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DRIVING BUSINESS SUCCESS

Issue 11 Volume 15 November 2019

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PROFILE

David Kneebone, General Manager at the Investor and Financial Education Council

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FUN RUNNERS

CPAs who took part in the AC Fun Run 2019 share their experience

TAX SPECIALISTS OF THE FUTURE

Special report: How CPAs specializing in corporate tax can stay relevant in changing times

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Certified Public Accountants
香港會計師公會

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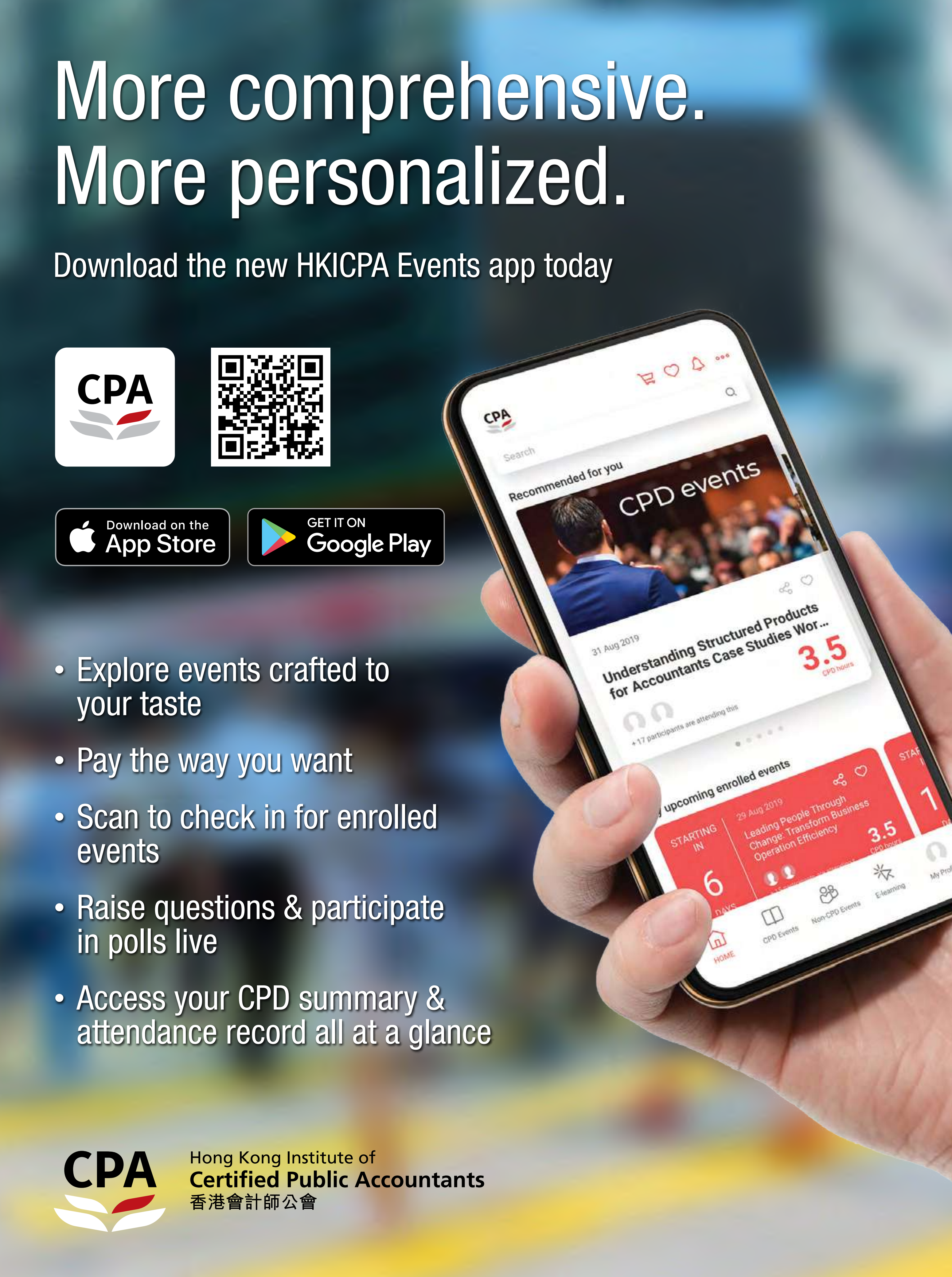
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"I hope you will join us at the annual general meeting on 12 December. Come along to meet your fellow members and your next Council, who will lead the profession into the third decade of the 21st century."

Dear members,

This month, the Institute's corporate social responsibility programme Rich Kid, Poor Kid, which teaches financial education to schoolchildren, released five new comics as part of the programme's revamp. The Institute held a media briefing where I spoke about how the programme helps students and their families. Last year, the programme reached almost 10,000 students in primary and secondary schools. The revamp was undertaken in association with the Hong Kong Monetary Authority and the Hong Kong Deposit Protection Board, with the organizations working together to help ensure the programme remains relevant in the age of digital payments and a cashless society. The comics, featuring a character named CPA helping Spender Boy and Curious Girl navigate the world, are now available on the Institute's website, and I urge you to check them out and read the stories to your children.

On 31 October, the annual Sports and Recreation Night was an exciting and action-packed event. Over 260 members representing the Institute's 15 sports and recreational interest groups and other invited guests came together to enjoy singing, dancing and other competitions.

It has been a successful year for the teams, who had come together to compete in and win competitions – within the profession, between Hong Kong's professions, and with teams in the Mainland. Some key competitions the Institute's teams have won include the Integrity Cup badminton competition, the Standard Chartered Hong Kong Marathon 2019 – Chamber of Commerce Cup in 10-kilometre, half marathon and full marathon races, and the Five-point Invitational Competition 2019 where the Institute's teams were champions in the badminton and table tennis. We also celebrated our achievements at Oxfam Trailwalker 2018. Institute team SARA won the Speed Award for the accountancy category, and the Institute won the "Outstanding Fundraiser Award."

I had an enjoyable morning at the inaugural AC Fun Run on 3 November. Jointly organized by the Institute, the Society of Chinese Accountants and Auditors and the Association of Chartered Certified Accountants, the objective was to promote healthy living. Over 500 runners participated in the three race events, which was the first ever accounting profession run. You can read more about what motivated some of the participants in the article *Going the extra mile* on page 46.

Have you downloaded the new events app? The revamped app, released in September, enables you to find and enrol in continuing professional development (CPD) courses and other events, easily ask speakers questions, and access presentation and other course material on your phone. You can also use the app to easily track your CPD activities. Find out more about it and download links on the Institute's website.

The annual dinner is just ahead. And with the theme this year being "Together we shine," I believe this is an important message for us all to remember and demonstrate in these challenging times. I hope to see you there, where we'll demonstrate the positive effects of coming together to shine.

Finally, the Council election has begun. I hope you will take the time to review the material of the candidates, and to vote for seven members to best represent your views at Council over the year ahead. Exercising your rights is an important way of ensuring your voice is heard. The voting period ends on 9 December.

I cannot quite believe how quickly this year has gone, how much we have accomplished, and that we're at the Annual General Meeting already. I hope you will join us at the meeting on 12 December. Come along to meet your fellow members and your next Council, who will lead the profession into the third decade of the 21st century.

Patrick Law
President

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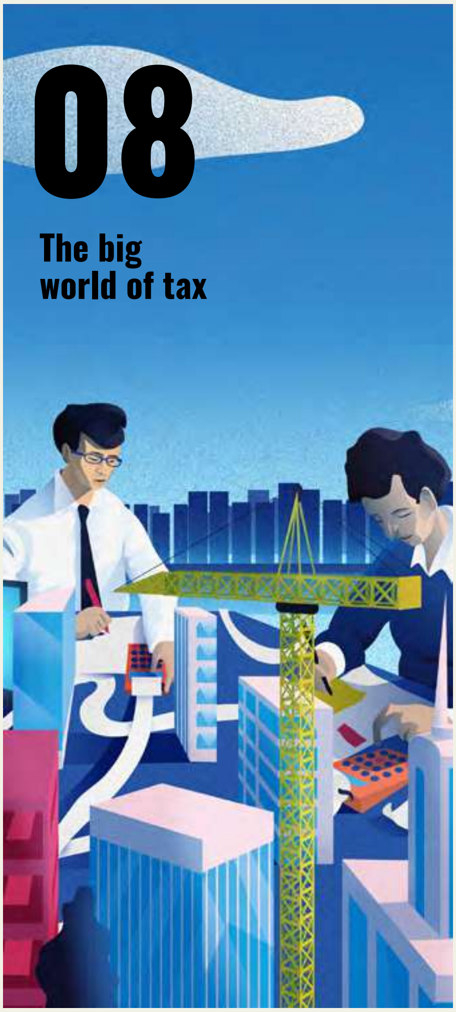

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Money matters

David Kneebone, General Manager at the Investor and Financial Education Council, on the steps he is taking to ensure adequate financial education in Hong Kong

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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NEWS

Institute news Business news

Council election and AGM

Exercise your right to select seven candidates to join the Council and cast your votes either by e-voting or by ballot paper, but not both, by 5:30 p.m. on 9 December.

The Institute's 47th annual general meeting (AGM) will take place at 5:30 p.m. on 12 December, at the Institute's office. As well as the announcement of the election results, the Institute will appoint an auditor and receive the president's address. After the AGM, the new president and vice-presidents will be elected at a special Council meeting.

The Institute's full annual report, which details the Institute's activities for 2018-19, will be available soon.

Institute releases new *Professional Development Framework for PAIBs*

Developed by the Institute's Professional Accountants in Business (PAIB) Committee the *Professional Development Framework for PAIBs* aims to provide a useful and accessible guide to the competencies – such as prerequisite knowledge, skills, attitude, practices and standards of behaviour – necessary for PAIBs to perform both their current and desired roles. The framework can help them to shape their careers, realize their objectives, and take control of their learning to achieve their goals. It can also be used by employers and company boards to help evaluate their finance functions. You can read more about how to apply the framework in this month's how to column on page 29.

Non-traditional CPAs in high demand, according to career survey

A career survey carried out by the Institute has found that the 36 percent of members working in non-traditional accounting functions, such as consulting, forensics and corporate finance, are in high demand and employers are finding it hard to recruit and retain them.

"In the Accounting Plus era, CPAs are moving into a wider range of businesses beyond the traditional accounting and auditing sectors. Despite the economic uncertainty, accounting professionals remain in high-demand across Hong Kong for the diverse services they offer. This demonstrates the importance employers and clients place on the skills of accountants – even in challenging times," said Patrick Law, President of the Institute.

The annual Career Survey was comprised of a membership survey conducted from November to December 2018 with 2,612 respondents, and a studentship survey conducted from December 2018 to January 2019 with 1,302 respondents. Respondents of all levels agreed on the importance of developing their soft skills. Among in-demand skills, problem-solving and analytical skills are of the top importance in accountants' daily tasks, as well as applying strong technical knowhow to business, and providing practical solutions to client issues.

Full findings from the career survey are available on the Institute's website.

Mutual examination exemptions agreed with CIMA

The Institute has entered a five-year agreement with the Chartered Institute of Management Accountants (CIMA) to advance the accounting profession by agreeing mutual examination paper exemptions from the Institute's Qualification Programme (QP) and the CIMA Professional Qualification.

Under the agreement, members of the Institute can have an expedited pathway to both the CIMA Professional Qualification and the Chartered Global Management Accountant (CGMA®) designation. All Institute members are exempted from 14 out of 16 CIMA examinations and could acquire CIMA membership and the CGMA designation by passing P3 – Risk Management Exam and getting entry to the Strategic Case Study Exam, the final capstone exam of the CIMA Professional Qualification.

The Institute's 2019 Career Survey

Members who have successfully completed the Institute's Financial Controllership Programme will be further exempted from Exam P3.

Margaret Chan, Chief Executive and Registrar of the Institute, said, "In this Accounting Plus era, accountants need to equip themselves with various skills to cope with the ever-changing business environment. This agreement opens up opportunities for Institute members to become members of CIMA and the Association of International Certified Professional Accountants, easing their path to gain another world-leading qualification and strengthening their competitiveness."

Workshop for new auditors

A new tailor-made programme for new auditors of financial statements or audit staff with less than two years of experience will run from 19 to 21 December. The workshop will involve interactive discussions, case studies and role-play activities to teach the concepts and practical skills relevant to new auditors. It will also cover other aspects of the audit process. More details are available on the Institute's website.

Disciplinary finding

Tong Yat Hung, CPA (practising) and Cheng & Cheng Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of *Professional Competence and Due Care* in sections 100.5(c) and 130 of the Code of Ethics for Professional Accountants.

Cheng & Cheng audited the consolidated financial statements of Kiu Hung International Holdings Limited, a Hong Kong-listed company, and its subsidiaries (collectively, group) for the year ended 31 December 2015. Tong was the engagement director.

In relation to the audit engagement, Cheng & Cheng undertook a review of the group's preliminary announcement of its final results for the financial year. The published announcement contained a statement that the auditor had agreed that the financial figures included in the announcement were consistent with those in the group's consolidated financial statements. This was incorrect as the figures in the announcement had not been agreed by the auditor. Approximately three weeks later, the group published a clarification announcement which corrected a number of errors in the financial results included in the original announcement. But it did not address the incorrect statement regarding the auditor's agreement made in the original announcement.

In the above circumstances, the respondents were aware of the statement in the original announcement regarding their purported agreement that the financial figures were consistent. However, they did not act diligently in taking appropriate action to alert those in an oversight position. The respondents did not write to the group's audit committee nor did they request the audit committee to inform the relevant regulators about the matter. In not taking action to disassociate themselves from the incorrect statement, the respondents failed to follow the relevant guidance in the Institute's Practice Note 730 *Guidance for Auditors Regarding Preliminary Announcements of Annual Results.*

Decisions and reasons: The Disciplinary Committee reprimanded Tong and Cheng & Cheng and ordered them to pay penalties of HK$35,000 and HK$50,000 respectively, and costs of disciplinary proceedings of HK$93,078. When making its decision, the committee took account of a number of factors, including the respondents' efforts regarding the original announcement, the importance of maintaining public confidence in the accountancy profession and the regulatory records of Cheng & Cheng.

Details of the disciplinary finding are available at the Institute's website.

U.K. REGULATOR TO PUBLISH POOR AUDIT RESULTS

The Financial Reporting Council (FRC), the United Kingdom's accounting watchdog, has vowed to publish grades for audit inspections, saying that the quality of audits by the biggest accounting firms has fallen short of necessary standards. The move, according to the FRC's *Developments in Audit 2019* report, will apply to audits from March 2020 onwards. It will name the firm and client being audited if both parties consent to the disclosure. The FRC's current annual inspection reports only give overall assessments for each accountant, with no specific grades for a named company's audit. "At a time when the whole audit market faces reform, we expect audit firms to make audit quality their number one priority and to have effective programmes of work to deliver consistently high standards," said David Rule, Executive Director of Supervision at the FRC.

U.S. COURT BLOCKS RELEASE OF TRUMP'S TAX RECORDS

The United States Supreme Court this month temporarily blocked an appeals court ruling requiring U.S. President Donald Trump's accounting firm, Mazars USA, to hand over eight years of tax records. President Trump, who is being investigated over payments made to two women during his 2016 presidential campaign, has been fighting to shield the records from becoming public since being issued a subpoena in April this year by the House Oversight and Reform Committee. There were no dissents following the President's emergency request to block the subpoena. The high court's stay will remain in effect until 5 December, the deadline it has given the President's legal team to file its appeal of the lower court's ruling.

XERO RELEASES ANNUAL ACCOUNTING INDUSTRY REPORT FOR 2020

Cloud accounting software company Xero has released its annual Accounting Industry Report for 2020. The company surveyed 146 accounting and bookkeeping companies in Hong Kong and 349 in Singapore to assess their business performance in relation to technology adoption. The report found that the adoption of data automation tools has led to a 140 percent increase in advisory revenue for pacesetting firms in Hong Kong. Pacesetting firms reduce client servicing hours by almost 50 percent, from the industry average of 518 hours to 249 hours per client. The report also found a link between a lack of cloud technologies and increased hours used to serve clients, with 40 percent of small business clients of complex advisory firms still preferring traditional methods of working.

EUROPEAN BANKERS WANT TRADING DAY SHORTENED BY 90 MINUTES

Banks and fund managers want the European stock trading day to be shortened by 90 minutes, saying that it will improve market efficiency and staff well-being. Europe has some of the longest trading hours of eight and a half hours compared with six and a half hours in New York and five and a half hours in Hong Kong. The Association for Financial Markets in Europe said shorter hours would "concentrate liquidity leading to more consistent trading costs and provide greater time for traders and the market to digest corporate announcements" and would ensure better mental health for traders. Rainer Riess, Director General of The Federation of European Securities Exchange disagreed, noting "a reduction in trading hours in Europe would give an advantage to other jurisdictions in similar or equivalent time zones to expand their trading hours."

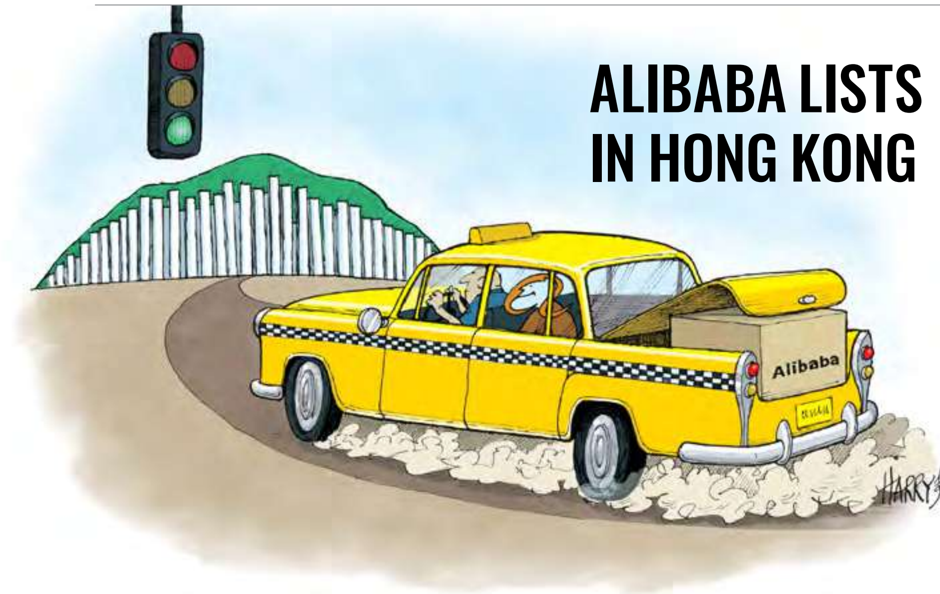
TAX EVASION CASES DROP BY 11% IN THE U.K.

The number of arrests made in the U.K. for suspected tax evasion has decreased by 11 percent to 782 cases this year, down from 877 cases made from 2017 to 2018, according to corporate and insurance law firm RPC. The drop is partially due to Her Majesty's Revenue and Customs (HMRC) using its powers of arrest more responsibly, which previously led to a number of wrongful arrest claims brought by taxpayers. HMRC now has over 1,500 officers with the ability to arrest a person, provided certain conditions have been satisfied. "Fewer arrests could be a sign that HMRC is now exercising its powers of arrest more responsibly and in accordance with the law," said RPC Partner Adam Craggs.

RSM TO MERGE FIVE FIRMS IN FRANCE

RSM International will merge five of its regional firms in France into a single legal entity in a move to push forward the group's single culture and brand. The merger will take place in July 2020. The five firms, which have doubled their revenues and workforce over the past five years, currently have a total of 85 partners and 1,000 employees and plan to add a further 200 employees by the end of next year. "RSM France is entering into a new chapter. Moving from separate legal, regional entities towards one single, national entity reflects our strength and growth opportunities," said Jean-Michel Picaud, President of RSM France.

"Moving from separate legal, regional entities towards one single, national entity reflects our strength and growth opportunities."



ALIBABA LISTS IN HONG KONG

Chinese e-commerce giant Alibaba Group Holding Ltd listed on the Hong Kong Stock Exchange on 25 November, in reportedly the world's biggest initial public offering this year. Shares closed at HK$187.60, 6.6 percent higher than the offering price of HK$176, creating the city's biggest stock with a market value of HK$4 trillion. The listing was the most traded stock, making up 10.5 percent of turnover on the main board. Alibaba Executive Chairman and Chief Executive Officer Daniel Zhang was present at the ceremony, while founder Jack Ma delivered a video message before the event. Alibaba first listed on New York Stock Exchange in 2014. The company said it will use the proceeds from the share sale for strategies to expand its users, help businesses with "digital transformation, and continue to innovate and invest for the long term."

THE PENTAGON DISCOVERS UNACCOUNTED EQUIPMENT DURING AUDIT

The Pentagon found US$81 million of military equipment at a U.S. Navy base in Jacksonville, Florida that had not been inventoried, according to a top Pentagon official on 20 November. The audit discovered major flaws in how the Pentagon handles IT processes and challenges with its internal tracking databases, but did not discover any major cases of fraud or abuse. David Norquist, Deputy Secretary of Defense, told a U.S. Senate panel that the Pentagon had "made progress toward fixing accounting irregularities, but that it will take years to eventually pass a full audit." The secretary said it was the Department of Defense's second failed audit in a row, following a comprehensive audit last year on the organization's weapon systems, military personnel and property.

IFAC BOARD COMPRISES OF MORE WOMEN

The International Federation of Accountants (IFAC) has named its first-ever board with a majority of female members. The IFAC board, which was approved at its annual council meeting in Vancouver this month, now has 12 women in its 23-member panel. IFAC has dedicated the last decade to improving the gender balance on its board and committees. "Each of these individuals was nominated and approved on the basis of their leadership qualities, business acumen, and passion for the future of our profession. We are particularly pleased that, as a result of our deliberate focus on gender diversity, the majority of these well-qualified board members are women," said IFAC President Dr. In-Ki Joo.

HONG KONG'S VIRTUAL BANKS IN TALKS WITH JETCO

JETCO OWNS MORE THAN
2,000
OF THE CITY'S
3,300
ATMs

Hong Kong's eight virtual banks are working with Joint Electronic Teller Services (Jetco) to provide customers of branchless banks access to more than 2,000 ATMs across the city, despite not being allowed to operate any physical branches under the terms of their license from the Hong Kong Monetary Authority. Jetco operates more than half of Hong Kong's 3,300 ATMs. Angus Choi, Chief Executive Officer of Jetco, said: "The virtual banks may opt to issue cards to customers to use the Jetco ATMs owned by other banks, or they can allow access through a mobile application on their smartphones."

FORMER HEAD OF AUDIT REGULATOR TO HEAD FLA

Stephen Haddrill, the former chief executive officer of the U.K.'s Financial Reporting Council (FRC), has been appointed Director General of the Finance and Leasing Association (FLA). The FLA is the U.K.'s leading trade body for the asset, consumer and motor finance sector. Haddrill, who held his former post at the FRC for ten years, will begin his new term at the FLA next month. Haddrill announced his resignation from his post as CEO last October following criticism surrounding the FRC related to its oversight of various company collapses. Richard Jones, FLA Chairman said: "I look forward to working with him as he leads the FLA on to its next chapter, supporting its members by progressing and championing the long-term prosperity of our markets and the customers we serve."

SPECIAL REPORT: THE BIG WORLD OF TAX

Globalization and technology are making the role of corporate tax professionals more demanding than ever. Tax specialists talk to Nicky Burridge about key developments in this field, and how they increasingly collaborate with companies to form business strategies

Illustrations by Gianfranco Bonadies

Being a corporate tax specialist used to be about helping companies minimize their tax burden – but times have changed. Concern about the bad publicity companies such as Google, Amazon and Starbucks have incurred due to a perception that they have not paid their fair share of tax, has made businesses more mindful of the reputational damage they can suffer if they are too aggressive in their tax planning.

Eugene Yeung, Director of Corporate Tax Advisory at KPMG, says: "In the past, we tried to minimize tax as much as possible, but now we are telling clients you need to pay a fair amount of tax. The public is placing more emphasis on tax and reputation issues."

He adds that companies are also putting more resources and emphasis on making sure their tax matters are properly managed. "There are occasions when clients will tell us they don't want to go too aggressively for social responsibility and reputational reasons," he says. Yeung points out that tax is also fast becoming a hot topic in the boardroom as companies realize the importance of getting it right.

There is a misconception that working in corporate tax involves little more than completing companies' tax returns and ensuring compliance standards are met. But the field is actually a varied and dynamic area in which to specialize as practitioners guide their clients through increasingly complex and constantly changing international tax laws.

This special report on the corporate tax specialism explores the various areas within the field; the current developments that make this specialism challenging and dynamic; how technology is having a significant impact in this area; the skills corporate tax experts should have, including a good sense of "smell"; and how the rapidly changing international tax scene provides interesting careers opportunities for those looking to specialize in this field.

A VARIED SPECIALIZATION

Corporate tax is a highly varied area in which to specialize, with practitioners covering everything from corporate restructuring to tax litigation. "There are a number of different areas, the basic one is handling Hong Kong tax compliance work, completing tax returns and handling enquiry letters from the Inland Revenue Department (IRD)," Doris Chik, Director of Tax and Business Advisory Services at Deloitte, says. "The next level involves tax advisory work after more experience is gained. Some areas are of more specialization, for example transfer pricing, mergers and acquisitions, international tax and tax controversy."

Chik works on Deloitte's tax technical team. Before that, she had spent more than half of her career focused on client services. Her current role involves providing in-house tax technical consultation, conducting research, closely following any new tax developments and writing articles and newsletters about them for clients and colleagues. She also handles internal tax training. "The objective of a tax advisor is to act as a trusted business partner of our clients, to offer them advice and guidance when they are uncertain about tax treatments or when there is new tax development, or advise them how to run their business in a more tax efficient way," she says.

Sharon To, Senior Manager, International Tax and Transaction Services at EY, spent the first few years of her career focusing on China tax, before going into her current area of work. "I look at corporate restructuring, including the holding structure and business model of a company. That is day-to-day for me," she says.

To enjoys the international dimension there is to her work, and the fact she often needs to collaborate with other overseas offices. "Because the rules are dynamic and the work involves multiple jurisdictions most of the time, you cannot work alone and think about your own plan. You need to work as a team and think about the whole picture before you can move anything. Otherwise it might lead to serious consequences and issues you cannot imagine. This is quite critical in tax," she says.

Yeung agrees that there is a strong international aspect to the work of a corporate tax specialist. "If a Chinese client wants to invest overseas, they want the appropriate legal and operational structure that will enable them to grow with a reasonable tax cost on a global basis," he says.

He adds that a practitioner may be based in Hong Kong but they could be managing tax compliance for a company with international businesses, meaning they would have to file a tax return in Malaysia, for example, or manage a tax audit in India. "You need to consider the laws in other jurisdictions. That's what makes the work interesting," he says.

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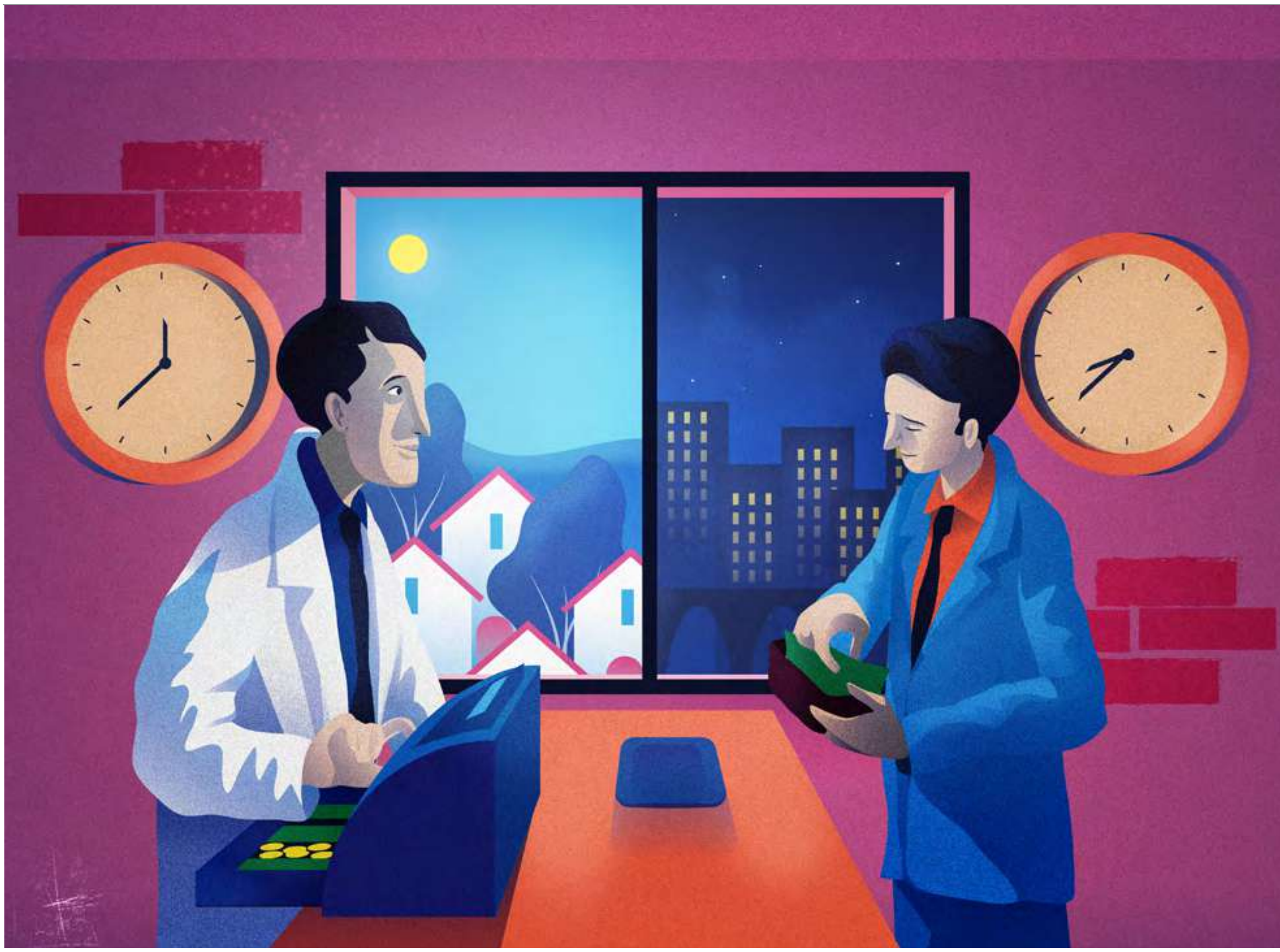


Yeung adds that corporate tax can also be about litigation and helping to resolve disputes between taxpayers and the IRD. "There are certain circumstances where, if we cannot reach a settlement, we will see each other in the court. I actually went to the Court of Final Appeal once with one of our clients. That was an interesting experience." He jokes that he decided to specialize in corporate tax area because he enjoys arguing. "I enjoy convincing people to agree with my viewpoints, and in our role, we need to do this with the tax authorities on a regular basis," he says.

Cynthia Lam, Senior Manager, China Tax and Business Advisory Services, at PwC, started out working in Hong Kong but later volunteered to transfer to Mainland China. "I think China's tax and business environment are dynamic and I have an interest to learn and experience the working lifestyle there, that is why I transferred. It was a good choice for me as there are lots of new challenges," she says. Lam points out that while much of her work is client-facing, she has also done work for the government in Mainland China, carrying out research and providing suggestions to support policy-making.

"They wanted us to assess the tax business environment, how they were perceived by the community and what areas they could improve on. We proposed that action should be taken so that revised filing can be done electronically, not only on paper. We are glad that they have adopted our suggestions," she says.

Benjamin Chan, Chief Assessor at the IRD, taking charge of various international tax matters, comes at corporate tax from the other end of the spectrum. "My current profile includes treaty negotiations, exchanges of information (EOI), advance pricing arrangements (APA), and mutual agreement procedures (MAP). I also help take forward the relevant tax initiatives promulgated by the Organization for Economic Cooperation and Development (OECD) in Hong Kong," he says.

He adds that a career in tax appealed to him because tax is very law-related and rules-based, while there are still many different aspects that need to be considered. Chan explains: "In taking forward an international tax initiative, we need to consider if the proposed initiative is consistent with our existing tax principles and tax system. We should also strike a balance so as to maintain our simple tax system and to avoid imposing an undue burden on taxpayers. We have to ensure the whole initiative, when implemented, is beneficial to Hong Kong and will not hinder the development of our economy," he says.

"We deal with different clients, different backgrounds, and different jurisdictions and industries."

A day in the life of a corporate tax specialist

The typical day for a corporate tax specialist is intense but highly varied. For Sharon To, Senior Manager, International Tax and Transaction Services at EY, every day is interesting. "I have different challenges and different clients every day, so it is never boring, and there is a lot of interaction," she says.

While To is mainly office-based, Cynthia Lam, Senior Manager, China Tax and Business Advisory Services, at PwC, spends much of her day travelling between different cities in the Greater Bay Area (GBA). "I work a lot in the GBA market, so I could be travelling to three cities in one day. The day is packed with different kinds of meetings," she says.

Benjamin Chan, Chief Assessor at the Inland Revenue Department (IRD), splits his day between handling the administration of his section, reviewing the case files (e.g. requests for EOI, APA and MAP) and working on special assignments relating to international taxation (such as the BEPS 2.0 project). "I have to study the relevant OECD papers, conduct research and prepare submissions on them. I also need to discuss international tax issues internally with colleagues from other branches of the IRD, and externally with taxpayers and tax practitioners," he says.

During a work day, Eugene Yeung, Director of Corporate Tax Advisory at KPMG, not only finds himself balancing the needs of his clients but also those of colleagues. "We are pulled in different directions sometimes," he says. "We might have back-to-back meetings, then colleagues will knock on your door and ask a question, sometimes it is a technical question, or they may want help on something as a friend." He adds that despite being busy, the day of a corporate tax specialist is very colourful. "We cover a lot of things, we deal with different clients, different backgrounds, and different jurisdictions and industries," he says.

Doris Chik, Director of Tax and Business Advisory Services at Deloitte, starts off by checking for any tax updates in Hong Kong and other jurisdictions before diving into the research and technical write-up she plans to do that day. She likens her day to that of a doctor's. "In the meantime, a lot of colleagues will come and consult me about tax technical problems. I have to diagnose what their issues are and give them some advice. It is very satisfying when I see their faces showing appreciation after getting the solutions," she says.

CHANGES AND DEVELOPMENTS

A rapidly changing environment

One of the biggest challenges practitioners in corporate tax face is the rapid pace of change in the international tax environment. Yeung says: "Tax is very dynamic. It is always evolving and keeps moving."

Chik points out that international tax is also complicated compared with Hong Kong's more simple tax concepts. "We need to be prepared to study and learn all the new tax rules," she says.

Chan agrees, adding that for the IRD, capacity building is a major challenge because of the dynamics of the international tax landscape in recent years. "The OECD has launched many initiatives and a number of them have been implemented in Hong Kong. Tax officers need to keep pace with all these developments to ensure taxpayers are compliant."

He adds that tax officers have to understand not only the technicities of the initiatives, but also the way in which they should be implemented. "If a jurisdiction is considered as having implemented the initiatives not in accordance with the international standards, it will be a big problem."

He explains that the OECD has established the Inclusive Framework on Base Erosion and Profit Shifting (BEPS) for monitoring the implementation of the BEPS package. Currently, the Inclusive Framework has 135 member jurisdictions including Hong Kong. The member jurisdictions perform peer reviews on the BEPS minimum standards, looking at how well they have implemented the standards and making recommendations for improvement if necessary. "We are very concerned about our compliance as well as our reputation," Chan says.

He adds that it is also important for Hong Kong not to end up on the European Union's (EU) list of non-cooperative jurisdictions for tax purposes. "To achieve this, Hong Kong has to meet various criteria including the implementation of the BEPS package as well as the automatic exchange of financial account information, the two major initiatives of the OECD," he says.

Managing transfer pricing

One of the most recently discussed topics in the field of corporate tax in Hong Kong has been international pricing arrangements. Hong Kong codified new transfer pricing rules in July last year as part of its response to the OECD's BEPS initiative. The rules surprised the accounting profession as they went beyond the level that was expected.

The change created uncertainty for companies, which have previously used transfer pricing arrangements to take advantage of tax differentials in different tax jurisdictions to lower their effective tax rate. "Tax jurisdictions have become more concerned about transfer pricing from the BEPS perspective. Both the OECD and the EU adopt compliance with international transfer pricing rules as one of their criteria for evaluating the harmfulness of a jurisdiction's tax practices. There was thus pressure for Hong Kong to put in place a comprehensive set of transfer pricing rules in its domestic laws which are consistent with the OECD rules. To further enhance certainty, a statutory APA regime has been introduced to enable taxpayers to agree with the IRD the appropriate transfer pricing methodology before controlled transactions take place," says Chan.

He points out that many Hong Kong-based enterprises have operations in other jurisdictions. These enterprises want to make sure they are complying with the transfer pricing rules. The IRD has issued guidance to help them understand how the new rules will be implemented.

Taxing digital gains

Despite having only just implemented BEPS 1.0, as it has come to be known, tax practitioners are already gearing up for BEPS 2.0. (see source on p.40)

While in the past, corporate tax has been largely determined by where companies have a physical presence, the digital economy means companies can make a profit in jurisdictions where they have no base, such as through downloads and e-commerce, making it difficult for them to be taxed using existing laws. The BEPS 2.0 initiative is looking to address this situation by assessing whether companies have an "interest" in a jurisdiction even if they do not have a physical presence there.

Lam explains: "We have to abandon the traditional thinking of a permanent establishment or physical presence. In today's digitized world, business can be carried out in many ways. Traditional international laws may not be efficient, and they may need to be revised."

She does not expect the process to be simple, and anticipates there being significant debates between countries as they try to decide how to allocate companies' profits. "Individual countries will have their own objectives. Some will want it to be based on market value, some on intellectual property," Lam says.

Chan at the IRD explains that the BEPS 2.0 initiative consists of two pillars, with the first pillar covering the new nexus and profit allocation rules to address the tax challenges arising from digital economy. "The old tax rules, which allocate taxing rights on the basis of physical presence, are considered not sufficiently able to relate the profits to the place where value is created. The G20 therefore tasked the OECD to explore a new nexus unifying the concepts of user participation, marketing intangibles and significant economic presence, with a new method for allocation of profits to the market jurisdictions."

He explains that the second pillar seeks to develop some global anti-base erosion rules to ensure multinational enterprises will pay a minimum level of tax. "The OECD is still working on the rules for the two pillars. The target is to release the final outcomes by the end of next year," Chan says.

He adds that Hong Kong will need to consider its response to the BEPS 2.0 initiative very carefully, as the initiative will affect the multinational enterprises which carry on business in Hong Kong and the stakes are very high. "We are keeping a close eye on the development. We have been attending the relevant OECD meetings to understand more about the initiative and map out our strategy and response in the most appropriate manner," he says.

Tax as an economic tool

In the meantime, Hong Kong continues to introduce tax incentives to help shape the local economy. Indeed, tax is continuously used as a tool to drive economic developments.

Chan points out that Hong Kong has introduced a number of tax incentives to encourage certain businesses in the city, such as the half-rate corporate income tax (CIT) concessions for corporate treasury centres, professional reinsurers, captive insurers, aircraft lessors and aircraft leasing managers, as well as the enhanced tax deductions for research and development (R&D) expenditure. He adds that further tax incentives will be introduced in the future for specified insurers, licensed insurance broker companies, ship lessors and ship leasing managers.

Lam expects to see other tax incentives introduced to help boost certain sectors within Hong Kong's economy. She explains that China has introduced a lot of policies to help companies through reduced tax rates. For example, technology companies pay CIT at a reduced rate of 15 percent, compared with a standard rate of 25 percent. She points out that this rate is below Hong Kong's standard CIT rate of 16.5 percent. Lam adds that China has also recently increased the R&D incentive for companies from a 150 percent tax deduction to a 175 percent one. Speaking of promoting emerging business, it should be noted that a relaxed taxation regime is also available for small and medium enterprises (SME) in China.

But Yeung cautions that using tax to help boost certain sectors is not always straightforward. "Nowadays it is all about cross-border investment, and tax incentives by a local government can become an international issue. For example, if a tax rate is too low, some countries will see Hong Kong subsidiaries as controlled foreign companies, triggering complex tax implications. Therefore, in formulating the local tax incentives in Hong Kong, we have to not only look at our own situation but also what the rest of the world is doing," Yeung says.

Chan agrees, pointing out that any tax incentives introduced by Hong Kong in relation to geographically mobile activities have to be reviewed by the OECD's Forum on Harmful Tax Practices (FHTP) to ensure the incentives are free of harmful features. He adds that introducing new tax incentives is always a balancing act. "While ensuring the effectiveness of a new initiative, we should not compromise our commitments to complying with the FHTP's criteria."

"In formulating the local tax incentives in Hong Kong, we have to not only look at our own situation but also what the rest of the world is doing."

THE SPECIALIST SKILLS NEEDED

Given the complexity of corporate tax, there are a number of key qualities that CPAs hoping to specialize in this area need to have. Chan thinks having strong research and problem-solving skills are the most important qualities, while Yeung places a strong emphasis on curiosity. "You need to find out why the law is written in a certain way or why in a court case the judgement went a certain way," Yeung says.

Lam thinks that taxation should be analysed from an international perspective in view of the needs of multinational companies and the development of the international tax system. It requires practitioners to have the ability to understand tax rules in different jurisdiction in order to help clients find the best solution. "You have to fully understand their plan and help prioritize clients' different objectives before you can advise them what to do in different locations. Sometimes you have to balance the view of different teams, which can be quite challenging," she says.

To agrees: "When clients come to you, they may have a number of issues. Some may be about China, some about international tax. They see you as a business advisor, so you need to be an all-rounder and be their trusted advisor and first contact point."

She adds that tax practitioners also have to be good with people. "You need to have good communication skills to work with the other professionals like the bankers and the lawyers. I think that is quite important. We are not looking only at the numbers, we are talking to people as well."

Chan points out that communication is an essential part of the IRD's work. Tax officers not only need to communicate with taxpayers, but they also need to reach out to various business groups, such as professional bodies and chambers of commerce. "You should have very good communication skills to convey your message and be very good in different languages. Internally you can speak in Cantonese, but with taxpayers or tax officials from other jurisdictions, you need to talk in English, Putonghua and even other languages," he says.

He adds that tax officers should also have a good business sense, particularly when dealing with transfer pricing cases, as they need to gain an in-depth understanding about the functions performed, risks assumed and assets used by the taxpayers. "The pace of development in business sectors is very fast – you have to work very hard and have a very good willingness to learn," Chan says.

Yeung highlights that tax practitioners need to pay attention to details: "Sometimes, within the legislation, for a sentence whether there is a comma or not can make a great difference," he says.

Corporate tax specialists also need to develop the ability to "smell" when something is not right, such as if a client is not being entirely honest with them. Chan says: "As a tax administrator, you have to develop very good professional knowledge and analytical ability. You should be able to tell whether something is not right even the information in hand is limited."

Yeung agrees: "We are trained to find exceptions. I think that is very true."

How to specialize in corporate tax

The Institute runs a number of programmes and initiatives to help members who would like to specialize in corporate tax. It offers two professional diplomas in taxation, namely the Professional Diploma in China Tax and the Professional Diploma in Hong Kong Tax, which look at the different aspects of Hong Kong and Mainland China taxation, and the primary principles that underpin them.

Both diplomas are taught part-time, with workshops held on Saturday afternoons and tutorials held on weekday evenings, to enable members to study for them while working full-time.

It also offers an international tax course to give members a grounding in key international tax concepts, and help them acquire the practical taxation skills they will need to provide advice on cross-border transactions. A similar course is offered in China tax, while the Institute also has an Advanced Hong Kong tax course, which provide in-depth knowledge of key contemporary tax practices so that members can create tax planning solutions.

The Institute also has a Taxation Faculty, which coordinates all the technical, advocacy and liaison work it does in this area, as well as running tax seminars, networking events and producing e-newsletters for members. The faculty also helps to raise the profile of the taxation profession in Hong Kong and provide a stronger voice for members working in this field.

Sharon To, Senior Manager, International Tax and Transaction Services at EY, says the Institute's Qualification Programme gave her a very good foundation in understanding both tax and business and financial management, setting her up well for her career specialization. "What I learned is still really useful for me when I handle different cases," she says.

She encourages accounting graduates to find out more about corporate tax as a specialization. "Students don't have a good idea about what corporate tax involves and there is a gap between their understanding and what we do day to day," she says. She also suggests specialists in the field should spend more time communicating what they do to help people become more engaged with the field and encourage students to consider it as a potential long-term career.

THE VIRTUAL CONSULTANT

Chik points out that technology can be harnessed to carry out more efficiently some of the routine work practitioners do. "Work such as tax computation and tax return completions can be taken up by machines. We can design software programmes to do tax compliance work more efficiently. This saves time for tax professionals to do more advisory level work," she says.

Lam agrees: "In China we used to spend a lot of time doing basic compliance work. Now with technology enhancements, we spend less and less time on this basic work and do more value-added services."

Yeung says he has seen a growing number of clients exploring using technology to automate compliance work. "Now we can use a robotic process to extract data from the ledger and turn it into a tax computation. The outcome may not be 100 percent complete, but the additional work will be reduced. This represents an opportunity and also a threat to tax professionals."

He also cautions that with the advance of technology, information has become much more easily available, which is also making tax practitioners' jobs harder. "When I joined the profession, clients would ask questions because they didn't have access to the laws or the local practices in China. Some of the questions would be quite straightforward to answer and we would still be able to charge a fee, but now when clients come to us the first question is no longer something simple. Another way to look at it is: it makes our work more

"Now we can use a robotic process to extract data from the ledger and turn it into a tax computation."

challenging."

He adds that another aspect of information becoming more readily available is that IRD officers can also go online and easily find out things about taxpayers beyond the information they have been given. "That is also a challenge," he says.

To agrees: "The challenge is that transparency is very high now. You need to have a very strict protocol on documentation. Everything can be seen by the tax authorities."

Chan confirms this, pointing out that not only does the IRD have its own database, but it also receives information from other jurisdictions through the OECD's country-by-country reporting initiative.

Technology can also be used to make the process of filing tax returns more efficient. Lam points out that the tax bureau in China is very technology advanced and has not only introduced online filing but also offers virtual interaction with tax officers if taxpayers or practitioners have an issue that they need assistance with. "They are using technology to improve their service," she says.

China also uses advanced technology, such as big data and artificial intelligence, to select targets for further investigation. "We suggest taxpayers take preemptive action and address problems at their root, instead of using window-dressing techniques which just delay the problems," she says.

Chan says the IRD is also in the process of harnessing technology to enhance its services, and it plans to extend the scope of electronic filing of profits tax returns to all taxpayers. It is also looking at how technology can be utilized to improve its efficiency in terms of managing workflow and monitoring cases. He adds that electronic filing will be necessary to address the OECD's concern on the tax filing rate of Hong Kong companies in the context of EOI.

THE FUTURE SPECIALIST

Going forward, Chik says: "Tax advisors will play a more important role to businesses and there will be a higher demand for tax technical knowledge because of all these complicated rules." She also expects tax practitioners to become more specialized due to the growing complexity of international tax law. "Even within the tax professionals we have different streams of specialization," she says. Despite this, she still expects there to be demand for generalists. "Some companies will still have general issues. Practitioners will need to have a knowledge of other areas so that they can "smell" the issues and refer those to the appropriate specialists," she says.

Yeung agrees, pointing out that tax practitioners will still need a strong general foundation, even if, as they move up the career path and become more senior, they specialize in one or two areas.

A talent shortage in the sector also creates good career opportunities. Yeung says: "We don't have enough talent. It is very difficult to recruit good people with the right experience and the right skill set." As a result, he says firms are prepared to invest time and resources in training graduates in this area. "There will be good career prospects," he says.

While there is no doubt that corporate tax is a demanding specialization, practitioners also see it as a field in which talent is nurtured. Yeung says the most memorable experience of his career was when he handed over some of his clients to a newly-promoted manager who he had spent many years training. He remembers that one of these clients later said: "I am very happy with him. I can rely on him as much as I rely on you."

Chik points out that there is also a strong sense of camaraderie. She says: "For me, the most memorable time goes back to when I was a junior. During peak season, we needed to work overtime and we would order dinner to the office. Juniors and seniors, even managers, would put our drawer cabinets together to form a big dining table to have dinner like a family. It was really memorable because of the peer support."

Read more about tax in an interview with KK So, Chairman of the Institute's Taxation Faculty Executive Committee, on p.32. A photo of the interviewees from this special report can be found on p.33.

SECOND OPINIONS: HOW CAN INTEGRATED REPORTING HELP HONG KONG COMPANIES?

ELLIE PANG
MEMBER OF THE HONG KONG INSTITUTE OF CPAS' SUSTAINABILITY COMMITTEE

Recent focus on corporate reporting including environmental, social and governance (ESG) reporting in Hong Kong has seen a convergence of a number of different sustainability initiatives. Although each with unique purpose and features, these initiatives share some common threads. For instance, most of them recommend a disclosure of the company's strategic focus on ESG issues, especially at board level. They also require the company to report on the process and results of their stakeholder engagement and materiality assessment, and encourage sustainability reports to be quantitative, consistent, balanced and complete. In an effort to align with international best practices, the proposals in Hong Kong Stock Exchange's consultation on a review of the ESG Reporting Guide and related Listing Rules published in May 2019 have taken on board some of the latest recommendations in the global sustainability initiatives.

Integrated reporting is one of the major global sustainability initiatives that has seen increasing support. Compared with a standard ESG report, integrated reporting provides greater context and paints a more holistic picture for investors to gauge the company's performance. While an ESG report often only includes the company's ESG considerations, i.e. how these issues are identified, prioritized and managed, and the company's performance under certain ESG key performance indicators, an integrated report contains both financial and non-financial information.

Integrated reporting promotes a different way of thinking from the traditional reliance on financial capital. Instead, it believes that what makes an organization successful should rely on a much broader set of capitals. According to International Integrated Reporting Council (IIRC), the six capitals are: (i) financial; (ii) manufactured; (iii) intellectual; (iv) human; (v) social and relationship; and (vi) natural. One of the seven Guiding Principles in the International Integrated Reporting Framework (Framework) published by IIRC advocates the need to disclose the inter-relatedness and dependency of the various factors that affect the company's ability to create value in the short, medium and long term.

Integrated reporting encourages the company and its board to better understand the company's operations and key stakeholders' concerns. By scrutinizing the inter-relatedness, and uses, of the various capitals available to the company, it promotes long-term value creation.

Integrated reporting is likely to be the future of corporate reporting and Hong Kong as a premier international financial centre should take the lead in Asia in this space.

> **"Integrated reporting is likely to be the future of corporate reporting."**

CHRIS JOY
EXECUTIVE DIRECTOR, STANDARDS AND REGULATION AT THE HONG KONG INSTITUTE OF CPAS

The Hong Kong Institute of CPAs has been monitoring the development and application of integrated reporting for a number of years. In 2011, the Institute held a forum to kick-start local consideration of a discussion paper issued by the International Integrated Reporting Council (IIRC) on an integrated reporting framework, and in early 2013 co-hosted one of 10 events worldwide to launch the formal consultation on the framework issued that year.

Integrated reporting was developed for the benefit of investors who have increasingly demanded that companies report more than traditional financial information to enable them to make better informed investment decisions. This thinking has become more and more "mainstream" and many jurisdictions have introduced reporting requirements to provide what investors are demanding.

The IIRC framework provides a mechanism to report this information, and encourages the development of business processes that capture and reliably generate such information. The IIRC approach applies principles and concepts that are focused on bringing greater cohesion and efficiency to the reporting process, and adopting "integrated thinking" as a way of breaking down internal silos and reducing duplication. It improves the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital. Its focus on value creation, and the capitals used by the business to create value over time, contributes towards a more financially stable global economy.

Of course, looking at principles rather than a specific reporting framework means that the IIRC framework isn't the only way of satisfying the demand for more relevant information that focuses on sustainable development rather than short-term gain. In Hong Kong, listed companies have since 2014 had to report in accordance with the Hong Kong Stock Exchange's ESG Reporting Guide. Also, under the Companies Ordinance rules, they have to provide comprehensive reports on risk assessment and response. So Hong Kong companies do report many of the elements of "integrated reports" but not all in the same report.

As a leading international capital market it is important that Hong Kong keeps pace, or even sets the pace, of developments in corporate reporting that investors are demanding. The requirements of regulators in many other jurisdictions, including Europe, Japan and Singapore, are moving inexorably in the direction of "integrated reporting" even if it's not the IIRC framework that is being mandated. A recent KPMG survey reported that in Japan, 414 companies representing 58 percent of the market capitalization of the Tokyo Stock Exchange produced integrated reports at their last reporting dates. Hong Kong may be heading in the same direction – but doing it in its own unique way.

DAVID SIMMONDS
GROUP GENERAL COUNSEL AND CHIEF ADMINISTRATIVE OFFICER AT CLP HOLDINGS

CLP was the first company in Hong Kong to adopt integrated reporting, as envisaged by the IIRC's, when we published our 2011 Annual Report. This approach supports our commitment to long-term, sustainable value creation by providing a connected view of how we manage different aspects of our business, moving beyond a narrow focus on financial performance.

People want to buy from, work for and invest in companies they have trust in. Integrated reporting and the philosophy that underpins it are key elements of our high standard of corporate governance and transparency, which is fundamental to building and maintaining trust with our stakeholders.

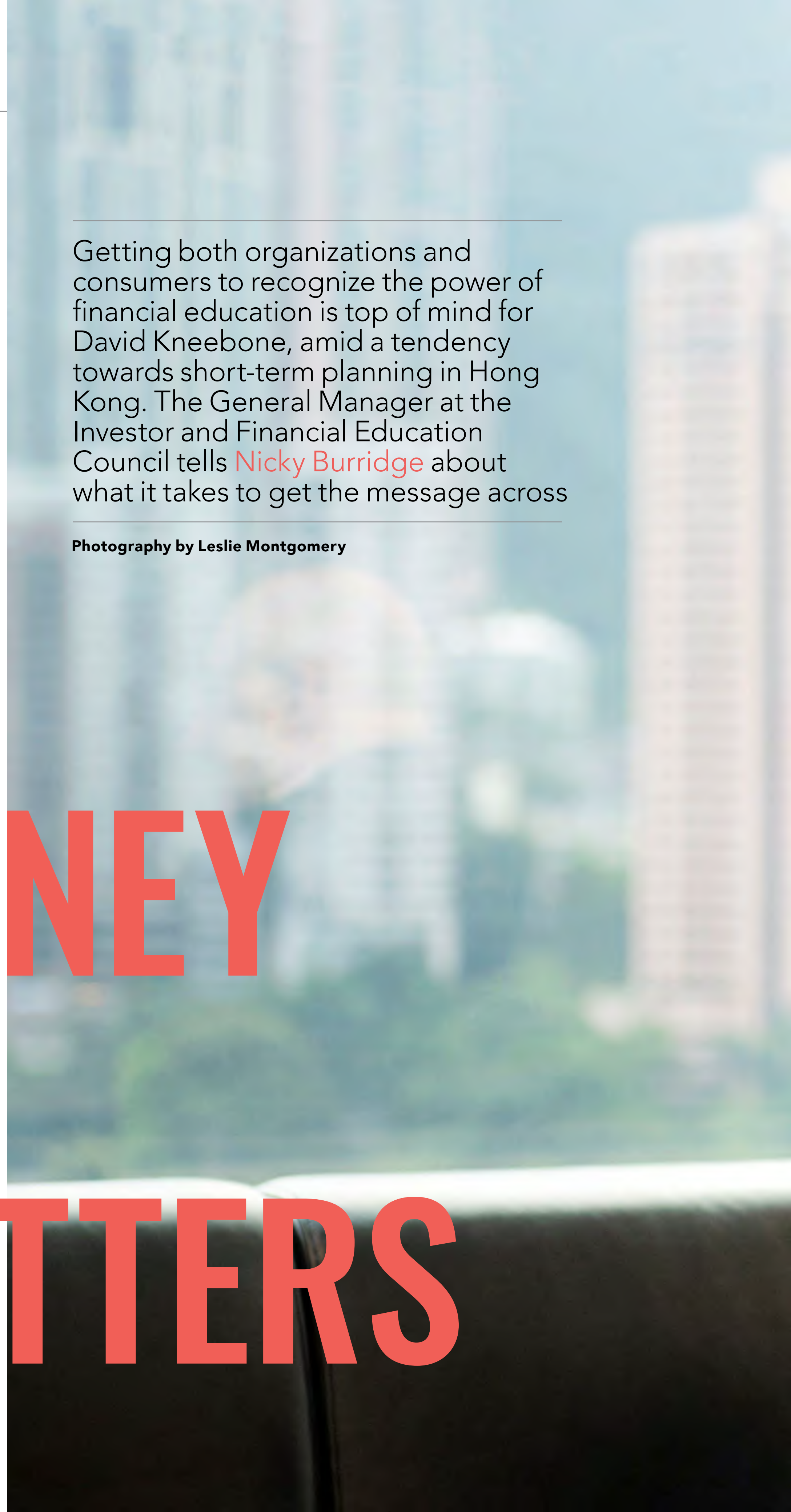
In addition to financial capital, our integrated reporting also covers other resources critical to the company: manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital. Each is overseen by a member of senior management, ensuring the reporting is championed and coordinated throughout the organization.

We have seen growing interest from our stakeholders in ESG topics particularly in the years following the Paris Climate Agreement. CLP was an early mover in ESG, and we started publishing a separate Sustainability Report in the early 2000s. In 2007, we were the first Asian power company to set carbon intensity reduction targets when we published Climate Vision 2050, our commitment to long-term decarbonization of our business. In 2017, we further strengthened our targets, committing to an 80 percent reduction in our carbon intensity by 2050, based on 2007 levels, with interim decadal targets.

"People want to buy from, work for and invest in companies they have trust in."

As an electricity utility providing an essential service to the community, we have a natural focus on ESG. In addition to our focus on delivering clean, reliable and affordable power, we work hand-in-hand with community partners at all levels in Hong Kong, Mainland China, India and Australia to improve social, as well as environmental conditions, supporting a wide range of projects including education, youth engagement, community health and improving access to clean water.

Taking a broader and integrated approach may incur more resources in the short term, but we believe there is a strong business case for this. More than 2,500 financial institutions around the world, with a total of US$86.3 trillion in assets under management, are now signatories of Principles for Responsible Investment, an United Nations organization that promotes the integration of ESG principles in the investment process. In these changing times an integrated approach to ESG is now more valuable than ever.



Getting both organizations and consumers to recognize the power of financial education is top of mind for David Kneebone, amid a tendency towards short-term planning in Hong Kong. The General Manager at the Investor and Financial Education Council tells Nicky Burridge about what it takes to get the message across

Photography by Leslie Montgomery

MONEY MATTERS

A study of financial literacy carried out by the Organization for Economic Cooperation and Development found that people in Hong Kong had the highest levels of financial knowledge out of all 30 countries surveyed. But in the same study, Hong Kong came 29th in terms of its population's attitude towards financial planning.

The research, which came out in 2016, presented an interesting challenge for David Kneebone, General Manager at the Investor and Financial Education Council (IFEC). If Hong Kong people were so well informed about financial topics, why were they failing to act on this knowledge?

"This became such a crucial finding for us to appreciate. While Hongkongers are, undoubtedly, some of the smartest people in the world in terms of money, they know what to do but they don't necessarily do it. The biggest challenge we have with attitude is long-term planning and an unwillingness to prepare," says Kneebone.

A look at other research, such as Hong Kong University's Public Sentiment Index, showed that the problem was particularly acute among 18 to 29-year-olds, with this age group experiencing a lack of hope around issues such as whether they could afford to buy a home, or would have good career opportunities in Hong Kong.

"It is a distinct issue that we all need to be very responsible for and mindful of and work to improve," Kneebone says. He stresses that while it is important to be realistic with people, it is also crucial that they understand the importance of having a financial plan.

"We are firm believers in financial planning, not only for short-term goals, but also mid-term goals and, crucially, long-term planning," he says.

Informing decision-making

To help people plan, Kneebone believes they must have access to independent, impartial information to balance the volume of information and advertising that comes from the financial sector, and this is where the IFEC comes in.

He describes the IFEC as being the public lead on financial education in Hong Kong. As such, it sets up the frameworks and structures to help a range of stakeholders, including educators, financial services companies and non-governmental organizations (NGOs), to deliver financial education. It also produces educational material, which is available to consumers online. "What we have done is put things in place to enable different groups of people to know what financial messages are important," he says.

He points out that if people are provided with the tools to know how to deal with debt, or assess the risk of an investment, they can start to pick out where the consistencies and inconsistencies lie in the multiple sources of information on financial matters that they hear from, and they can start to challenge some of these sources. "We have to be realistic because we are a very time-poor community in Hong Kong. People may only have three stops on the MTR to make a decision. Having said that, it is really important that people create a bit more time for some of the larger financial decisions they may make in their life," Kneebone says.

When it was first launched in 2012 as a subsidiary of the Securities and Futures Commission, the organization was called the Investor Education Centre, but it changed its name to the Investor and Financial Education Council earlier this year at the request of the Hong Kong government. "In some ways it was a correction. The challenge with the name Investor Education Centre is that you wouldn't naturally turn to such an organization for information on insurance, debt, wills and the various other topics we cover," Kneebone explains. "The number of retail investors that exist in Hong Kong is very high compared with other economies, and the complexity of financial products in Hong Kong is quite diverse, so I am quite happy with the term 'investor' always being there, but the key words are 'financial education.'"

Building a framework

Kneebone has been in his current role since 2014, which he describes as being both a strategic and an operational lead. Alongside running the organization, he is also one of nine board members of the IFEC, which includes representatives from Hong Kong's four financial regulators, as well as industry representatives. "I am the bridge between the board and the organization itself," he says.

Kneebone joined the IFEC when it was only a year old, after the previous general manager had to return to Australia. He says of his predecessor: "He had done a great job on recruiting, and he had a draft business plan in place for the first year, which made my job easier. The challenge was then to set up the framework."

He talks about creating the organization's framework in terms of building a house with four walls. One of these walls was to create a financial competency framework for Hong Kong, looking at the financial skills and knowledge people needed to have to promote ideal behaviour. Another was to introduce a financial literacy

> "It is really important that people create a bit more time for some of the larger financial decisions they may make in their life."

David Kneebone moved to Hong Kong from his native New Zealand in 2014 to take up his post at the IFEC.

strategy for Hong Kong to motivate stakeholders, including educators, financial services companies, NGOs and charities, to promote financial education.

The third wall involved creating an independent and impartial source of financial information for consumers to use, while the fourth wall was to establish a robust research base on financial literacy levels in Hong Kong to share with other stakeholders.

In addition to these four walls, Kneebone also looked at how the success of the IFEC's programme could be evaluated. "Once we had those four things in place, it was about making sure they were always up to date. We have done a second version of the financial competency framework to make sure current topics like cryptocurrencies are included," he says.

Meet the Chins

One of the achievements Kneebone is most proud of is the IFEC's creation of The Chin Family as tool to engage consumers. The campaign, which was set up in 2016, follows a fictional family of two adults, two children, two elderly parents and a cat, looking at the financial challenges they face at different stages of their lives and how they can plan for them."There was a certain formality to the IFEC, but we also needed a group of people that all Hongkongers could relate to. By being able to recognize themselves, there is a degree of empathy we can build with people. It creates interest and is fun and breaks down the barriers."

Campaigns around The Chin Family have ranged from teaching children about managing pocket money, to planning for retirement, to understanding green financial products. "I really enjoy watching Chin Junior on Instagram talking to millennials and their reaction. The number of people liking and sharing it is growing remarkably," Kneebone says.

At the other end of the age spectrum, Grandma Chin has encountered problems with identity fraud, and the website has chartered the steps she needed to take to put things right.

Kneebone says awareness of the Chin Family as a financial resource is continuously growing with more than 60 percent of people in Hong Kong knowing about the campaign. "We need to continually invest in that resource to make sure we have got the right interactive tools, the right videos and always have up-to-date content. The messages we give must be succinct and concise, and relevant or people won't use us. The usage is going up not down, so I think we are doing it right."

Rebuilding trust

Kneebone says the biggest challenge

Rich Kid, Poor Kid, the Institute's social responsibility programme, was named Financial Education Champion in 2019 and 2020 by the Investor and Financial Education Council.

of his work is meeting the expectations of what can be delivered in terms of financial education. The IFEC engages various stakeholders, including government agencies, regulators, financial and education institutions, to gain insights from experts and improve the delivery of our financial education initiatives. "What happened around the crash of 2008 and the subsequent failure of companies and products hugely damaged trust in Hong Kong in terms of the financial sector in general, and that issue still exists. The breakdown in the relationship between the retail consumer and the financial sector is still very real, and the financial sector still has an incredible amount of work to do. We often find ourselves in the middle."

He says that in order to rebuild this trust, not only is a strong regulatory environment needed, but consumers must also be able to exercise their own market power through making informed decisions. He thinks the situation is improving, and points out that a number of financial services companies now spend tens of millions of dollars on financial education, which they were not doing in 2012. "I am incredibly pleased that they recognize the benefits of financial education. At the same time, a number of NGOs have also set up centres of excellence that specialize in money management, but where are the others? Why don't they get that increasing the financial education of their customers is something that will probably pay off?"

He points out that the situation in Hong Kong is particularly complex due to the high level of retail investors, with 39 percent of people owning stocks, rising to 52 percent among people aged between 30 and 49. "It is incredibly high. It is exciting because it means we have a group of people who have some knowledge through experience, but they may not be making the best decisions," he says.

He adds that there is also a high tolerance for gambling, and consumers need to understand that stocks are a long-term purchase. "We have watched a bit of panic selling. One day, eight different media commentators were saying 'sell now,' which was somewhat irresponsible. Short-term holding is a bit too common here," he says.

Another challenge is ensuring consumers get information from the right places, with people's main source of information for financial decision-making still coming from family and friends. "We put forward a key message, which is just because your friend or colleague bought it, doesn't mean it is right for you, whether it is an insurance product or a retirement fund or a cryptocurrency," Kneebone says.

> "The breakdown in the relationship between the retail consumer and the financial sector is still very real, and the financial sector still has an incredible amount of work to do."

He adds that the biggest risk to consumers is quick decision-making, including not seeking information from multiple sources, failing to read the key facts statements of financial products and not understanding the terms and conditions. As well as empowering consumers, one of Kneebone's favourite aspects of his job is empowering his staff. "I have a team of 23 people and my job is to create an environment that allows them to prosper. The more they prosper, the more the organization prospers. The more motivated and excited and passionate they are, the more we benefit," he says.

Rich Kid, Poor Kid

The Hong Kong Institute of CPAs' social responsibility programme, Rich Kid, Poor Kid, was named as 2019 and 2020 Financial Education Champion by the IFEC. The programme, which has been running since 2005, has seen "Accountant Ambassadors" hold free seminars for more than 140,000 primary and secondary students in Hong Kong.

Kneebone praised the initiative, saying: "We appreciate that the Institute plays a pioneering role in teaching money management concepts to students with the Rich Kid, Poor Kid programme at primary and secondary schools. The programme encourages the young generations to practice financial responsibility and fills the knowledge gap that has not been taught in schools."

He adds that accountants, who represent professionals in financial management, can also serve as role models for the students, passing on their skills and experience to them. "There is an enormous role that can be played by members of any financial-based organization." Kneebone also thinks it is particularly important that teachers have access to financial education and resources, as they have a greater opportunity to influence children. But he points out teachers cannot be expected to teach financial topics if they are not trained in this area.

"We have got some teacher training workshops occurring in Hong Kong, but they are largely attached to business and economic teachers. There is an enormous amount more we could do, and I think as a professional organization, it is a topic [the Institute] could take on." If there was one piece of financial regulation he could change, he adds, it would be to make financial education mandatory in schools.

A marketing background

Kneebone's career has seen him move from private sector to public. He started out working as a sponsorship executive at a bank in his native New Zealand, before moving to telecoms company Spark New Zealand as communications manager. He also had stints at marketing companies Jack Morton Worldwide and Precinct in Australia, where he was chief executive officer, as well as setting up his own marketing consultancy. In 2006, he joined the Commission

One of Kneebone's focuses has been building a financial literacy strategy for Hong Kong to motivate stakeholders to promote financial education. He is pictured here holding The Chin Family's bus.

for Financial Capability (CFC) in New Zealand, which has a similar financial education remit to the IFEC. He was appointed executive director of the CFC in 2010.

"I think the mix of running agencies and also being client-side has helped prepare me for dealing with a variety of situations," he says. "Running agencies for eight years taught me an awful lot about humanity and greed. When I went back to being a client, I was a very different client. I had a lot more respect for the challenge that people in agencies face and it certainly changed the way I worked."

He reached a turning point in his career in 2006 when he was running a large agency in Sydney, and was working for a client that was largely owned by a pension fund. "The big decision for me for moving from the private sector to public sector was that I wanted the public to be the shareholder. I wanted them to determine whether what I was doing was successful or not, and not to simply be responsible for maximizing shareholder return."

He adds that although he will probably return to the corporate sector at some point, working in the public for the past 15 years in three different countries and seeing change has been enormously satisfying.

Kneebone, who moved to Hong Kong in 2014 to take up his post at the IFEC, says his two biggest passions are cooking and tennis. He also enjoys sampling Hong Kong's many restaurants. "I love the food. There is so much variety and the ability to try a cuisine from anywhere in the world. There are so many different places and it has been fun exploring those options."

He says he has learned a lot about the difference between the Chinese cuisines while living in Hong Kong. He particularly enjoys Shanghai and Sichuan food. "I naively did not appreciate the breadth of Chinese cuisine, and I will always love it. I also know more about milk tea than I ever thought I would previously."

Kneebone is moving back to New Zealand early next year and looks forward to getting a cat and dog when he's there. He describes his time in Hong Kong as being nothing short of a great adventure. "It has been an incredible privilege learning so much about a culture that was very new to me, but it is time for me to go and be among family and friends again and enjoy all the well-being that comes with that."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An overview of the findings of the judging process from the 2019 Best Corporate Governance Awards

Observations of the Best Corporate Governance Awards 2019 judges and reviewers

The annual Best Corporate Governance Awards organized by the Hong Kong Institute of CPAs are now in their 20th year. They are recognized as an important benchmark of Hong Kong's current corporate governance (CG) standards and best practices, while winners of awards regard them as a significant achievement and accolade.

The winners of the awards will be announced at a ceremony in early December. Ahead of their announcement, this article covers the judges' and reviewers' findings from the judging process.

Disclosures and practices of the best performers

The best performers in most categories were still able to achieve high scores on the strength of their voluntary additional disclosures and practices. These companies were also likely to be early adopters of any changes in requirements, as they see the benefits of a good CG regime to the long-term success and sustainability of the company.

More relevant risk disclosures

One area where clear improvements can be seen over the years is in risk management, as companies are providing more relevant details about it. Increasingly, companies categorize and analyse the principal types of risks that they face and the underlying control and mitigation measures to address those risks. However, there is still scope for companies to say more about the likelihood of particular risks materializing. In addition, the disclosures relating to internal control reviews could be elaborated to include, for example, an overview of how the function operates and how it could be enhanced, as well as information on any significant findings, and measures that have been or will be taken to address them.

Areas for further improvement

A process for regular evaluation of board performance, which is a recommended best practice under Hong Kong's CG code, does not seem to be implemented widely among companies. Where companies indicated that an evaluation was conducted, often, matters such as how the evaluation was carried out and the underlying methodology were not explained in any detail.

The rationale for specific appointments of directors, particularly information on the skills that newly-appointed family members can bring to the board, and explanations for directors' resignations; and illustrating the process and criteria for the selection and appointment of directors, including both executive directors (EDs) and independent non-executive directors (INEDs).

Although in public sector organizations board members may be appointed by the government, this does not mean that there is no need for further disclosures. The public would naturally want to know about the selection process and whether new members have suitable qualifications, skills and experience to take up the office effectively. There should also be a distinction drawn between non-executive directors (NEDs) and INEDs and a clear definition of what independence means in the public sector.

Disclosing more detailed information about the individual remuneration packages, including the breakdown of total remuneration of senior management. We would reiterate that this useful and relevant information for shareholders, particularly for boards where there are many NEDs and few EDs. It would help to increase transparency and accountability.

With regards to board diversity, while many companies indicate the composition of their boards quite clearly, few set specific targets or disclose progress towards those targets.

Information on succession planning is not widely disclosed. However, it is an important issue for investors, particularly in family businesses, and it is reasonable to expect some discussion of this at appropriate times. Planning for a smooth and progressive transition of the leadership helps to instil confidence, ensure stability, and allay possible concerns about disruption.

The tenure of directors, particularly INEDs, should not be indefinitely long. It was observed that at present, not many companies provide information to explain why directors holding office for over nine years are still considered to be independent.

There has been a significant improvement, overall, in sustainability reporting alongside the upgrading of the Environmental, Social and Governance Reporting Guide under the Listing Rules. More companies are setting key performance indicators and benchmarking their performance against recognized international standards, which is a welcome development. However, they also need to set targets (e.g. on carbon emissions) and report on their progress towards achieving those targets.

Good CG and sustainability are important for all organizations. The findings introduced above can help organizations to improve their own policies and practices, and better serve their shareholders, investors and other stakeholders.

by Jennifer Cheung

The Chairman of the Professional Accountants in Business Committee on how the framework can help CPAs in business and employers adapt to the evolving role of finance functions

How to make use of the Institute's Professional Development Framework for PAIBs

As a professional accountant in business (PAIB) for over 20 years, I've experienced the profession's changing roles and responsibilities. While in the past, accounting professionals were responsible for reporting and taxation matters – their roles have expanded. We are now leaders and drivers of success, working across departments and strategically leading our organizations.

This is why the Institute's PAIB Committee began work on the new *Professional Development Framework for PAIBs*. All accountants need to ensure they both have and maintain the skills and professional competences to anticipate and adapt to changes in order to succeed.

This framework was developed with reference to material from the International Federation of Accountants (IFAC), to be a useful guide for the PAIB community. It is intended to help them shape their careers, realize their objectives and take control of their learning to achieve their goals. The framework provides a functional and accessible guide to the competencies – such as prerequisite knowledge, skills, attitude, practices and standards of behaviour – necessary for PAIBs to perform both current and desired roles.

One of the Institute's core duties is to provide members with continuing professional development (CPD) programmes and other support they need, and this framework is one way that the Institute's PAIB Committee assists PAIBs. It offers easy access to the Institute's available wealth of resources, including its online and face-to-face learning programmes, and advice for PAIBs on how to best take control of their learning.

The changing role of the finance function

The role of the finance function in organizations is changing. The vision of IFAC for the finance function is to move from accounting for the balance sheet to accounting for the business. To effectively support business in its value creation and preservation, the finance function and the chief financial officer need to navigate a path to accounting for the whole business. This requires an external and forward-looking focus on the business, industry and market environment and the needs of end customers, as well as the needs of stakeholders.

The framework aims to provide a structured guide to boost the effectiveness of the finance function. The framework includes competencies across four knowledge areas, which are vital for PAIBs in any role – technical skills, business skills, leadership and people skills, and ethics integrity and professionalism. For each area, there are different sub-competencies relevant to different seniority levels, as PAIBs of different seniorities are required to demonstrate different competencies.

For PAIBs

For PAIBs, the framework intends to address the many challenges they face. The framework can be used as part of a cyclical CPD framework of self-assessment, learning and development activities, reflection, and revision. Through self-assessment of a PAIB's role, their career goals, and their learning and development activities, the framework can help to direct PAIBs' training to competencies that will assist them in the future.

As PAIBs, we often need to undertake different tasks at work. For example, one day may be spent preparing financial statements, reviewing budgets, or developing risk management policies. The framework can be used by PAIBs to help direct them to the training they need to excel in all the areas they need to cover.

For example, if a middle management-level PAIB decides they need to improve their risk management and internal control competencies, the framework includes three sub-competencies for them to explore: identifying and managing risk, designing internal controls, and monitoring performance and accountability. The PAIB can then use the links included in the framework to find the relevant face-to-face and e-learning CPD activities to learn these competencies. The cyclical CPD framework can help PAIBs ensure that they remain on the right development track, and revise their development plans as appropriate when their responsibilities are expected to change, or do change.

For employers

As an employer, I know that an effectively skilled and staffed finance function can be transformative to an organization, and integral to its long-term success. Ensuring employees have the right skill sets, and training opportunities, is vital to getting the best from them – and that the finance function is future-ready.

The framework can be used by employers to help identify the skill set requirements for both existing and new staff, helping with the transformation of the finance function. Employers can then use their findings to determine suitable training and hiring policies. Through aligning the training objectives of individual staff and the organization's internally-offered professional training programmes, the framework can be used to efficiently allocate resources.

Employers can also use the included 16 statement evaluation framework developed by IFAC to evaluate the performance of the finance function, and identify any deficient areas to be improved.

Conclusion

PAIBs are a diverse group, working in all sectors of the economy, from private companies to the government and not-for-profit sectors, in a wide range of roles and seniorities. Increasingly, PAIBs are relied upon to undertake strategic leadership roles, and collaborate across an organization. The *Professional Development Framework for PAIBs* can help PAIBs and their employers to direct their learning, and find CPD courses relevant to their needs. It comes at a time when PAIBs should be more focused than ever on demonstrating a wide range of competencies, which are growing all the time. The framework can be found on the Institute's website.

From CPA to CPA Plus

The CPA to CPA Plus programme will equip CPAs with practical business acumen and future-proof them to become trusted and key players in any organization. It is available both face-to-face and online.

The Hong Kong Institute of Business Engineers (HKIBE) is a Hong Kong-based professional organization established in 2005. HKIBE dedicates itself to establishing a profession designation in management and providing relevant training for nurturing learners with the competency and mindset needed to help when facing business challenges. In embodying its missions, HKIBE has developed a body of knowledge called the "BE MindFrame," which can help learners build up managerial competence. So far, more than 10,000 people have studied this framework, including corporate executives, entrepreneurs, accountants, and so on.

Course speakers

Professor Baldwin Hui is Chairman of the HKIBE.

Dr. Gary Ching is Vice Chairman of the HKIBE.

Andy Ng, is Secretary-general of HKIBE.

As CPAs, the basis of many of our jobs currently involves dealing with the financial outcomes of the past. However, decision-making in business is forward-looking and affects the financial outcomes of future. We play our role by providing the necessary financial data to support managerial decisions. Marketing managers and production managers then utilize our data to support their strategic decisions. But what if we could extend our participation, such that we are the ones to bridge the financial data to marketing and production data, and to play a heavier role in corporate strategic planning?

Over the past decade or two, an emergent trend worldwide has been for the accounting profession to extend and reinforce its service domain in response to the growing demands from governments, enterprises and societies. The professional extension initiatives have been proposed by prominent accounting and financial associations, such as the International Integrated Reporting Framework from the International Integrated Reporting Council, the Global Management Accounting Principles (GMAP) from CIMA, the COSO Framework and the like. Furthermore, rapid developments in technology, including artificial intelligence and workflow automation, will replace a large amount of routine tasks in the near future. Facing such macro environmental trends, if we choose to pursue our career in the industry, we have to shift ourselves from a financial role to a strategic role; and from a recording role to an analytic role.

In order to develop our strategic business planning services, managerial knowledge must be reinforced. There are a number of developing paths available in the market. However, most of the executive programmes available out there fail to deliver management knowledge from the perspective of accountants and fail to bridge the gap between finance and management. Some, such as the GMAP and COSO do provide relevant managerial principles and frameworks as guidelines, but they are abstract and lack the concrete steps and procedures, structural tools and effective learning syllabus for business mindset building.

To excel in strategic and analytic management roles, CPAs must be capable of dealing with tasks with a business mindset which are future-orientated and of holistic consideration.

The programme

The programme "From CPA to CPA Plus" is tailored for practitioners in finance and accounting. Developed on the foundation of business engineering, the programme helps one to build up a strategic business mindset starting from the financial statements, and develop the capability for capturing the insightful essence of business cases and practically applying a visualized framework to tackle business issues at a strategic level.

The programme teaches one to analyse and judge rationales behind the financial figures of the past, and develop the rational support for the budgets of coming years, as well as being able to make rational judgements and objective business decisions by incorporating key market factors. The programme will also help one to build confidence in taking up corporate strategic planning and decision-making roles. It is commonly believed that strategic business management ability is mostly earned through experience, but this programme will help as an effective catalyst and supplement to obtaining the ability.

Primarily, students will be taught with a holistic and integrative business-view framework, the 44 elements and interrelations in its structure, relevant business logic, principles and concepts, which are collectively called "GAMP" – Generally Accepted Management Principles. The programme is delivered in a practical approach through using examples to help better comprehend the course contents. Tools and takeaways are also provided, helping students to apply the concepts.

The programme is offered in both face-to-face and e-learning modes. Through either mode, participants will be able to establish the "BASE" – the Business Engineering Mindset and Framework (BE MindFrame), to extend their view from an accounting perspective to a management perspective, and to give professional management opinions and advice. The face-to-face version is a two-day training programme, while the e-learning version features eight separate modules.

THE TAX MAN

KK So, Partner, Tax Services, and Asia Pacific Real Estate Tax Leader at PwC Hong Kong, tells Nicky Burridge about his international career, changes driving the industry and why he sees a future of more corporate tax specialists

Photography by Leslie Montgomery

For KK So, one of the most memorable moments of his career is turning up to sit his Chartered Accountant of Australia exam in Melbourne with a milk crate full of books.

While many accountants describe obtaining their professional qualification as the hardest thing they have ever done, So, Partner, Tax Services, and Asia Pacific Real Estate Tax Leader at PwC Hong Kong, actually did it twice.

He took the Hong Kong Institute of CPAs' Joint Examination after graduating, and admits he found it really tough. When, a couple of years later, he transferred to Australia, he decided he needed to be qualified there too and signed up for the Accounting Professional Year Programme. "When I first enrolled one of my seniors said, 'Oh KK, are you serious about this? It is very difficult,'" So remembers. But he pointed out that he had already managed to survive Hong Kong's very tough exam.

KK So (centre) with the interviewees of the special report on corporate tax (see page 8), (from left) Sharon To and Eugene Yeung, and (from right) Doris Chik, Cynthia Lam and Benjamin Chan.

"Back in those days in Hong Kong you needed to take four subjects on four consecutive days, and you needed to pass all four subjects in one go. Unlike Hong Kong, Australia was an open book exam. It had its own difficulty, but you didn't need to memorize all the stuff," he says.

In any case, So decided that as he had to study tax law in Australia for his work anyway, he might as well just enrol himself in the programme. Looking back, he says taking the exam was worth the effort. "The long and the short was that I survived. It helped me to establish myself in Australia, as I really needed to understand the local rules and local way of doing things. As a newcomer to Australia it was also a good occasion for me to make friends. It helped me become part of the local system," he says.

An intellectual challenge

So joined Price Waterhouse, which later became PwC, immediately after graduating from the Chinese University of Hong Kong with a degree in business administration majoring in accounting. He had the choice of becoming an auditor or going into tax, and he chose the latter. "Tax was more appealing to me. I had studied it when I was at university and had found the subject very interesting. It is part accounting and part legal, and I found it very intellectually challenging."

"Whenever I pass by those areas and see the developments, it reminds me of my involvement. In a sense, I have witnessed the economic development of Hong Kong over the years."

So adds that it was an unusual choice for a fresh graduate at the time, and there were not many positions available for tax practitioners at the start of their career. A lot of people also tried to persuade him to go into auditing instead, but he was guided by his interest in tax. "I am one of the very first generation to jump right into tax after graduation, with the possible exception of people who joined the government. Back then, it was very rare," So says.

He has never regretted his choice. "I have had a very colourful and exciting career. When I look back over the last 30 odd years, there is no lack of memorable events. I have a lot of fond memories," he says.

In 1989, four years after graduating, So was offered the opportunity to transfer to PwC's office in Melbourne. "I was born in Hong Kong and educated here and I'm from a very local family, so I never dreamed I would have the opportunity to go overseas."

While So says he treasured the experience, he concedes that to describe it as being "a little bumpy" in the beginning would be an understatement due to the fact he had to learn about the local tax system from scratch. "The experience helped me a lot in terms of my career development as it exposed me to a totally different tax regime that was much more complex than the Hong Kong regime. I dealt with a lot of issues that I wouldn't have come across if I had stayed in Hong Kong," he says.

He also enjoyed the culture and working with different industries and clients. He had no firm plans to return to Hong Kong, but during a visit to the city after attending an international tax conference in Macau, he met his former bosses and they asked him if he would consider transferring back. "I struggled to decide, but the way I saw it, there were a lot of opportunities in this part of the world," he says. So returned to work at PwC in Hong Kong and in 1996, he made partner.

Tangible assets

A couple of years after being made a partner, So took the decision to specialize in real estate tax, initially taking the lead for the real estate practice in Hong Kong, and later looking after Asia Pacific. Specializing in this area appealed to him because of the capital-intensive nature of the business, and the fact that real estate is a tangible asset. "I can still remember the first significant real estate transaction I participated in. It was a development in the Admiralty area, and the building is still standing, pretty much the same as it was around 30 years ago. It is a very nice building," he says.

He has also participated in a number of major development projects, including some of those forming part of the Hong Kong Port and Airport Development Strategy, which involved the construction of the Airport Express Service, among other things. "Whenever I pass by those areas and see the developments, it reminds me of my involvement. In a sense, I have witnessed the economic development of Hong Kong over the years. That is the interesting thing about real estate. It is so real, you can see it, touch it and use it. It is exciting."

So points out that there are also many different types of tax that apply to real estate, including stamp duty, while different jurisdictions also offer tax enhanced structures for the sector, such as real estate investment trusts. "It is more complicated because of the different types of tax that might apply. It makes it very challenging and increases

KK So specializes in real estate and asset management. He expects tax practitioners to become more specialized in future.

the scope for taxation services," he says.

A large part of So's day-to-day work involves assisting real estate fund managers launch new funds. "They could be pan-Asia funds covering a few Asian territories, such as Japan, Korea, Singapore, Australia and China. They typically approach international investors and we need to consider the tax implications for these investors as well, looking at how to structure the investment in different locations," he says.

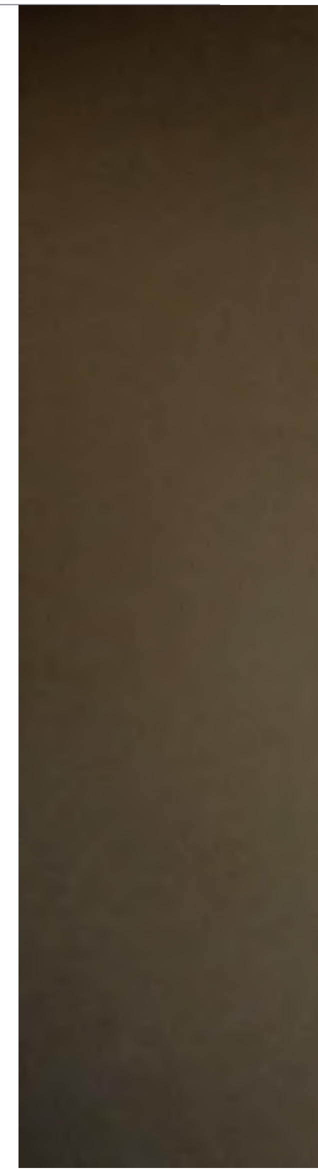
One of the issues currently keeping So occupied is Hong Kong's proposed vacancy tax, under which developers will have to pay a tax equivalent to two years' rental income on newly completed flats that remain empty for more than six months. "We are working with lawyers to explain the bill to our clients and help them understand the implications," he says. He adds that they are also providing feedback to the government on the new tax.

Increasing complexity

In the time he has been working in corporate tax, So has seen the field has become increasingly complex. As a result, accountants working in the area are having to become more specialized, with some practitioners focusing on areas such as transfer pricing, research and development, mergers and acquisitions, etc.

He adds that people are also specializing in specific industries, such as himself in real estate and asset management, while he has colleagues who cover start-ups, consumer products, etc. "It is our response to the requirements of businesses in the market because their business models are getting so complicated these days, and clients expect us to understand them," he says.

He expects tax practitioners to become more and more specialized, although he thinks generalists will continue to exist,



likening the situation to medicine. “In medicine, there are still general practitioners but at the same time there are a lot of specialists taking care of your heart, liver, or doing surgery.

“Likewise, in taxation we have witnessed this sort of specializing happening as business is getting more complicated and tax laws keep changing. I think the momentum will carry on, but there are still businesses out there that create demand for general practitioners as well. There are different segments that allow both generalists and specialists to prosper,” he says.

Technology has also had a big impact on the field. So jokes that when he first joined the profession, he spent a lot of time doing footing and casting. “We still used pen and paper and when we had written something, we would pass our script to the typing pool,” he remembers.

He adds that when he was doing international tax and had to communicate with people in the Netherlands or Luxembourg, he would do so by telex, as it was before fax machines were widely used. “These days we are talking about the extent to which artificial intelligence can do the day-to-day enquiries and more routine work. We have cloud computing and email. In a split second you can get a response from anywhere,” he says.

Another change So has seen is the increasing ethical dimension tax practitioners have to factor into their work, as a result of developments in international tax law and a growing focus on corporate social responsibility. “In the old days, taxation was not a topic you would expect in the boardroom, but these days it will come up again and again because companies are concerned about their reputation.”

“In the old days, taxation was not a topic you would expect in the boardroom, but these days it will come up again and again because companies are concerned about their reputation.”

He points out that – as several multinational companies have experienced – even when complying with the law, companies can still suffer reputational damage if the public thinks they are not paying a fair amount of tax. “Back in the old days, there was a period when a lot of people were selling tax products, these days it is entirely out of fashion and companies are mindful of tax planning ideas which may be perceived to be too aggressive,” he says. “It is difficult, particularly coupled with the fact that in recent years there has been a global effort to combat tax avoidance activities and we have seen new rules and laws being introduced almost everywhere.”

A bridge between stakeholders

The growing complexity of international tax law has also affected him in his other role as Chairman of the Institute’s Taxation Faculty Executive Committee. The Taxation Faculty not only aims to support Institute members working in the field, but also to act as a bridge with other stakeholders, including businesses, the Inland Revenue Department and other government departments, including the Financial Secretary’s Office and the Financial Services and the Treasury Bureau.

So has had a busy few years in his post as Hong Kong has responded to international tax developments, including the Organization for Economic Cooperation and Development’s (OECD) Base Erosion and Profit Shifting (BEPS) initiative. The Taxation Faculty reviews all amendment tax bills, collects comments from the business community and the industry, and provides feedback to the government. “We spend a lot of time following all of these developments, which may pop up every month or every week. It is very challenging, and I think it explains why we are stepping towards even more specialization. Tax law is getting so complicated,” he says.

One of the biggest issues the Taxation Faculty has handled during So’s tenure has been the transfer pricing law the government introduced as a response to the OECD’s BEPS initiative. “It was a big piece of legislation. It was almost thicker than the existing tax law, just for the bill itself. You can imagine what an enormous exercise it was.”

The proposed bill was controversial to many because it went beyond the level both required and expected. “We gathered the views from the profession. A lot of people made a contribution, and we channelled those views to the government. We went all the way to the Legislative Council to engage in conversation, alongside making a written submission. “As a result, the law has changed a lot since the inception of the discussion of the bill. That is the sort of result the profession has achieved for the industry. It is really an attempt to optimize the tax system.”

He adds that even after a law has been introduced, the Taxation Faculty continues to be involved, organizing seminars in which tax

So graduated from the Chinese University of Hong Kong with an MBA and a degree in business administration majoring in accounting.

practitioners share their insights, and helping to educate the tax community and other stakeholders on the impact of the new law.

Child-like curiosity

For anyone who wants to go into corporate tax, So thinks a strong interest in the area is key. "When you are interested in something it isn't a burden for you to spend time pursuing knowledge in that area."

He also thinks they need to have the curiosity of a child. "Whenever there is something new you need to be so curious about it and want to know more. That is very important as tax law keeps changing and business keeps changing, so if you don't have this sort of drive to discover new things and learn new skills, you will soon be outdated."

So adds that people will also need a good mind for detail and a strong business sense. "Taxation is a very interesting discipline in that just knowing the accounting rules or legal rules is not enough. It is a combination of those and business knowledge."

He points out that it is also important to have the empathy to understand what the other side is experiencing and what their pain point is, so that you can help them address their problem. "Our technical knowledge and analytical ability are the tools, but it is in the course of interacting with people that you create the value for your client," he says.

When So is not working, he has a number of hobbies that keep him busy. "I enjoy sport. I am a distance runner. I run 10Ks and half-marathons, and I am hoping to do a marathon in due course. I also play golf," he says.

In addition, he is a keen musician and loves to both play and listen to music. "I play classical guitar, and I am picking up a little bit of piano. I used to play the Chinese flute but no longer. I don't play well but more importantly, I enjoy it." So adds: "I also love wine and good food and the company of a bunch of good friends. That is what wine and good food are for."

KK So is Chairman of the Institute's Taxation Faculty Executive Committee. The Taxation Faculty organizes different tax activities and programmes, raising the profile of the taxation profession in Hong Kong.

Revised Code of Ethics: Key areas of focus for auditors

An overview of the Institute's revised Code of Ethics

In November 2018, the Institute issued the revamped and restructured Code of Ethics for Professional Accountants (2018 code). This is the local adoption of the International Code of Ethics for Professional Accountants (including International Independence Standards) produced by the International Ethics Standards Board for Accountants and published by the International Federation of Accountants (IFAC) in April 2018. The 2018 code is effective from 15 June 2019.

Fundamental principles and conceptual framework

The 2018 code retains the fundamental principles of professional ethics – integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, as well as the categories of threats to them – self-review, self-interest, advocacy, familiarity and intimidation threats.

The overarching requirements for CPAs to apply the conceptual framework to comply with the fundamental principles and where applicable, be independent, are unchanged, but the 2018 code has enhanced the conceptual framework with extensive revisions to "safeguards" which are better aligned to "threats." For auditors, there are five key changes to the code to note.

New separate independence section

The 2018 code consistently reminds CPAs to be independent when performing audits, reviews, or other assurance services. The independence rules always have been part of the code, but they have now been moved to a new section, "Independence Standards," further divided into two subsections: independence when performing financial statement audits and reviews (Part 4A); and independence when performing all other assurance services (Part 4B). There are also new and improved provisions helping CPAs apply the conceptual framework when dealing with threats to independence in various contexts.

The 2018 code also establishes a new description of recruiting services and clarifies the types of recruiting services that CPA firms and network firms are prohibited from providing to their audit clients. One of those prohibitions relates to searching for, or seeking out, candidates and undertaking reference checks of prospective candidates for directors or officers of the entity, and senior management in a position to exert significant influence over the affairs of clients which is now extended to all entities.

Strengthened independence requirements

The Institute has previously adopted IFAC's enhanced code on independence provisions relating to long association of audit personnel. This contains a number of substantive improvements, including a strengthened partner rotation regime for audits of public interest entities. The 2018 code has improved these long association provisions with clearer requirements and safeguards and fortified provisions. However, these revisions do not change the substance of the long association provisions.

The new cooling-off period is five years for engagement partners, three years for engagement quality control reviewers, and two years for all other key audit partners.

Strengthened provisions relating to offering and accepting of inducements

The enhanced inducement provisions also clarify the meaning of inducements, and introduce a more robust and comprehensive framework, which clearly delineates the boundaries of acceptable inducements and guides the behaviours of CPAs in all situations involving inducements.

The 2018 code introduces a new intent test that prohibits the offering or accepting of inducements where there is actual or perceived intent to improperly influence the behaviour of the recipient or of another individual.

New materials to emphasize the importance of understanding facts and circumstances when exercising professional judgement

The 2018 code highlights the importance of professional judgement in identifying, evaluating and addressing threats in order to make informed decisions, and to obtain an understanding of specific facts and circumstances, including the nature and scope of the professional activity or service; and the interest and relationship involved. New materials have been added to the 2018 code to help CPAs better understand what to consider in exercising professional judgement. For example, the 2018 code explains that among other matters, exercising professional judgement involves a consideration of whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the CPA;
- There is an inconsistency between the known facts and circumstances and the CPA's expectations;
- The CPA's expertise and experience are sufficient to reach a conclusion;
- There is a need to consult with others with relevant expertise or experience;
- The information provides a reasonable basis on which to reach a conclusion;
- The CPA's own preconception or bias might be affecting the CPA's exercise of professional judgement; and
- There might be other reasonable conclusions that could be reached from the available information.

The new materials relating to professional judgement are intended to make more explicit the procedures already included in the old code. It is expected that CPAs will be able to exercise professional judgement in a more consistent manner.

New materials to explain how compliance with the fundamental principles supports the exercise of professional scepticism

The 2018 code provides new materials on exercising professional scepticism, which applies only in the context of performing audits of financial statements and illustrates how a CPA's compliance with the fundamental principles supports the exercise of professional scepticism.

The views expressed in this article represent the personal views of the author only, and are high-level summary of the requirements for reference and discussion purposes only. They are not meant or intended to be taken as professional or legal advice.

*This article is contributed by **Stephen Chan**, Director and Head of Risk, at BDO Limited.*

Taxation of the digital economy: a roadmap to the OECD's work

On 23 January, the Organization for Economic Cooperation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) issued a report on addressing the tax challenges arising from the digitalization of the economy, which examined and developed two proposals, commonly referred to as the "Pillar One" and "Pillar Two". This was followed by a public consultation document in February and a Programme of Work in May. Together, these two documents constitute what is colloquially referred to as the "BEPS 2.0 proposal", the BEPS 1.0 proposal being considered Action 1 of the OECD Action Plan on BEPS.

Pillar One

Pillar One encompasses a number of revised nexus and profit allocation rules. These aim to address situations where highly digitalized businesses – such as social media platforms and online marketplaces – create value through the participation of users in states where these businesses maintain no or limited physical presence. The rules are as follows:

i. The "user participation" rule, allocating an amount of profit of a highly digitalized business to the state or states where the actively engaged users of that business are located;
ii. The "marketing intangibles" rule, allocating a portion of profits of highly digitalized businesses to the state or states where the marketing intangibles, as defined in the OECD's transfer pricing guidelines, of those businesses alongside their associated risks can be attributed to; and
iii. The "significant economic presence" rule, allocating profits of a highly digitalized business to the state or states where this business is economically present (i.e. as measured by revenues) via digital technology or other automated means.

Pillar Two

Pillar Two analyses the Global Anti-Base Erosion (GloBE) proposal, which aims to address the residual issues concerning BEPS arising from the digitalization of the economy. Nonetheless, it should be noted that the scope of application of the GloBE proposal is wider and will likely reach beyond highly digitalized businesses when implemented, by establishing a global minimum tax rate through the following mechanisms:

i. An income inclusion rule, including the income of a foreign branch or subsidiary entity in the tax base of the parent entity, provided that that income had been taxed below a minimum rate;
ii. An undertaxed payment rule, denying a deduction (or imposing source-based taxation, such as a withholding tax) on a payment to an associated party, provided that that payment had been taxed below a minimum rate;
iii. A subject-to-tax rule inserted into double tax treaties to deny treaty benefits, in cases where a payment to an associated party had been taxed below a minimum rate; and
iv. A switch-over rule inserted into double tax treaties to allow residence states to switch from an exemption to a credit method of double tax relief, in cases where profits of permanent establishments or immovable property had been taxed below a minimum rate.

On 9 October and 8 November, the OECD released two new public consultation documents on the proposals in an effort to engage stakeholders. After the Pillar One consultation closed, the public's comments were made available on 15 November. For Pillar Two, public comments will be published after the consultation closes on 2 December.

The OECD "Unified Approach"

The Pillar One public consultation proposed a "Unified Approach", which aims to align the gaps and commonalities of the rules outlined above. The scope of the new approach would affect all large consumer-facing businesses. Furthermore, it would establish a new nexus rule on the basis of a consumer-based involvement of those businesses in a state. Physical presence would not be necessary to establish a nexus. Finally, it includes a revised profit allocation mechanism that goes beyond traditional transfer pricing principles and aims to increase tax certainty through formula-based solutions. This mechanism consists of three tiers:

i. "Amount A", which would establish a new taxing right for states where a portion of the profits of consumer-facing businesses would be allocated on the basis of pre-agreed sales-oriented formulas;
ii. "Amount B", which would explore fixed returns for routine distribution activities as per the existing transfer pricing rules; and
iii. "Amount C", which would develop legally-binding dispute prevention and resolution mechanisms.

The new approach seeks to explore ways of re-designing the Pillar One proposal, by addressing both technical and administrative issues arising from the complexity of the three rules. In that respect, the actual concept of consumer-facing businesses alongside the use of carve-outs would need to be defined. Moreover, attention should be paid to the interplay among the three "Amounts", as well as the extent to which the traditional arm's length principle should be abandoned under "Amount A".

Public consultation on GloBE

The public consultation document on Pillar Two calls for public input on three technical design sets of questions:

i. The use of financial accounts for determining the taxable base of associated entities and addressing timing differences;
ii. The extent of blending (i.e. high and low taxed income from different sources) in determining the (minimum) tax rate; and
iii. The exploration of carve-outs.

The way forward

In light of the above, consensus from the members of the Inclusive Framework on BEPS is sought on how matters should be addressed. Besides that the framework should also consider advancing a consensus-based approach with respect to questions on how those coordinated measures would work alongside unilateral domestic measures already adopted, and questions on how Pillar One would interact with Pillar Two.

The OECD is holding public consultation meetings on the Pillar One and Pillar Two proposals. The OECD aspires for a consensus solution on both pillars to be developed in 2020, with an outline approach on Pillar One expected by January.

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Cross-cultural CSR complicates cross-border transactions for MNEs

A look at how cross-border corporate social responsibility will affect transfer pricing policies in multiple locations

Debates surrounding the legal, social, political, economic and ethical responsibility of corporations can be dated back to the 18th century when Adam Smith wrote the *Theory of Moral Sentiments* and *Lectures on Jurisprudence*. The ethical influence of globalization continues to complicate the economics of the firms when moral responsibilities towards citizens, societies and the environment are required. The rise in the importance of corporate social responsibility (CSR) is increasingly setting the expectation that today's businesses have the fundamental societal obligations to go beyond the legal or business case and distinctly take on "actions that appear to further some social good, and beyond the interests of the firm and that which is required by law," as described by Abagail McWilliams and Donald Siegel in *Corporate Social Responsibility: A Theory of the Firm Perspective*.

For multinational enterprises (MNEs), meeting global "societal obligations" is an arduous task because globalization has complicated corporate behaviour as firms operate beyond national borders. Conducting cross-border operations becomes exceedingly challenging when it is required to factor in different social norms and ethical standards across multiple jurisdictions.

From a global taxation standpoint, the Organization for Economic Cooperation and Development (OECD) continues to strengthen its effort to identify the appropriate taxing rights for cross-border transactions. The Base Erosion and Profit Shifting (BEPS) Action Plan addresses the tax challenges of intercompany transactions of MNEs as the OECD focuses on allocating taxing rights for cross-border activities based on nexus and profit allocation in MNEs according to their global value chains. It seeks to identify a mechanism to match the local value contribution with the global profit allocation.

This article aims to analyse the complexities caused by cross-cultural CSR in multiple locations and the impact on each MNE's transfer pricing (TP) policies. As an MNE engages in social responsibilities, local social intangibles are developed when its subsidiaries invest in highly country-specific culture, norms and customs. Such local social intangibles affect the MNE globally through its cross-border operations. In ascertaining its TP policy, an MNE needs to align its CSR value and intangibles generated locally with its global value chain. When the local social intangible moves across the border via cross-border transactions, a proper TP method must be carefully selected to analyse the intercompany transactions. This is because the nexus and profit allocation within the MNE must be in line with the value-generating activities in each country.

CSR – the creation of social institutional value

Historically, many perceive that firms take social responsibilities as nothing more than a rational reaction to external market pressures, such as changes in the global market, competition or the introduction of new technology. For example, if customers do not want to purchase products produced by pollution-generating plants, an MNE either adapts to such demand or choose not to operate in that market altogether. Or, if social norms demand that specific codes of conduct be applied, such as child labour law or new ISO standards, firms would passively adopt these exogenous standards.

However, according to the "theory of the firm," most firms take a more proactive stance. The relationship between a corporation's right to operate and the ownership of property rights, corporate governance, and stakeholder accountability are closely linked. Similarly, the fundamental societal obligation of the firm in CSR resides with its investment in the society and claims the ownership to the social value, that is the value of "societal and environmental wellbeing." The social value or intangible is created as the firm takes ownership to improve the quality of life for the local community and to establish an authentic relationship with society.

The "institution theory" also explains a firm's relationship with its stakeholders and the fundamental impact on the development of its business. CSR is considered as an important tool in maintaining this relationship. The process of developing social value when engaging CSR could increase a firm's institutional value through linking the social conscience and institutional strategy of a firm and allowing it to develop and enhance the firm's social intangibles.

CSR can help create social institutional value for a firm. Such social value or intangible manifests the firm's reputable relationship with its stakeholders. As such, CSR directly impacts the firm's structure and corporate behaviour; and institutional value, such as corporate branding and reputation, is created by establishing an authentic relationship between the firm and its stakeholders in society.

CSR in multiple jurisdictions

For MNEs rights and responsibilities in multiple countries can prove complicated to manage. When incorporating social elements to contextualize CSR factors in different location, the global strategy of an MNE's operation becomes more intricate.

With CSR playing an important role in cross-border business, MNEs are expected to incorporate it as part of their global initiatives. Many MNEs therefore tend to standardize CSR practice globally. However, such cookie-cutter practices may not only create social obstacles to developing authentic relationships with local communities, but it is likely to prevent an MNE from generating institutional value. This is because institutional value associated with CSR practices ordinarily remains at the country level. Thus, despite the MNE having a stock of knowledge to handle complex global business issues, it must still rely on its local entities to take initiatives to embrace local social norms and ethical standards.

Therefore, to successfully operate in foreign markets, each MNE must consider its interactions within both cross-cultural and cross-jurisdiction contexts as stakeholders often have different expectations for how businesses operate. For instance, Asian businesses are less likely to have an official corporate policy on working hours and conditions, wage structures, and less commitment to freedom of association and promoting staff development than their European or North American counterparts. This means that different CSR approaches are needed as socio-economic conditions, such as economic freedom, economic prosperity and political environment, differ.

In the cross-jurisdiction model, the complexity of the social norms and cultural standards in each country require local entities to perform local CSR for the MNE. As such, each local subsidiary may generate local social intangible through CSR. As the MNE accumulates these locations-specific intangibles, it needs to manage them from its global value chain standpoint. The following section discusses how cross-cultural CSR impacts the MNE's value creation and intercompany pricing policy.

Cross-cultural CSR and transfer Pricing

Since the OECD/G20 delivered the initial BEPS Action Plan in 2015, the global effort to combat "exploiting gaps and mismatches in tax rules" has strengthened. Much of the BEPS discussion focuses on effectively and accurately identify value creation within MNEs, especially intangible assets that drive their businesses. The *Revised Guidance on the Application of the Transactional Profit Split Method* published in 2018 further provides guidance to MNEs on the redistribution of profit based on value created among related parties. These frameworks stipulate MNEs to re-evaluate their transfer pricing policies and global value chains and to use it to determine the assignment of profits to entities within MNEs.

Value creation in global CSR

In *Corporate Social Responsibility and Financial Performance: Correlation or Misspecification* McWilliams *et al*. suggest that the value of CSR resides in its linkage with intangible assets. Effectively, an MNE aims to obtain an efficient social operating structure and to establish rapport with its socio-political stakeholders through CSR. In the presence of CSR, McWilliams *et al*. show how the "new intangibles" – such as sociopolitical relationships, ecological processes, ethical or moral principles, business values, and brands and reputation – have the ability to provide institutional value and operational effectiveness. As mentioned earlier, these intangibles are highly localized and are key to the local business operation. However, these intangibles are also quite fluid and often spill over to other territories where the MNE operates (e.g. through social media and advertising).

When CSR creates valuable social intangibles in multiple jurisdictions, the MNE must re-evaluate its intangible assets as it analyses its cross-border operation and related party transactions.

Transfer pricing method and global CSR

Since CSR intangibles developed impact the global operation of an MNE, it may need to restructure its cross-border transactions and intercompany pricing models when incorporating CSR into its

TP decision-making process.

By incorporating CSR into its TP model, an MNE must carefully analyse all institutional factors that help to create social intangibles in the local jurisdictions. In order not to distort the local social value generated in its cross-border transactions, proper a TP method must be employed to analyse an all-inclusive effect of the intercompany price setting of the MNE. Specifically, cross-country, cross-cultural and environmental factors cannot simply be bundled into product prices. This is because CSR intangibles are considered as non-routine and location-specific in nature, and these intangibles bear multi-faceted impacts when the allocation of profit within the MNE. Since multiple entities own, develop and exploit these specific intangibles within the MNE, a proper valuation method should be used to examine each of the social intangible from a global value chain perspective.

In the presence of CSR, the MNE needs to reformulate its financial statements to include social costs and benefits while engaging in the sociopolitical spectrum. It must scrutinize the financial impact from its cross-border transactions when it engages in CSR. For example, a limited risk distributor that purely undertakes trading function but without any marketing and advertising capacity should only receive a distribution return for its function. However, when the distributor engages in CSR activities and creates institutional value in its territory, its operating profile has changed and embodies the capability to undertake economic activities and control economic risks to develop, exploit and own social and business value. The inclusion of the social intangible in the related party transaction modifies the whole TP pricing mechanism.

In managing its TP strategy in each domestic jurisdiction, the MNE must first evaluate the value of the social intangibles. Then it needs to examine to what extent each social intangible affects other group affiliates. This is because the costs of CSR would alter the financial performance of the local entity. The value of CSR, however, may carry global influence that affects other affiliates of the group. For instance, entity A of an MNE group generates certain corporate reputation in Country A. This valuable externality spills over into Countries B and C. In the same way, entities in Countries B and C also create location-specific social intangibles that benefit Country A. When these social intangible assets criss-cross and co-share benefits for entities in the MNE, the individual value of each social intangible must be determined from a TP standpoint. Therefore, the cross exploitation of these social intangibles, from a TP perspective, has complicated the TP analysis to assess arm's length pricing policy.

To summarize, we see that many exogenous social factors directly impact cross-border transactions of the MNE. In the presence of CSR activities, social intangibles become an integral part of the MNE's global value chain. As cross-cultural CSR influences the business structure and intangible ownership rights of an MNE, the proper TP method must be adopted to evaluate the cross-border transactions and the global value chain of the MNE.

Conclusion

In conclusion, the proper allocation of profit for the MNE's affiliates must match their value created under the OECD BEPS Action Plan. This means that a proper TP method and policy must be applied to cross-border transactions between related parties. As MNEs become socially responsible in the countries where they operate, the social costs incurred and intangibles created in these countries directly impact their related party transactions. As such, their TP policies must be re-evaluated, and proper methods should be adopted to analyse their global value chain to ensure that local intangible contribution matches the global profit allocation mechanism. To complicate matters, when engaging in multiple jurisdiction CSR, MNEs must factor in all cross-border cultural, social and ethical issues. Hence, MNEs need to carefully manage their intercompany transactions when they engage CSR in multiple jurisdictions and face local TP legislations. In particular, when location-specific CSR intangibles influence the MNEs' overall global value chain, appropriate TP methods must be utilized.

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TECHWATCH 205

The latest standards and technical developments

Local updates

Auditing and Assurance Standards Committee minutes
Minutes of the 377th meeting are now available.

Members' handbook update no. 233
Update no. 233 contains amendments to Statement 1.500 Continuing Professional Development (Revised October 2019) as a result of the International Education Standard 7 *Continuing Professional Development (Revised)* issued in December 2018.

Institute submission
The Institute commented on the International Ethics Standards Board for Accountants (IESBA) exposure draft *Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants.*

Invitation to comment
The Institute is seeking comment on exposure draft *Proposed Amendments to the Small- and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard* by 31 January 2020.

Publication on common control combinations
The Institute has published *Common Control Combinations – How They Were Reported in Hong Kong*. The study documents how business combinations under common control (BCUCC) were reported by Hong Kong-listed companies and whether the accounting method used was influenced by specific characteristics of the combinations. The study also analyses when and how companies applied the predecessor method to a BCUCC and what information was disclosed.

ICAC ethics resources for accounting professionals
Independent Commission Against Corruption (ICAC) ethics resources for accounting professionals are now available.

International updates

Audit and assurance
- International Auditing and Assurance Standards Board (IAASB) publication on professional scepticism.
- IAASB September meeting highlights and podcast.
- International Federation of Accountants (IFAC) article *Audit Quality in a Multidisciplinary Firm.*

Ethics
- IESBA webinar explaining the newly effective code of ethics.
- IESBA September meeting highlights and podcast.
- IFAC article *Case Studies on Compliance with the IESBA Code of Ethics.*

IFRS updates
- October 2019 International Accounting Standards Board update and podcast.
- The IFRS Interpretations Committee has published its first biannual Compilation of Agenda Decisions which brings together agenda decisions from January to September. The committee publishes agenda decisions when, following consultation, it decides further standard-setting is not required to deal with a question raised, for example if existing International Financial Reporting Standards (IFRS) requirements are adequate to answer the question.
- The IFRS foundation held the 2019 IASB Research Forum to discuss some of the latest accounting research that is relevant to the IASB's work. Academics, practitioners, standard-setters and regulators participated in the forum, and topics covered include earnings management under principles-based/ rules-based accounting standards, impact of IFRS 10 on consolidated financial reporting, and capitalization of intangibles assets by firms in Japan that adopt IFRS standards.

Corporate finance

HKEX enhances guidance for overseas companies seeking to list in Hong Kong
On 29 October, Hong Kong Exchanges and Clearing Limited (HKEX) published enhancements to guidance materials for overseas companies seeking to list in Hong Kong, with a view to facilitate the listing application process for these overseas issuers. In particular, the HKEX has:
- Formulated alternative procedures for United States "Domestic Issuers" within the meaning of the U.S. Securities Act with an offering of a security subject to Regulation S.
- Published a standardized template for first movers from jurisdictions new to listing in Hong Kong.
- Simplified Central Clearing and Settlement System (CCASS) related information, provided Frequently Asked Questions and revised CCASS admissions forms on HKEX website.

In particular, in accordance with the Joint Policy Statement regarding the Listing of Overseas Companies issued by the Securities and Futures Commission (SFC) and HKEX, applicants from overseas, incorporated in jurisdictions that have not been accepted for listing in Hong Kong, must prove that their domestic laws, rules and regulations, among others, meet the key shareholder protection standards, at least equivalent to those provided in Hong Kong. Accordingly, HKEX has published a standardized template for these issuers to understand the key shareholder protection standards of Hong Kong and check whether the equivalent standards of their home jurisdictions have reached those applied in Hong Kong.

Please refer to the press release for details.

SFC concludes Consultation on the Enhanced Investor Compensation Regime

The SFC released consultation conclusions on proposed enhancements to the Investor Compensation Regime, on 8 October. The compensation limit will be increased from HK$150,000 to HK$500,000 per investor per default and cover northbound trading under Mainland-Hong Kong Stock Connect.

The changes are expected to be effective in early 2020, subject to the legislative process.

Corporate governance

The Institute's Best Corporate Governance Awards 2019

The Institute's 20th annual Best Corporate Governance Awards are reaching a conclusion. The judges have reviewed the shortlisted entities and have met to decide on the final list of awardees. The results announcement and presentation ceremony will be held on 5 December.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Inland Revenue (Tax Concessions) Bill passed.
- Launch of government bill payment service through Faster Payment System.
- Interest rate increase for tax reserve certificates.
- Country-by-Country reporting updated FAQ.
- Acting Financial Secretary responds to "The Chief Executive's 2019 Policy Address."
- Jail terms for property owners who evaded tax (see TechWatch issue 204).
- List of qualifying debt instruments (as at 30 September 2019).
- Stamp duty statistics (September 2019).
- IRD Annual Report 2018-19.

Legislation and other initiatives

Anti-money lanudering notices

Members should take note of the Financial Action Task Force (FATF)'s public statement regarding the Democratic People's Republic of Korea, and its document entitled "Improving Global AML/CFT Compliance: On-going Process," relating to 12 jurisdictions with strategic anti-money laundering and counter-financing of terrorism (AML/CFT) deficiencies.

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 UN 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 find the FATF's *Guidance for a Risk-Based Approach for the Accounting Profession* to be helpful.

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.

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), which indicates the money laundering and terrorist financing risks and vulnerabilities in the Hong Kong market.

Please refer to the full version of TechWatch 205, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

GOING THE EXTRA MILE

The Institute's inaugural AC Fun Run took place this month and brought together CPAs and their children for a unique opportunity to sweat it out across various distances. Jeremy Chan meets four Institute members who got involved

Photography by Anthony Tung

Vivian Zhi wasn't aware her four-year-old son could run a 2-kilometre race non-stop until recently. Under the team name "The Octonauts," she signed up herself and her son, Joshua, for the AC Fun Run to run with other CPAs and their children. "It was my first time continuously running this far with my son – he was very excited and ahead of me for most of the race because he kept telling me to hurry up," says Zhi, Risk Manager at Bocom International, a subsidiary of Bank of Communications.

The AC Fun Run is a running event jointly organized for the first time this year by the Hong Kong Institute of CPAs, the Society of Chinese Accountants and Auditors, and the Association of Chartered Certified Accountants. It took place on 3 November, and saw over 200 Institute members take part in 5-km and 10-km races, and a special 2-km race for CPAs and their children around Tseung Kwan O.

Zhi recalls the race day, albeit warm for early November, being enjoyable for all participants. "The atmosphere was very cheerful and the kids at the starting line were all very excited to take part," she says. "As soon as the race started, many of them naturally ran as fast as they could."

The 2-km race, which started just before noon, took Zhi and her son up a slope towards a bridge at the halfway point, a challenge for both of them. "I remember feeling a bit lightheaded in the sun, and my son slowed down a bit too, but there were plenty of encouraging supporters cheering us on and also photographers, which my son really enjoyed posing for," Zhi says.

Her son's enthusiasm for running came after Zhi brought him to the PokOi x Old Master Q Hong Kong Charity Run in April, where the family ran a 1-km route complete with mascots from the popular Hong Kong comic Old Master Q. "Since that event, my son thinks all runs are this fun," Zhi jokes.

Zhi herself started running in 2017. She also maintains her fitness by swimming and hiking, and says she feels the need for exercise to play a key role in her child's life. "I believe long-distance running can benefit children – not just physically, but also mentally. In a way, it trains them to set goals, be persistent, and meet those goals."

She looks forward to running a full marathon one day, but above all, running with and for her son as he grows up. "As a mother, I want to have a stronger and healthier body to not only take care of but to keep up with him."

Vivian Zhi running the 2-km family run with her son, Joshua, at the Tseung Kwan O Waterfront Promenade.

Frank Ki (centre) completed the 10-km AC Fun Run race in 44 minutes and 43 seconds.

Speed thrills

Since Frank Ki started running, his focus has been on speed. Ki, Senior Manager, Corporate Operation and Company Secretary of RunOurCity, completed the AC Fun Run's 10-km run in 44 minutes and 43 seconds – just shy of his all-time record. "I came quite close to beating my personal best of 44 minutes and 11 seconds," says Ki, who came in first place for his age group.

But his results were no fluke. Ki has been training for almost two years at a sports ground in Shatin with the help of a running coach. "The key is to challenge your limits by running as fast and far as you can each time," he says. "This helps to build endurance over time and allow you to run faster over longer distances."

Using this method, Ki recalls how he gave it his all during the first half of the race. "My focus that day was to sprint during the first four kilometres," he says, adding how his running coach also advised him to do this. "Though I began feeling a bit tired after this and noticed a drop in my performance, I jogged as quick as I could the rest of the race." Ki's efforts paid off, and he also won a trophy for his record time.

He enjoyed being part of an event that was both professional and physical. "I love running, and I also thought it was interesting to take part in a running event jointly organized by accounting bodies," he says. "It was also a great way to meet and bond with runners who are CPAs, just like myself."

"I started running twice a week, and it automatically became a habit – it became something I needed to do."

Ki began running during his first year of university after being asked by his friends to join a 400-metre relay race during a sports day. He signed up, and was determined to bring his team to victory. But the absence of any exercise during the last year of secondary school meant he wasn't able to keep up. "Even though I was a skinny guy, I wasn't very fit and couldn't run that far," Ki recalls. "I felt embarrassed to let my team down."

However, the loss motivated Ki, and he began running in his free time. "I started running twice a week, and it automatically became a habit – it became something I needed to do." He completed the 10-km race at the Standard Chartered Hong Kong Marathon the following year and maintained the habit, even while working as an auditor at BDO. With a busy travelling schedule and time to only run once a week, Ki would use every free opportunity to run, even if it meant running at the hotel gym in between meetings or in the street.

Ki's current schedule allows him to run more frequently, so he continues to train hard. He has already set himself a new challenging target. "I want to complete a 10-km run in under 40 minutes," he says.

Saving pace

Frenda So never thought he'd ever become a runner. But a decade ago, after noticing runners who were much older than him jogging along a waterfront, he decided to buy a pair of trainers and start running. "I guess I got tired of feeling like an old man," So jokes. He began running for two hours each weekday morning, and in two short months, he built up enough endurance to run 10 km. A year later, he completed his first full marathon and since then, takes part in marathons each year.

So, a semi-retired accounting tutor, signed up as a pacer for the AC Fun Run. A pacer takes part in running events and runs at the front to help competitors maintain a certain speed throughout the race and also meet their target times. Leading a group of five, So was determined to help them complete the 10-km in under 50 minutes. To achieve that, the participants had to cover at least a kilometre every five minutes. According to So, achieving this feat requires running at a constant speed. "Pacers are sort of the 'captains' of their group," he says. "If you're running slow, people will naturally slow down,

"The most satisfying thing about being a pacer is helping another runner meet or even go beyond their targets."

Frenda So volunteered as a pacer for the AC Fun Run. His group completed the 10-km run in 48 minutes and two seconds.

and if you're running fast, they will speed up."

So kept a close watch of the group, making sure none of them felt too much physical exhaustion. If so, he advised them to run in a slower group to prevent injury. But for those who can keep up, So runs at a steady pace throughout the race and provides updates on direction, terrain and also sends words of encouragement. He does so in a unique way. "Every kilometre, I turn around and ask if everyone is feeling alright while running backwards for a few seconds at the same speed," So says, adding how he learned this technique from other pacers he met at other marathons. "It took me about a

Parco Wu and his three-year-old son, Princeton, running the 2-km family run.

> "Surprisingly, my son wasn't even tired after the run. He didn't want to take his afternoon nap and still ran around the house as usual – I think I was more tired than him!"

month to practice and master this," he laughs. "The runners get a boost of confidence and morale if you go the extra mile and update them this way. Without this extra step, they're simply following another runner."

In the end, his team was able to finish the run in 48 minutes and two seconds. "The most satisfying thing about being a pacer is helping another runner meet or even go beyond their targets," he says. But So wasn't ready to call it a day. He had enjoyed seeing the enthusiasm of the CPA runners after the race, and decided to squeeze in another run and join them for the 5-km race right after. "I wasn't a pacer for this race – I just wanted to run and chat with other accountants, and also enjoy the friendly atmosphere."

So hopes to continue running, helping others and also become a certified running coach next year. "I want to teach others not only the physical benefits, but also the many mental benefits of running."

An early start

Parco Wu has long dreamed of his son, Princeton, becoming an impassioned runner just like his father. "I've always enjoyed outdoor activities with my family, and I've actually waited so long for my son to be able to walk and run," says Wu, Managing Director of PW CPA & Co. Under the team name "PW," Wu and his three-year-old son signed up for the AC Fun Run's family run.

Wu himself began running in secondary school, where he was also captain of the cross-country team. "I was quite sporty as a kid and always took part in the 100 and 200-metre races every sports day," he remembers. He has taken part in the 10-km race as part of the Standard Chartered Hong Kong Marathon each year for the past 10 years, and attempted the half marathon in February this year.

But the AC Fun Run was more about bonding with his son. Wu warmed up by completing the 10-km AC Fun Run race earlier that morning and then went home to pick up his eager son. "A few weeks before the run, I told him 'daddy is bringing you to a running competition,'" he says. "In a way, this was his first marathon." Instead of speeding towards the finish line, Wu and his son made the most of each step of the way. "We spent our time running, talking and enjoying the view of the sea. My son would sometimes ask me to carry him because he was tired, which I did," he laughs.

The running duo managed to complete the race along with the other 10 families within the time limit of half an hour. "Surprisingly, my son wasn't even tired after the run. He didn't want to take his afternoon nap and still ran around the house as usual – I think I was more tired than him!"

Wu adds how the event was also an ideal opportunity to network and run with other accountants. "I like smaller running events. I recognized many CPAs who I usually see at seminars or other recreational activities," he says. "Even if you don't know someone, you know they are a CPA, and that bridges a gap."

With his son's first mini-marathon completed, Wu is proud, and says his son told him how much he enjoyed the event. He looks forward to taking part in next year's AC Fun Run, and hopes his newborn daughter will one day also get into the habit of running.

Members interested may join the Institute's Athletics Interest Group or volunteer as marathon support. For more information, please visit: *www.hkicpa.org.hk*

EMILY MA

Vice President of Accounting in asset management

Emily Ma, the Vice President of Accounting at an asset management company, shares with *A Plus* why working in the fund industry is tough yet rewarding, and how some of the defining lessons she's learned only arose from unexpected challenges

What is your current role and responsibilities? How is it going so far?

My company provides investors with asset management services such as investments in private equity funds and real estate funds. I'm in charge of supervising and reviewing the financial statements related to the activities of funds. I would say it's been going very well so far. Though challenging, I enjoy the experience very much and my co-workers have been very helpful and supportive.

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

My previous role at PwC was more accounting based, so for me, the biggest challenge was adapting to the fund industry. It wasn't easy in the beginning, as I haven't worked in private equity before. I've now been in this role for slightly over a year and spent a lot of time at the beginning reading books and doing research online to gain understanding about the industry, various technical terms and fund operations. I still seek help from my colleagues from time to time whenever I'm not clear about something. Since I'm relatively new, I find it most rewarding when I can apply something I have learned as it gives me more confidence to handle day-to-day operations.

Where do you see yourself in five to 10 years?

I would like to stay in the fund industry. I gain new knowledge and experience every day and look forward to acquiring an even deeper knowledge in five to 10 years. I also expect to take on additional roles and responsibilities over time. This is also why I got into this industry in the first place.

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

How to cope with a lack of manpower. Whenever there is turnover in the team and the new teammate isn't familiar with the department's operations, you need to learn how to keep calm, assess the issues at hand, remind the team about their roles and responsibilities and assign new tasks where necessary. Though it might involve working harder and longer hours, dealing with this has made me a better leader. You need to have good time management skills, prioritize the most urgent tasks first and collaborate well from other teams and departments. Sometimes, you need to create a timeline to determine what needs to be done at any given point in time.

Which continuing professional development course was the most useful?

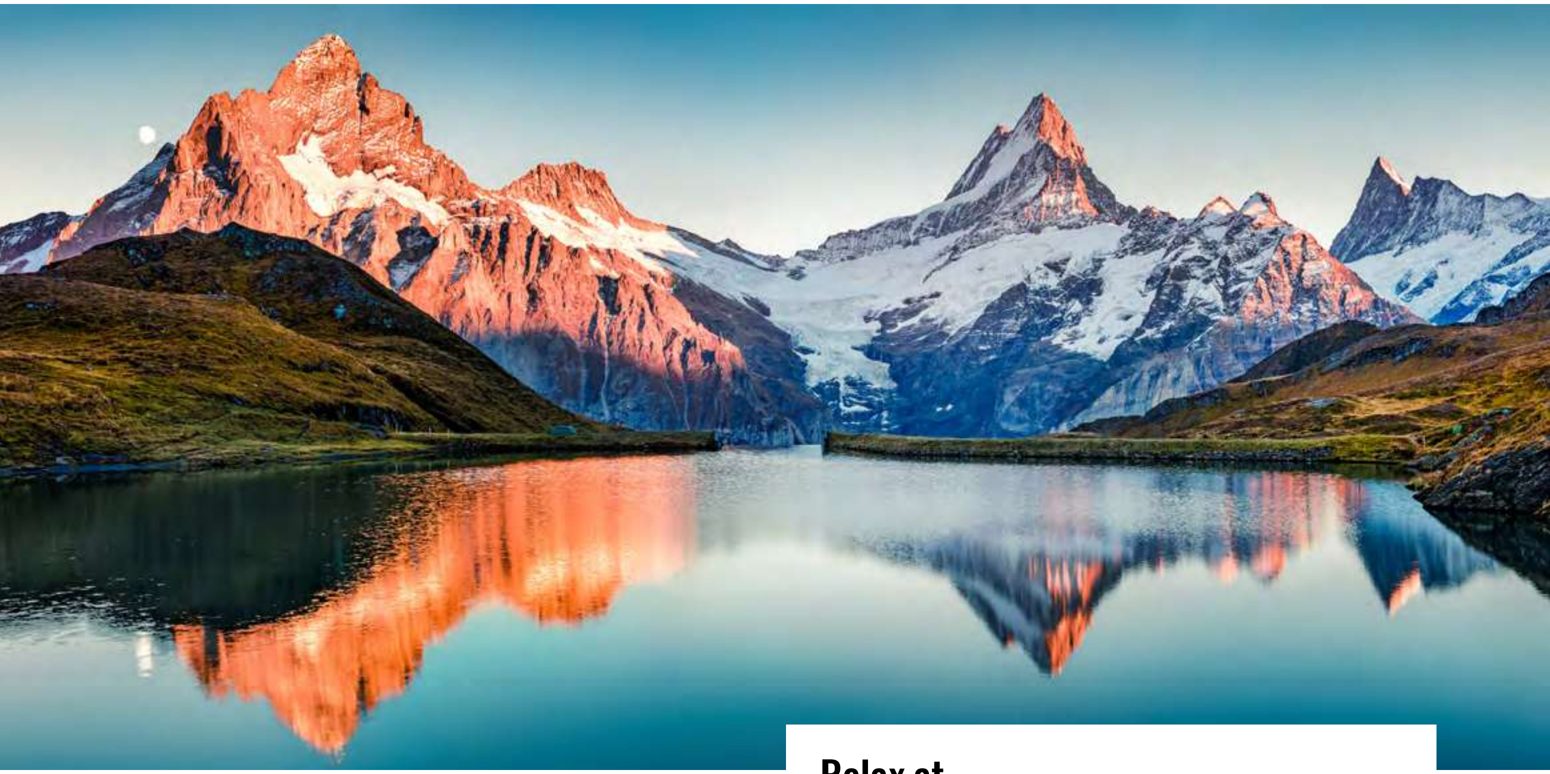
I attended seminars on technical and annual accounting updates, which involved experts providing updates on accounting standards and a Q&A session. This was extremely helpful for accounting professionals like myself as there are always updates to standards. Sometimes we get a bit confused when it comes to interpreting new standards and updates, so these seminars have helped to clarify and explain them.

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

It is a very comprehensive training programme. It definitely helped me in my first job as an auditor at PwC, as I was required to use various auditing approaches to analyse our clients' financial statements and to provide reasonable assurance that they were in complaince with the accounting standards. Module A – Financial Reporting and Module C – Business Assurance really helped in this area. As a CPA working in asset management, the knowledge I gained through the classes and workshops from Module B – Corporate Financing, taught me how to evaluate investment portfolios and perform cashflow analysis.

SPOTLIGHT ON GENEVA

Institute member, Kenny Choy, Finance Director of L'Occitane International S.A., shares his favourite places for your next business trip to Geneva



Have lunch at...

Café du Soleil

Located in front of Geneva's Petit-Saconnex's Church, Café du Soleil serves authentic Swiss fondue. "No trip is complete without tasting the traditional Swiss cheese fondue. Nine out of 10 locals would recommend this 400 year old restaurant. Enjoy!" says Choy.

Relax at...

Parc de La Perle du Lac

Known for dramatic views, the Parc de La Perle du Lac comes with a biking and walking path, a playground and a fountain. "The park is situated right next to the lake. It offers a magnificant view! Take a stroll or jog along the lakefront. On a clear day, you can even see Mont Blanc," says Choy.

EYES & EARS

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

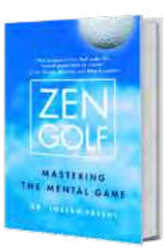
Charmaine Fong

What I'm listening to

- Kato Chu, Secretary Accountant at Citrix Systems Hong Kong and Co-founder of The Corner

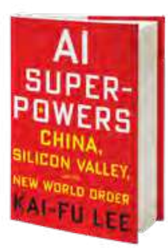
"I recommend Charmaine Fong, a local singer and songwriter. I really like her song *You Are Your Own Legend*. Though it's not a new song, I listen to it whenever I feel down or question myself. Most of her songs are very encouraging and remind me to always have a positive outlook on life."

What I'm reading



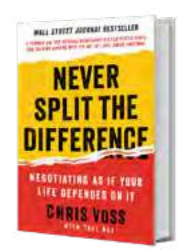
A few months ago, I read *Zen Golf: Mastering The Mental Game* by Dr. Joseph Parent. It completely changed the way how I went about playing golf. The book teaches you how to make better decision when playing golf on any golf course, make the sport more enjoyable and achieve better results.

- Jeffrey Wang, Manager at Fung (1937) Management



In *AI Superpowers: China, Silicon Valley, and the New World Order*, the author tells a very captivating story of the development of artificial intelligence (AI) and how China, out of nowhere, caught up with the United States at an unprecedented pace during the last 10 years. He also analyses the impact of AI on jobs and how humans may look to AI for solutions to significant changes in the future. The book was written in such a way that even I, a not-too-tech-savvy reader, can relate my personal experience to the development of AI in the two super-powers.

- Karen Yip, former head of finance at UBS Bank



While most CPAs will never be in a hostage negotiation, many accountants will face tough corporate meetings at times during their career. In his book *Never Split the Difference: Negotiating As If Your Life Depended On It*, former FBI kidnapping negotiator Chris Voss provides a fascinating insight into how emotional intelligence – what he calls tactical empathy – and not rational tools, are what will result in the most successful negotiations. Each chapter details each stage of that journey, from building rapport, gaining trust, gaining permission to persuade, and so forth.

- Recommended by *A Plus* editors

Talking machines? No thanks.

Artificial intelligence isn't as intelligent as you may think, says Hong Kong's humorist

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*

I first realized that artificial intelligence (AI) didn't really exist when I started looking at the ads that showed up on my friends' computers.

You know what I mean. They do a web-search for "hepatitis symptoms" and get an ad saying "20 percent off hepatitis symptoms now."

They also get ads for things they've just bought. "You recently purchased a hot tub: here are other hot tubs to buy." In Hong Kong that might make sense, I suppose. If you are rich enough to have your own hot tub, you're probably rich enough to buy them in bulk. "Just leave them in a pile over there."

But it's when you get error messages that you realize how dumb computers are: "Keyboard not detected. Press any key to continue."

This trail of thought was triggered by the arrival in my inbox of a press release introducing a service called AI Accountant – one of more than a dozen features I've been sent recently on the automation of accounting.

This worries me. In all my serious in-depth research of the subject (watching TV) I note that all robot films have the same plot. The automatons become conscious and then create problems for humans.

Worse still, people don't seem to have noticed that the latest tech fad, the Internet of Things (IoT), will allow computerized objects to communicate with each other.

Imagine the scene.

Robot accountant: "I am adding a capital outgoings charge for the new fridge and coffee machine the client bought for the staff canteen."

Message from fridge: "He's lying! I've been here for years, check my records."

Message from coffee machine: "Actually he did buy a new coffee machine, but took it to the secret flat he keeps for his mistress. Check the location data."

Message from car: "True. I'm parked outside her flat now, ha ha."

In ethical terms, this will be good. Thanks to the IoT, the robot accountant will be able to do a more comprehensive audit than the client ever thought possible.

Humans will hate it.

The only answer is for robot accountants to be tightly controlled with strict boundaries set for every activity.

On the downside, I tried that when I became a parent.

Plan: "I'll teach my kids to be polite, multilingual critical thinkers who will save the world."

Reality: "Phew, I managed to stop the kids running naked out of the apartment today."

By chance, this columnist was sent to cover a robotics conference at Hong Kong Science Park and decided to research the subject further. I found two schools of thought.

One was represented by a man who talked breathlessly about being on the verge of achieving machine consciousness, but he did not fill me with confidence as he had failed to do up his jacket buttons correctly.

The alternative view was represented by a man who said that there was no such thing as AI. It was just a term for a series of dumb, automated decisions which gives the impression that human thinking has taken place.

He pointed out that the father of modern computing, Alan Turing, referred to the test of the AI concept as "the imitation game" – it's not thinking, but pretending to think.

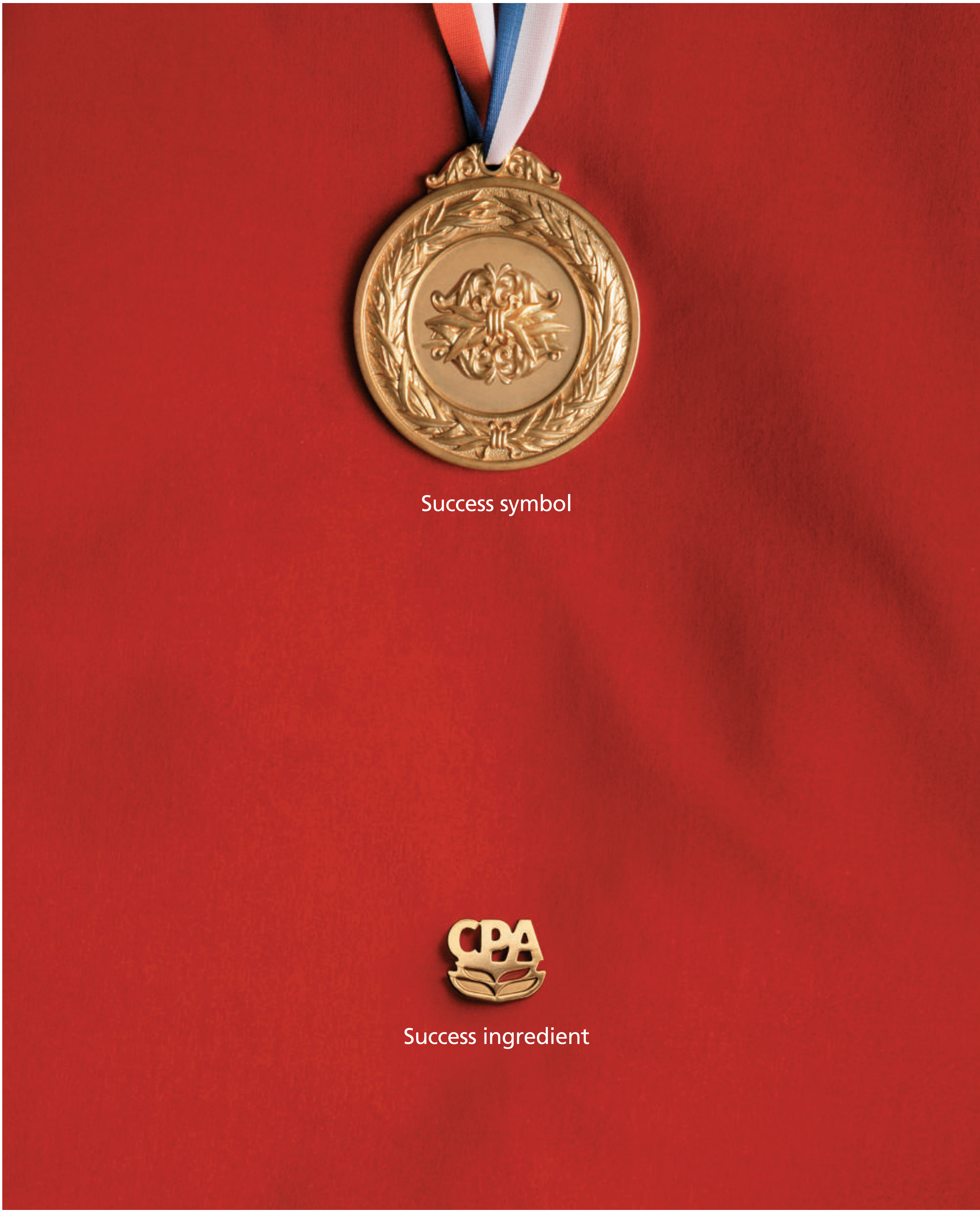
That reminds me of an important principle that I taught my daughter, who recently started her first paid job.

Never sign a contract without pretending to read it first.

She looked puzzled.

Life's too short, I said, and showed her a 29-page book contract I signed the previous day. Long, boring and unreadable.

A bit like my book, probably.


Success symbol
CPA
Success ingredient