stitched together and wore on her wedding day.



Lai's Shanghai-style Chinese knots. Orchid and Butterfly (top right), Bamboo and Dragonfly (top left), Plum Blossom (bottom right) and Chrysanthemum (bottom left)



Lai's passion for sewing has flourished since completing that wedding dress. She now focuses on making traditional Chinese-style dresses, or *Cheongsam*, and even took courses at the University of Hong Kong in *Cheongsam* design. She also learned to make Shanghai-style knots and buttons which are used to decorate the traditional dresses. When she isn't sewing, or making Shanghai-style Chinese knots, she likes to bring her painting tools with her as she travels through countries such as Japan and South Korea, and to relax and paint picturesque landscapes and neighbourhoods. "Art is a way for me to express my ideas," Lai says. "When I'm working on a piece of art, I'm fully focused on it, and I absolutely love the feeling of completing it."

Art for all to see

Cathy Cheng simply cannot imagine life without art. Her passion for painting and sketching all began at a very young age. "I was always attracted to colours found in nature," she says. "Back in school, I would paint as soon as I finished all my homework, and I wouldn't

worry about whether the drawing was good or not – I just liked creating art."

Cheng, Finance Manager at PLDT Global Corporation and an Institute member, enjoys doing both Western-style art, Chinese-style watercolour paintings and mixed media art, which combines a variety of media such as acrylic, watercolour or colour pencil in a single artwork. Over the last decade, she has completed a number of self-portraits and landscape paintings.

Some of her artwork have been on display at local art exhibitions organized by the Eternity Chinese Painting and Calligraphy Association (ECPA). Her painting, *Support (Lake Louise)*, was on display in 2011, while *Concentrated* and *The Historical Trails of Hong Kong* were shown last year. Her latest piece, *A Corner of A Park*, is currently on display at an exhibition organized by the Hong Kong Art Researching Association.

The Historical Trails of Hong Kong is a series of six paintings showing the transformation of Hong Kong over the last century in famed districts such as Tsim Sha Tsui and

more residential areas such as Shek Kip Mei. Painting it, Cheng says, was half the battle.

She had to find the most authentic photos of old Hong Kong. "I spent an entire month finding the right images online and by visiting many bookstores, libraries and also contacting government departments for images." Her research would often bring her written descriptions of old Hong Kong, but no photo accompanying it. "Based on text, I simply had to picture and draw what I saw in my mind," she says, adding how she often paints without drafting a sketch first. "And sometimes, I'll paint a mix of what is real and what is imagined." She dedicated weekends to completing the six-painting project, and finished it in two months.

Balancing accounting and painting inspired Cheng to come up with a dual self-portrait painting called *Concentrated*. She wanted the two acrylic paintings to show how people use their left brain to perform logical and mathematical tasks, and their right brain for situations which require imagination, art and intuition. She has also painted a portrait of one of her favourite artists, Leonardo DaVinci.

When Cheng isn't painting, she enjoys going to art exhibitions in Hong Kong such as Art Basel, Art Central, Sotheby's and Christie's, or simply flicking through art books and magazines for inspiration. "I want to connect with art every day, and at every opportunity," she says, adding how she has attended Art Basel each year since its first installation in 2013.

Cheng is looking forward to having her artwork on display next February at another exhibition organized by the ECPA, and has plans to complete a new painting within the next few months.

Cathy Cheng
with her
painting
Support
(Lake Louise).



“I’m thinking of doing a Chinese painting this time, with Chinese ink. I’ve been doing that a lot.”

Though she feels rushed to complete a work of art in time, which also meets her personal standards, she sees it as a fun challenge. “There are times you wish your artwork was better – but seeing your work on display always feels great.”

Keeping the art alive

Charles Chow was introduced to the art of Cantonese opera when he was a child by his grandfather, who would organize Cantonese opera events and bring him to meet the performers backstage.

“My younger brother and I also didn’t have many toys growing up, but we had a shelf full of ancient novels and books related to Chinese history and poetry,” he says. As he grew up, he would read and study the books, realizing how closely connected the tales were with the Cantonese opera plays he had seen. “Watching Cantonese opera helped me to understand what was written in the books,” he adds. “If you carefully listen and even study Cantonese opera lyrics, you start to understand how well written and beautiful they really are – a lot of it is poetry. Every time I heard something new, I wanted to know more.”

Cheng's dual self-portrait
painting *Concentrated*





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www.hkicpa.org.hk/en/members-area/hkicpasource/



Engrossed with the sound, movement, visuals and the meaning behind each performance, Chow actively attended Cantonese opera plays all through his school years and did his own research on the story behind each show. His passion for the art form never faded, even after he came out to work.

Chow, Managing Director of Chowson Secretarial Services Limited and an Institute member, joined the Hong Kong Academy for Performing Arts (HKAPA) in 2007. He established the HKAPA Young Academy Cantonese Opera Troupe in 2011, which trains students in Cantonese opera performance before entering the industry. He worked as a treasurer of the HKAPA's council up from 2010 until 2015, also chaired the Cantonese Opera Advisory Committee until 2016, and became an honorary fellow in 2017. He and a team introduced the four-year Bachelor of Fine Arts (Honours) in Chinese Opera degree at the HKAPA – the world's first degree programme in Cantonese opera. But, as Chow recalls, it wasn't an easy journey.

Though the HKAPA had been offering Cantonese opera diploma programmes since 1999, he knew

“My younger brother and I also didn't have many toys growing up, but we had a shelf full of ancient novels and books related to Chinese history and poetry.”

that introducing an actual degree would help nurture the next generation of performers, and preserve the traditional art form.

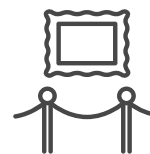
“We spent a few years pushing the government to approve this programme before we got the green light.” A lack of budget was one of the main hurdles, but Chow and his team's persistence eventually paid off. They received government approval for the programme, which officially began in September 2013.

Chow attends the Cantonese opera productions at the HKAPA where he meets with the instructors to discuss improvements and also gives advice to student performers, who he says, are all very enthusiastic and talented. He says many of the students

came to know Cantonese opera through a relative, and came from a background in performing arts. They view the programme as a means to enrich their skills and as a stepping stone into the professional world. “This was the aim of the degree – to combine different forms of art and create something new,” he says. “The preservation of this traditional art form and nurturing young talents should not be confined to just learning stage performing skills.” Chow adds how in addition to being actors or performers, students can consider becoming Cantonese opera critics, make-up artists, stage-setting designers or scriptwriters.

Now semi-retired, Chow dedicates more time to helping out at the HKAPA. One of his plans includes working with the performing arts school to fuse western instruments with Chinese opera music, and vice versa. “We are always thinking about ways to promote Chinese opera among the younger generation,” he says.

Chow is proud to see the degree programme grow, and with the success of it, he is looking at expanding even more. “We are working on introducing a Master's degree in Cantonese opera.”



The Hong Kong Museum of Art is set to reopen in November after being closed since 2015 for renovation works which will expand the seven-gallery museum by more than a third in size.

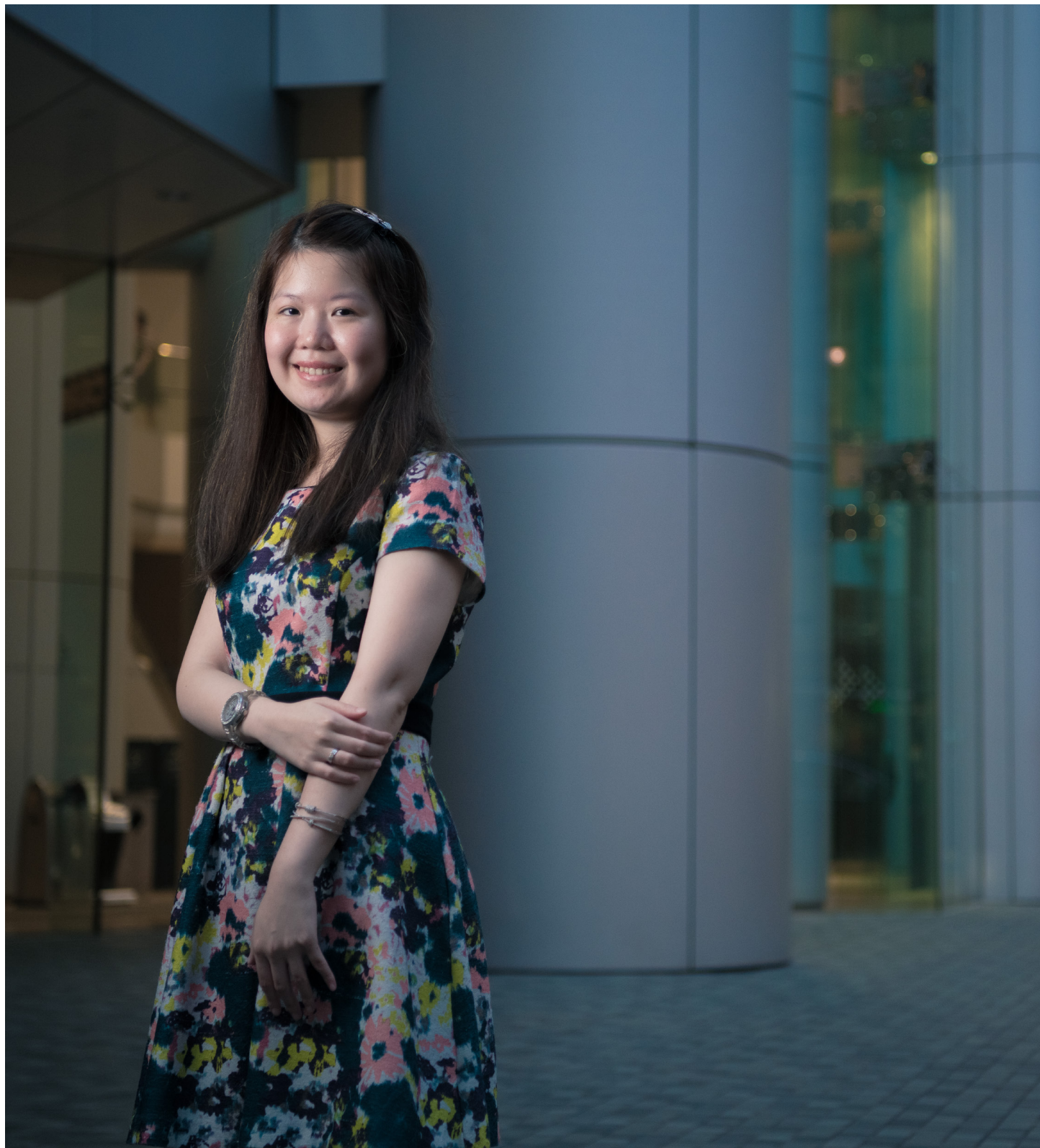


YOUNG MEMBER OF THE MONTH

Sally Chau

SALLY CHAU

Executive Officer at the
Environmental Protection Department





Sally Chau, Executive Officer of the Environmental Protection Department, has always loved working with numbers. She tells *A Plus* about how her role requires laser sharp focus, and why she dedicates time after work for self-improvement

What is your current role and responsibilities?

One of my main duties involves managing contracts, many of which are related to the procurement of different kinds of services to help the Environmental Protection Department promote the importance of environmental protection among the public. I oversee and perform budgeting for various campaigns, and report any discrepancies to management. I also have to determine whether quotations fully meet the requirements stipulated in our contracts by exercising due diligence. It's going well so far. There is definitely increasing public awareness and concern towards environmental protection, and it feels great to contribute to reducing waste and protecting the environment.

What are the most rewarding and challenging aspects of your role, and why?

It's rewarding to apply my accounting skills in practical situations. I need to be very meticulous when evaluating quotations or performing expenditure forecasts. At the beginning it was challenging getting used to the forms of payment and the service contract requirements. I overcame this by studying the contracts as hard as I could in my spare time.

What inspired you to become an accountant?

I've always loved numbers and mathematics, even as a child. I chose to study the principles of accounting when I was in secondary school, and was very intrigued by the various accounting concepts. I eventually majored in accounting and finance at the University of Hong Kong.

What has been the biggest challenge you have faced in your career so far and how did you overcome it?

I wasn't the best at using Microsoft Excel at my first job as a compliance officer at ICBC Asia. I would often stay after office hours to teach myself how to use it to finish off tasks. I would check and try to understand what was going on in each individual Excel cell to see how they were calculated. When I ran into issues, I would ask my supervisor or seniors to explain. They were extremely helpful and willing to teach.

What are the biggest lessons you have learned from work experience or managers?

How to learn quickly. I had to compile and check accounting returns at ICBC Asia and had to retrieve data from accounting sources to verify the accuracy of each return. This required me to understand how to use various accounting systems and the relationship between different systems early on in the job. During my previous role at the Home Affairs Department, there were certain deadlines I needed to meet, such as the government's fiscal year deadline. For example, a number of programmes and activities were only completed towards the end of the fiscal year, even though their payments should be efficiently arranged within the remaining period of the same fiscal year. This experience made me realize the importance of managing my time effectively.

How do you think the Qualification Programme has helped you in your career so far, or prepared you for your current role?

I found module B, Corporate Financing, to really help in my role. The module covers ethical standards, so it taught me how to evaluate quotations submitted by bidders for the procurement of services by following ethical standards and regulations. I'm also able to ensure my analyses are comprehensive and objective each and every time, using SWOT, or strength, weakness, opportunity, and threat analysis, taught in the module. *(Sally Chau participated in the interview in her private capacity.)*

SPOTLIGHT ON KUALA LUMPUR

Institute members share their recommended spots for your next business trip to Malaysia's bustling capital city



Have lunch at...

Hakka Restaurant

Family-owned Hakka Restaurant specializes in authentic Hakka Chinese cuisine. Signature dishes include baked crab with rice vermicelli. "Located on Jalan Kia Peng, Hakka Restaurant is a great restaurant with a wonderful atmosphere that serves lunch and dinner at reasonable prices. The seafood is fantastic. It is convenient for travellers as it is right in the centre of Kuala Lumpur. You can have your meal indoor or outdoor," says Lee Soo Eng, Partner at Mazars. More info at www.hakkakl.com



Stay at...

Mandarin Oriental, Kuala Lumpur

Adjacent to the iconic PETRONAS Twin Towers, the Mandarin Oriental, Kuala Lumpur features luxurious rooms and suites, as well as function rooms and a fully equipped business and conference centre. Relax your mind at The Spa and take a dip at the infinity edge pool. It is 28 minutes from the airport by Airport Express and 45 minutes by car. "The service is good and there are some fine dining options. The hotel is next to the Kuala Lumpur City Centre Park so you can enjoy the park at your convenience. Furthermore, Suria KLCC is right next to it and is one of the best shopping malls in KL," says Eric Chung, Chief Executive Officer of VGX Limited. More info at www.mandarinoriental.com/kuala-lumpur



EYES & EARS

Institute members on what music they are currently listening to and what books are worth reading



What I'm listening to

- Jonathan Chow, CFO at Yuk Wing Group Holdings

"I'm currently listening to SZA, an American alternative R&B artist. I heard her on a music track in *Black Panther: The Album* with American rapper Kendrick Lamar, and I was immediately attracted by her voice. It's called *All The Stars*, and is my favourite song from that album. If I'm cruising around town or winding down after work, her EP *Z*, released back in 2014, would be perfect to play through the speakers."

What I'm reading



Last summer, I read *The Subtle Art of Not Giving a F*ck: A Counterintuitive Approach to Living a Good Life* by Mark Manson. In life and business, I often found myself caring too much about many small things which don't actually matter. Reading this book really made me take a good look at myself, and start learning how to let go of the small stuff, so I can focus on the more important issues.

[Amazon.com](#), HK\$122.12

- David Gallie, Co-founder of Black Kite Brewery



I'm reading *From Dependence to Dignity: How to Alleviate Poverty through Church-centered Microfinance* by Brian Fikkert and Russell Mask. I like the idea of utilizing microfinance to serve the financial needs of poor families and communities. It goes beyond charity and monetary donations. The book emphasizes the importance of best practice elements of financial system management to achieve a sustainable financial system. It also explores microfinance models for different poverty levels.

[Amazon.com](#), HK\$77.96

- Doris Luk, Partner at S.K. Luk & Co.



I'm currently reading *Becoming* by Michelle Obama. The book is about how an ordinary little girl growing up in a working-class family in Chicago became the first African-American First Lady ever in history. The book is powerful and compelling and makes you feel as if you are walking side-by-side and witnessing her extraordinary journey. A true inspirational and genuine book!

[Amazon.com](#), HK\$140.36

- Eileen Chong, Manager at Yicko Securities Limited

Be a good sport, mate

Hong Kong's humorist on why you should always take pride in your accounting qualifications – even if you happen to be a celebrity



Nury Vittachi is a bestselling author, columnist, lecturer and TV host. He wrote three storybooks for the Institute, *May Moon and the Secrets of the CPAs*, *May Moon Rescues the World Economy* and *May Moon's Book of Choices*

Many people have a personal condition that they prefer to keep hidden away, such as depression, anxiety, or accounting qualifications.

Take the famous wrestler known as Ace the Animal, or D'Lo Brown, for example. He's fully qualified as a Certified Public Accountant but never talks about it.

He'd been bean-counting full time when he felt the call to change his name and devote his life to lifting people off their feet and slamming them to the floor with an ear-piercing scream.

(CPA work does that to you after a while.)

Mr. Brown is now 46. If he goes back to working for a CPA firm, I hope he'll keep his adopted name. "We're sending one of our top staff to audit your company. His name is Ace the Animal and he can kill with his bare hands." That should make sure clients behave nicely.

There are other famous sporting CPAs around the world, of course, but I must admit that I have been surprised to see them emerging right here in Hong Kong.

People who follow Institute news will know that our own CPAs recently won badminton and table tennis competitions, and scored big at dragon boat racing, the Hong Kong Marathon and so on.

Over the past 15 years, marathon running well and truly came to Hong Kong. This bizarre craze, once limited to the West, has five fun stages: 1) You go out for a run to train. 2) You feel awful. 3) You give up and go home. 4) You eat a whole tub of ice cream to cheer yourself up. 5) Rinse and repeat.

After a few months, you can actually jog to the end of your street.

That's when you sign up for the Hong Kong Marathon.

So one February morning, this writer and an IT finance friend found ourselves in a huge, stamping crowd early in the morning in Nathan Road, Tsim Sha Tsui.

The starting gun boomed and the massive

cluster of shivering people started to move. I ran. I flew. My feet were a blur. In fact, I can honestly say, the first part of the race was hugely enjoyable. Then I got tired. "How much further is it to the end?" I asked my companion. He replied: "The end? We haven't reached the starting line yet."

He was right – there are so many runners that you have a long run before you get to the official starting point.

The rest was a grim slog that seemed endless. "I don't even know where we are," said my companion after what felt like days. "Probably one of the southern China provinces, or perhaps Tibet," I replied.

We complain, but it's good that people in accounting and finance are getting into fitness. Scientists say that the "deskier" your job, the more hours you need to spend moving.

But people in Asia are still a bit behind the West, so I was thrilled when an Asian man became the first 100-year-old person to run a marathon. I marvelled at a newspaper picture of ancient, white-bearded Punjab-born Fauja Singh crossing the finish line at a race in Canada.

On a whim I looked up the website of the Toronto Waterfront Marathon. I found something even more poignant. There were eight people who finished AFTER HIM. Can you imagine the humiliation of being beaten in a race by a man who makes the Rolling Stones look like fresh-faced children?

Talking of those lads, Mick Jagger of course studied accounting before unaccountably switching to a career as a Rock God instead. He's thin, fit, and there was even a hit song recently about his dancing prowess, called "Moves Like Jagger" by Maroon 5. (Original title: "Dance Like a Man in his 70s.")

A colleague tells me that The Iceman, a mixed martial arts fighter whose real name is Chuck Liddell, also studied accounting.

That would also be a good name for a CPA. "You will shortly be audited by The Iceman. Please ensure your paperwork is in order. And be very, very nice to him."





Success symbol



Success ingredient

There are many ways to salute success. In business, there's one sure step you can take to be a winner. With a member of the Hong Kong Institute of CPAs on your team, you'll always be going for gold.



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