



DRIVING BUSINESS SUCCESS

Issue 10 Volume 15 October 2019

THE NEW CHIEF

Margaret W.S. Chan is on a mission to create a more engaging Institute for all groups of members



PLUS:

FUTURE OF FARMING

Smart farming and the opportunities for CPAs

VIRTUAL BANKS

Views on smart banking from the Institute's PAIB Conference 2019

SECOND OPINIONS

What will AI bring to the role of an accountant?



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

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

Together we Shine *Annual Dinner 2019*

Date: Monday, 2 December 2019

Time: Cocktails at 6:30 p.m.
Dinner beginning at 7:30 p.m.

Venue: Convention Hall, Hong Kong Convention
and Exhibition Centre



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“In today’s business world, it is by working together, and leveraging each other’s skills, that we can build a brighter future.”



Dear members,

This month involved a number of events demonstrating the importance of openness and communication. In today’s business world, it is by working together, and leveraging each other’s skills, that we can build a brighter future. In order to work effectively with each other we need to maintain strong relationships and wide networks.

It was my honour to be a keynote speaker at the 2019 China Accounting and Financial Innovation Forum at United International College in Zhuhai on 18 October. In my presentation, I spoke about how the digital economy is changing the accounting profession, how members are preparing for new opportunities and what support the Institute is providing to its members. It was an interesting event, and I enjoyed the opportunity to meet with academics and industry experts, and discuss with them how technology was changing our world.

I was invited to be a member of the Hong Kong Institute of Directors’ Panel of Judges for the Directors of the Year Awards 2019. The awards recognize outstanding boards and directors, their efforts in governance, and also promote good corporate governance to a wider audience. The judging panel met in mid-October and engaged in frank discussions during our review of the entrants. The importance of good corporate governance has grown in Hong Kong because of events like these awards, and the Institute’s own Best Corporate Governance Awards,

which are now in their 20th year. The Institute’s awards event is coming up in December.

I met the new President of Institute of Chartered Accountants in England and Wales, Fiona Wilkinson, at their Annual Gala Dinner in Hong Kong at the end of the month. It was a good opportunity to meet with their senior leadership and other representatives and think about how we can continue to work together for the betterment of the profession, including ways to improve gender diversity.

A Plus is a key way for the Institute to maintain its communication with the over 44,000 members, 17,000 students and 2,000 stakeholders we have. With this in mind, I direct your attention to the interview of the new Chief Executive and Registrar, Margaret W.S. Chan, which can be found on page 8. From my experience, the profile feature helps us to explain to you our views and experiences, how we want to help the profession develop, and how the Institute can better serve our members.

We’re now into the main conference season of the Institute, helping members to prepare for their futures. At the IT Conference 2019 held on 19 October, renowned speakers and panellists shared their insights on how technology is changing the profession, and how businesses and professionals can seize the opportunities available through technical advancements to drive their success.

If you’re a young member or a

small- and medium-sized practitioner (SMP) then I hope to see you at one of the conferences designed especially for you in November.

For young members, the Young Members Conference will be held on 23 November and feature both young and seasoned speakers from different fields discussing issues helpful for your career development. Speakers will share their work experiences while recruitment consultants will provide tips on career planning. I look forward to seeing some of you there.

For SMPs, the 2019 SMP Symposium on 29 November will feature sessions on issues of importance to members of this important group. Speakers will cover developments at the Institute and internationally, findings from the Institute’s practice reviews, implementation of the anti-money laundering regime, and changes to financial reporting and auditing standards.

The Institute’s Nomination Committee is calling for candidates for co-option to the Council for 2020. If you are willing to help the profession’s development by serving as a co-opted Council member, please put forward your nomination.

Lastly, the 2019 Oxfam Trailwalker is also coming up. The Institute is fielding five teams for the event, and I’ll be there to see them off and offer my encouragement. Working together and leveraging each other’s energy and determination will see them through the gruelling 100-kilometre-walk.

Patrick Law
President

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DRIVING BUSINESS SUCCESS

About our name

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



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香港會計師公會

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The digital version is distributed to all 44,636 members,
17,708 students of the Institute and 2,358 business
stakeholders every month.



NEWS

Institute news Business news

Young Members Conference to explore “more than accounting” career options



The Institute’s annual Young Members Conference will take place on 23 November. With the theme of “Out of the box – options for young accountants,” the event aims to keep young CPAs updated on issues relevant to the profession, and provide practical advice and insight for their career development.

Attendees will hear from a mix of young and seasoned speakers from different fields, who will talk about their experience working outside Hong Kong or in specialisms other than accounting and auditing. Recruitment consultants will also be there to offer young members tips on career planning and walk through the current job market.

Young members will also be able to network with the speakers, consultants and their fellow members at the three-hour conference. Enrolment deadline is 18 November. More details are available on the Institute’s website.

2019 SMP Symposium

The 2019 SMP Symposium, organized by the Institute’s Small and Medium

Practices Committee, will be held on 29 November. It will provide SMPs an update on the recent development of the Institute and International Federation of Accountants; taxation matters; major financial reporting and auditing standards affecting SMPs; trust or company service provider licensing regime and anti-money laundering and counter-financing of terrorism requirements; audit data analytics; and practice review and compliance matters. Those interested should enrol by 22 November.

Annual Dinner 2019

Join the Institute’s Annual Dinner on 2 December to experience a fun-filled evening of live entertainment and dining at the Hong Kong Convention and Exhibition Centre. This year’s theme is “Together We Shine,” representing the Institute’s commitment to nurturing the next generation of accountants. Sign up before 8 November to enjoy an early bird discount. More details can be found on the Institute’s website.

Oxfam Trailwalker

Five teams led by Juni Ngai (team number 8158), Ellen Cheng (8157), Ronald Wong (8031), Percy Poon (0066) and Pearl Chau (0065), will represent the Institute in the Oxfam Trailwalker this year. Give your support by searching for the team number and making donations on the Trailwalker website: www.oxfamtrailwalker.org.hk.

Membership renewal

The renewal notice for 2020 will be emailed to members and CPA practices in mid-November, enabling them to renew online through MyCPA. The annual fee will be waived in full for members whose names were on the register at 31 December 2017, however they will still need to submit their continuing professional development declaration to renew their membership.

Council minutes

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

Disciplinary findings

Ho Pak Tat, CPA (practising), Yuen Suk Ching, CPA (practising) and HLM CPA 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 130.1 of the Code of Ethics for Professional Accountants.

HLM expressed an unmodified auditor's opinion on the consolidated financial statements of a Hong Kong listed company, Chinese Energy Holdings Limited, and its subsidiaries for the year ended 31 March 2015. Ho was the engagement director and Yuen was the engagement quality control reviewer.

The Institute received a referral from the Financial Reporting Council about irregularities in the audit. Loss per share was misstated as a result of including the effect of the company's offer of shares which was still open at the date of issuance of the financial statements and therefore should not have been taken into account under Hong Kong Accounting Standard 33 *Earnings Per Share*. In their audit, the respondents failed to identify the error and ensure the loss per share was properly disclosed in the consolidated financial statements.

Decisions and reasons: The respondents were reprimanded. The Disciplinary Committee further ordered Ho, Yuen and HLM to pay penalties of HK\$50,000, HK\$100,000 and HK\$100,000 respectively. In addition, the respondents were ordered to pay costs of disciplinary proceedings of HK\$99,269. When making its decision, the committee noted that Yuen and HLM had disciplinary records concerning listed company audits when HLM previously operated as a firm. This demonstrated their persistent failure to comply with professional standards. The committee further noted that earnings or loss per share is one of the most basic pieces of financial information of listed companies, and the significant misstatement of this information rendered the breach serious.

Ernst & Young and Wu Kwok Keung, Andrew, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply Statement of Auditing Standards (SAS) 100 *Objective and General Principles Governing an Audit of Financial Statements*, SAS 230 *Documentation* and SAS 400 *Audit Evidence*.

Ernst & Young (EY) expressed unmodified auditor's opinions on the consolidated financial statements of Moulin Global Eyecare Holdings Limited (formerly known as Moulin International Holdings Limited),

a Hong Kong listed company, and its subsidiaries (collectively group) for the nine months ended 31 December 2002 and for the year ended 31 December 2003. Wu was the engagement partner of the audits.

In 2005, trading of the group's shares were suspended and provisional liquidators were appointed for the company after it defaulted on repayment of its bank loans. The liquidators uncovered apparent accounting irregularities and certain senior personnel of the company were arrested. Having considered the available information, the Council of the Institute directed an investigation under the Professional Accountants Ordinance (Cap. 50) be conducted into EY's audit of the group's financial statements for the year ended 31 December 2003. The investigation was subsequently delayed because the Institute was prevented from obtaining the audit working papers while criminal investigation and legal actions taken by the liquidators were ongoing.

In 2008, the Council considered information revealed in the liquidators' legal actions and expanded the scope of the investigation to cover EY's audit of the group's financial statements for the nine months ended 31 December 2002. The Council also directed an investigation be undertaken into the conduct of certified public accountants responsible for the preparation of the group's financial statements during the relevant periods. An Investigation Committee was subsequently formed and investigation work commenced on these certified public accountants as well as the group's auditors. The departure of audit staff and seizure of certain audit working papers by relevant authorities affected the progress of the investigation against EY.

In November 2017, the Investigation Committee completed the investigation of EY and found that the respondents would have a case to answer regarding audit deficiencies in the areas of the group's sales, tax liabilities, and loans and prepayments to third parties.

On the basis of the findings set out in the report of the Investigation Committee, a complaint was lodged against the respondents under section 42C(1) of the ordinance.

Decisions and reasons: EY and Wu were reprimanded. In addition, the Disciplinary Committee ordered EY and Wu to pay penalties of HK\$350,000 and HK\$100,000 respectively. Further, the respondents were ordered to jointly pay costs of disciplinary proceedings in the sum of HK\$184,690. When making its decision, the committee considered the particulars in support of the complaint, the respondents' personal circumstances and the parties' conduct throughout the proceedings.

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

IFAC SEES STRONG ADOPTION OF GLOBAL ACCOUNTING STANDARDS

The International Federation of Accountants (IFAC) issued a report on 14 October indicating strong support for international accounting and auditing standards, especially in areas where IFAC members are involved. The report, *International Standards: 2019 Global Status Report*, includes data from over 170 accounting organizations in IFAC's membership. It found that over 90 percent of the jurisdictions use International Standards on Auditing, International Financial Reporting Standards, and the International Code of Ethics for Professional Accountants. "Since there are no international laws requiring nations to adopt and implement international standards, support from IFAC's member organizations for these dual objectives is critically important to progress," stated IFAC Chief Executive Officer Kevin Dancy.

PWC INVESTS US\$3 BILLION IN NEW TRAINING PROGRAMME

Big Four firm PwC is launching a programme that will provide training on digital skills for all of its almost 300,000 employees worldwide. The programme, entitled "New World, New Skills," will see the firm invest US\$3 billion over the next four years, which will go towards helping employees to build new skills in specialist areas such as data analytics, robotic process automation and artificial intelligence, and developing technologies to support clients and communities. "The skills gap is an issue that goes to the heart of our purpose and we have the scale and experience to make a measurable impact," said Bob Moritz, PwC's Global Chairman, in a statement. The move follows PwC's annual earnings report, which showed global revenues of US\$42.4 billion, up by 7 percent compared to last year.



CEO OF THE SFC TO STEP DOWN NEXT YEAR

Ashley Alder, Chief Executive Officer of Hong Kong's Securities and Futures Commission (SFC), will step down from his post at the regulator, where he has been CEO since 2011, effective 30 September 2020. "Mr. Alder has been at the helm of the SFC for eight years, during which the organization has pursued a set of intensive policy and operational reforms to tackle market risks as well as setting itself as a tough, competent and effective market regulator," an SFC spokesman said. The commission has begun its search for a replacement.



PETROLEUM COMPANY PLANS TO LAUNCH IPO WORTH US\$2 TRILLION

Saudi Arabian petroleum company Saudi Aramco is to launch its initial public offering (IPO) on 3 November. The company plans to announce the transaction's pricing on 17 November and start trading on the nation's domestic stock exchange, the Tadawul, on 11 December. The company, one of the most profitable in the world according to *Bloomberg News*, made US\$111 billion in net income in 2018. The IPO, first announced in 2016, has been hit by delays amid speculation that it would fail to meet its expected valuation of US\$2 trillion, with investors estimating a value between US\$1.2 trillion to US\$1.5 trillion. The company is in talks with investors as it seeks to bridge this valuation gap ahead of finalizing the pricing for the listing.

GENDER PAY GAP DROPS TO 39.3% AT DELOITTE U.K.

The pay gap between men and women at Deloitte in the United Kingdom narrowed to 39.3 percent this year, down from 41.1 percent in 2018, according to the firm's *2019 Gender Pay Gap Report*. Deloitte promoted 32 female partners in June, its highest number yet. However, Dimple Agarwal, Managing Partner for People and Purpose at Deloitte U.K., acknowledged "there is no quick fix to reducing the pay gap until our gender balance action plan has been embedded across all part of the business." She added: "Our focus now is creating the building blocks for the future. We've reviewed all our recruitment and promotion processes to minimize bias and we are promoting more women to partner, director and senior manager."

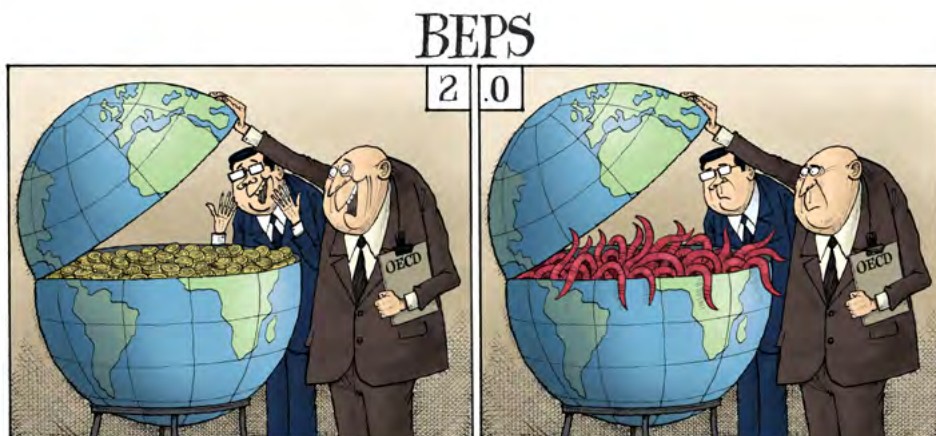
HOUSE PASSES CORPORATE TRANSPARENCY BILL

The United States House of Representatives passed a bill on 22 October that will require anonymous shell companies to disclose actual ownerships at the time a company is formed. The Corporate Transparency Act aims to clamp down on anonymous shell companies that evade law enforcement and hide illegal activities. "Anonymous companies are widely recognized as the single most dangerous and significant gap in our anti-money laundering framework," said Gary Kalman, Executive Director of the Financial Accountability and Corporate Transparency Coalition, in a statement. The Senate will now decide whether or not to pass the legislation.

"Anonymous companies are widely recognized as the single most dangerous and significant gap in our anti-money laundering framework."

OECD TO TAX TECH GIANTS

The Organization for Economic Co-operation and Development (OECD) announced a proposal on 9 October to prevent large digital groups such as Facebook, Apple, Amazon, Netflix and Google from shifting profits around the world in order to minimize taxes. The aim is to create a new and stable international tax system because “the current rules dating back to the 1920s are no longer sufficient to ensure a fair allocation of taxing right in an increasingly globalized world,” according to the OECD. The proposed changes will target digital giants with global turnover of more than US\$1.23 billion. Tax experts and businesses, such as Amazon, welcomed the move, saying it was “an important step forward.”



FRC INVESTIGATES THOMAS COOK AUDITORS

The Financial Reporting Council (FRC) in the United Kingdom has launched a probe into Big Four firm EY’s audit of the accounts of U.K.-headquartered global travel group Thomas Cook. The accounting watchdog’s enforcement division will look at financial statements audited by EY for the year ending 30 September 2018. EY took over from PwC as auditors in 2017. “The FRC will keep under close review both the scope of this investigation and the question of whether to open any other investigation in relation to Thomas Cook, liaising with other relevant regulators to the fullest extent permissible,” the FRC said in a statement. The travel group collapsed in September, impacting more than 20,000 jobs.



FASB AND GASB LOOKING TO HIRE EXECUTIVE DIRECTOR

The Financial Accounting Foundation (FAF) trustees, the group overseeing the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) in the United States, have begun searching for a new executive director. The new executive director will lead a team of 45 professionals who offer support services to the

FASB, GASB and the Private Company Council. The move comes as the terms for FASB Chairman Russell Golden and GASB Chairman David Vautt are set to expire in June 2020. The FAF President and Chief Executive Officer Teresa Polley also announced her resignation in April.



KPMG U.K. CONSIDERS CLOSING MEMBERS' CLUB

THE PLANNED
CLOSURE IS
ONE OF
150
COST-
CUTTING
MEASURES

KPMG in the United Kingdom is exploring the possibility of closing its exclusive club in a bid to cut costs and boost investment in other areas. The five-storey club, named Number Twenty, is used by its partners and clients to dine and entertain and has been in operation in London’s Mayfair district since 2015. The firm revealed 150 cost-cutting measures this month as part of its cost-saving scheme called “Project Zebra.” It also cut back on expenses this year by recalling corporate mobile phones from some employees, and making almost a third of its personal assistants redundant. The firm have yet to reach a decision on the closure.

NETFLIX ACCUSED OF TAX EVASION IN ITALY

Prosecutors in Italy have launched an investigation into United States-based streaming service Netflix. Prosecutors are arguing that despite the fact that Netflix has no official physical presence in Italy, the company’s infrastructure, including servers and fibre optic cables that deliver content to its 1.4 million subscribers in Italy, qualify it as a local business, and that it should pay taxes. Italian prosecutors have previously probed other U.S. tech giants such as Apple, Amazon and Facebook for avoiding taxes, allowing Italy to collect several billion euros in fines and tax payments.



LEADERSHIP PROFILE

Margaret W.S. Chan

COMMUNICATING THE FUTURE



Margaret W.S. Chan, the Institute's new Chief Executive and Registrar, spent the first few months on the job talking to people about the challenges of the profession. She tells **Jemelyn Yadao** how now is the time to take action in areas such as strengthening the value proposition of the profession, energizing members in nurturing and retaining talent, Greater Bay Area opportunities, and improving the Institute's member services

Photography by Calvin Sit

After leaving her previous job, Margaret W.S. Chan wanted to take some time off and maybe retire. But with a call from a headhunter, and her unwavering curiosity, plans changed.

"As an Institute member myself, I was interested to know more about the development of the profession so I went in for the interview," says Chan, the new Chief Executive and Registrar of the Hong Kong Institute of CPAs. "I wanted to talk to stakeholders and others and they gave me a lot to think about. I thought that I would like to see whether I could do things in another way."

Chan, who assumed the position in July, says the first three months at her new role has been all about building relationships and laying the groundwork for future major achievements. "What I've been trying to do is get to know people by meeting with them so that they can tell me how they think the Institute can do better. I've been engaged in a lot of communication with staff, committee members and members-at-large, and this has made me realize how very energetic the profession is. We contribute a lot to the community but, of course, we are facing a lot of challenges. There's a lot we can do better to bring the Institute and the wider membership forward in facing these challenges."

The Institute's series of members' forums held last month was particularly useful in opening up an honest discussion on how the body can improve. "I heard directly from members and from there I understood what the key focuses should be," she recalls. Based on views shared, the Institute is working on specific goals, which will be incorporated into a strategic plan, says Chan. "Members' suggestions, in areas like public perception of the profession, improving members' welfare and wellbeing, how we can do better as a regulator, helps me to set the plan for our upcoming strategy."

The forums are just a starting point. Chan views it as her goal to hear all segments of the Institute's diverse membership. "I could only get to 900 people through the forums – we have more than 44,000 members. I would like to see more engagement between us and different groups of membership. Sometimes, getting to them is very difficult.

"I have always been a professional accountant in business (PAIB) myself and I didn't really go to the Institute because my organizations had continuing professional development (CPD) programmes for me, so my interaction with the Institute was limited to the annual renewal process. There's a huge gap," she says. "We want PAIBs to know what we are doing for them and for the profession. And if they have any news and views on the challenges they face, we certainly would like to hear them because the profession now is changing very fast."

"There's a lot we can do better to bring the Institute and the wider membership forward in facing these challenges."

Hong Kong's audit regulation reform has passed the regulation of public interest entity auditors to the independent Financial Reporting Council (FRC). The FRC also has oversight of certain Institute functions, the arrangements of which Chan was also involved in negotiating, leading to the agreed statement of protocol. "Going forward, we need to work with them on how to implement the oversight arrangement in line with our statement of protocol and work together to ensure the standards of auditors as a whole."

Current challenges

Chan recognizes that one of the challenges of the profession is the difficulties in attracting and retaining talent. "This is happening in all industries because we are talking about a generation of people who may have different aspirations in life rather than in work."

Taking more of an interest in human resources could help CPAs effectively tackle the issue, Chan believes. "We should help train our members to communicate with and engage their staff through soft skills. The target is not to make people stay at a company for life but to make them more aware of what they can learn from the job, which adds value to their career. I think this learning capability and aspiration can better attract younger generations," she says. "Of course, we understand that SMEs and SMPs have a lot of imminent business challenges so they might not be able to focus on the area. We will need to keep an active dialogue with them on how we can help in various ways."

While the Institute already organizes CPD courses covering soft skills, Chan would like to see more focus on HR and mentoring. "I have gone through that process myself,"

says Chan, whose previous role as director of corporate services at the Hong Kong Housing Society also covered HR. "I was not involved in HR before I joined the Housing Society. There were a lot of soft skills areas, such as building the company culture and engaging with staff to perform, which we needed to devote time to in order to maintain a stable and cohesive workforce. The least we can do is make staff understand that we value them through having programmes that bring people together, and helping them understand the direction of the organization. Based on surveys, people value this."

"The target is not to make people stay at a company for life but to make them more aware of what they can learn from the job, which adds value to their career."

The reputation of the profession is another area of concern amid recent media reports around the world of accounting and tax scandals. "I know audit firms try their best to put internal control systems and frameworks in place to mitigate the risk of not finding issues during their audits. Of course, scandals are not good for the profession's image, so we need work closely with the firms to find out what the challenges are and ways to mitigate them," she says. "It's not something that will go away easily because the business environment is getting more complex."

When it comes to enhancing the CPA image in general, Chan would

like the "Accountant Plus" message further emphasized to the public, highlighting "that there is more to accounting than just accounting," she says. "After qualifying, I see a lot of people moving on to cover other areas such as IT, governance, compliance and risk management. Those are the areas I think accountants can add value."

She adds that people should know how the qualification can boost a person's learning and development capabilities. "This capability and general business understanding of CPAs allows us to expand into different areas."

A new level

This year marks the launch of the new Qualification Programme (QP), which Chan believes couldn't be more timely. It offers alternative pathways and greater flexibility for students with non-accounting majors to become CPAs. Based on her previous experience, Chan notes that the younger generation tend to pick a university degree based on their interests and think about their long-term careers later on. "After they graduate or after they have been working for a while, they might eventually decide to pursue this path, so the new Associate Level of the new QP allows them to join as student members and pick up the basic skills. I think it's a very good programme, tailored to the current situation."

She believes the new Associate Level could also potentially help solve the turnover problem of junior accounting staff. "Not everyone who completes that level wants to progress to the Professional Level. For small- and medium-sized businesses, we may need people with accounting knowledge to perform some core functions and stay with the organization for a long enough time."

Sustainability in mind

The Institute, Chan says, will continue to advocate on issues affecting the profession, and ensure the views and concerns of members are effectively expressed on the global stage. One area she sees the Institute being increasingly vocal about is sustainability. “There are other organizations we think we can build a closer relationship with, such as Accounting for Sustainability (A4S). We can gain more access to what is happening outside and give them our Hong Kong perspective. A4S came for a roundtable meeting this month to see if they can get some concrete support from CFOs in Hong Kong.”

As well as its role in thought leadership, Chan sees the Institute playing an important part in forming an alliance among members and stakeholders in order to push initiatives or ideas forward. “Sustainability, for example, needs a lot of effort. Environmental, social and governance reporting might sound easy but if you need to implement it you need to align your processes, your reporting and people need to buy in because there would be extra resources involved. For accountants as well, it’s about collecting new data, not just financial data. Everybody needs to be aligned on why they are doing what they’re doing.”

Cross opportunities

Chan wants to move away from vague discussions about the Guangdong-Hong Kong-Macao Greater Bay Area, and help identify and develop concrete business opportunities for members. “A lot of members say that they don’t need more talks about it, they want to see some results,” she says.

The Institute set up the Greater Bay Area (GBA) Committee in August. Members of the committee

work on how to better serve Institute members in, for example, setting up an office in the GBA, and understanding the types of work Institute members can do there without Chinese Institute of Certified Public Accountants exam requirements. “There are Mainland cities that have arranged some highly subsidized workplaces that Hong Kong people can use. So we are gathering information and seeing if we can work out

a pilot with one or two members to determine how they can establish a workplace there,” she says.

“We also understand individual cities may have good transport subsidies for people travelling back and forth between Hong Kong and a Mainland city. Can we make use of that and are we going to see other cities to have similar programmes? This is what we are trying to explore.”



Margaret W.S. Chan has over 30 years of experience in accounting and finance, and was previously director of corporate services at the Hong Kong Housing Society.

LEADERSHIP PROFILE

Margaret W.S. Chan

Chan majored in finance and minored in accounting at university, and has CPA designations from both Hong Kong and Australia.



Building a closer relationship with officials in the GBA is also crucial, and that will happen at the appropriate time, she says.

Business success

Chan developed a business sense at a young age, helping her parents run a small Shanghaiese restaurant in Kowloon. “I spent all my holidays there and needed to work in all areas – I served the food, washed dishes and did a little bit of the cooking, mainly noodles. My accounting experience started from sitting at the cashier all day,” she laughs. “I knew having a business degree would be useful to me, so I majored in finance and minored in accounting at university. My first job was at the accounting department of Bank of China (BOC) group, converting manual processes into IT system.”

She later moved to Australia where she obtained her CPA Australia qualification, before moving back to Hong Kong and gaining her Institute qualification, which, she says, has been extremely beneficial to her career development. “I’m glad I got it and got it early,” she says. “Even if someone has moved up to C-level, they would need to understand accounting to be able to read through the numbers to explain things and know about what drives the company performance. You can’t just rely on your CFO to tell you about it. If you don’t learn it early, you’ll need to later on.”

After BOC, Chan moved to the credit card industry, working for American Express. “I felt that I needed more exposure,” she says. She then joined the Land Fund Trust, set up before the 1997 handover. Upon the establishment of the Special Administrative Region (SAR) in July 1997, the assets of the land fund were vested in the Hong Kong government. “We managed half of the land premium that the then Hong Kong government got from land sale and then handed it over to the current SAR government,” Chan says. “We were basically an asset management

house but the fund source is different from other companies. So I got involved in investment, we set investment strategies, employed external fund managers, and we had in-house investment professionals. It was all very interesting.”

After the handover, the fund was managed by the Hong Kong Monetary Authority so she worked there before rejoining the banking industry, just before the Mandatory Provident Fund (MPF) system came into operation. “The banking group wanted to establish their own MPF business so I joined the group to help set it up. We did all the preparatory work in terms of setting up a trustee company and an asset management company for the MPF business,” she explains. “Just when the business kick started, I joined the Housing Society.”

“Members need to continue to learn and we want them to. It’s a matter of whether we can deliver the right training to them.”

Chan joined the public housing provider in 2000. Her role as director of corporate services saw her in charge of not just HR but also information technology and corporate secretariat, eventually she became the director of corporate planning and finance. “It is a statutory organization like the Institute. It is governed by committee, and it works with members to form the strategies and direction for the whole organization.”

Transitioning from the numbers-driven investment industry to the Housing Society’s way of working was eye-opening for Chan. “It’s a whole different ball game. That is where my soft skills worked for me. In investment, you don’t need to explain much, the numbers speak for themselves. But at the Housing Society, we had to find a way to

serve Hong Kong people in terms of housing and there are a lot of ways, and how we measure it is difficult to quantify.”


An ongoing challenge was ensuring organization-wide goal alignment. “With some projects, for example elderly housing, we were not measuring profit and loss, we had other key performance indicators. That was something we needed the whole organization to understand otherwise some colleagues will struggle and ask why on some days we talk about social projects and others its financial targets? We needed people to know performance is important, be it in financial or non-financial.

“There were a lot of people projects that I was highly involved in. Those were very good experiences that help me understand people better, and understand different perspectives.”

An avid learner

Chan loves spending her free time outdoors, whether it’s doing hiking, outdoor photography or bird watching. “Now is a very good season for bird watching but I don’t have much time to go out,” she says, noting that Hong Kong has more than 500 species of birds. “Of course, some are migrating birds so they just come during the winter season. So if you have the time, go out, open your eyes and you will find a lot.”

Her interest in birds surged after curiosity hit once again. “I would hear different bird sounds outside and it made me think, ‘what bird is that? how is it different from the other birds?’ so I joined the Hong Kong Bird Watching Society and took a course.”

Indeed, Chan is a proud life-long learner. “It’s why I believe CPD is the most important member experience with us,” she says. “Members need to continue to learn and we want them to. It’s a matter of whether we can deliver the right training to them, and identify the right areas that are relevant for them to continue to learn.” 

SECOND OPINIONS: WHAT WILL AI BRING TO THE ROLE OF AN ACCOUNTANT?

“AI will definitely help to reshape the future role of accountants and auditors in Hong Kong and attract young people into the profession.”



K.M. WONG
CHAIRMAN OF THE INSTITUTE'S
PROFESSIONAL DEVELOPMENT
COMMITTEE

Artificial intelligence (AI) is expected to bring tremendous change to people's lives. Though it has helped in the role of accountants for many years, recent advancements in the technology have made that more obvious.

For example, optical character recognition has been used for quite some time in capturing images from supplier invoices to facilitate payments. But now, AI is up to a stage where it can obtain essential information from invoices quickly and then arrange payment to vendors within seconds.

Indeed, robotic process automation helps to bring accountants a new level of workflow efficiency. It not only helps to improve productivity from the payment side, but also assists to capture information from receipts and quickly record it into systems. It speeds up the collection process. Furthermore, it can be used to transfer information between databases and help to prepare reports.

Besides transaction processing, AI-related technology is also used for internal and external audit. An audit requires the analysis of transactions in a general ledger and a sorting of those transactions into categories: high risk, medium risk, or low risk versus manual random sampling. Advanced AI tools can show risks at the transaction level and even help to uncover fraudulent journal entries.

All these tools help to reduce manual processes and improve accuracy. As the new generation of accountants in Hong Kong prefer more engaging work, which requires creativity and problem-solving instead of carrying out labour intensive and repetitive manual tasks, AI will definitely help to reshape the future role of accountants and auditors in Hong Kong and attract young people into the profession.

Down the road, we anticipate that AI can also help with forecasting – an essential task of accountants – particularly those in business. In previous years, we could only make certain assumptions, undertake a limited range of scenario studies and then select the preferred one as the basis for the forecast. With new AI technologies, it is possible to understand the probability of different scenarios occurring and then make a more informed decision.

With all of these new tools, accountants can surely work smarter than ever before. But, in view of a fast-changing business environment with higher uncertainty, I foresee that all these new challenges will still require an accountants' time and attention despite how much time it saves from manual and tedious tasks.



CHRISTOPHER ARNOLD
HEAD OF SME/SMP AND
RESEARCH AT IFAC

Technology is now advancing at an extraordinary rate. There are the obvious examples of AI: the robots building cars or working as customer service representatives. Then there are the opportunities for finance and accounting: The predictive analytics (using information to anticipate future outcomes) and prescriptive analytics (guiding predictions into actions) that online retailers and any other businesses with the capabilities are incorporating into their operations. As accountants, the significant technological disruptions, in particular in the area of AI, affecting our clients, our organizations and our governments, should ultimately lead to an explosion of opportunities and challenges for our profession.

Accountants should look at the rise of AI not in terms of potential job loss, but in terms of potential opportunity. While technology may bring about the elimination and/or evolution of some tasks, the efficiencies realized through the technology will allow accountants and financial professionals to focus less on task-oriented items and more on becoming a trusted business partner. Simple examples of this would be updated financial forecasting for daily changes in sales, or the processing of invoices and accounts payable due to automatic coding, which results in a quicker, more precise monthly or quarterly close process. AI can also help detect fraud by predicting patterns and detecting anomalies.

As more and more data is analysed, AI and automation can begin to drive innovation. As machine learning algorithms are incorporated, advanced business analytics start to develop. When AI combines with high quality data and human intelligence, it helps drive decision making and enables financial professionals to provide deeper data-driven insights and greater added-value. For example, helping organizations anticipate financial difficulties and take appropriate actions.

The full contextual understanding involved in complex problem solving also remains a challenge to AI and modern technology. Accountants' professional judgement, experience and expertise remains critical to helping answer those complicated problems and identifying the best solution.

Accountants need to be willing to re-invent themselves, understand the impact of technology developments, develop the digital skills needed and make the most of the opportunities AI will continue to bring. It is not about what AI can do, but what professional accountants can do with AI.



BENSON NG
EY GREATER CHINA
DIGITAL ADVISORY PARTNER

Every day, millions of investors rely on an accountant's accurate, timely, insightful and transparent analysis of data to make key business decisions.

Among disruptive technologies, AI has the highest penetration according to EY's recent publication, *EY Disruption Index™* bulletin for Q1 2019. AI will have the biggest impact on the role of accountants in the following four aspects:

1. Finding needles in the haystack better – A key aspect of any accountant's job is identifying anomalies, which can be just 10 lines of journal entries among a database of 100 million entries. Without technology, it would require seasoned accountants to rely on hunches and luck. AI capabilities like machine learning and pattern recognition can help accountants save a significant amount of time in identifying red flags.
2. Measuring long-term value – Today, more than 50 percent of enterprise value comprises intangible assets, according to EY's embankment research reports. Future accountants have a big role to play in helping enterprises estimate metrics that can measure and track long-term value. AI technologies like natural language processing pose great potential for measuring and tracking enterprise performance or non-financial performance based on unstructured data (e.g. employee experience, brand impression from social media and digital interactions).
3. Predicting and managing arrears – AI puts accountants in a position to predict what may happen next and not just what happened. Accountants can provide insights based on different scenarios and corresponding prescriptive response. For example, predicting which customers will pay, be late in paying or not pay at all.
4. Responding to the market faster – Access to just-in-time analysis is now critical to businesses in a competitive market. AI-enabled technology like robotic process automation enables accountants to codify decision support rules workers use when undertaking business transactions (e.g. credit checking) and allow corporates to process transactions at up to 20 times the speed a human worker could manage.

"AI is poised to enable accountants to become 'superheroes' in the new business world."

AI is poised to enable accountants to become "superheroes" in the new business world through enhancing our ability to see, predict and act. AI may take over some repetitive work from humans, while creating new roles like "business scientist."

In less than a generation our planet will likely have nine billion mouths to feed. [Nicky Burrridge](#) finds out how smart farming and new technologies can contribute to more sustainable food production, and how it creates interesting opportunities for accountants

Inside a warehouse in an industrial estate in Tai Po is a farm producing 150 tonnes of vegetables a year. It seems like an unlikely location for agriculture, but Farm66 is a pioneer of indoor factory farming in Hong Kong.

The group uses a range of “agri-tech” solutions to convert 20,000 square feet of indoor space into a farm through its patented multi-layer vertical planting structure.

The environment is strictly controlled, from the amount and spectrum of light that the plants receive from a special LED light system through to the volume of water and nutrients distributed to them. Everything is monitored through sensors connected to a cloud computer system.

Farm66, whose products are available in City’super and Sogo, claims to use 90 percent less water, consume 70 percent less energy and emit 60 percent less carbon than traditional farming methods. It also produces its crops using 85 percent less farming space.

The world’s population is forecast to increase from 7.7 billion now to 9.7 billion by 2050, according to the United Nations. As the population increases, agricultural methods are having to change, with farmers turning to technological solutions to find ways to maximize the amount of food they can produce with the minimal level of inputs.



Gordon Tam, pictured here, is Founder and Chief Executive Officer of Farm66, an urban farming company based in Tai Po. It claims to use innovations such as "Indoor Aquaponics Farming Eco-system" and "Cloud-based Farming Parameters monitoring," to grow quality vegetables locally and efficiently.

CULTIVATING TOMORROW

The case for change

Not only will there be more people to feed, but as incomes rise, the amount and quality of food people consume will also increase. At the same time, climate change and urbanization are reducing the amount of land available for farming.

“As we reach towards nine billion people on the planet, more people will be needing food but with soil erosion, rising water levels, and arable land being increasingly used for industry and housing, we will have to produce up to 60 percent more food, with less space available. Farming models have to change,” says Ben van Delden, Head of Markets and Agri-Food Tech Sector Leader at KPMG Australia.

He adds that the situation is leading to a focus on alternative farming methods that use less land, such as vertical farming systems and smart farming, and less inputs, including water, pesticides and nutrients. “I think we will see a rise of these factory farming systems where food is produced indoors more than outdoors. We will also see more integrated food production systems, where we have clarity around the supply, timing the harvest and products all the way up through the supply chain,” van Delden says.

Alongside the need to produce more food, another pressing issue is how to make agriculture more environmentally friendly. Greg Meyers, Chief Information and Digital Officer at Switzerland-based Syngenta, which produces agrochemicals and seeds, points out that the Intergovernmental Panel on Climate Change report, released in August this year, said agriculture was responsible

for 23 percent of humankind’s greenhouse gas emissions, highlighting the needs for farming to become more sustainable.

Van Delden says: “Smart farming allows us to be more precise with what we are doing and make more informed decisions about using just enough inputs to get the right outputs, which means we can have a lighter footprint on the environment.” He adds that reducing the environmental footprint of agriculture is also likely to involve producing food closer to where it is going to be consumed in order to cut down on transport-related emissions.

The rise of factory farms

With these factors in mind, factory farms, such as Farm66, are likely to become increasingly common.

To minimize its inputs, Farm66 has set up what it calls an “aquaponic eco-cycle,” with fish reared in tanks underneath its multi-layered crop growing system.

Microbes are used to convert waste from the fish into fertilizer for the plants. The plants filter dirty water which is then returned to the fish tanks. Because of the carefully controlled environment, which is monitored through the cloud, the farm is free from pesticides and heavy metals, while the plants are fed with natural nutrients rather than fertilizers.

Gordon Tam, Founder and Chief Executive Officer of Farm66, says: “This Indoor Aquaponics Farming Eco-system is self-contained, contamination-free and environmentally friendly. It is free of weather impact, bird problems, pests and bacteria, as well as huge space requirements, providing the solution to traditional agriculture

problems.” He adds that through its data-monitoring system, Farm66 can also keep track of and improve the quality and quantity of its production.

Sustenir is another urban factory farm using smart farming techniques to maximize its output. It has a 10,000 square foot farm in Singapore and has recently expanded to Hong Kong. “We control the environment, such as the air, water and lighting, to grow produce that doesn’t grow in hot climates, like kale and strawberries,” Kaye Villar, Regional Brand Manager at Sustenir, says.

The farm uses vertical stacking to optimize its space, and has developed its own technology, including Helios LED lights, to maximize its yields through providing plants with the optimum inputs they need. “Sustainability is at the heart of our company. By growing produce indoors, we get to regulate water and electricity, ensuring that we do not use more than we need,” Villar says.

He adds that growing crops indoors also lessens soil degradation and pesticide runoff. “We can grow 100 percent clean produce, free of pesticides, insecticides, soil and environmental pollutants,” he says. He points out that although the number of crops that can be grown indoors is currently limited, Sustenir is constantly developing its technology to expand into new products.

Growing use of technology

The use of technology is also increasing among more traditional farms to help them boost their

“I think we will see a rise of these factory farming systems where food is produced indoors more than outdoors.”



yields, with everything from drones to artificial intelligence to robots being incorporated into the farming process. “The potential of technology is fantastic. I think we are very much on the early side of the S-curve on this and I think we will continue to see newer applications and more advanced uses of technology as we continue to progress,” says Rob Dongoski, EY’s Global Agribusiness Leader. “The advantages are pretty apparent: better yields, better sustainability, smarter uses of chemicals and fertilizers.”

Shenzhen-based drone maker DJI has recently created a drone specifically aimed at precision agriculture management. The drone combines data from six separate sensors to measure the health of crops, from individual plants to entire fields, as well as monitor weeds, insects and different soil conditions. DJI claims the drone will help farmers improve crop yields, cut costs and monitor their land more easily.

The market for agricultural drones is expected to grow from US\$1.2 billion this year to US\$4.8 billion by 2024. “Imaging drones have already been adopted by large-scale farmers in the United States, Brazil, Russia and China. More than 40 million hectares are managed digitally worldwide via a Syngenta digital tool. We predict this will double by the end of 2020,” says Meyers at Syngenta. He adds that using drones is just the start of the technological applications that can be applied to farming. “The true potential of things like quantum computing, for example, are still to be realized.”

When drones advance to the point where they can actually carry material, Dongoski thinks they could become an applicator in the field, alongside existing equipment.

In Australia, robotics specialists from the University of Sydney have developed a robot, dubbed RIPPA, which is able to identify weeds among crops and shoot them with a micro-dose of



Plenty is a vertical farm based in Silicon Valley. The images above show "Tigris" its largest farm where robots put seedlings in vertically hung planters. The planters move along a wall of LED lights for 10 days, and are then put through a harvesting machine that shaves off the leafy greens, according to Reuters.

CPAs managing the change

The changing face of farming creates interesting opportunities for CPAs both in terms of helping their clients harness these trends and in increasing the services they provide to them.

“Accountants will need to keep pace with the change and help their clients understand the use of technology and what the impact will be on their business,” says Rob Dongoski, EY’s Global Agribusiness Leader. “I think if they get too far behind the curve they are going to have to play catch up and may not be as relevant as a service provider.”

He adds that it is important accountants really understand their clients’ business to be able to serve them in the best way. “We are working on opportunities in this industry across all the different service lines that we offer, not just traditional accounting and tax, but also in the consulting and transactions,” he says.

He thinks the adoption of technology in farming will drive new business models, which CPAs could advise on. “I think there are a lot of opportunities in the inventory area, both on tracing inventory and matching principles around the inventory process,” he says. “The way crop inputs retail in the future could also be very different from a business models standpoint, so I think accountants will be required to think through the various policy changes they will need to undertake to account for these new business models.” He adds that while ownership traits are not likely to change dramatically, as farms increase in complexity and sophistication, seed retailers will also have to understand the same business concepts on the minds of farmers, not just the features and functionality of their seeds.

Ben van Delden, Head of Markets and AgriFood Tech Sector Leader at KPMG Australia, thinks there could be an increase in issues around food fraud and counterfeit products in the future as more pressure is put on resources. “I think the level of confidence that people have is going to decrease rather than increase,” he says. As such, he says accountants may find themselves using the same disciplines of assurance that are typically applied to financial statements and processes to build confidence and trust in the food supply chain.

The other role he thinks accountants will play relates to the integrity of data. “We are going to need a level of integrity to be applied to more and more information about what is being produced, what is likely to come to market, how much will come to market, what the value of it is and what the quality of it is,” he says. “It will require the ethics and integrity of the accounting industry to really influence how contracts are written and how we honour and look after the data collected from our supply chain partners and don’t exploit it without permission.” He adds that the insights production systems are collecting increasingly have a value, but this value is not currently attributed to the farmer.

Van Delden thinks new farming techniques could also have an impact on commodities trading and capital markets. He explains: “The degree of precision that can be engaged from a satellite will really transform the insight around what crop is grown in what location, what is the viable production and the expected yield, and the harvest timing of that crop.

“If you can get that information remotely and it is about a traded commodity, then all of a sudden you have an advantage over the market and can start pricing futures contracts with that information.”

“The way crop inputs retail in the future could also be very different from a business models standpoint, so I think accountants will be required to think through the various policy changes they will need to undertake to account for these new business models.”

weedkiller. Mark Calleja, a systems engineering specialist who helped construct the robot, says: “The technology can be used to automatically apply the correct dose of fluid required anywhere on the farm at high speed.” The robot is currently being used in trials to see if it can identify which plants are struggling and which are thriving and apply varying doses of fertilizer accordingly.

Van Delden expects technologies such as robotics and autonomous systems to replace jobs in farming. “We know that 41 percent of the roles in agriculture in Australia will be impacted by technology in the next 10 years. The major contributor of that impact, at 30 percent, will be through automation. Some of that will be roles where part of what that person was doing is replaced by a robot and they will be doing other tasks. I think we will see a dramatic shift in the type of work people perform in the production of food,” he says.

Understanding new risks

Dongoski cautions that new models will also lead to new risks for the agricultural industry which accounting professionals will need to understand in order to advise their clients appropriately. “Traditional sales models tend to follow basic revenue matching principles. In an outcome-based or risk-based relationship, there will need to be strong methodologies to account for reserves for both upside and downside. These methodologies may require use of agronomists, or crop scientists, and sophisticated algorithms accounting for weather and other key variables,” he says.

Van Delden warns that the increased use of technology could have regulatory consequences for the industry. “Regulation could really improve as a result of these technologies. Historically, people have been getting away



with farming systems that have a heavier footprint than they should.”

He adds that the increased transparency the use of digital technology creates also enables consumers to see what is happening at remote locations. “We are talking about a sector that has previously done things outside of the eye of the consumer. Is the industry ready to have how it produces its food products presented to the consumers of those products?”

“Transparency will highlight the mistreatment of people as well as animals and the environment. I think that is a positive thing, but it could lead to higher costs,” he says.

Growing investment opportunities

As farming practices modernize, the “agri-tech” sector has caught the eye of investors, particularly venture capital funds. Sustenir recently completed its first round of series A funding, raising SG\$22 million to fund its

expansion. Investment in “agri-food tech” reached a record US\$16.9 billion in 2018, a 43 percent year-on-year increase, with 1,776 unique investors taking part in 1,450 deals, according to agri-tech VC company AgFunder. Growth in investment was seen at every stage, except for series A in 2018, with the average deal also getting bigger.

KPMG has also observed growing interest in the sector from investors, with venture capitalists particularly attracted to companies using technology and innovation to provide more scale, sustainability and predictability in agriculture, helping to overcome some of the unpredictability the sector faces as a result of weather, pests and diseases and fluctuating commodity markets. Companies that are harnessing technology to boost production or crop yields, while reducing the financial and environmental cost, are also in favour.

While the United States

continued to dominate the global agri-food tech investment landscape in 2018, China was the second most active market with firms in the sector raising US\$5.8 billion across 283 deals with 318 investors. The country’s agri-food start-up scene is dominated by companies operating downstream, with entrepreneurs focusing on meeting the demands of China’s growing middle class, as well as its lower income population, according to AgFunder. But 2018 also saw an increase in upstream start-ups closer to the farmers themselves, with e-grocery services helping to improve supply chains and giving farmers access to markets that were not previously available to them.

“Agriculture is an industry where a lot of change is underway,” says Dongoski. “It is an unprecedented time. There is a real shift in the mentality and all the stakeholders are affected by this.”

Agri-tech start-up Iron Ox, based in San Francisco, launched its first autonomous indoor farm last year. Its engineers use proprietary robot systems to grow roughly 26,000 heads of lettuce, leafy greens, and herbs each year in hydroponic vats.



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

Taking stock and moving forward with financial reporting standards

The Institute is holding the Annual Accounting Update 2019 to share implementation experience issues arising from three recently effective standards and information about other recent developments in standard setting



Ernest Lee is Technical Partner at Deloitte China, and a Fellow of the Institute. He has over 25 years' experience in auditing and providing technical advice on accounting and auditing related matters in a variety of industries across Asia Pacific. He is Chairman of the Institute's Financial Reporting Standards Committee, and a member or former member of various advisory panels and committees. He is a member of the Financial Reporting Review Panel of the Financial Reporting Council and the Treasurer of the Hong Kong Institute of Chartered Secretaries.

For financial reporting-focused accountants, staying abreast with the latest developments in reporting standards is vital. The upcoming Annual Accounting Update 2019 will cover Hong Kong Financial Reporting Standard (HKFRS) 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers*, which are in their second effective year, and HKFRS 16 *Leases*, in its first year, as well as other recent developments in standard setting. With preparers of financial statements and accounting practitioners adjusting to these standards and their impacts on financial reports, the conference will help them to better apply their professional judgement.

HKFRS 9 fundamentally changed the accounting requirement for classification of financial assets. It also introduces a new impairment model that requires entities to consider not only historical loss and current information, but also reasonable and supportable forward-looking information when measuring expected credit losses. The standard also brought certain changes to the measurement of financial instruments, for example, all unquoted equity investments have to be measured at fair value.

HKFRS 15 introduces the core principle that an entity shall recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This may significantly affect how and when an entity recognizes revenue. The standard specifies the accounting of certain costs incurred in relation to a contract, for example, incremental costs of obtaining and fulfilling a contract with a customer. The standard also requires more extensive qualitative and quantitative disclosures.

HKFRS 16 introduces a single lease accounting model and requires a lessee to recognize almost all leases on the balance sheet, reflecting their right to use the underlying assets as right-of-use assets and the corresponding lease liabilities representing the obligations to make lease payments. The standard changes the definition of a lease and contains new disclosure requirements for

lessees. In order to recognize the right-of-use assets and the lease liabilities, entities have to apply their judgement to determine their incremental borrowing rate and lease term, which can be challenging.

To further support the application of these standards, the IFRS Interpretations Committee has responded to questions raised about the standards and provided interpretations to assist with their implementation.

The conference

The conference will take place on the morning of 16 November at InterContinental Hong Kong. It will focus on common misconceptions about the requirements of these standards and application issues rather than the basic principles of the standards. The speakers are seasoned technical professionals, two current members of the Institute's Financial Reporting Standards Committee – including the deputy chairman – and the former chairman of the committee. The speakers will also cover related agenda decisions recently issued by the IFRS Interpretations Committee, which include information to help companies applying the standards, and to address issues arising after the standards introduction.

I will discuss other recent developments in standard setting. This will cover high-level updates on new and upcoming standards, regulatory updates including amendments to the Companies Ordinance, and major standard setting projects of the International Accounting Standards Board and the Institute including business combinations under common control, goodwill and impairment and the comprehensive review on the *IFRS for SMEs* standard. Finally, the conference will end with a question and answer session for participants to raise questions about anything discussed.

After attending the conference, you will know more about typical implementation issues, measures to resolve them, and recent developments in standard setting. The event will be recorded and made available as an e-learning course soon after, so members who are unable to attend won't miss out on important information. Find out more details on the Institute's website.

BANKING ON INNOVATION

The development of virtual banks has pushed Hong Kong into a new era of financial innovation. A panel of industry experts discuss the potential costs and benefits at the Institute's annual PAIB Conference. **Anthony Chan** reports.

In May, the Hong Kong Monetary Authority (HKMA) prompted headlines like "A new era of smart banking in Hong Kong," after it announced eight licensees granted approval to operate a virtual bank (VB).

The implications of this news for both customers and businesses were explored at the Hong Kong Institute of CPAs' professional accountants in business (PAIBs) conference, held in September. Panellists discussed the potential challenges and opportunities of digital and virtual lenders shaking up the traditional banking sector.

Eric Sum, Chief Executive Officer and Executive Director, Fusion Bank Limited, which is jointly owned by Tencent, Hong Kong Exchanges and Clearing, Hillhouse Capital and Perfect Ridge, has hands-on experience in this space. The bank was one of the entities that obtained virtual banking licences. "VBs are just like traditional banks, but without branches, and we adhere to the same regulations. However, there are obviously special requirements, like board members need to have technological expertise given that VBs are new technology intensive, in addition to having background in traditional banking. This is to ensure the successful development of VBs in the near future," he said.

A DISCUSSION WITH: (From left to right)

FRANCIS CHEUNG

Finance Director,
Octopus Holdings
Limited

RICO CHAN

Partner, Hong Kong
Baker & McKenzie

TONY LAM

Deputy Privacy
Commissioner for
Personal Data

PATRICK ROZARIO

Managing Director,
Moore Stephens
Advisory Services
Limited

ERIC SUM

Chief Executive Officer
and Executive Director,
Fusion Bank Limited







Eric Sum,
Chief Executive
Officer and
Executive
Director, Fusion
Bank Limited.



Tony Lam,
Deputy Privacy
Commissioner
for Personal
Data.

Patrick Rozario, Managing Director, Moore Stephens Advisory Services Limited, who looks at risk intelligence, commented: “VBs are similar to traditional banks, they face the same types of significant credit and liquidity risks, in addition to IT-related risks as well as personal data and privacy compliance issues, which are subjects more appropriate for our Deputy Privacy Commissioner for Personal Data.”

Tony Lam, Deputy Privacy Commissioner for Personal Data, explained: “While the mainstream views us as a regulator, we are also tasked with actively promoting education and the development of personal data management and awareness of privacy concerns, as it is simply not a case of just holding the data in some database, it is a matter of finding the right balance given the demands of social and technological progress and business development. Moreover, especially regarding new technology, we operate on principles as to what is appropriate rather than judging from within the confines of existing boundaries on what can or cannot be done regarding personal data and privacy.”

How would one define VB in light of the guidelines from the HKMA?

Moderator Francis Cheung, Finance Director at Octopus Holdings Limited and member of the Institute’s PAIB Committee, kicked off the discussion by stating important adjustments made last year by the HKMA to the existing guideline on the authorization of VBs made it possible for companies to take practical steps towards developing their VB businesses, resulting in the granting of eight VB licences so far under the Banking Ordinance. “The adjustments cover a wide range of areas – from who the large shareholders are, the expertise of the board and developing real and applicable technology to fees charged, stringent requirements on cybersecurity and guidelines on predatory pricing, all requisite subject areas for the healthy development of this new sub-sector in the banking industry,” he explained. He asked whether the HKMA’s guideline is clear and useful to the establishment of VBs in the current market.

Regarding regulations, Sum explained that VBs are subject to the same supervisory requirements

as conventional banks, “but of course there are notable differences. Being virtual is a challenge but there are also opportunities and benefits. Firstly, without physical branches we need to think about how to increase awareness, with the issue of trust as paramount. Without branches, we have much less rental costs, yet the costs saved on rent will go partly into technology development and upkeep.”

“We are filling a gap in a very mature banking market, so we don’t really see ourselves as direct competitors to traditional banks. Traditional banks, with their existing banking licence, can move into the VB space without an additional licence. VBs, as technology firms, tend to move faster than traditional banks. However, as more traditional banks expand into the VB market, there should be a convergence in the services offered, and VBs would then need to further innovate. Ultimately, VBs carry the DNA of both traditional banks and technology firms” he added.

How sophisticated are the technologies used by VBs?

“Given the technology-intensive

“We are filling a gap in a very mature banking market, so we don’t really see ourselves as direct competitors to traditional banks.”

Patrick Rozario,
Managing Director,
Moore Stephens
Advisory Services
Limited



nature of VBs, is the technology mature?" Cheung asked for the second discussion.

For Rozario, as VBs have more IT requirements, there are more regulatory requirements, with cybersecurity of utmost importance. "We've noticed that around 30 percent of cybersecurity breaches come from weaknesses in the original software coding and design, with hackers identifying and exploiting existing weaknesses, and with these weaknesses and breaches, clients' personal data and therefore the reputation of VBs are at serious risk," he explained. The other 70 percent come from breaches such as insider and privilege misuse, physical theft and loss, crimeware, and distributed denial of service, he said, citing findings from *Verizon 2017 Data Breach Investigations Report*. "But these other types of breaches are generally at a single digit level."

Actions that could help mitigate these risks, according to Rozario, include limiting the amount of personal information or site credentials stored on a web application, and protecting data by encryption, using a second authentication factor other than

the initial password, patching up any known vulnerabilities in a timely manner, and performing web application scanning and testing to find potential weaknesses.

He sees the need for accountants to take charge in this area and work closely with cybersecurity experts. "They could help them understand the potential impacts, including financial, if particular databases and systems are being compromised, so that the cybersecurity expert could focus on high impact systems," he said. "Accountants could also help to budget or get more resources for cybersecurity experts by helping management and the board to understand the potential impact and likelihood of cyber risks."

Cheung raised a point that VBs use technologies such as eKYC (electronic Know Your Customer), a method of technology-based authentication, and other tools, so the question is whether these technologies are mature enough to enable the smooth operation of VBs. Sum addressed this concern by stating that the current technology for authentication is advanced enough to achieve extreme accuracy in facial

recognition as well as spot fake photo-ID documents.

Why would customers choose VBs over traditional banks?

"Are we seeing a upgrade of banking services offered by VBs, especially when compared to traditional banks?" asked Cheung.

On the issue of whether there is significant overall benefit for customers to use VBs over traditional banks, Sum elaborated there are areas such as the credit model, where VBs depart from the traditional model by adopting a lending and credit model, thus providing an alternative to what people are used to. Moreover, VBs are continuously looking at how to "virtualize" traditional banking products and services to provide innovation and value to customers.

Fees will also be at a minimum level to reflect the industry trend. Fees that are only charged for services rendered are now the standard with traditional banks, and it will be likewise for VBs especially as they help promote financial inclusion, offering basic banking services to all segments of society including small- and

ROUNDTABLE

Virtual banking



Francis Cheung,
Finance Director,
Octopus Holdings
Limited.

medium-sized enterprises and the young generation.

Will VBs be a profitable venture?

Regarding VBs' value proposition and profitability, Sum emphasized that time is required: "Revenue derived from interests require VBs to build up their balance sheets first. I believe the eight VBs all need time to grow their balance sheets and their investors should have no illusions regarding this. To enable this, for the near future, VBs should be focusing on products as well as strengthening their systems that ensure value is delivered to the customer. We don't focus strictly on profit, but rather on increasing value for the customer. Once value is achieved for the customer, revenue should naturally flow," he said.

How should customers and VBs approach the importance of data security and management?

Having already touched on cybersecurity, Cheung raised the issue of data security and management, and asked what customers can do to protect

themselves, given the numerous cases of personal data breaches in Hong Kong and around the world. As VBs are a data-driven business, data security, management and awareness are of critical importance. "Recently, there have been cases of data breaches affecting millions of clients. How can customers approach data security to ensure their data and privacy are not compromised?" Cheung asked, kick-starting the next discussion.

Lam explained: "We encourage customers to pay attention to privacy settings and private information collection statements, and ask whether giving out personal data and/or allowing access to other information is justified in having the convenience or value of service that one is applying for. It might be wiser to forgo the convenience of the product or service in question in order to prevent one's own personal data and other information from being released into the cyber world and be at risk of exploitation."

Customer awareness and prudence represent just one half of the equation. Vendors and businesses like VBs are the other

half. VBs can explain their system and data management protocols to customers to build trust. Some initiatives in this regard include summarizing the main points of a private information collection statement, with access to the full legal document just a hyperlink away should the customer wish to read the whole thing. Another approach is to provide different levels of information disclosure for the customer to choose, without jeopardizing the basic quality of service. With this approach, the customer feels respected and in control, while the service provider is transparent with its data and information policy.

Sum added that VBs strive towards being a responsible service provider and as such, encourage customers to be a responsible data provider. "At each stage of the process, from gathering to data storage to usage, we have a firm policy and we ensure the customers know what data is collected, what the data is used for and whether such data has been disposed," he said. "In this respect, VBs are better positioned than traditional banks at handling data and

"VBs should be focusing on products as well as strengthening their systems that ensure value is delivered to the customer."

Rico Chan,
Partner, Hong
Kong Baker &
McKenzie.



“CFOs and accountants in Hong Kong can and should make the best use of their international experience in prudential management and risk management to help VBs in Hong Kong succeed here initially.”

documents and communicating with customers on these matters. We can use technology to let customers know exactly what the status of their data is.”

Lam thinks accountants and chief financial officers are well-placed to drive better personal data management across an organization. “They are the guardians of corporate governance, including data governance,” he said. “They can always help protect personal data and privacy through requiring only responsible virtual or digital banks service providers be engaged, for instance, those service providers that can demonstrate adequate cybersecurity being adopted, having technical and organizational measures put in place for personal data management, and would get their data management process independently audited by a third-party regularly.”

What about VB opportunities in the Greater Bay Area?

“The opportunities in the Greater Bay Area are growth, and with these opportunities are the increasing demands for banking and financial

services, yet the regulatory systems between the Mainland and Hong Kong are different,” noted Cheung. “What are the ways to address cross-border services?”

Rico Chan, Partner, Hong Kong Baker & McKenzie, who at the very beginning of the panel discussion made it clear he was more of a listener than speaker, did have a few words regarding VB developments in Hong Kong and potential opportunities in the Greater Bay Area (GBA) in the context of one-country-two-systems.

“The basic legal and economic systems in Hong Kong and Mainland China will continue to be substantially different for a long time. So, where it is possible or mutually preferred, the rules on each side can be harmonized. For example, through mutual recognition of funds and wealth management products between Hong Kong and Mainland China, or in the past the inclusion of certain mandatory provisions in the articles of association of PRC companies listing on the Hong Kong Stock Exchange,” he explained. “Where it is not possible or not mutually preferred, then both sides have been

building, and shall continue to build more ‘connecting points’ between the two systems. For example, through the Stock Connect and Bond Connect.”

“With more people and goods ferry across the border, there is naturally more demand for cross-border banking and financial services, and depending on such demand we will consider how to expand VB development accordingly,” Sum said.

To Chan, CPAs play a key role in enabling digital banks in Hong Kong achieve long-term success in the GBA. “I think CFOs and accountants in Hong Kong can and should make the best use of their international experience in prudential management and risk management to help VBs in Hong Kong succeed here initially,” he said.

“If, and only if, VBs in Hong Kong are successful in providing more innovative, inclusive and user-friendly banking services in the city, then in the future they may have the opportunity to be granted a license or market access to customers based in the GBA. Success here is a form of success in the GBA.”

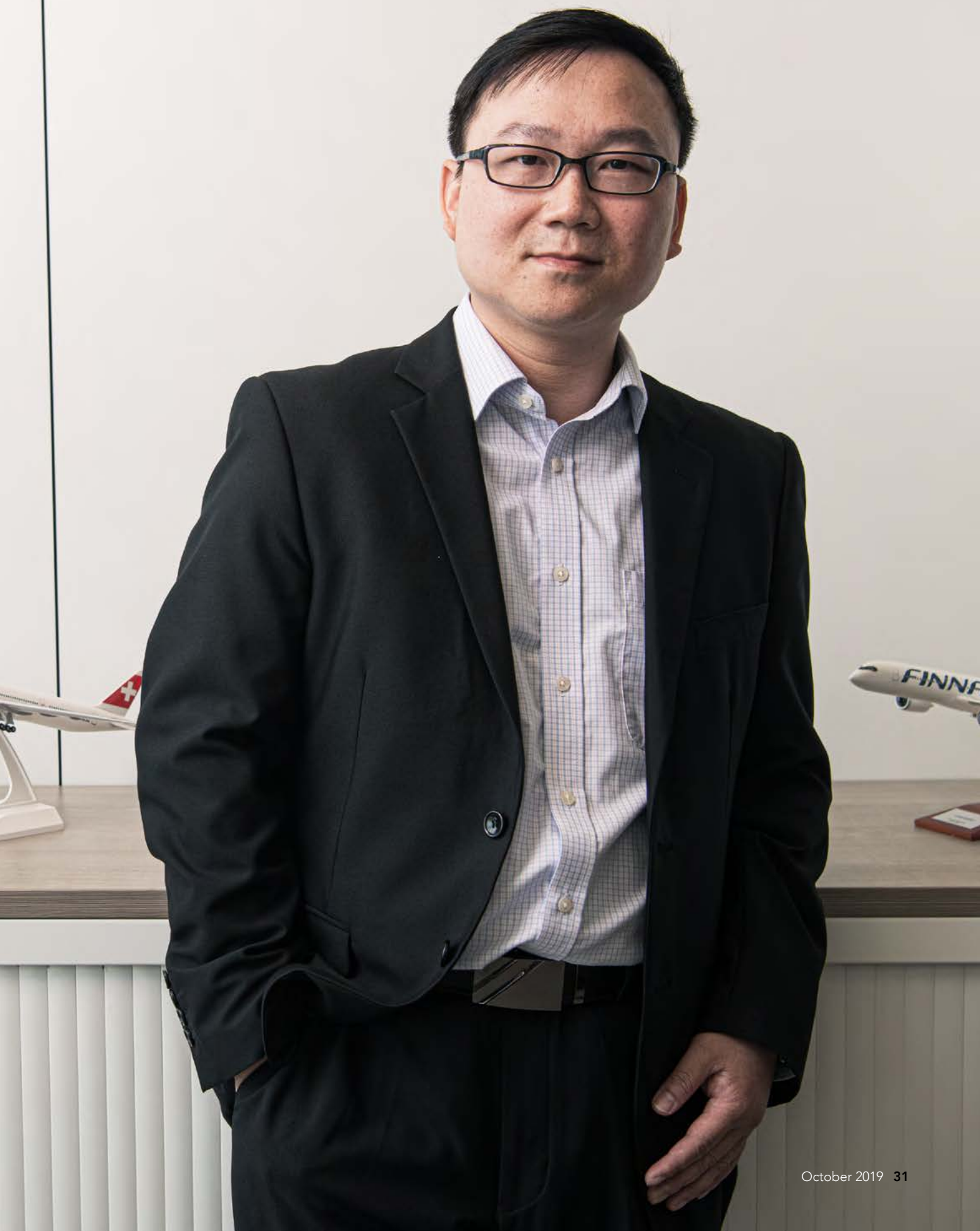


TAKING ON THE WORLD

Frank Ho, Financial Controller at travel agency Charming Holidays, tells **Erin Hale** how travel came to play a critical role in his education and in his professional life

Photography by Calvin Sit





ACCOUNTANT PLUS

Frank Ho

Frank Ho has worked at Charming Holidays as Financial Controller since 2014 and performs regular financial analyses of the company's costs and business operations.



Frank Ho got his first taste of travel as a university student in Wales, where he joined a tour group during a term holiday and visited a number of famous cities in the United Kingdom, including Edinburgh, Manchester and Liverpool. Despite the cold and rainy weather of the U.K., being far away from home presented new opportunities for Ho to see and try things he never experienced as a student in Hong Kong. Though he was busy working towards his degree in accounting and finance, he travelled around Europe, visiting countries such as Greece, Italy, Germany and Switzerland.

Now back in Hong Kong, Ho frequently looks back on his travel adventures as a university student. Though busy at work, he still finds travelling to be enjoyable, informative and great for his mental health. “To manage work-related stress, I find it helpful to travel and take a break from the regular deadlines that come with being an accountant,” says Ho, who has been Financial Controller of Charming Holidays since 2014 and is a member of the Hong Kong Institute of CPAs.

Charming Holidays, a subsidiary of Ming Pao Holdings Limited, is a full-service travel agency which helps customers to organize group tours to various destinations around Europe, North America, New Zealand, the Mediterranean, Australia and China. Established in 1987, the company also has fellow subsidiaries with branches in Los Angeles, New York, Vancouver and Toronto. They also help customers book cruise holidays and study tours.

Japan, South Korea, Taiwan, and countries in Southeast Asia still remain the top destinations for Hong Kong travellers due to proximity and affordability, according to Ho. But those visiting destinations further away still seek professional help from agencies such as Charming Holidays and opt to join tour groups. Tour groups also mean that customers do not have to worry about the logistics of travel such as transport or possible language barriers, which can often be an issue in places like Eastern or Southern Europe where English is less widespread. “They want to enjoy a stress-free journey with good customer service,” Ho adds.

“Some companies might ask us to form a tour to Japan, Malaysia or Singapore, if they have had a good year and targets have been met. It’s a reward for employees.”

They also organize tours to more exotic locations such as Lofoten Island in Norway to see the Northern Lights, Murmansk, a Russian city in the Arctic Circle, and a trip to see the Southern Lights in Australia. “Hongkongers prefer travelling by themselves when the United States, Canada or Australia,” Ho says. “But in Eastern Europe, Spain and Portugal, they might have trouble as the level of English in those countries may not be as good.”

Ho says a current trend he sees

involves immersive visits. “We just formed a 10-day tour through Switzerland and Italy – it’s a ‘deep tour,’” he says. The tour brings customers to one or two countries over the course of their trip and allows them to engage in local culture in a more meaningful way. Because of this, Charming Holidays’ main customer base consists of families, professionals and retirees looking for a long-haul trip.

Ho says the company’s key drivers of cost include flight tickets, hotels and expenses for tour guides such as visas and local ground transport. “We keep those costs under control by comparing quotations from different vendors and monitoring the performance of tours in different destinations.” Though the company partners primarily with premium-quality full service airlines like Emirates, Cathay Pacific and Lufthansa, group-booking helps to keep airfares low even when retail airline tickets fluctuate due to fuel costs.

Charming Holidays also helps companies to book incentive trips in the form of group tours or corporate outings to reward high performance. Corporate trips include tailor-made tours for team building activities, exhibitions and often accommodate a larger number of people than retail customer tours. “Our clients include retail customers looking for leisure tours and corporate customers looking for tailor-made tour services. Some companies might ask us to form a tour to Japan, Malaysia or Singapore, if they have had a good year and targets have been met. It’s a reward for employees,” he says.

New challenges

According to Ho, the abundance of information found online has changed the travel industry significantly over the last two decades. “Social media and the Internet play a role in opening up people’s minds to new ideas and locations – consumers tastes’ often change,” he says, adding how Charming Holidays has spent the last two years creating several tours to view animal migrations in Africa to meet emerging demand.

Ho adds that low-cost airlines also allow Hong Kong travellers to book short-haul trips themselves, especially to English-speaking countries. The company has to compete with platforms which help customers to book their flights, hotels, and transportation all at once.

In September, Thomas Cook, one of Europe’s largest travel groups, collapsed, stranding hundreds of thousands of travellers abroad and affecting more than 20,000 employees. With that in mind, Ho notes the importance of “adopting and reacting to the changing business environment.”

“Increased competition, weaker sterling as a result of Brexit,

changing travel habits and rise of online booking sites have had a big impact on Thomas Cook,” he says. “The merger between Airtours and MyTravel Group left Thomas Cook with a heavy debt burden and made Thomas Cook difficult to finance.” He adds that the “company should have a strong financial position to tackle any unfavourable economic environment.”

Team player

Ho says his CPA qualification greatly helps him in his role as financial controller, where he is responsible for the consolidation, financial reporting, budgeting and forecasting of all tour groups. He also monitors the financial performance of the company to ensure proper internal control and risk management.

He is particularly pleased with how he set up a new tour system and accounting system during his time at the company. “I ensured that all the relevant information could be transferred from the tour system to the accounting system to the right entry format and figures,” he says. “With the new system we can generate management and financial reports a lot quicker.” He performs regular financial analyses of the company’s costs and business operations to ensure it keeps up with relevant changes, which includes changes to accounting standards. “As accounting standards are updated regularly, I need to consider the updated accounting standard which affects the financial report of the company, such as Hong Kong Financial Reporting Standard 16 *Leases*,” he says.

Long before he studied in the U.K., Ho already knew that he wanted to work with numbers. “In

primary and secondary school, my mathematics results were better than other subjects,” Ho remembers. This led him to pursue further studies in maths, and later, accounting.

Ho became a qualified accountant in 2006 with the Association of Chartered Certified Accountants before attaining his CPA qualification from the Institute in 2008 under a mutual recognition agreement. He then worked at Singamas Container Holdings Limited, a logistics company specializing in container manufacturing, as an accountant. “I consider it to be an important point in my career,” Ho says. “Working in a commercial field helped me understand how teams work solve problems together on a daily basis. This also provided an opportunity for me to apply my accounting skills to a manufacturing and service company at the same time.”

While studying part-time for his masters of business administration from Hong Kong Polytechnic University in 2013, a feat he accomplished while also working, Ho travelled to Cambodia and visited several factories to learn more about their operations as part of the MBA programme. “We went to three garment manufacturing factories and studied the challenges they were facing. We then provided suggestions for the companies in their operations,” he remembers. “I saw firsthand how foreign professionals coped with problems to do with language, culture and law systems. They needed to modify their own business model to adapt to the local environment.”

Ho says he continues to attend seminars at the Institute to keep up with the latest accounting standards.



“As accounting standards update every year, I need to consider the updated accounting standard which affects the financial report of the company, such as HKFRS 16 *Leases*.”

Ho majored in accounting and finance at university in Wales. While there, he took the opportunity to travel around Europe.



Charting a new course

Ho is a passionate sailor who enjoys sailing open waters surrounding Hong Kong in his spare time. “The ocean wind makes me feel very relaxed, and it’s a great form of exercise too,” says Ho, who is also a member of the Institute’s Sailing Interest Group.

While sailing is a leisure activity, it also required him to learn a number of new skills to properly operate a dinghy in Hong Kong. “As a beginner, I remember it was difficult determining the direction of the wind. We learned how to adjust the angle of the sailboat to the wind,” he says. He eventually learned how to windsurf and also how to sail a yacht with a

group of sailors. Ho also takes the opportunity to network and bond with the fellow CPAs in the interest group. “I got to meet people and establish new connections. Just by speaking with them while sailing, I feel I gained more insight into how I could advance in my career.”

He participated in the “Around the Island Race” with other CPA members, where they competed to see which team could sail around Hong Kong Island first.

Ho’s passion for travel never went away, and he now enjoys travelling with his wife and son – they visited both Taiwan and South Korea last year. His son has also taken after him in his interest in travel. He

adds how his son went on a study tour in the U.K. and visited places such as Oxford and London. “I feel that my son learned to be a bit more independent after the study tour in the U.K. His spoken English improved as well,” he said.

When not travelling, however, Ho’s main hobbies remain closer to home. “Life is a journey. Apart from working, I enjoy spending time with my family. I recently learned basic photography skills and enjoy taking photos when travelling and hiking with family and friends,” Ho says. As for his next big trip, he looks forward to skiing in Osaka in Japan with his family during the Christmas holidays.



Charming Holidays arranges tours to destinations in the U.S., China, Canada, Europe, Russia, Australia, New Zealand, South Africa, Egypt, the Mediterranean and South America.



The Chief Executive Officer
and Chief Consultant of
InsideOut Training on how to
become a better listener



How to listen and communicate effectively

Effective communication is a vital skill which helps to foster a better mutual understanding with the people we interact with.

We have all spent years learning how to communicate through reading, writing and speaking, but few of us have really focused on learning how to listen in order to understand.

American author Dr. Stephen Covey introduced the concept of “empathic listening” in his book *The 7 Habits of Highly Effective People*, the fifth habit of which is to: “Seek first to understand, then to be understood.”

Empathic listening helps us to understand others, and to do so with a sincere desire to see things from other people’s point of view – such as their reasons for feeling a certain way. The first essential step involves “active listening,” that is paying attention to what another person says. As illustrated in the example below, active listening is an acquired skill, and one which is only possible through overcoming certain “listening blocks.”

The seven listening blocks

One evening, while stretching in the gym, a friend of mine shared his worries. He suspected he had a serious health problem, and had taken a number of medical examinations. The medical report would be ready the following week and he was understandably scared. One can become a better listener by avoiding the following seven mistakes, or “listening blocks”:

1. Advise. Jumping in and taking charge of the conversation by giving suggestions and advice. “I know a very famous Chinese doctor who has cured many rare diseases before. I’ll WhatsApp his name card to you when I get home.”
2. Debate. Making a point instead of understanding what had been communicated. “You’re wrong. You do not have the symptoms of that disease.”
3. Interrupt. Interrupting with your own story. “The same thing happened to a friend of mine last year. She consulted six doctors but still could not find out the cause of her high body temperature.”
4. Judge. Trying to find fault and immediately

invalidating what had been said. “You said you are worried and did not sleep well, but worrying is useless and a waste of time!”

5. Minimize. Playing down one’s message, feelings and experience, albeit with a well-intention effort to console the person. “Don’t worry! Last year, a friend of mine had more severe symptoms than you have now. After a thorough medical check-up, it was found that she only lacked vitamins.”
6. Passive listening. “Zoning out” and pretending to listen, or preparing what you would say when it is your turn to speak. “By the way, are you coming to the yoga class starting in 10 minutes?”
7. Sidetrack. Avoiding the topic by changing the subject altogether. “I’ve always believed that regular exercise is very important for our health. I plan to join one more type of group exercise.”

By avoiding these seven “listening blocks,” we are able to pay more attention to the person we are speaking to and observe body language such as facial expressions to better understand and empathize with someone’s emotions.

An appropriate response

Maintain eye contact during a conversation and respond with a nod of the head or an expression of “Uh-ha” from time to time to signal attention. During pauses, repeat in your own words what you have heard to ensure understanding. When replying, take note of your facial expressions and tone of voice.

Like many other people, I did not learn to listen until recent years. In the previously mentioned conversation, I purposely stopped myself from using the seven listening blocks, which was not easy. I paid my full attention to what my friend had said, observed his body language and responded with the appropriate signals. It’s never too late to learn, and if you work on developing your active listening skills, you will not only become a better listener, but a more effective communicator as well – you might even see an improvement in your relationships.

“We have all spent years learning how to communicate through reading, writing and speaking, but few of us have really focused on learning how to listen in order to understand.”

THOUGHT LEADERSHIP

by Irene Chu and Patrick Kirby

Chu, Partner and Head of New Economy and Life Sciences, Hong Kong, and Kirby, Director of Technology, Media, Telecommunications and Innovation, Hong Kong for KPMG China, say Hong Kong has an opportunity to significantly improve its entrepreneurial landscape



Hong Kong's entrepreneur ecosystem at a "critical juncture"

A dynamic and vibrant start-up ecosystem in Hong Kong is critical to the city's future success. In its quest to develop as an international innovation and technology (I&T) hub, the city is actively exploring where its greatest strengths and competitive advantages lie in the context of the new economy, and how it can leverage those strengths to create growth and opportunities.

KPMG China and Alibaba Hong Kong Entrepreneurs Fund recently released the second *Transforming Hong Kong Through Entrepreneurship* study, following up on last year's study of entrepreneurs in Hong Kong start-ups and university students enrolled in local degree programmes. The study found that future growth of Hong Kong's start-up ecosystem may be constrained if support is not better targeted to the needs of start-ups – particularly those that are progressing from early to growth stage.

At this critical juncture, Hong Kong has an opportunity to significantly improve its entrepreneurial landscape by focusing efforts on community support for start-ups, ambition and access to capital, the study suggests.

More education is still needed to improve access to funding

Entrepreneurs surveyed for the KPMG and Alibaba study say they plan to increase their use of formal sources of funding such as venture capital, government funding, bank loans and angel investors in the next three years. Yet, the findings suggest they are still heavily reliant on informal funding, with 70 percent currently using personal savings. Reasons identified for not using formal funding sources include the perception that it was not needed or that they would not qualify.

While it is possible for some start-ups to be internally funded, the high percentage is an indicator that the business model or sales ambition is not sufficient to grow and scale to a level which would attract capital from a competitive global market. Furthermore, it points to a potential mismatch between what types of business models founders and venture capital fund managers consider "innovative" and "highly scalable."

Additional targeted support for emerging sectors is needed

In 2017, the Hong Kong SAR government announced four priority sectors for I&T investment: artificial intelligence, biotechnology, fintech and smart city. The study found that entrepreneurs were more likely to consider Hong Kong as an

innovation hub for the fintech sector compared to the others. Two-thirds of entrepreneurs also agreed Hong Kong is well-positioned as a fintech innovation hub, compared with less than half who agree the same for the other three sectors. This suggests that for the other three strategic sectors, long-term investments and concerted efforts are needed to sustain their development and growth in the city.

Gaps in effectiveness of support services pose a risk to future vibrancy

Overall, entrepreneurs are making better use of support services, such as co-working spaces, pitching competitions and mentoring, compared with a year ago. However, the use and the effectiveness of these services tended to be higher for early stage start-ups as compared to growth stage and mature stage, suggesting a need for differentiated services targeted to post-prototype stage companies.

Next steps

Enabling Hong Kong to continue to improve its entrepreneurial ecosystem will require entrepreneurs, corporates, academics, and the general public to fully embrace change and take stake in the city's future. Our recommendations include the following:

- Expand public and private support for growth stage and mature stage start-ups.
- Start-ups should prioritize formal funding by elevating their ambition, accelerating global market entry and engaging mentors.
- International private equity and venture capital firms should utilize changes to profit tax exemptions announced for Hong Kong, and the government should continue to promote these exemptions and Hong Kong as a regional fund management centre.
- All stakeholders should further focus on enabling open data, technology transfer and the commercialization of research in priority sectors.
- Hong Kong should better leverage the opportunities in the Greater Bay Area.
- As founders build technology start-ups, they should ensure they are also building a people business that enables growth.
- Government agencies, corporates and other industry players should better educate the wider community on the value of start-ups.

Only through working together to focus on Hong Kong's long-term development can we make a lasting impact on the economy and society at large.

China Individual Income Tax rebate for qualified individuals in the Greater Bay Area

An overview of the rebate and how applicants can qualify and benefit from it

The Greater Bay Area (GBA) initiative in China is one of the most important economic development plans in recent years to connect the 9+2 GBA cities in Southern China and the two special administrative regions to form an integrated economic and business zone. The central government realized that having the right talent to help develop the GBA economy is important, and proceeded to introduce tax incentives to attract high-calibre talent from overseas to work in the Mainland GBA cities. In March, the Ministry of Finance (MoF) and the State Taxation Administration (STA) issued *Caishui* [2019] No. 31 outlining the framework for Individual Income Tax (IIT) rebate for eligible overseas talent. In June, *Yue Cai Shui* [2019] No. 2 was issued to clarify details of the IIT rebates.

Since the core competencies and economic development focus of the nine Mainland GBA cities vary, these Mainland GBA cities have the autonomy to define the categories of "high-end talent" and "talent in short supply" with special skills to qualify for the IIT rebates. The status of the local implementation rules as of 17 September are summarized in Table 1.

IIT rebate calculation method and illustration

The IIT rebate applies to income from 1) salaries and wages; 2) remuneration of independent services; 3) author's remuneration; 4) royalty income; 5) income from business operations; and 6) subsidies income obtained from selected talent projects or programmes. The rebate is calculated as the difference between the actual IIT paid by an individual and 15 percent of taxable income. Furthermore, the rebate will not be treated as taxable income in the hands of the taxpayer-

ers for IIT purposes. Table 2 considers the effect of the rebate on a range of salary income levels for an employee paying his own IIT, assuming the taxpayer is only entitled to the standard deduction of RMB60,000, no other deductions, and no other comprehensive income.

As illustrated in Table 2, the taxpayer would be subject to effective tax rates broadly on par with that in Hong Kong after receiving the tax rebates.

Before implementation of the tax rebate policy in the Mainland GBA cities, individuals who are subject to IIT on a day apportionment basis would try to spend less time in China in order to reduce their IIT burden. Now with the IIT rebate, individuals who qualify can travel more freely between Hong Kong and the nine Mainland GBA cities from the total personal income tax burden point of view.

Some employers too will benefit. If employers offer their employees tax equalization benefits, the IIT rebate will mean a reduction of employment cost, as the equalization amount will be lower.

Despite the above, individuals should be aware that if they become tax residents for IIT purposes, they will be subject to IIT on their worldwide income. Foreign individuals who do not wish to become tax residents for IIT purposes can take a tax break by staying away from the Mainland China for more than 30 consecutive days in a tax year within six consecutive tax years. By virtue of the relevant provisions of Public Notice [2019] No. 34 jointly issued by the MoF and STA, they will not be subject to IIT on their worldwide income.

IIT rebate application criteria

The applicant must meet the following basic and additional conditions:

Basic conditions – All three must be met:

1. Hong Kong or Macau permanent residents, Hong Kong residents under the Hong Kong immigration Admission Schemes for Talent, Professionals and Entrepreneurs, Taiwan residents, foreigners, or Chinese students or overseas Chinese who obtained long-term residency abroad.
2. Work in one of the nine Mainland GBA cities and pay taxes according to the IIT law. According to the finalized local implementation rules, some GBA Mainland cities impose further qualifying conditions on this point. For instance, to qualify for IIT rebates in Guangzhou, Zhuhai and Jiangmen, the applicants must stay in the cities at least 90 days in a tax year. Moreover, it is provided specifically in the rules of Guangzhou and Jiangmen that overseas employees on secondment can also apply for the IIT rebate.
3. Compliance with laws and regulations, ethics and integrity relating to scientific research.

Additional conditions – One must be met:

- Qualify as "high-end talent" or
- Qualify as "talent in short supply"

As the definitions of these categories vary among the nine Mainland GBA cities, an individual who qualifies as either in one Mainland GBA city does not necessarily mean that he meets the requirements for the other cities.

Will your employees benefit from the IIT rebate policy?

Mobility of talent in the GBA could be truly stirred up if the IIT rebate can benefit

Table 1: Local implementation rules as of 17 September 2019

Implementation status	GBA cities
Finalized	<ul style="list-style-type: none"> Guangzhou Zhuhai Jiangmen Zhongshan
In draft form	<ul style="list-style-type: none"> Dongguan Zhaoqing Huizhou Foshan
Not yet issued	<ul style="list-style-type: none"> Shenzhen

Table 2: Effective tax rates

	Example 1	Example 2	Example 3
Monthly salaries and wages	RMB120,000	RMB67,000	RMB45,000
Annual salaries and wages	RMB1,440,000	RMB804,000	RMB540,000
IIT before tax rebate	RMB439,080	RMB174,480	RMB91,080
Effective tax rate before tax rebate	30.49%	21.70%	16.87%
15% of taxable income	RMB207,000	RMB111,600	RMB72,000
IIT rebate	RMB232,080	RMB62,880	RMB19,080
Effective tax rate after tax rebate	14.38%	13.88%	13.33%

some of the employees where their physical work locations are a secondary consideration. To date, among the four sets of finalized local implementation rules, the Guangzhou rules provide a detailed list of both “high-end talent” and “talent in short supply.” The “talent in short supply” spans 16 industries with a wide spectrum of work types and seniority. However, the annual taxable income subject to IIT of the applicants in Guangzhou must be more than RMB300,000. The following is a selection of professions or positions included in the list:

- Chartered financial analyst
- Certified public accountant

- Private banker
- Insurance actuarial talents
- Risk management talents
- Fund manager
- Senior management (e.g. chairman, vice chairman, general manager, deputy general manager, director, chief economist, chief accountant, etc.)
- Software engineer
- Construction (including planner, designer, engineer, etc.)
- Professional service (including person with legal professional qualifications, registered surveyors, tax agents, translators, etc.)

- Product manager or project manager in new generation information technology industry
- New energy/new material engineer
- Electrician
- Logistics manager in modern e-commerce
- Performing artist
- Specialist doctor (e.g. pediatrician, obstetrician)

Can Chinese nationals benefit from the policy?

Chinese students or overseas Chinese who

obtained long-term residency abroad are covered by the IIT rebate policy. In addition, as detailed in Table 3, Hong Kong residents under Hong Kong's Admission Schemes for Talent, Professionals and Entrepreneurs which offers different types of visas, some of which are applicable to Chinese nationals. These individuals may qualify for the IIT rebates.

Indicative application procedures for the rebate

If the individual's IIT is withheld by a withholding agent, the application for IIT rebate should preferably be submitted by the withholding agent on the individual's behalf. In the absence of withholding agent, the applicant shall submit their application in person.

Table 4 illustrates the general application procedures and the government body in-charge for each step. Note that the process can vary among the nine Mainland GBA cities. For example, in Zhongshan, the assessment of "high-end talent" and "talent in short supply" is required before application for IIT rebate.

The rebate is calculated and distributed once a year. For those who obtain income from two or more sources within two (or more) Mainland GBA cities, the subsidies are shared proportionately by the relevant municipal governments.

Details application guidelines and documents required will be announced by each city separately. Taxpayers and employers are suggested to watch out for further announcements made by the authorities as well as application due dates. Note that while some cities offer a second window for late applications, other cities do not.

Points to note

The local implementation rules do bring clarity to those who would qualify for the

IIT rebates. However, the rules published to date do not provide answers to the following questions:

Location of employee and employment

It is noted that the definition of "high-end talent" or "talent in short supply" vary among the cities. Therefore, one may qualify for the tax rebate in one Mainland GBA city but not necessarily others. As IIT is normally filed and paid where the withholding agents are located, considering a group of companies with subsidiaries in many Mainland GBA cities, does it mean that the employees would be entitled to IIT rebates as long as their employment/secondment are located in a location where they qualify for a rebate even if their primary working locations is not in that city? While some Mainland GBA cities, e.g. Guangzhou requires the IIT rebate applicants to stay in the city for at least 90 days during a tax year, this is not something unachievable if the working locations of the employees are only of secondary importance to their job.

Application of general anti-avoidance rules

Considering the case above, will tax bureaus use the newly introduced general anti-avoidance rules in counteracting these arrangements?

Individuals changing employment

According to the indicative IIT rebate procedures, the withholding agents are preferably the parties handling the applications and collections of the IIT rebates for taxpayers. Consider the case of individuals changing jobs during a tax year or leaving Mainland China. Would it be practically possible for the individuals to apply for the IIT rebate themselves or apply for the IIT rebates before their departure from Mainland China?

Claiming tax credits for Hong Kong salaries tax

For Hong Kong residents, who hold Hong Kong employment and are required to work in other Mainland GBA cities, Section 50 of the Inland Revenue Ordinance (IRO) allows them to claim tax credits against their Hong Kong salaries tax liabilities. This is a means to fully or partially eliminate double taxation in the two tax jurisdictions. According to Section 50AA(6) of the IRO, the Inland Revenue Department (IRD) is authorized to issue additional assessments when the amount of relief from double taxation given to taxpayers becomes excessive. If the IIT rebate is considered as a financial subsidy but not a refund of IIT paid, it is arguable that the IIT rebate should not affect double taxation relief of the individuals. This position is subject to the IRD's agreement, and we would expect further clarification by the IRD and sharing of practical experiences with similar financial subsidies from other jurisdictions, if any.

Conclusion

The IIT rebate could bring a significant competitive advantage for talent acquisition in the Mainland GBA cities. While the level of IIT rebate is attractive, its impact will depend on the range of beneficiary groups. As of 17 September, Shenzhen, as one of the four growth engine cities in the GBA, has not yet published their local rules and implementation measures. Meanwhile, businesses should analyse the background and qualifications of their employees and estimate their potential tax savings. To take full advantage of the IIT rebate policy, businesses may consider revisiting their talent deployment strategy. For example, centralizing functions by deploying expatriate employees who are classified as "high-end talent" or "talent in short supply" to one of the Mainland GBA cities.

Once the eligible employees are

Table 3: Visa schemes for overseas Chinese nationals in Hong Kong

Type of Chinese nationals	Types of visa/scheme in Hong Kong
Applicable to Mainland Chinese nationals	<ul style="list-style-type: none"> • Admission Scheme for Mainland Talents and Professionals • Quality Migrant Admission Scheme • Technology Talent Admission Scheme • Immigration Arrangements for Non-local Graduates
Applicable to overseas Chinese nationals: (1) with overseas permanent residency, or (2) who has been residing overseas continuously for 12 months immediately before visa application filing	<ul style="list-style-type: none"> • General Employment Policy • Investment as entrepreneurs • Quality Migrant Admission Scheme • Technology Talent Admission Scheme • Immigration Arrangements for Non-local Graduates
Not applicable to Chinese nationals	<ul style="list-style-type: none"> • Admission Scheme for the Second Generation of Chinese Hong Kong Permanent Residents

Table 4: General application procedures for IIT rebate

Step	Action	Government body in-charge
1	Application	Human Resources and Social Security Bureau (HRSSB) and Science and Technology Bureau (STB)
2	Assessment for “high-end talent” and “talent in short supply”	For high-end talent: STB For talent in short supply: HRSSB
3	Examination of the applicable materials and approval of rebate	Finance Bureau (assisted by STB, HRSSB and Taxation Bureau)
4	Distribution of rebate	Finance Bureau

identified, proper travel schedules should be maintained by the employees to ensure that they meet the specific thresholds for applying the IIT rebate.

The IIT rebate would be distributed to the personal account of the applicants after the application is approved. If eligible employees are covered under a tax equalization arrangement, employees may have to refund the IIT rebate to the employer. For these cases, employers should communicate with the employees and revisit their existing tax equalization

policies and arrangements to ensure proper refund of the rebate.

The IIT rebate is good news for foreigners and Hong Kong, Macau and Taiwan residents, as well as some qualified Chinese nationals who plan to work in the Mainland GBA cities. In order to secure this IIT rebate, it is important for both businesses and individuals to stay abreast of the policy updates and implementation details. The involvement of multiple government bodies could potentially be a challenge for applicants. Where possible,

professional advisors should be involved in the application process.



This article is contributed by
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Domestic transfer pricing for tax purposes in Mainland China

A look at Mainland China's reforms on transfer pricing arrangements

Transfer pricing – the pricing of cross-border transactions between related parties – has become such a hot topic globally. In Mainland China, similar to other G20 countries, the aim is to find solutions to prevent companies from base erosion and profit shifting (BEPS) for tax purposes. Transfer pricing itself is not a problem – it is the potential for transfer pricing manipulation that the government fears and wants to prevent through regulation.

Tax-induced transfer pricing has generally been studied in three different contexts: between affiliated companies in different jurisdictions; between affiliated companies within a jurisdiction; and for the same firm across a period of time. Therefore, transfer pricing is an important issue in both international and national tax because it applies not only to affiliated companies across countries but also to these companies within a single country. Compared to international transfer pricing, domestic transfer pricing, namely whether affiliated companies shift income to reduce the group's overall tax burden and whether a firm shifts income from one period to another for tax reasons, attracts much less government attention.

However, the tax environment in Mainland China is changing.

The reasons for strengthening the monitoring of domestic transfer pricing are not hard to understand. Firstly, intrafirm trade in goods and services represents a substantial proportion of the Chinese economy and corporate business groups are a significant source of tax revenue for the government. Secondly, there are variations in income tax rates across regions and industries even after the 2008 income tax reform. Lastly, the current arrangement, in which affiliated companies can calculate their current taxes on an independent legal entity basis, creates strong tax incentives for group members to shift income within the group. Research (e.g. by Lin, Mills, and Zhang published in *Journal of the American Taxation Association* 2014) shows that Chinese companies exploit variation in income tax rates across member companies and industries to avoid subnational taxes through income transfers.

The government has made serious efforts to detect and deter corporate tax avoidance via transfer pricing. The current income tax regulation gives Chinese tax authorities more teeth to enforce the transfer pricing legislation. For example, with the implementation of the BEPS action plan in Mainland China, companies are now required to complete a total of 22 transfer pricing-related forms as part of their annual income tax return packages and to provide a comparison of profitability between related parties and non-related parties for segmented financial reports. When selecting audit targets, tax authorities particularly focus on companies with 1) a significant amount or numerous types of related party transactions; 2) business dealings with a related party in a tax haven; and 3) lack of tax return disclosures relating to transfer pricing or ones which "obviously violate the arm's length principle." Failure to submit contemporaneous transfer pricing documentation is subject to heavy penalties. What is worse, companies found to have tax deficiencies are placed under a five-year post-audit review, during which contemporaneous documentation must be submitted on an annual basis. It is clear that the government has now focused not just on onerous documentation requirements, but also on transfer pricing enforcement mechanisms.

The Chinese tax authority directs its domestic transfer pricing investigation mainly on cases in which differences in tax rates or profit-and-loss status exist within the group. For example, in 2014, Xuzhou Tax Bureau of Jiangsu province found that an agreement for sharing management and research and development expenses lacked economic substance and represented abusive transfers of profit between two differently taxed companies within the group, resulting in a tax deficiency of RMB5 million.

However, there are institutional constraints for the effective enforcement of tax laws in Mainland China. In a big country with multilevel governance, goal incongruence with the central government reduces local governments' incentives to effectively enforce tax laws for the state.

Tang, Mo, and Chan (*The Accounting Review* 2017) found that local governments actually help their companies avoid income taxes belonging to the central administration. So, how effective is the Chinese tax authorities' monitoring and enforcement of domestic transfer pricing regulation? To help answer this question, authors Lin, Mills, Zhang, and Li (*Contemporary Accounting Research* 2018) modelled a firm's tax incentive to shift income as a joint function of the spread in tax rates among members of the consolidated group and the magnitude of intragroup transactions. They used aggregate data from the *China Tax Audits Yearbook* to construct a provincial-level tax enforcement index that captures the probability of a tax audit and prosecution, the manpower sufficiency of tax offices to monitor taxpayers, the educational and professional level of the tax officers in a region, and the economic consequences of the tax audits in terms of additional tax payments and monetary punishment for tax underreporting.

The authors found that firms headquartered in regions with stricter tax enforcement exhibit less tax avoidance through transfer pricing. They also found that raising the enforcement intensity from the lower quartile to the upper quartile reduces tax avoidance via transfer pricing and hence, increases effective taxes, on average, by one percentage point for the average firm.

The above findings have implications for practice as CPA firms often face conflicting demands to give clients tax minimization advice on the one hand and to detect material cases of corporate earnings management on the other. From a practice perspective, the findings suggest that to minimize litigation and reputation risk, tax practitioners should understand the enforcement behaviour of tax authorities as government scrutiny appears to vary according to geography, firm attributes, and year.



This article is contributed by the **Kenny Lin**, Professor, and **Shanshan Shi**, Programme Director, at the Department of Accountancy at Lingnan University.

TECHWATCH 204

The latest standards and technical developments

Local updates

Auditing and Assurance Standards Committee minutes

Minutes of the 376th meeting are now available.

Members' handbook update no. 232

Update no. 232 contains conforming amendments as a result of the Code of Ethics for Professional Accountants issued in November 2018, and revisions to the Insurance-related practice notes to incorporate changes arising from the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules issued by the Insurance Authority which came into operation on 23 September.

Institute submission

The Institute commented on:

- International Auditing and Assurance Standards Board's (IAASB) discussion paper on *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the International Standards of Auditing*.
- International Accounting Standards Board (IASB) Exposure Draft ED 2019/4 *Amendments to International Financial Reporting Standard (IFRS) 17*.

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.

International updates

Ethics

International Ethics Standards Board for Accountants released a webinar on

proposed changes for role and mindset expectations.

IFRS update and articles

- August 2019 IFRS for SMEs Update.
- September 2019 IFRS Interpretations Committee update and podcast.
- September 2019 IASB update.
- Proposed amendments to IFRS 17 *Insurance Contracts* – Nick Anderson, a member of the IASB, offers insight into the new disclosures the IASB is proposing to add to IFRS 17 *Insurance Contracts*, which will make it easier for insurers to explain their results in an article.
- Better information about business combinations – in its goodwill and impairment project, the IASB is investigating how companies can provide users of financial statements with better information about business combinations at a reasonable cost. It is also considering the challenging question of how to account for goodwill after a business combination. Tom Scott, a member of the IASB, discusses the IASB's preliminary views on these matters and encourages stakeholders to respond to the IASB's discussion paper expected to be issued around the end of 2019 in an article.
- Amendments to IFRS in response to the Interest Rate Benchmark Reform (IBOR) – the IASB has amended some of its hedge accounting requirements in its new and old financial instruments standards, IFRS 9 *Financial Instruments: Recognition and Measurement*, as well as the related standard on disclosures, IFRS 7 *Financial Instruments: Disclosures* to provide relief from potential effects of the uncertainty caused by the IBOR reform. The IASB has also published a

project summary that provides further information on the work related to the IBOR reform.

Corporate finance

Institute comments on proposals for codification of general waivers and principles relating to IPOs and listed issuers and minor rule amendments

The Institute issued a submission on 23 September, in response to the proposals by Hong Kong Exchanges and Clearing for codification of general waivers and principles relating to IPOs and Listed Issuers and minor rule amendments, which were reported in the September 2019 issue of TechWatch.

In particular, the Institute has been made aware of concerns expressed by members about the proposal to codify the waiver that has been granted, in certain limited cases, to companies whose company secretary does not comply with the qualification or relevant experience requirements under Rule 3.28 of the Listing Rules.

In the submission, the Institute indicates that it does not support this proposal for several reasons. Concerns raised include the following:

- The company secretary of a listed issuer has an important role and responsibilities, which include supporting the board, advising it on governance matters and facilitating directors' professional development. He or she should have sufficient standing within the company to fulfil this role.
- Under the proposal, a waiver may be granted where the person appointed to be company secretary does not meet the requirements of Rule 3.28, where that person is assisted by someone who does comply with the rule, for

the period of the waiver, which could be for up to three years. However, the Institute's submission points out that the person assisting the company secretary might be too junior to have any significant influence with the board or management.

- Ideally, the company secretary of a listed issuer should be a qualified professional who is bound by an ethical code and is subject to a disciplinary framework. He or she should also be familiar with the regulatory and governance environment and culture in Hong Kong.
- Where the person appointed is not a qualified professional, he or she should at least be able to meet the "relevant experience" requirements of Rule 3.28 and be familiar with the Hong Kong laws and regulations specified in the rule.
- The Hong Kong market currently offers some of the highest standards of corporate governance in the region. This is fundamental to investor confidence and the success of the market. We cannot afford to relax requirements in a way that could risk harming Hong Kong's standards or reputation.

Please also refer to the Chief Executive's update issued to members on 23 September for further details.

SFC proposes to regulate trustees and custodians of public funds

On 27 September, the Securities and Futures Commission (SFC) launched a consultation on a proposal to regulate depositaries of SFC-authorized collective investment schemes (CIS).

Depositaries operating in Hong Kong would be licensed by, or registered with, the SFC for a new type of regulated activity (RA 13) and be subject to the

ongoing supervision of the SFC or the Hong Kong Monetary Authority.

Depositaries refer to trustees for CIS in unit trust form, and custodians for CIS in other forms, who are at the top of the custodial chain. They have the responsibility to safeguard scheme assets and perform independent oversight of scheme operations.

Comments are requested by 31 December. Please refer to the press release for details.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Implementation of Comprehensive Avoidance of Double Taxation Agreement (CDTA) with Cambodia and Fifth Protocol to the Mainland CDTA.
- CDTA with Estonia signed.
- Tax guide for charitable institutions and trusts of a public character.
- IRD penalty page updated.
- Transfer pricing documentation – master file and local file.
- Property owners convicted of tax evasion.
- Stamp duty statistics (August 2019).

Institute's recent tax submissions

The Institute's Taxation Faculty has responded to the invitation for views on the proposed profits tax concessions for the insurance industry.

Legislation and other initiatives

Anti-money laundering notices

For the current lists of terrorists, terrorist associates and relevant persons or entities under United Nations (UN)

sanctions, members should refer to the Institute's AML webpage which is updated regularly. The UN sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of the sanctions currently in force in Hong Kong.

AML/CTF guidance

For mandatory guidelines and information from the Institute on the AML/CTF requirements for members, see the Institute's *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*.

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 204, available as a PDF on the Institute's website: www.hkicpa.org.hk

WORK AND LIFE

Retired CPAs

Albert Wong keeps fit by playing tennis. Here, he is practicing at the Craigengower Cricket Club in Causeway Bay.





TIME OF THEIR LIVES

For many, retirement is a time to relax after years of working. But for others, it is also precious time to focus on fitness. Three retired Institute members share with [Jeremy Chan](#) how they dedicate their time, the challenges they have overcome in their long careers and why health truly is wealth

Photography by Anthony Tung

It's a late weekday afternoon, and Albert Wong has just arrived at the Craigengower Cricket Club in Causeway Bay for a round of tennis with his friends. With his racket at the ready, he takes time to stretch before launching the tennis ball high in the air and hitting it with a rigorous swing. He shows no signs of fatigue, and continues to practice for the next few hours – even though the 62-year-old played golf with another group of friends earlier that day.

Since retiring in 2017, physical activity plays a larger role in Wong's life, especially after a frightening incident a decade before. "Due to pressure at work, I remember almost collapsing," he says. "I was regularly working 14-hour days and all my time and energy went to work." Wong luckily regained consciousness. Unsure of what really led to the collapse, it was a wake up call for Wong, who was 50 at the time. He decided to start doing more physical activity, and saw how it made him stronger and helped him cope with stress during the years leading up to his retirement, and the years after.

More retirees like Wong recognize the importance of a healthy retirement and are incorporating more physical activity into their daily routines. Indeed, a 2019 Journal of the American Medical Association study found that physical activity increases the odds of having a healthy aging process by up to 36 percent. The study also found that individuals benefited from exercise, even if they began later in life.

Wong spent more than 30 years working at the Audit Commission of the Hong Kong government. His last role as assistant director involved performing value of money audits and compiling performance audits on 60 government departments.

For a healthier life and decreased risk of disease, the Hong Kong Department of Health recommends at least 30 minutes of exercise at least five times a week. Regular physical activity improves heart function, helps to maintain an optimum body weight, reduces stress and promotes psychological well-being.

He graduated from the City University of London in 1982 with a degree in economics and accounting. He first worked at KPMG as a trainee accountant for two years and then worked at the Treasury of the Hong Kong government as an accounting officer of the internal audit department for a year. He then joined the Audit Commission in 1985 as an auditor, attained his Institute qualification in 1988, and embarked on a 12-month work secondment at the National Audit Office in London. "Going from working at the Treasury to working at the Audit Commission was a big jump, at least for me," Wong says. "During the secondment, I learned how to perform value of money audits and brought that experience back with me to Hong Kong." He worked his way up the ranks from senior auditor to principal auditor before being promoted to assistant director in 2010. "It's a very important role, as it ensures public funds are spent wisely and correctly," he says.

As Wong remembers, the most demanding times involved preparing audit reports, which would then be submitted to Hong Kong's Legislative Council twice a year. "We had to submit these reports before the end of every April and October, and not a day late," he says. "I had to make sure each report was factually correct, constructive and balanced." The pressure took a toll on Wong, who wanted to exercise, but couldn't find time. "I was quite unhealthy and wasn't very active for most

of my working life – from age 25 to 50. After that incident, and having a colleague and friend pass away due to work pressure, I knew I needed to spend more on activities than just work," he says.

He began playing golf and tennis and attended running, hiking and cycling events organized by the Institute's interest groups. Wong quickly looked and felt noticeably healthier and saw how it positively impacted his work too. He began training on the weekends, and soon began completing full marathons. He also cycled the 1,000-km bicycle route around Taiwan in 2012.

Wong now dedicates his time to fitness and travelling with his wife. He has plans to travel to northern China with his family at the end of the year.

Running for his life

For Jeremy Chiu, retirement allowed him to go further with his passion for long-distance running. In April, the retiree embarked on an adventure he had been dreaming of for years. "I managed to run around Taiwan," Chiu says. "It's Taiwan's most famous biking trail and over a thousand kilometres long."

Chiu has been an active runner for almost two decades. Though he played sports such as football and badminton in his younger years, a serious knee injury in 1997 during a badminton game meant he had to take a long break. Unable to completely bend his legs, Chiu still remembers struggling to

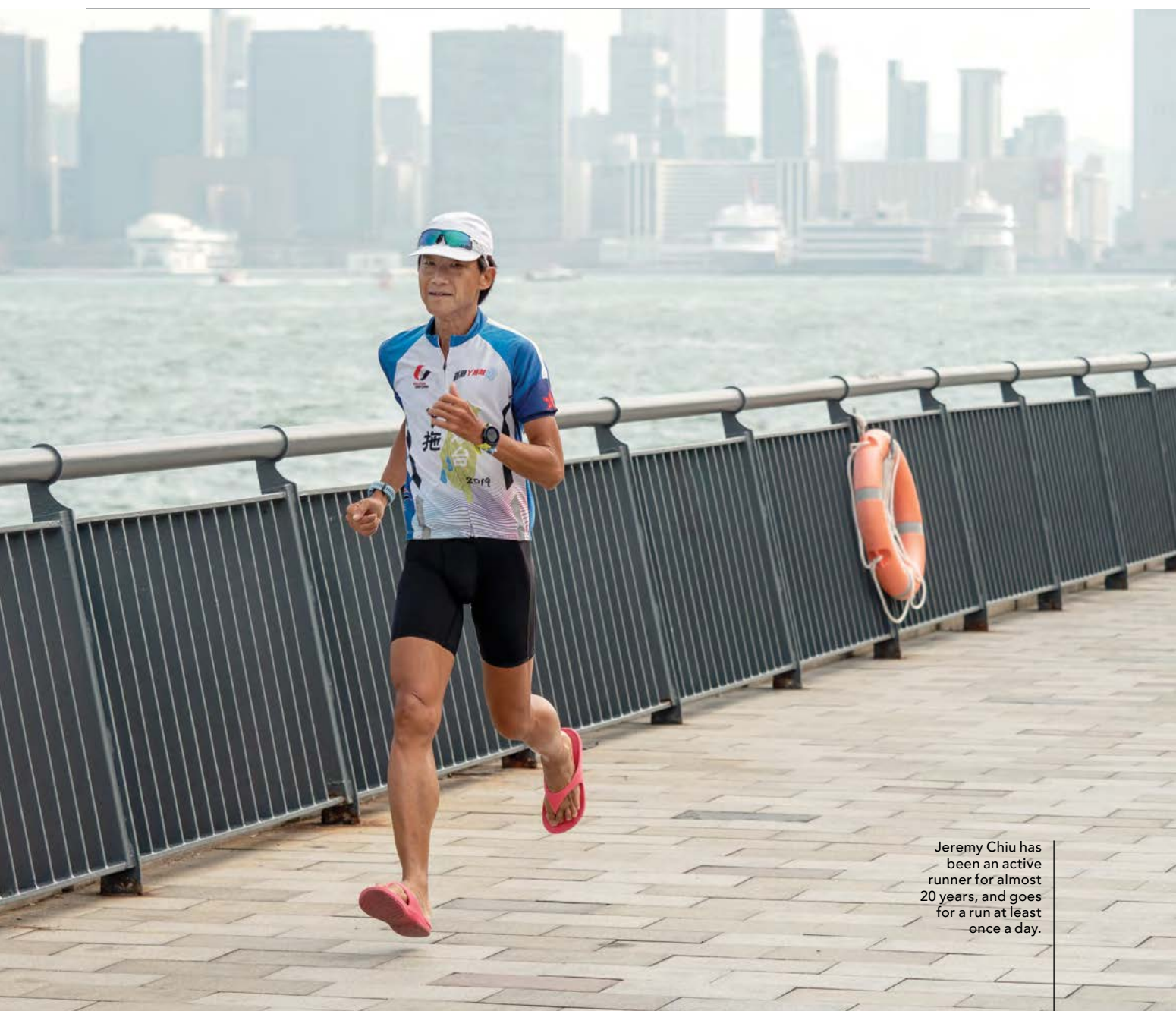
"I remember sitting at my desk all day at work just to avoid moving my legs."

even make it down a flight of stairs. "I remember sitting at my desk all day at work just to avoid moving my legs," he says. "I consulted a bone doctor, but even that didn't work." He stopped doing sports altogether for three years. Fed up with being sedentary and eager to move again, he decided to fight the pain and jog around his neighbourhood one day.

"I started very slowly," he says. "Though my knee still hurt during and after the run, it actually hurt a lot less than when I'd sit down all day." Able to only run around 400 metres at first, he doubled the distance every week, and after two years, he was able to run 10 km. The more Chiu ran, the stronger his legs became and the less his knee would hurt. After participating in short marathons, he took part in the Hong Kong Marathon and finished the full distance of 42 km in 2006.

For the years after, it was a delicate balance between working and running. He began his career at Nanyang Commercial Bank as an accountant and then became an asset liability manager. After 15 years, he went on to work at Bank of China and then the





Jeremy Chiu has been an active runner for almost 20 years, and goes for a run at least once a day.

Bank of Communications, where he retired from in April 2018. In the years leading up to his retirement, a friend had been asking Chiu to join him in a run around Taiwan but he turned it down, unable to take an extended period of leave. After hearing his friend and a few others would undertake the harrowing run again this year, he jumped at the opportunity.

Lugging a light backpack with essentials such as water, clothes and first aid, Chiu and a team of four others began by running 45-55 km

a day, stopping only to rest, stock up on food, fluids and to take in the views. "We'd see large stretches of green rice fields, mountains and the sea," Chiu remembers. "As tired as I was, just knowing I was about to see a beautiful sunset kept me going."

Instead of running shoes, Chiu and his team ran in special, well-cushioned slippers during the entire expedition. "They're breathable and don't restrict your feet and toes," he says. "In a way, these pink slippers helped me to complete the 1,000-km run." The team designated hotels as

checkpoints, where they would end at five o'clock every evening. Chiu completed the run in 22 days and says it was the most challenging, yet greatest run of his life.

Retirement has also allowed Chiu to travel. He is now planning to travel to the United States to fulfill his dream of running the Boston Marathon in April 2020. "Though I can't go back to playing the sports I used to play, I believe running will keep me healthy, hopefully for the rest of my life," Chiu says. "As long as I can move, I'll keep running."

William Chu practices wheelchair racing at the Tseung Kwan O Sports Ground every Friday evening.



Feeling unstoppable

William Chu is a wheelchair racer and member of the Hong Kong Federation of Handicapped Youth's Rehabilitative Affairs Sub-Committee. "One of our aims is to encourage wheelchair users to do exercise using their wheelchairs," he says. "We also promote wheelchair basketball and tennis." Since retiring in 2017, the

Accountant Ambassador has been focused on staying healthy and giving back.

As part of the sub-committee, Chu also attends and hosts consultations. The goal, he says, is to help improve the welfare of the disabled in Hong Kong. "We provide advice to policymakers in the Hong Kong, who will soon introduce a 10-year rehabilitation

policy from 2020-2030," he says. "For example, it's very difficult for bus drivers to notice a wheelchair user at a crowded bus stop – not many people stop to think about that."

Chu, who has suffered from poliomyelitis since age three, only began using a wheelchair in his 40s after he started experiencing issues in his knees. "The doctor



“It’s almost like travelling on a bicycle. And I love the feeling of speed.”

recommended I use a wheelchair for long journeys and crutches for short ones. But I don’t think being in a wheelchair has been much of a problem in life,” says Chu, who is happily married and has children. Eager to make the most of his condition, he went from using a regular wheelchair to a lighter and more durable sports wheelchair, and began racing in 2012.

“I started doing it for my health. I wanted to build as much strength as I could, while I could,” he adds. With a pair of gloves, he trained on a biking path in the New Territories and began pushing himself short distances of 3 to 5 km and was soon able to travel up to 10 km. Other cyclists, Chu remembers, were pleasantly surprised to see a wheelchair user training on the path. “Some of them gave me thumbs up or sent words of encouragement as they passed by,” he says. As a result, Chu lost some weight and his arms became more defined. It wasn’t long before he took on his first half marathon. “I recently completed a 21-km half marathon in Beijing in an hour and 57 minutes,” he says. The feeling of racing on a sports wheelchair, he adds, is like no other. “It’s almost like travelling on a bicycle,” he says. “And I love the feeling of speed.”

After graduating from Hong Kong Polytechnic University with a degree in management accounting, Chu

began his career at food company Amoy and then went on to work at industrial and automotive lubricant group Castrol for two years. He spent another two years at Hong Kong Telecom, a year at the Community Chest, and then joined electric company CLP, where he spent 25 years, and the last year as finance director of a joint venture between CLP and Hong Kong Telecom.

Since retirement, Chu has also been able to travel more. “Though I’m in a wheelchair, I’ve travelled a lot and been to places like Switzerland, Belgium, The Netherlands, Japan, Thailand, China – I love exploring new places in a wheelchair.” He is also learning the guitar and studying Japanese, and will sit an examination in December. Chu is also training hard for his first full marathon, taking place in Dongguan that same month.

Using his own experience, Chu is wholeheartedly dedicated to transforming the lives of other wheelchair users and wants them to know that it isn’t too late to start exercising. “We want them to know that exercise, especially wheelchair racing, is physically and mentally beneficial and will increase their confidence,” he says. “A wheelchair should not just be seen as a tool to recover from an injury or sickness. A wheelchair can become your pair of legs, ones which you can use to travel the world.”



YOUNG MEMBER OF THE MONTH

Bill Yu

BILL YU

Auditor at the Audit Commission of
the HKSAR Government





Bill Yu, Auditor at the Hong Kong government's Audit Commission, tells *A Plus* why he chose accounting over banking, and how the Institute's Qualification Programme (QP) equipped him with the right set of skills to pursue his goals

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

I'm an auditor at the Audit Commission of the Hong Kong government and working in one of the divisions responsible for value for money (VFM) audits. We audit different government bureaux and departments to assess the economy, efficiency and effectiveness in discharging their functions. I'm involved in preparing one of the chapters in our Director of Audit's Report, which is published by the Audit Commission twice a year. Everything is going very well so far. I have met many senior officers and colleagues who are all very experienced, friendly, and willing to offer advice.

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

It's a challenge digesting the large amount of files and records, and presenting our findings in a clear and detailed manner. The results of the VFM audits are published in the Director of Audit's Reports and uploaded to the Audit Commission's website where it can be viewed by the public. Often, the issues I write about involve technical terms, or relate to complicated procedures that are hard to understand at first. For me, it's rewarding when the departments we've audited consider our suggestions, and see how their work can be further improved to make better value for money.

What inspired you to become an accountant?

I actually didn't intend on becoming an accountant at first. I majored in quantitative finance at university and, like my peers, I wanted to work in the banking industry after graduation. But that all changed after I attended a number of recruitment talks organized by different accounting firms. I learned how challenging yet dynamic the profession is, and how I would gain a lot knowledge in a short period of time.

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

Before this role, I worked at KPMG for more than five years, and the biggest challenge was going from the private to the public sector. Everything is different – from the work requirements all the way to the work culture. I want to thank the senior officers and colleagues who have been very patient and supportive in sharing their experiences and helping me with the overall transition.

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

Never stop learning. As accountants, we must not sit still. It is our job to keep abreast with new rules and regulations, and to help organizations comply with the requirements. It's also important to keep learning in general – it's a big world out there, and the more you learn, the more you realize how little you actually know.

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

I felt my knowledge in accounting was quite limited even after graduation, so I found Module A, Financial Reporting, and Module D, Taxation, to be most useful when I first started off as an auditor. The programme's comprehensive and well-structured curriculum really helped me to develop logical thinking and organization skills, especially through the workshops, which I found very practical.

SPOTLIGHT ON NEW YORK

Institute member, Ken Siong, Senior Technical Director at the International Ethics Standards Board for Accountants, shares his favourite places for your next business trip to the Big Apple



Have lunch at...

Chelsea Market

Chelsea Market is a food hall, shopping mall, office building and television production facility located in the Chelsea neighbourhood of Manhattan. It is open from 7:00 a.m. to 2:00 a.m. on Monday to Saturday, and from 8:00 a.m. to 10:00 p.m. on Sunday. “The food court in Chelsea Market is a delightful place to find a casual, satisfying meal. Whether it’s French crêpes, a currywurst from Berlin, or Mexican tacos, the cuisines reflect New York’s diversity and are relatively inexpensive. Don’t miss out on the doughnuts from Doughnuttery,” says Siong.



Relax at...

Bryant Park

“Bryant Park in midtown Manhattan is hard to beat for a cool place to hang out. During the summer, it bustles with activities such as yoga, live concerts, people playing ping pong and petanque and an open-air cinema. During the winter, it plays host to an ice-skating rink and colourful Christmas market,” says Siong. Also known as Manhattan’s Town Square, the park is famous for its seasonal gardens, free activities and al fresco dining.



EYES & EARS

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



What I'm listening to

- Clinton Yau, APAC Trade Compliance Manager at Google

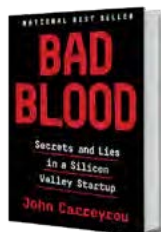
"I'm currently listening to electronic music from Norwegian house artist, Kygo. I'm deeply inspired by his musical talent and how he popularized tropical house music. His songs give me a nostalgic feeling as we step into autumn – and makes me not want to let summer go so soon! Some of my favourites are *Stargazing*, *It Ain't Me* and *ID - Ultra Music Festival Anthem*. His remixes of some classics are also pretty awesome, such as *Sexual Healing*, originally by Marvin Gaye. There are few things you cannot miss in life, and Kygo is definitely one!"

What I'm reading



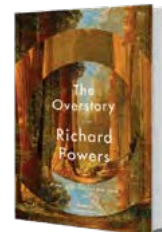
Besides books about wine, World War II-related books are also my all-time favourite, and *All Hell Let Loose: The World At War 1939-1945* by Max Hastings is the one I always recommend. It describes the military developments during that period, but also focuses a lot on the everyday life of individuals in societies of the different nations involved. It really helps readers to understand the misery and bravery of men and women of that time, and thus to cherish peace, which is not always guaranteed.

- Charles Cheng, Assistant Financial Controller at Furrion Limited



I recommend *Bad Blood: Secrets and Lies in a Silicon Valley Startup* by John Carreyrou. The book is interesting, as it is about the rise and fall of Theranos, a blood-testing company that claimed it could accurately run a wide range of tests with just a pinprick of blood, founded by Elizabeth Holmes when she was only 19 years old. She truly believed her company would benefit the community, but in fact, it achieved the opposite. This book really shows the dark side of human nature. It won the 2018 Financial Times and McKinsey Business Book of the Year award.

- Jacqueline Hsui, Assistant Manager in Risk Management and Financial Analysis at Soundwill Holdings



I have been reading *The Overstory* by Richard Powers which won the 2019 Pulitzer Prize for Fiction. The novel follows nine characters who develop a very close connection with trees. You almost begin to see the trees as individual characters. It is a fascinating book, and has made me appreciate the science of trees and how they relate to human beings.

- Kane Wu, Co-founder at ThinkCol

The economics of rockstardom

Hong Kong's humorist on why most people could have millions of dollars sitting at home – and not even know it



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*

An accountant finds 500 promotional copies of an early song by rock icon David Bowie in a junk room. What does he do?

He throws them in the rubbish bin. The year was 1970, and that music industry accountant, Laurence Myers, had no way of knowing that a single copy of that disc would be sold for thousands of dollars in the future. “Who knew?” he says, shaking his head at the memory.

I know the feeling. My wife keeps my daughter's every scribble in case she becomes a famous artist one day, despite the fact that she changes career choice on a weekly basis and hasn't touched a paintbrush for seven years.

Still, it MIGHT happen. So I did identify with the stories in a book Myers has written about the unpredictable shifts in fortunes in that business.

The book is called *Hunky Dory (Who Knew?)* because he keeps looking back on all the priceless memorabilia (useless junk) he threw away and saying to himself: “Who knew?”

Back in the 1970s, the accountant told his clients that people who chose precarious careers had to think about important long-term financial matters such as pensions. “Pensions?!” the young Mick Jagger replied. “After all Laurence, I'm not going to be singing rock ‘n’ roll when I'm 60!” (For the record, Mick Jagger is now 76, and still singing rock songs.)

But Myers revealed that rock stars do go through periods of insecurity – and Jagger at one state asked for advice on shifting to other careers, such as selling insurance. I, for one, think he would have been a good petrol station manager. (*Jumping Jack Flash, I got Gas Gas Gas.*)

In the early 1970s, a “single” (a disc with one song on each side) sold for six shillings and eight pence in the United Kingdom, and the equivalent in Hong Kong and elsewhere. The profit was 14 pennies. Of those, the English rock band the Beatles would get one penny – to share between the four of them.

Even when they sold enough singles to make

a fortune, 19 shillings out of 20 went to the exchequer. Which is why one of the Beatles' songs is called “Taxman” and the lyrics go: “*There's one for you, 19 for me.*”

Things improved for British pop bands in the following years.

A Hong Kong music industry friend told me that things had gone in the opposite direction here. Rock stars used to earn a lot, but their earnings shrank every decade.

When Sam Hui pretty much invented Canto-pop in the 1970s, he was the only game in town – but there were soon many earning big bucks, from Anita Mui in the 1980s to the Four Heavenly Kings in the 1990s, and to Nicholas Tse, the classic good-looking “bad boy” singer in 2000.

Then came disaster, as sales crashed. Problems were evident in 2008 when the Hong Kong branch of the International Federation of the Phonographic Industry said that the requirement for a platinum album would be dropped from 50,000 “estimated” sales to 30,000.

In recent years, income dropped below starvation rates. Hong Kong musician Wallace Kwok told the *South China Morning Post* in 2016: “We have seen too many independent musicians who had to make a living by teaching piano because they could not break even.”

Others adapted in different ways. Nicholas Tse is now back on TV screens, but has lost his bad boy image: he's now a wholesome TV chef.

And that's the challenge. Accountants are not magicians who can predict the future (except maybe for the top people in the Big Four). Neither are financial journalists.

The best we can do is make educated guesses. My wife thinks my daughter's childhood art could be worth millions one day. Readers: you can get in early by having a piece for just HK\$100,000. Or HK\$10,000? Or HK\$1,000?

Or maybe I'll pay you HK\$500 a month for a small space in which I can store them.

Finally I see you nod.

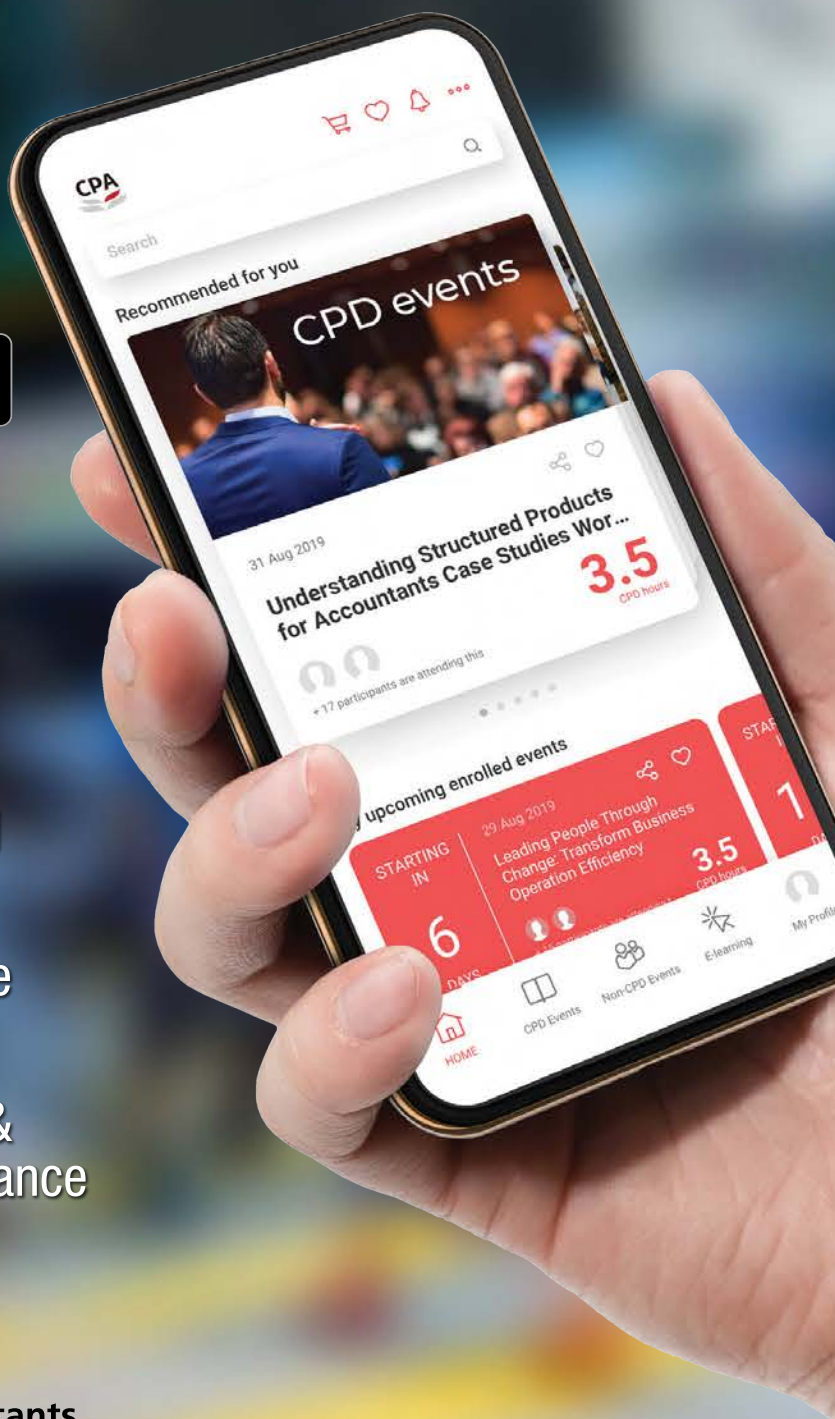


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