



**Driving business success**

Issue 1 / Volume 15 / January 2019

**Plus:**

**The HKMA's new Open API Framework**

A look into Hong Kong's move into smart banking

**Success**

Co-founder of the Institute's Forensics Interest Group Catherine Williams

**CPA footballers**

Why team spirit is everything in the Institute's Football Interest Group



How companies could put a value on natural resources

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**“When we build the profession together, we are stronger. As the President of the Institute, I am honoured to be leading the profession through this busy year, with some very important changes ahead.”**



Dear members,

Happy new year, I wish you a year of good fortune and success in your work and life. It is my privilege to be President and I look forward to the year ahead leading the Institute to its own good fortune and success and working closely with my Vice-Presidents, Council members and the management of the Institute for the betterment of the entire profession.

A key task for the Council this year is to recruit a new Chief Executive and Registrar. A new chief executive is vital for the Institute to operate effectively, and the search committee will be interviewing candidates for the role in the coming months.

Strong and productive relationships with our counterparts in the Mainland are important for the success of the profession in the years ahead. I have long taken an active interest and role in the Institute's activities in the Mainland, joining a number of delegations to meet representatives from the Ministry of Finance and other government and accounting bodies.

I expect the importance of the Greater Bay Area (GBA) to grow this year and the Institute will work hard in support of our members across the area. We will work to ensure effective communication with the relevant government bodies to facilitate Hong Kong-qualified accountants working in the GBA cities.

This year the Digital Strategic Plan will enter phase two. Building on the successful launch of the website last November, the team will develop new website improvements and new

services will be offered to members. The Institute will also release a new and improved events app for signing up to continuing professional development events. I look forward to the other improvements they have in store.

We will further develop the Accounting Plus theme, ensuring that the profession is ready for the opportunities ahead. We will also ensure that our continuing professional development courses are tailored to members' needs, offering them training in the skills needed to become Accountants Plus, and to succeed in the digitally connected era. While the launch of the new Qualification Programme, which begins rolling out later this year with a new student system and study materials, will help the next generation.

One big change affecting the practising members of our profession is the Financial Reporting Council (FRC) taking regulatory responsibility for the auditors of listed companies. The amendment bill is making its way through the Legislative Council process at the moment, and the Institute expects to meet with representatives of the Financial Services and the Treasury Bureau and the FRC in the coming months to discuss the remaining issues we have with the bill including the production of sanctioning measures guidelines, and the FRC's oversight of some activities of the Institute and the wider profession. It is expected that the new regime will be in place after summer and the

Institute will ensure the profession is supported throughout the transition.

Last year Council began publishing abridged minutes from its meetings on the website, so members can better understand the activities of Council, and this will continue this year. The Institute must effectively communicate with its members, to inform them of opportunities suitable for them such as continuing professional development, professional designations and other useful information.

Accounting Plus requires the Institute and the members to be more effectively communicating with each other. I believe it is important that we actively listen to our members, and I look forward to meeting members at the symposiums the Institute organizes, including for small- and medium-sized practitioners, young members and members in business. I am committed to attending many events across Hong Kong – one of my first activities, which I'm greatly looking forward to, is racing for the profession for the Chairman Cup of the Standard Chartered Marathon in February – and the Mainland. I look forward to meeting many of you at these events and hearing your voices and experiences in the age of Accounting Plus.

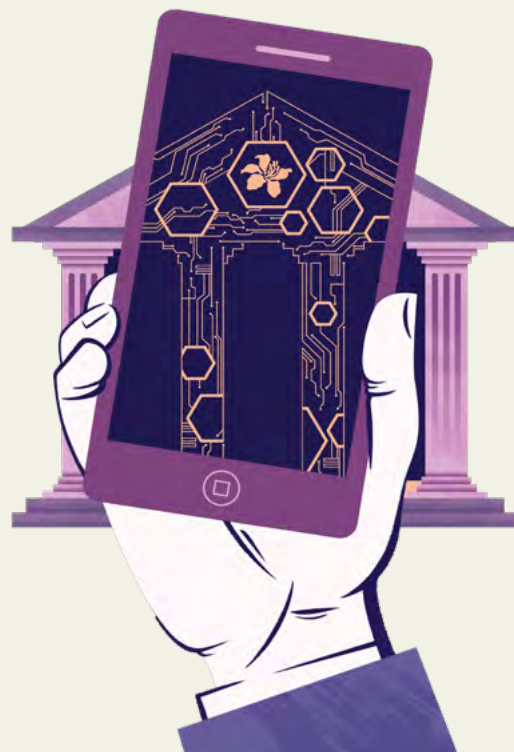
When we build the profession together, we are stronger. As the President of the Institute, I am honoured to be leading the profession through this busy year, with some very important changes ahead.

**Patrick Law**  
President

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## Hong Kong is open for businesses

How the Hong Kong Monetary Authority's new Open API Framework will save accountants' time and change the city's banking industry



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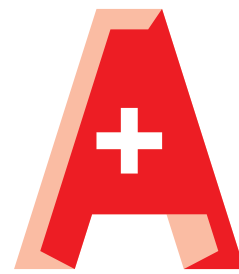




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## Fighting fraud

The Co-founder of the Institute's Forensics Interest group on what she gained from working in Hong Kong as a forensic accountant



### Driving business success

About our name  
**A Plus** stands for excellence, a reference to our top-notch accountant members who are success ingredients in business and in society. It is also the quality that we strive for in this magazine — going an extra mile to reach beyond Grade A.



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# News

Institute news    Accounting news

## Institute news

### The Institute wishes you a prosperous year of the pig



The Institute sends you Chinese New Year blessings for the year of the pig. We wish you and your family a happy and successful new year.

#### Ethics Circular

In December, the Institute issued a revised Ethics Circular 1 *Guidance for Small and Medium Practitioners on the Revised Code of Ethics for Professional Accountants* to provide guidance to assist small and medium practitioners, including sole proprietors, on their adoption of the revised *Code of Ethics for Professional Accountants* on the provision of non-assurance services and other topical issues to an audit client. The circular is available on the

Institute's website.

#### Advanced Hong Kong Tax Course

The Advanced Hong Kong Tax Course starting on 23 February is a compulsory component of the Institute's Professional Diploma in Hong Kong Tax, which helps enhance your ability to analyse contemporary taxation issues and develop sound tax planning solutions. You can also take the course on a standalone basis to expand your tax knowledge. Enrol in the course on the Institute's website by 15 February.

#### Standard Chartered Marathon

The Institute will have a booth at the

Causeway Bay Sports Ground next to the Hong Kong Central Library at the Standard Chartered Marathon on 17 February. The Institute's marquee will begin serving members at the earliest possible time from 6:30 a.m., providing storage service, refreshments, group photos and physiotherapy treatment.

#### AGM and Council meeting minutes

Minutes from the annual general meeting and December Council meeting are now available for members to read. They can be found in the "Members' area" of the Institute's website.

# PwC uses drone to audit company

PwC has used a drone as part of an audit for the first time in the United Kingdom. The drone was used to remotely measure and capture more than 300 images of coal reserves at a power plant in Aberthaw, South Wales, which belongs to RWE, a German energy company. The exercise, which took just half an hour, would have taken more than four hours if done via traditional methods. The firm is exploring other opportunities to deploy drones during audits following this success. Elaine Whyte, U.K. Drones Leader at PwC said: "Sectors with large assets in hard to reach areas are the most obvious starting points for expanding this kind of work further – from mining to agriculture and forestry." Rival firm EY has also revealed its plans to expand the use of drones in audit.



Illustration by Harry Harrison



### KPMG launches new law firm in Hong Kong

KPMG launched an affiliate law firm in Hong Kong this month, in a bid to meet increasing demand from clients for legal services. The new firm, SF Lawyers, will be led by accountant and lawyer Shirley Fu, who will lead a team of 20 lawyers. The firm also plans to launch in Shanghai later this year, where it will have a team of 22. Stuart Fuller, Head of KPMG Law said: "We want to expand our legal operations to meet the increasing client demand for legal services. We are not intending to be in direct competition with other law firms." EY has also expanded their legal services in Hong Kong in recent years, while Deloitte plans to launch its legal firm this year.



### RSM expands China presence

RSM has acquired Beijing-based firm Huapu Tianjian Certified Public Accountants LLP, expanding its reach in China. The move will bring 10 new offices country-wide and 1,800 professionals and partners into the RSM network. It is part of the firm's strategic growth plans, and its first step towards building a top 10 local provider. Huapu Tianjian will serve RSM's existing base of international corporate and middle market clients across the shipping, real estate, food and beverage, and professional services sectors. "China is an important region for internationally ambitious middle market businesses that RSM serves," said RSM International's Chief Executive Officer Jean Stephens. "Today is just the beginning of an exciting new chapter for RSM in China."



### Airbnb heads for IPO

Accommodation rental business Airbnb announced its second straight year of profitability on an adjusted basis as it prepares for an initial public offering (IPO). The company exceeded US\$1 billion in quarterly revenue in the third quarter of 2018, and is currently valued at US\$31 billion. Chief Executive Officer Brian Chesky has pledged to hold the IPO before 2020, once employee equity grants expire. The company, which launched as a start-up in 2008, expects to hit 500 million guest arrivals by the end of this year's first quarter. It is one of the many private tech companies expected to go public this year, alongside ride-hailing apps Uber and Lyft and co-working start-up WeWork.

### IRS employees to work amid government shutdown

The United States Treasury Department is forcing more than 50,000 Internal Revenue Service (IRS) employees to work without pay, following the release of a revised shutdown contingency plan. The new plan, released on 15 January, comes less than two weeks before the IRS will start to process paper and electronic returns and issue refunds to taxpayers. National President of the National Treasury Employees Union Tony Reardon said: "There is no doubt the IRS needs to get ready for the 2019 filing season that starts 28 January, and IRS employees want to work, but the hard, cold reality is that they've already missed a pay cheque and soon they'll be asked to work for free for as long as the shutdown lasts." The U.S. government has been partially shut down since 22 December 2018.

## A world of numbers



# 21

The number of years an average family would need to not spend a single dollar in order to afford a home in Hong Kong, according to the Demographia International Housing Affordability Survey. The city was ranked the least affordable housing market in the world for the ninth year in a row, beating its own previous record of 19.4 years, set in 2017. It would take 12.6 years for homeowners to buy a house in Vancouver, which came in second place, and 11.7 years in Sydney, which came in third.

# 800,000

The number of federal employees granted temporary leave or working without pay in light of the United States government shutdown. It is the longest shutdown in American history, having surpassed the 21-day shutdown of 1995-1996.

# 453

The cases of fraud individually worth more than £100,000 that made it to court in the United Kingdom in 2018. Cases involved the evasion of duty, VAT fraud, investment fraud, loans and mortgages, counterfeit goods, pensions and social benefits, totaling £1.2 billion, according to research by KPMG Forensic in its latest Fraud Barometer.





### 1 KPMG called in to help troubled cafe

British cafe chain Patisserie Valerie has brought in KPMG to “review all options” after accounting irregularities of up to £20 million were uncovered last October. The discrepancies, which were revealed by PwC, included thousands of false entries in the ledger of its parent company Patisserie Holdings. The parent company later admitted in a statement that the cash flow and profitability of the business had been overstated. Luke Johnson, the chain’s leading shareholder is negotiating with HSBC and Barclays to extend £9.7 million of overdraft debt which was due on 18 January. The company’s finance director, Chris Marsh has resigned, and been arrested by police.

### 3 China National Tobacco plans IPO

China Tobacco International has filed for a Hong Kong initial public offering. The listing will raise US\$100 million for the unit, accounting for a small stake of the overall business. The unit resells tobacco leaf products from Brazil and the United States to Chinese manufacturers. The subsidiary of China National Tobacco plans to use the proceeds from the IPO to purchase cigarette brands or tobacco product brands, and also plans to expand its reach into Southeast Asian markets. The listing comes at a time of increasing pressure within the nation to stop smoking, where 300 million people are smokers. Its parent company is the world’s largest tobacco producer by volume.

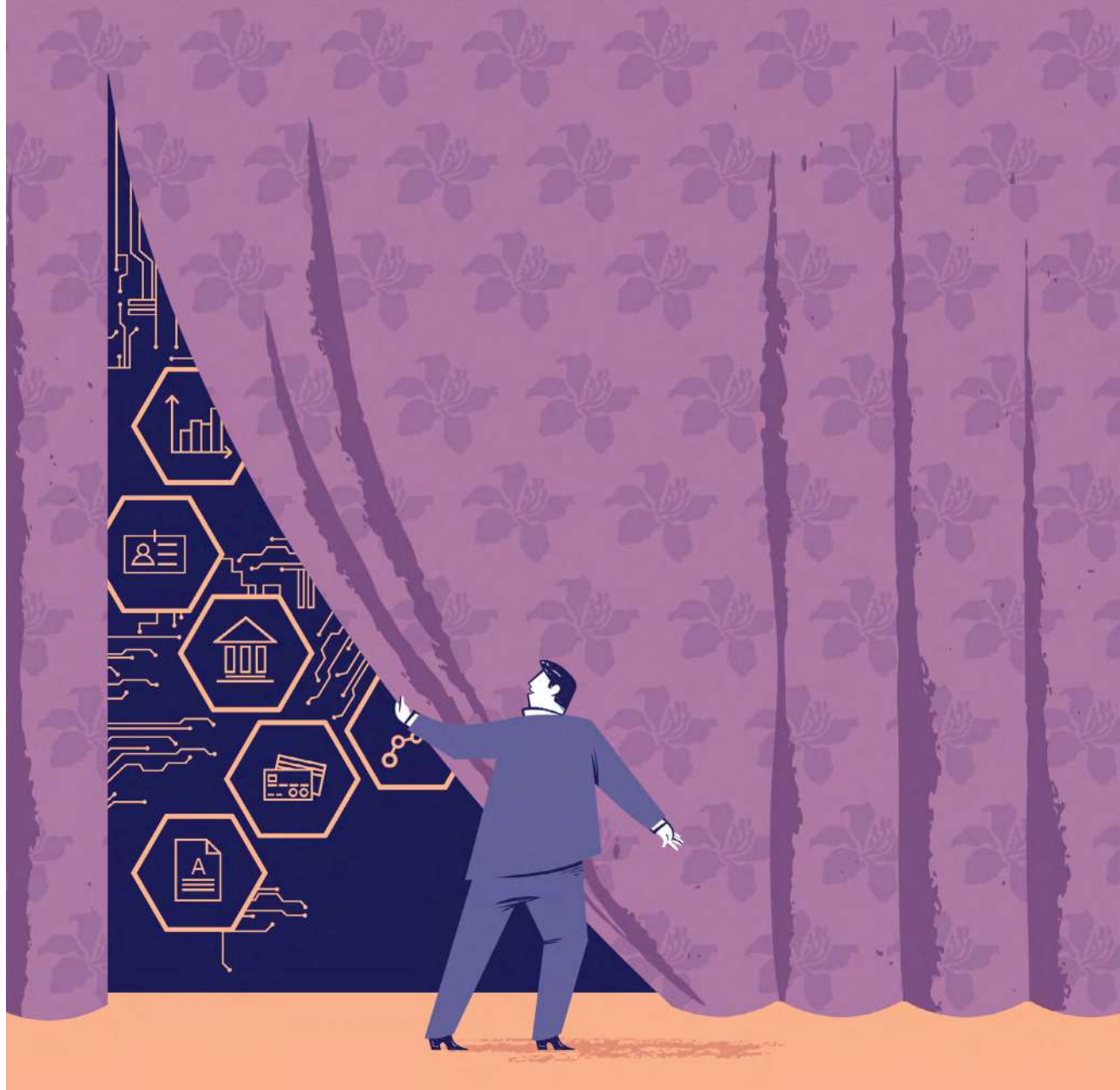
### 2 EY elects new global CEO

EY has elected Global Managing Partner Carmine Di Sibio to be the firm’s next global Chairman and Chief Executive Officer. He will succeed Mark Weinberger and begin his new role on 1 July. Di Sibio, who has been with the firm since 1985, has held a number of senior roles and has been an advisory and assurance partner for many of EY’s biggest financial services accounts. He is Chair of the firm’s Global Financial Services Markets Executive and also Regional Managing Partner for the Americas financial services organization. He also co-chairs EY’s Global Diversity and Inclusiveness Steering Committee. In a statement, Di Sibio said: “I am honoured to be chosen to lead this great organization, which I have been a part of for over 33 years.”

### 4 Eight charged with hacking into SEC

United States authorities have charged eight individuals for hacking into the Securities and Exchange Commission (SEC) database. The group, which includes three Ukrainians and a Russian, tapped into the SEC’s system from May to October 2016, accessing thousands of confidential documents related to corporations’ financial conditions. The data was sold to other traders, before it was made public. The SEC believes at least 157 earning releases were traded ahead of time, netting the group US\$ 4.1 million. In a statement, SEC Chairman Jay Clayton said: “These threats to our marketplace are significant and ongoing and often involve threats from actors outside our borders. No system can be entirely safe from a cyber intrusion.”

# Hong Kong is open for businesses



## The Open Application Programming Interface Framework, launched last July by the Hong Kong Monetary Authority, marked an important milestone for financial innovation in the city's banking sector. Nicky Burridge looks at the innovation it will likely create and the initiative's impact on accountants

Illustrations by Ester Zirilli

Imagine your phone has an app that enables you to keep track of your spending from not just one bank account, but from all accounts and credit cards you have across different providers.

It is currently challenging, if not impossible, to build such an app, but this situation is set to change with the launch of the Open Application Programming Interface (API) Framework for the Hong Kong Banking Sector by the Hong Kong Monetary Authority (HKMA) on 18 July 2018. The framework will be introduced in four phases, with the first part going live this January, followed by a second phase in October this year.

The open API framework is set to shake up the banking industry, drive innovation and lead to the creation of new models of customer service. APIs enable the sharing of data through digital channels, and while individual organizations have been using their own APIs for some time, the launch of the open API framework marks the first time the process has been standardized in Hong Kong. By defining deployment time frames and recommending open API technical standards, it enables financial institutions to open up their data to other organizations in a secure and consistent manner. According to the HKMA, the framework serves as a guide for the banking industry in Hong Kong to adopt APIs effectively and strike a good balance between innovation and risks.

Harjeet Baura, Hong Kong Financial Services Consulting Leader at PwC Hong Kong, explains that the framework means banks and insurers will be able to partner

up with third-party service providers (TSPs), such as technology companies, increasing the pace at which they can offer their customers new and more innovative products and services.

He points out that banks have been slower than other sectors to adapt to changes in consumer preferences as a result of the prevalence of smartphones.

“An open API allows banks to be more relevant to their consumers and move from being a product or channel-based organization, to one which offers a more seamless customer experience that is more integrated with people’s daily lives.”

In November, Xero announced the launch of its open banking API, enabling banks, FinTech companies and financial institutions to connect to the platform and provide bank feeds quickly for small businesses. Kevin Fitzgerald, Asia Regional Director at Xero, agrees that the establishment of the Hong Kong government’s open API framework will accelerate Hong Kong’s transition to the era of smart banking. He says that while integration between an app and a bank previously had to be done on an individual basis – a process that could take months – Hong Kong’s open framework provides a standard protocol, significantly shortening the development time. “This allows banks and third-party business app providers alike to become more nimble in meeting their clients’ needs,” he says.

### Opening the doors for innovation

The first part of the HKMA’s phased approach to implementing the various

open API functions will see banks sharing information on their products. Etelka Bogardi, Partner at law firm Norton Rose Fulbright, explains that this phase will give TSPs access to bank information on a read-only basis, allowing the development of comparison websites for products such as savings accounts, mortgages, loans and, in some cases, investments.

The second phase, which will be launched in October this year, will enable customer acquisition through third-party sites.

The final two phases, which will be introduced in 2020, will make it easier for customers’ account information to be shared between banks and other providers, and allow transactions to be carried out through the open API.

**“An open API allows banks to be more relevant to their consumers and move from being a product or channel-based organization, to one which offers a more seamless customer experience that is more integrated with people’s daily lives.”**



Bogardi explains that the third phase will give permission to third-party providers to authenticate customers and offer account aggregation services and financial management platforms, as well as perform analytics on customer behaviour, while following the final phase, customers will be able to carry out transactions through providers other than their bank.

All of the retail banks in Hong Kong have committed to sharing information on their products, the first phase of the open API, in January.

The framework will initially only apply to retail banking services, with the HKMA planning to roll it out for business banking at a later date, although there is nothing to stop banks using it for business services straight away.

### Customer-focused innovation

The launch of the open API framework is expected to have significant benefits for customers. "We believe open APIs will help create a healthy ecosystem where customers will be offered more choices and convenience with online banking services in a secure and inclusive way," an HKMA spokesman says.

Baura expects it to lead to customer-focused innovation, including a more personalized experience better integrated with people's day-to-day lives.

As organizations become more familiar with the open API framework, the innovation is expected to also occur in stages, with Baura initially anticipating greater transparency, through account aggregation and comparison sites, followed by a more holistic approach to customer service.

"I think you will start to see a more end-to-end experience around products. It will be more about the customer journey in terms of what are they trying to achieve in their life, as opposed to a banking journey."

He gives the example of one-stop shops enabling homebuyers to find a

property, obtain a mortgage and have all of their legal searches done through a single platform.

He also expects new products to be introduced in Hong Kong as a result of more integration between banks, other providers and the Internet-of-Things, such as pay-as-you-drive motor insurance.

**"We anticipate many more banking solutions for new customer journeys to be created, providing more convenience for customers."**

Standard Chartered agrees that customer experience will improve as banks open up access to real-time data. "The framework helps accelerate the development of an ecosystem in the industry promoting collaborations between participants, creating new business values while improving customer experience," a Standard Chartered spokesman says. "We anticipate many more banking solutions for new customer journeys to be created, providing more convenience for customers." He adds that it could also lead to more automation, making it easier for consumers to take out banking products through different channels.

Citibank Hong Kong has already set up a number of partnerships with other providers ahead of the launch of the open API. These include opening its own API to insurers AIA and Zurich, meaning personal information for Citi customers can be auto-filled in on insurance application forms.

Payment network JETCO is launching a platform, JETCO APIX, this month with

13 banks and other e-service providers, including OpenRice, Price.com.hk and MoneyHero.com.hk, to share information and enable participating organizations to collaborate on offering new services.

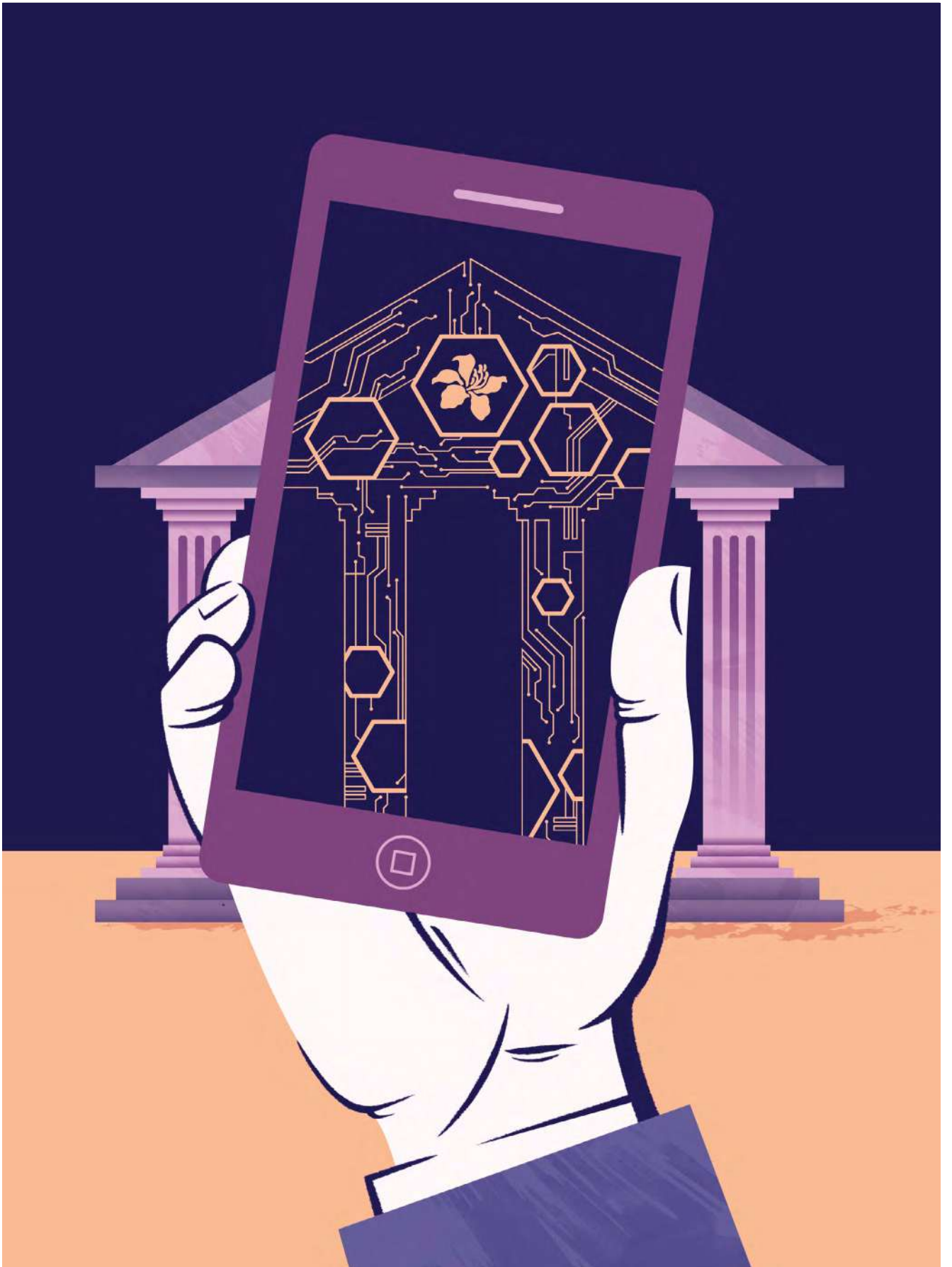
While the framework is initially targeted at retail customers, Neat, a FinTech company in Hong Kong which offers individuals and small- and medium-sized entities (SME) an alternative to traditional corporate bank accounts, expects the innovation to also impact the SME space, particularly in terms of lending. David Rosa, Chief Executive Officer at Neat, says: "By being able to integrate with banks and directly get data from banks, lending platforms will be empowered to make better decisions, and this could lead to new platforms popping up, meaning more opportunities for SMEs to get access to capital."

### Data security questions

The launch of the framework raises questions about the security of customer data. "The HKMA has provided guidance for the implementation of relevant measures, such as the use of prevailing international standards, to ensure security and its expectations on how banks should on-board and maintain relationships with TSPs, in a manner that ensures consumer protection," the HKMA spokesman says.

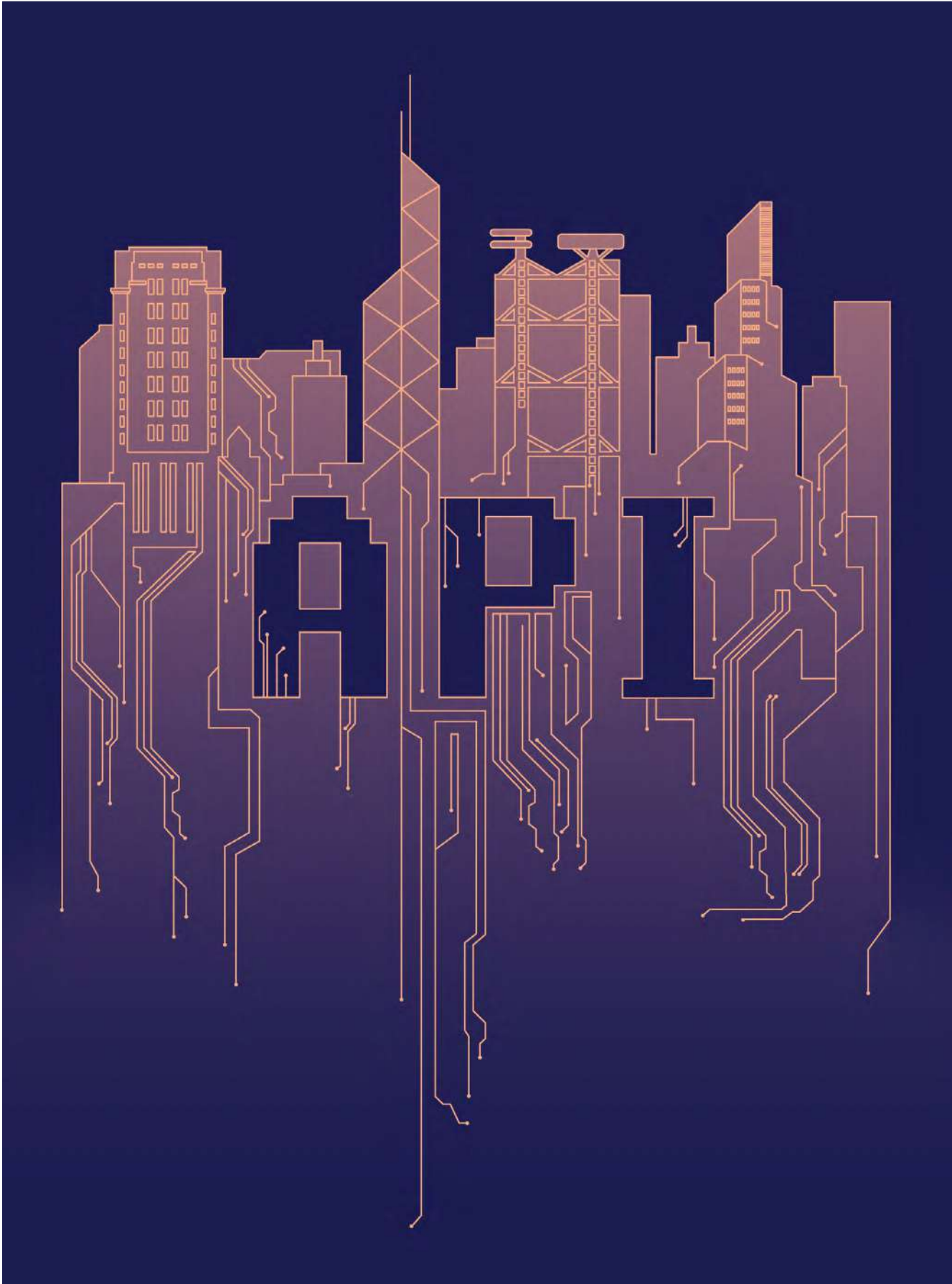
But some commentators think it does not go far enough. Baura says that in Europe, TSPs connecting with a bank have to comply with the same set of regulations governing data protection and management as banks. However, in Hong Kong, the onus is on the banks to assess whether the TSPs are managing data risks properly. He is concerned this could stifle innovation, as banks may not want to take the risk of being liable if third parties do not manage the data correctly.

Bogardi agrees: "Unlike some jurisdictions, third-party providers do not necessarily need to be licenced in Hong



**Business**

FinTech's banking opportunities





Kong. The responsibility for vetting and ongoing monitoring of them has instead been placed on the licensed banks themselves.”

She adds that some issues relating to third-party access to customer data and associated liability issues have not yet been clarified by the HKMA.

## Collaboration, not competition

The open API framework is seen by most commentators as an opportunity for traditional banks to collaborate with other providers, rather than a threat to them from more innovative organizations.

Bogardi says: “Given Hong Kong’s ecosystem of a high penetration and presence of traditional banking services and a relatively small, but growing, tech community, the developments will largely be driven by the large retail banks with smaller FinTech players coming on board with specialized offerings.”

Baura agrees, pointing out that while challenger banks may be more nimble and able to come up with more innovative solutions, the established banks are trusted and have a large customer base. He expects the latter to benefit from the open API framework by partnering up with a technology firm, rather than being threatened by them.

But he does expect the framework to drive down costs for consumers and hit banks’ margins. “I think it is going to reduce costs for the consumer and have an impact for those organizations that stick with a product and channel-siloed organization,” he says.

Rosa at Neat also points out that most challenger banks partner with

traditional banks to some extent. He says that while Neat accounts can be opened by companies without any existing bank account, and that Neat does not link to customers’ existing accounts, it partners with banks in the background to offer bank transfers.

## Opportunities for accountants

While the launch of the open API framework mainly impacts the banking industry, it also offers opportunities for accountants.

Baura thinks accountants could make use of it by offering their clients one-stop shops in which they take care of all of the back-office functions, by providing an accounting platform that connects with their bank through the API framework.

“The other opportunity could be through digitizing audits and using the open API framework to offer bespoke solutions,” he says.

Rosa at Neat, which recently partnered with Xero to become the first FinTech in Hong Kong to integrate with its API, points out that open APIs enable real-time data-sharing between banks and accounting systems. “The advantage this offers is that, for example, transactions can be booked automatically based on the transaction record in the bank statement. It means business owners can have a real-time overview on their cash position.”

He adds that this not only means accountants save time by not having to do manual entry, but it also enables them to instead focus on more value-added services, such as helping entrepreneurs with their budgeting, forecasting and financial

management.

Fitzgerald at Xero believes the open API framework will transform the business ecosystem to foster deeper collaboration between banks, accounting platforms and business applications, which typically work in silos. He says: “This will facilitate the secure cross-sharing of data through open APIs to provide in-depth business insights, helping SMEs harness the power of business analytics to provide cash forecasting and improve the ease of loan applications.”

He adds that the framework also paves the way for more banking innovation in the area of tax, such as the United Kingdom’s Making Tax Digital initiative, under which businesses will use digital channels for the exchange of tax information with the government. He points out that, according to a recent EY survey, 45 percent of taxpayers have never used the Hong Kong government’s e-filing services to file tax returns, despite the fact that the system was launched 10 years ago. “Introducing API integration between accounting and online tax platforms will allow bank transactions and other financial information to flow automatically to streamline digital tax return applications, which will be a big advantage for time-constrained SMEs and their advisors,” he says.

Overall, Fitzgerald thinks the open API framework will provide better tools for accountants, enabling them to be better advisors to their clients. “These integrations are bound to save accountants time from routine tasks, and help them make sense of their clients’ data quicker to provide timely advisory services,” he says.



The Monetary Authority of Singapore published its first set of APIs back in November 2016. Like Hong Kong, it started with 12 sets of information covering frequently accessed data such as interest rates and exchange rates.



# RELEVANCE PLUS EASE

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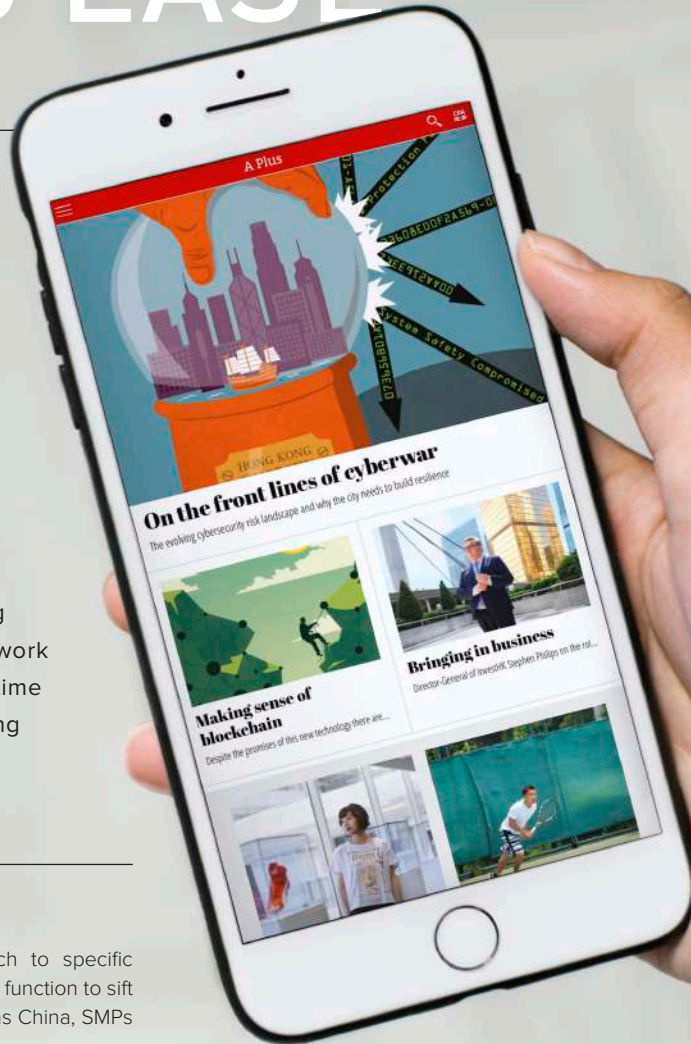
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Driving business success

The Managing Director of iFinance (Asia) Limited, and speaker at the Institute's corporate finance continuing professional development series, on the red flags to spot before purchasing high-yield stocks



# Investment opportunities in uncertain times

**G**lobally, stock markets are going through turbulent times, buffeted by uncertainties such as the United States' Federal Reserve interest rate policy, the lingering trade war between the U.S. and China, and slowing economies around the world. In such a difficult environment, investing in high-yield dividend stocks stands out as a highly attractive financial strategy. Historical analysis shows that over the past 20 years, and especially the last 10 years, the relative outperformance of high-yield dividend stocks is most significant when the market is highly volatile, such as in today's environment.

## Going beyond the "dividend yield"

Investing in high-yield dividend stocks requires one to go deeper than just relying on the simple metrics of a "dividend yield," as sometimes the "high" dividend can prove to be unsustainable. One also has to dig into both qualitative and quantitative factors to determine whether a company can continue maintaining a high dividend payout. For example, if a company's historical dividend payout has been sporadic and inconsistent, then whether it can truly become a high-yield dividend stock requires more in-depth analysis. Likewise, if a company's earnings are stalling or even in decline, but its dividend payout is on the rise, then one might also question the sustainability of such a high yield.

## Essential attributes of high-yield dividend stocks

Sometimes, the stock market gives signals and confirmation to investors about high-yield dividend stocks. For example, high-yielding stocks tend to be less volatile compared to low-

yielding stocks. One also has to take into account the financial structure as well as the sector the company operates in. For instance, a highly-leveraged company is less likely to sustain a high dividend yield, while utilities or consumer staples tend to have a more stable business profile, cash flow, and hence dividends.

**"One also has to dig into both qualitative and quantitative factors to determine whether a company can continue maintaining a high dividend payout."**

## Cash flow vs. profit

Dividend payouts to investors are hard cash which is sustainable only by stable cash flows – not by accounting profits. We have often seen corporates that may beguile investors with their "good" financial accounting profits, but the crude health of these corporates is betrayed by their cash flow statement. Indeed, profit can be a weak indicator of a company's ability to distribute dividends. Some listed companies with robust earnings growth have been among the first ones to be bankrupted during a financial crisis.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is often used as a starting point to gauge the cash flow situation of a company. However, EBITDA does not take into account the changes in requirements for both working capital and capital expenditure. At times,

other metrics such as free cash flow (taking into account working capital requirements and capital expenditure which are essential for companies to grow) may be more relevant to determine a company's capacity to distribute dividends – particularly for capital-intensive industries or high-growth companies.

## Industries and listed companies with high dividend potential

Turning specifically to the Hong Kong stock market, several sectors are perceived to be high dividend paying stocks. These include utilities, real estate investment trusts, telecoms, banks and industrials. Most of the debates are centred around sustainability of the dividend payout of Mainland Chinese banks. Banks inherently are highly leveraged, and if provisions for debt repayment are to rise due to a slowing economy, they will have to lower the dividend payout. Furthermore, a changing regulatory environment may require banks to set aside more capital instead of paying out to investors.

## Challenges ahead

The uncertainties surrounding the financial market are expected to remain in the new year. Investors are advised to (a) carry out their own due diligence research, such as on-site research to understand the competitive edge of a company's products; (b) review company's public information (e.g. annual reports, company announcements); and (c) attend continuous professional training sessions (e.g. e-Series, corporate finance, banking, legal and compliance related topics).



# MAKING NATURE COUNT







Natural capital accounting is a way of measuring a company's impact on the environment. **Nicky Burridge** looks at the benefits and challenges of putting a "value" on natural resources

Illustrations by Gianfranco Bonadies

**T**hink of a mining company that extracts copper ore from land it has rights to, and turns this ore into a product, which it then sells. Its accounts may indicate a good profit, but they are unlikely to put a monetary value on the negative impact it is having on the environment.

"If one brings this into the picture, the results of the company may look much worse," says J Robert Gibson, Adjunct Professor at the Division of Environment and Sustainability, Hong Kong University of Science and Technology.

Natural capital accounting is a type of accounting that, as well as recording traditional information such as monetary transactions, assets and liabilities, on a company's balance sheet, also tries to measure its dependence on the natural world.

Unlike traditional corporate social responsibility, which looks at the impact a business has on the environment and society, natural capital accounting also takes into account the impact the environment can have on a company.

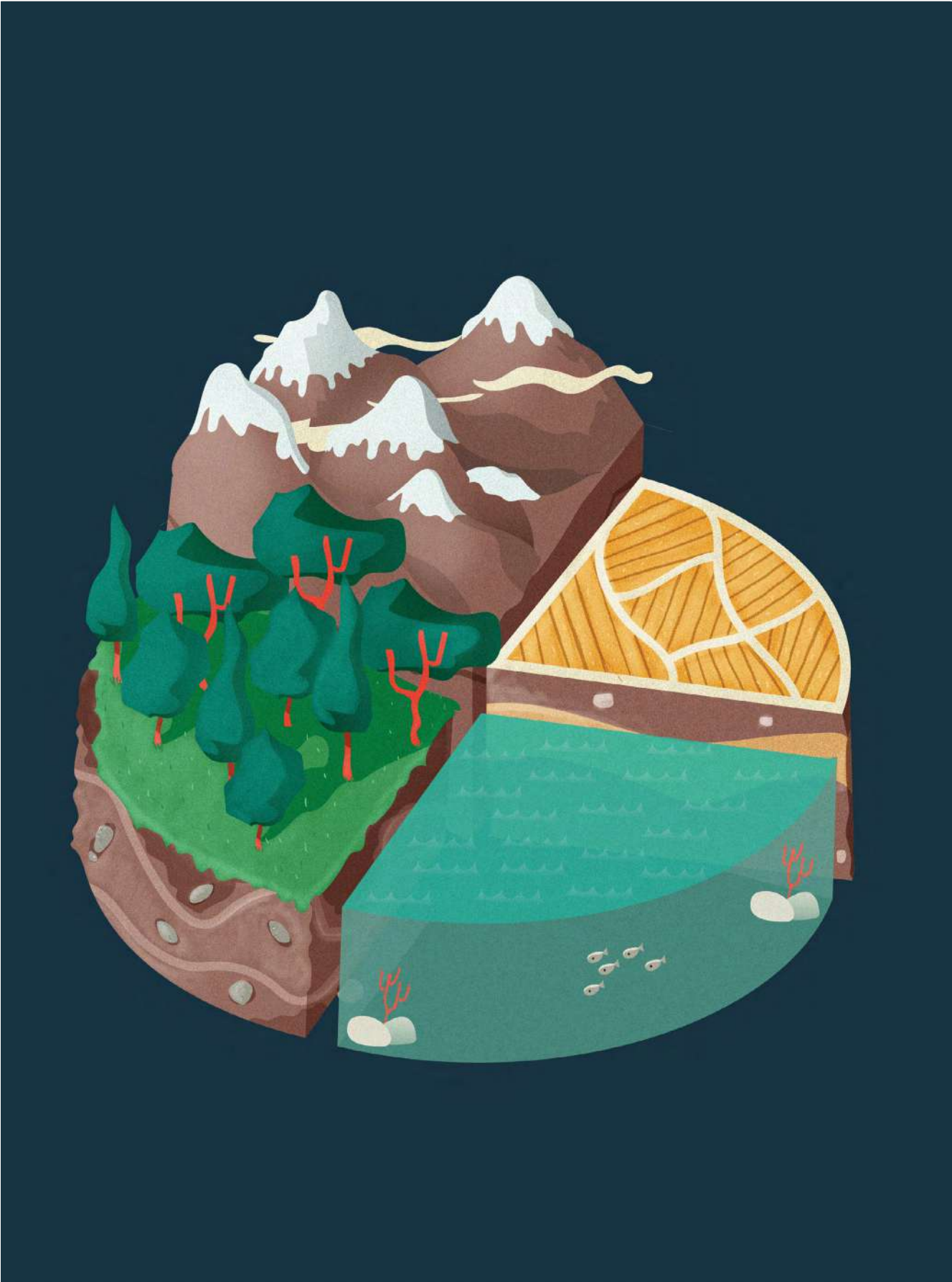
The term "natural capital" covers everything from air, water, land, minerals and forests, to biodiversity and ecosystem health.

The practice of natural capital accounting is still in its infancy, and only a small number of companies worldwide have implemented it so far. "The reality is that most businesses are not operating and making decisions with the sustainability of natural capital in mind," Stathis Gould, Deputy Director of the International Federation of Accountants (IFAC), says.

"Many businesses have not assessed how dependent they are on natural capital, nor how opportunities and risks surround this dependency."

**Natural capital accounting**

Corporate social responsibility



**“It really helps companies to understand their environmental impact with numbers. Everything is turned into almost a profit-and-loss, which is a way people like looking at things.”**

### Natural benefits

There are a number of benefits to companies from implementing natural capital accounting, according to experts.

Mardi McBrien, Managing Director of the Climate Disclosure Standards Board, a member of the Natural Capital Coalition, a global, multi-stakeholder platform for supporting the development of methods for natural and social capital valuation in business, points out that natural capital accounting enables companies to make better, informed decisions by working out how dependent their business model is on natural resources, and the impact of their actions.

She adds that the practice can also help companies to identify opportunities and boost returns if they measure, account for, and manage natural capital differently, for example through finding efficiencies in production or promoting product innovation.

Pat Nie Woo, Partner and Head of Corporate Social Responsibility at KPMG China, and a Hong Kong Institute of CPAs member, agrees: “It really helps companies to understand their environmental impact with numbers. Everything is turned into almost a profit-and-loss, which is a way people like looking at things.”

Gould points out that the practice can also assist in risk management, with chief financial officers increasingly responsible for taking into account all relevant factors and risks in corporate and financial decision-making and reporting.

“As such, they must ensure

natural capital is treated as a business issue that is understood and managed by the business, as well as being disclosed to investors if it has a material impact,” he says.

The practice can also be helpful for investors in understanding a company. “It provides a more complete picture of the extent to which a company is creating or destroying value. From this we can see how sustainable it is and hence its value,” Gibson says.

Hong Kong-based conglomerate Swire Pacific began testing natural capital accounting in 2014 to evaluate the environmental impact of certain of its manufacturing operations. Electric company CLP Group has been doing integrated reporting, which includes a natural capital element, since 2011.

David Simmonds, Group General Counsel and Chief Administrative Officer for CLP Group, explains: “Integrated reporting focuses on trying to integrate broader principles into business considerations. It looks beyond pure short-term financial results and gives a much broader view on the business that is longer-term focused.”

CLP considers different “capitals,” such as financial capital, social capital and natural capital. One member of the Group Executive Committee is given responsibility for each of these capitals, while they are all also members of the Sustainability Committee, which reports to the board.

“This ensures these things are truly integrated from board level all the way down though the

company,” Simmonds says.

In terms of natural capital, CLP focuses largely on climate change and the risks and opportunities this brings to the business, as well as looking at the water that is used in power generation and other air emissions that are not relevant to climate change.

“We report on a variety of metrics for carbon intensity and set goals for ourselves. We also set targets for renewable energy and non-carbon producing energy in our portfolio. It has been a very valuable exercise for us,” he says.

### From theory to reality

Unsurprisingly, companies face a number of challenges in introducing natural capital accounting, not least of which is quantifying the value of natural resources. “What monetary value are you going to put on water or plants? These numbers tend to fluctuate in different parts of the world, and finding these numbers is not that easy,” Woo says.

Gibson points out that it is unusual for these values to be sufficiently defined for natural capital numbers to be added to financial capital ones in order to give a meaningful total.

Instead, he thinks it is better for a company to determine its most significant impacts on natural capital, and then provide a narrative report on what is being done to manage them.

Another challenge for companies is finding the right methodologies to collect the data they need for natural capital accounting, with McBrien warning



that gaps in data can lead to unintended selective accounting.

“There is also the risk that information from natural capital accounting may not be palatable to boards and investors,” she says.

Simmonds says one of the biggest challenges CLP encountered was the change in mindset needed for integrated reporting.

“You have a long history of systems, expertise and processes that have built up to support financial reporting. When you start to broaden beyond the financial metrics, they are not there to the same level,” he says.

He adds that there are also challenges over how you make sure the metrics used follow the right standards, that the information you collect is reliable and that you can provide the right assurances over it.

Gould thinks the challenge for companies begins once they have put numbers on their natural capital use and impacts, and estimated the true cost of their products.

“The key question becomes how to use the information to change the business strategically and operationally. If companies had to pay full costs of natural capital, it would radically reduce their profits.”

Another potential stumbling block for companies interested in introducing natural capital accounting is that there is currently no universal approach. The Natural Capital Coalition has set out a protocol that unifies various methodologies and approaches to natural capital accounting, in a bid to offer an internationally standardized framework to provide comparable information between companies and industries, but not all companies follow this framework.

McBrien adds that although some work has been done by the Sustainability Accounting Standards Board in the United States through industry-specific standards and protocols to try to

drive some standardization, more work in this area is expected in future.

### Getting started

For companies interested in introducing natural capital accounting, McBrien advises against trying to apply it to their whole business in one go, and suggests starting with a small area, such as a particular product or supply chain, and working their way out from there.

### “To write a good integrated report requires you to be thinking about the relevance to the business throughout the year.”

She also recommends using the Natural Capital Protocol to collect and analyse the necessary information to inform internal decision making, as well as the Protocol’s framework to present the information to investors using the same rigour they would for financial information.

The Protocol sets out a four-stage process to guide companies through implementing natural capital accounting. It begins with getting companies to think about why they should conduct a natural capital assessment. The second phase involves setting the scope, defining the objective and deciding which impacts or dependencies are most material. Next, it suggests companies measure their impact and dependencies and put a value on them. The fourth phase involves interpreting the results from the previous phases and deciding what action to take.

McBrien adds that the Climate Disclosure Standards Board has also published its own framework for reporting environmental

information, natural capital, and associated business impacts to help companies put the information into mainstream filings for investors.

Gould adds that IFAC also provides guidance and shares knowledge on natural capital accounting through its Global Knowledge Gateway to support its members.

Unlike financial reporting, where reports are prepared quarterly or annually, Simmonds says integrated reporting is a year-round process.

“To write a good integrated report requires you to be thinking about the relevance to the business throughout the year.”

He adds that companies that decide to do it need to commit and make sure they get the governance right from board-level all the way down the organization, ensuring appropriate resources are in place and sufficient senior attention is given to making the right decisions.

But Woo thinks it will be some time before companies in Hong Kong adopt natural capital accounting.

“I think companies are coming to the stage where they see the value of environmental, social and governance (ESG). There are opportunities for boards to level up the importance of ESG, and that will bring them to the next phase of looking at the Task Force on Climate-related Financial Disclosures, and then integrated reporting. That will happen before natural capital accounting happens.”

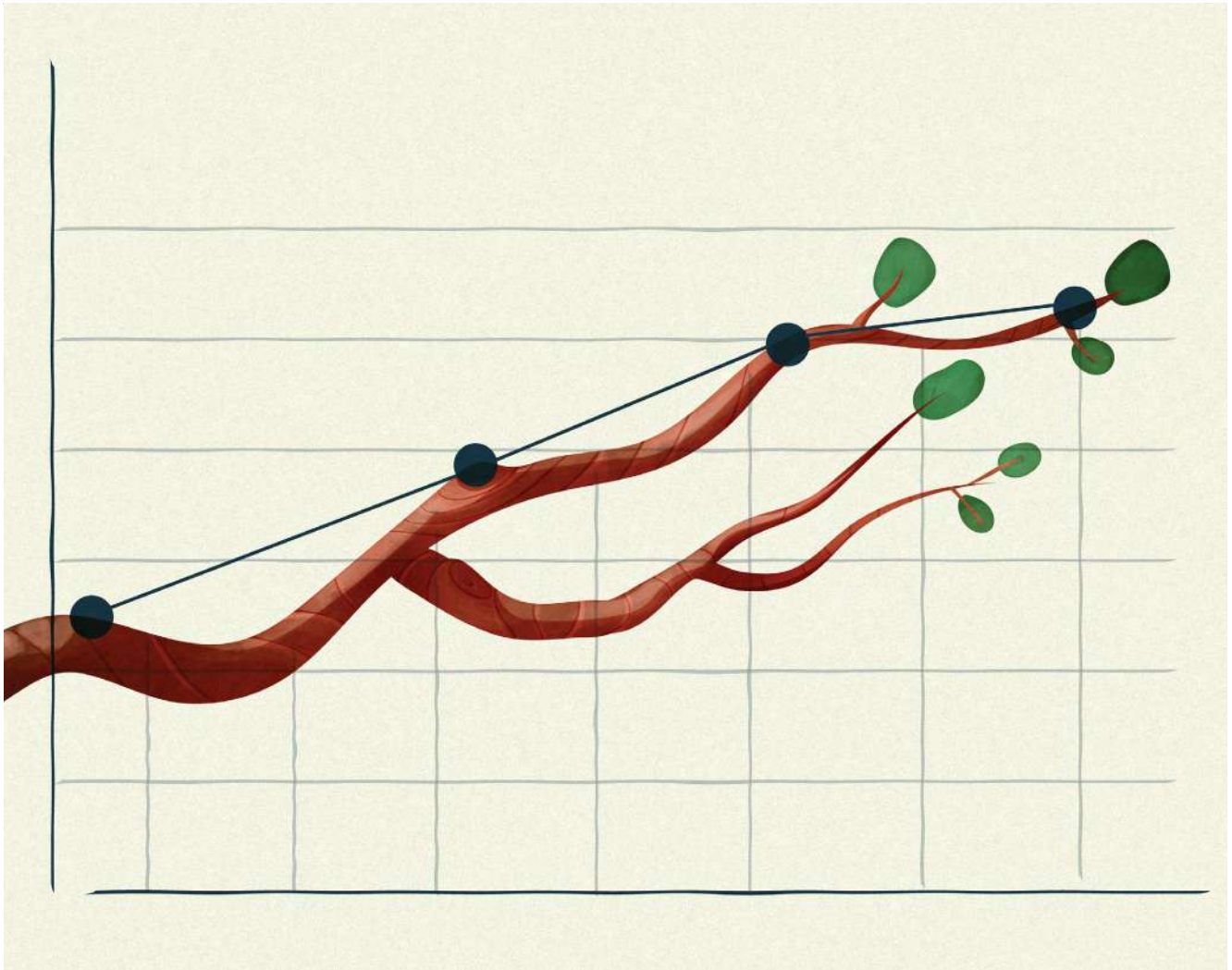
### The role of accountants

Accountants have a significant role to play in helping companies adopt natural capital accounting. “The finance teams have a level of experience and expertise based on the decades of preparing audited financial statements. That is gold for the rest of the organization if you are doing this for the first time,” says Simmonds.

McBrien agrees: “Accountants already have the skills to measure,



This month, PwC in the United Kingdom released *Integrating Natural Capital in Risk Assessments*, a report in collaboration with Natural Capital Finance Alliance, the United Nations Environment Programme, and Global Canopy, an anti-deforestation NGO. It provides a framework to help banks identify key areas of natural capital risk associated with the businesses to which they lend. It is now being trialled in Peru, Columbia and South Africa.



report data, and present information. These are the same skills that are needed for natural capital accounting.”

She adds that as 80 percent of a company’s value is intangible, accountants are best-placed to help established systems to report this.

But Woo thinks an ESG element needs to be included in accountants’ qualification schemes to make them better equipped for the task. “If you look at a traditional CPA, they are starting from scratch with a lot of this stuff. If we can integrate ESG into CPAs’ capabilities, then that would be a major step forward,” he says.

He adds that currently very few sustainability professionals come from an accounting background, with people instead typically coming from an engineering or environmental one.

“We need to see more sustainability professionals with financial backgrounds. When that happens, I think the profession will be much more capable of influencing their clients.”

Gibson points out that it is also important for accountants to work collaboratively with other departments in a company. “Many of the numbers needed for natural capital accounting come from the engineering or production departments in a company. I’ve found that this is best done if the engineers and the accountants work closely together,” he says.

“The engineers provide the technical knowledge and make the measurements, and the accountants ensure there is a good system of internal control which confirms the reliability and consistency of the numbers

reported.”

Accountants can also play a role in helping senior management and investors understand the importance of natural capital to a company. “Natural capital remains an elephant in the boardroom, absent from balance sheets and business decisions,” says Gould. We are starting to see this tide begin to turn among investors with a longer-term investment horizon, but major gaps still exist.”

Simmonds points out: “There is more and more information that shows a link between long-term financial performance and companies that do this sort of thing well. Paying attention to these sorts of issues over the longer term is a critical way of ensuring the long-term health of the business.”



# FIGHTING FRAUD

Catherine Williams spent more than a decade in Hong Kong as a forensic accountant. Now back home in Sydney, she tells *A Plus* about how she coped with technology, fraud, and male domination in her wide-ranging career, and advises how CPAs can join a stimulating specialty field

Photography by Jiwon Kim

**L**ike many international accountants assigned to Hong Kong, Catherine Williams figured the city would help grow her international profile. And, like many of her peers, she stayed far longer than she intended. “I took a two-year secondment – that was in 2005 – and I stayed until 2016,” she says.

Williams, a Hong Kong Institute of CPAs member, is now based in her native Sydney but on a flying visit back to Hong Kong, she explains over coffee at the Foreign Correspondents’ Club how the special administrative region became an integral component of her career as a forensic accountant.

In 2005, she was a director and forensic accountant at the Australian firm Ferrier Hodgson in Sydney. While she was confident about executing the work brought into the firm, she sought a bigger role.

“I wanted to see if I could [bring in work],” she recalls. “Winning the work is part of getting yourself into a position where you can look towards a partnership – you’ve got to bring in the clients.”

In the 1980s, Ferrier Hodgson Co-founder Ian Ferrier expanded the firm’s reach into Asia, and Hong Kong was the firm’s regional hub. “I thought a change of market and a change of scenery would be good,” says Williams. “Perhaps being in a different environment might enable me to be a bit bolder, and a bit less competitive in terms of male domination and the glass ceiling for women.”

Despite Asia’s reputation as a patriarchal region, Williams was surprised at the gender balance when she arrived in the city. “I found that there were more women in









high-profile roles here in Hong Kong than in Australia,” she says. “Australia could be better... there’s still a bit of a glass ceiling.”

Williams was also struck by how quickly Hong Kong’s working women returned to the labour force after giving birth. “They don’t stay out of the market,” she says. “And so I think it is more important not to lose that foothold here, so they’re back at work a lot quicker. It’s a different lifestyle – it’s a lot faster, a lot more expensive – so they definitely need two incomes.”

Aside from the societal shift, Williams found her work in Hong Kong to be professionally and intellectually rewarding. “In Sydney, they don’t have the variety of matters that we get in Hong Kong so you see a lot of [Australian forensic accountants] flying up here.”

## Technological revolution

Williams has witnessed huge changes in forensic accounting since she entered the field more than two decades ago. “Technology has been transformative,” she says.

“I think it was in the early 2000s that we first had some software that you could use,” she adds. “It was cumbersome, difficult to learn, and it wasn’t intuitive.” Williams cites data analytics as a game changer. “When Ferrier Hodgson was bought out by FTI Consulting in 2010, the first thing they came to the table with was data analytics,” she says.

“I jumped at it, knowing what it would mean to be able to get my data straight from the accounting system, rather than have to go through hard copy documents,” she adds. “It was something that I immediately knew would make my life easier.”

In 2011, she co-founded – with Chris Fordham, Forensic and Integrity Services Partner at EY and Irene Siu, Executive Director, Fraud

Investigation and Dispute Services at EY, among others – the Institute’s Forensics Forum, to gauge the level of interest and participation in forensics and developing services in this area.

The Forensics Forum quickly generated interest and attracted a substantial membership among Institute members. Given this support, the Institute turned the forum into a more permanent Forensics Interest Group the following year.

**“In Sydney, they don’t have the variety of matters that we get in Hong Kong so you see a lot of [Australian forensic accountants] flying up here.”**

“One of the things that we strove to do was expand the knowledge about the area and the discipline but we also wanted, at a point in time, to try to kick a qualification off the ground. In Australia, a specialist forensic qualification has been developed, offered by the University of Wollongong and Macquarie University – and it’s increasingly required.”

Williams has suggested forging stronger links with the universities in Hong Kong to achieve similar results. “They just need someone to champion it,” she says.

Today, Williams sees forensic accounting as a multidisciplinary area of expertise. “You now have people working in specialist valuation, and they have a certain skill set that they bring which they can work with accountants. For example, Hong Kong has a lot of arbitration work where you would require those forensic valuation skills.”

## Career trajectories

Williams did not plan to be an accountant. “Accounting picked me,” she says. “I started work after I left high school – in fact, the day after I left school – selling shoes in a retail boutique. I wanted a career in fashion.”

She had applied for a job that included a traineeship to become a fashion buyer at Mark Foy’s, a Sydney department store chain that existed between 1885 and 1980. While she was offered the traineeship, she began working in the store’s back office.

“I used to count the money from the registers in the morning and reconcile sales in the afternoon,” she says. “And then a particular person that had a bit of influence with the director had a daughter who wanted to be a fashion trainee buyer – and she got the position and I did not. It’s always who you know.”

But that disappointment propelled Williams into a new career. “I worked for Mark Foy’s for 10 years and I probably did every accounting and clerical function that you could ever manage for them. I did debtors, I did creditors, I did bank reconciliation. I trained the staff in stores how to do this.”

Deciding she needed to formalize her experience and qualifications, she pursued a business studies diploma at an institute of technical and further education, while she worked in fashion retail, wholesale and manufacturing. “I acquired a lot of commercial exposure that, in retrospect, has helped me enormously in what I do as a forensic accountant.”

Later, while working for insurance company Prudential Assurance as a contractor, Williams obtained a bachelor of business and finance and accounting at the University of Technology Sydney. “I was a mature age student and the others were young, and often looked to me for advice as to how their career would pan out,” she

Catherine Williams first arrived Hong Kong in 2005 while seconding at Ferrer Hodgson, where she worked for nine years





## Success ingredient

Catherine Williams

Williams co-founded the Institute's Forensics Forum in 2011. It turned into the Forensics Interest Group the following year



## “Forensic accounting is quite a stressful job because your clients are constantly in crisis, so you’re constantly in demand.”

says. “I particularly liked working with the Asian students, because they demonstrated a different way of thinking and a different approach to the work ethic, which was really fascinating for me.”

Williams advises young accountants pursuing a career in forensics should spend a few years working in a commercial or professional accounting role before specializing. “Accounting and business experience helps a great deal when trying to unravel the facts in any investigation.”

Williams says all accountants should “embrace technology” to get ahead. “Computer forensics and data analytics tools save time and are more accurate,” she says. “Know how to apply them, and understand their limitations.”

While at university, Williams heard a radio interview with the late PwC Australia partner Paul Carter, a prominent forensic accountant. “He was describing the skills you would need to do forensic accounting: you need to be analytical, that’s me; a bit of a troubleshooter, that’s me; a problem-solver, yes that’s me; and you need to understand accounting really well. I thought that’s what I want to do. That one interview changed my entire direction.”

### The future of fraud

Several years later, as a qualified accountant at Ferrier Hodgson,

Williams would face off against Carter in a case: a product liability claim for insurance by the Totalisator Agency Board. “I was sitting on the other side of the table looking at my role model – and thinking, ‘oh my God I have to tear down his arguments.’”

During her career, Williams has seen her fair share of high-profile investigations, including the long-running Moulin Global Eyecare Holdings fraud saga in Hong Kong, and the recent trade dispute between Chinese telecoms company ZTE and the United States Department of Commerce.

“By and large, fraud is fraud, but there are indicators that you would be taught in the Western developed areas that you wouldn’t apply in Hong Kong,” she says. “For example, a complicated structure is something you’re taught to watch out for, because it can be used to hide issues.” she says.

“Here in Hong Kong, a complicated structure is not unusual. For every asset a company buys, the cultural thing is to have a company that owns that asset, so your structures get complicated. They open a bank account for each asset, so those things are not really an indicator of fraud.”

Williams says her current ambition is retirement – but it’s proving an elusive goal. “Forensic accounting is quite a stressful job because your clients are constantly in crisis,

so you’re constantly in demand.”

However, her departure deal with FTI means she has to tie up some loose ends. “I still have other matters that are on-going. My last job in Hong Kong is Moulin, which was also my first job in Hong Kong. They collapsed in 2005, and the current trial is for negligence against one of the independent non-executive directors (INEDs).”

Williams described Moulin as a challenging case that involved “all facets of forensic services” from investigative accounting, quantification and valuation of loss and damages, to litigation support, expert witness and computer forensics. “It covered both criminal and civil actions, and made new law in Hong Kong,” she says.

Williams sees an INED role in her future. “I’ve also undertaken a course in Sydney with the Australian Institute of Company Directors, using my knowledge and qualifications. Given the way things are manipulated in books and accounting records, I figured I might be able to help on an audit committee or a finance committee.”

At her home in Sydney, Williams enjoys working at home in her family’s one-acre garden as well as travelling both internationally – to South America – and within Australia, such as to Victoria’s Great Ocean Road. But that retirement plan remains on hold.



The Institute’s Forensics Interest Group organizes technical seminars and discussion forums on topics of interest to professionals working in forensics and related areas. For more details, and to find out how to join, please visit [www.hkicpa.org.hk](http://www.hkicpa.org.hk)





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

by K.M. Wong

The Chairman of the Institute's Professional Development Committee, and Chief Financial Officer of Hong Kong Electric Investments, on ways for members to maximize their learning during CPD seminars and workshops



## How to get the most out of the Institute's CPD programme

**A**s we all know, continuing professional development (CPD) is a requirement for Institute members to renew their annual membership. Owing to this, some CPAs may view it as a compliance issue and prefer doing it at a minimum cost for maximum number of hours. There is nothing wrong with that, but there may be a missing opportunity here.

Quite a number of members attending the Institute's CPD courses are those CPAs working in professional firms or commercial organizations that may not be able to offer technical or management training to their staff on a frequent basis. The Institute's CPD seminars and workshops may be essential to helping members compete and enhance themselves in the workplace. Given the busyness of CPAs, it is vital that we take full advantage of the opportunities to learn provided by CPD courses, and get the most out of each we attend.

Bearing that in mind, members should enrol in CPD courses which go beyond simple training or learning of technical knowledge and skills needed for a particular task fulfilling immediate or present needs. Instead, aiming to support their continuous development, members should seek out CPD courses which meet their goals and long-term needs. They should also be open-minded, undertake on-going review and consider the future. Members have to be focused on courses which help their career building and advancement.

In recent years, the Institute's CPD seminars and workshops have been grouped into series which provide continuous learning on a particular subject, for example, our IT series launched in 2016, bringing the latest information technology knowledge to our members. We also launched soft skills series in the

same year, which aims to help members to sharpen their interpersonal and communication skills, etc. This year, we shall continue these two series. For the IT series, we shall divide them into smaller streams so that members can focus on those relevant to them.

One size does not fit all. Some members prefer to have in-depth knowledge on particular subjects after learning the basics. To help, the Institute offers "seminar/workshop combo," providing members with a 1.5 hour seminar to get the basic understanding and knowledge followed by a 3-3.5 hour workshop providing more detailed information, where members interact with facilitators and conduct exercises. Completing the combined package helps members develop the skills they need from scratch.

**"Members should seek out CPD courses which meet their goals and long-term needs."**

For more comprehensive coverage and in-depth learning, members should consider programmes such as the Institute's Financial Controllership Programme and the two professional diplomas in tax for both Hong Kong and Mainland China. It has also cooperated with other professional bodies on various courses, including the "Independent Non-Executive Directors Practices for Accountants" jointly offered with the Hong Kong Institute of Directors. Members who have completed these programmes have found them rewarding, despite the greater time commitment, indeed for some CPAs, they are a cornerstone in their career development.

Active learning, such as role-playing

exercises, experience sharing and dialogue with other members, has become an essential part of CPD, and a key component of our Financial Controllership Programme where we have moved away from traditional type of learning in form of lecturing, coursework, etc. Active learning is proven to be a better way of learning, so members are urged to ask questions to engage with the speaker during CPD seminars. We are now exploring rolling out active learning to other CPD courses.

For those members who have attended seminars chaired by me before, they will notice that I try to talk with members before opening to get their input in person. These inputs will be discussed in our subsequent committee meetings for future CPD improvements.

As we start a new year, I encourage our fellow members to visit the CPD's designated section on the Institute's website to check out which seminars and workshops better fit their interests and development goals. As we are currently scheduling activities about two to three months ahead, members can find out what is available quite early and create a plan of activities accordingly. Our experience indicates that those who prepare themselves well before the course, actively interact with speakers, and raise questions during the course usually get the most and the best out of it. It can take just a few more minutes before coming in the room.

Development is a personalized experience which has to be customized to individual needs. As nobody knows you better than your good self, it has to be a self-driven process. Your views and opinions on CPD help us develop courses in response to members' needs. If you have any comments, then please write to me via the Institute any time. I hope you enjoy and get the best out of your CPD courses in 2019!



The Institute's representative team playing a friendly match in the SS League



# CHAMPIONS OF THE PROFESSION





Football is a way of life. On the sidelines, [Jeremy Chan](#) speaks to a few of the Institute's dedicated and talented footballers, and finds out what life is like for the Institute's Football Interest Group. They share how joining the interest group has helped them stick with the sport through the years, and taught them more about teamwork and courage than anything else

Photography by Anthony Tung

If there is one thing Tom Ho has learned having been a footballer all his life, it's that determination is everything. He still looks back on one match, which took place 10 years ago. "We were down by four goals – all in the first half," he says, remembering his team's downtrodden state. "I managed to score a goal in the second half, and that one goal motivated the spirit of the whole team." As the minutes ticked by, his team slowly caught up, scoring three additional goals to bring the teams level, leading to a penalty shoot-out – which they won. "That was really the most memorable match for me," Ho says.

That game was between the Institute's football team and a Chinese team, in the Cross-Border Competition, a tournament involving CPA football teams in Hong Kong, Shenzhen and Guangzhou. It is one of the many leagues they participate in.

Since forming in 1996, members of the Football Interest Group (FIG) have taken part in tournaments such as the Homeless World Cup, and friendlies such as the Happy League and SS League and organizing the CPA Football Competition. Ho is a member of the FIG and plays as a forward, and has been FIG Convenor for over a decade. He saw how the group grew from having a handful of CPAs at the beginning, to almost 700 players today. But even with this many members, Ho says getting enough players to show up for training is a challenge.

"Many of the younger players work overtime more often, especially at the last minute, making it hard for them to commit to regular training or formal matches," says Ho, Partner at Ho, Lok & Pui CPA Limited. He sought an alternative – having the



**“We have some players in their 20s and some in their 50s. In the office, they are bosses or employees, but on the field they are football players. It’s not uncommon to see younger players giving their seniors commands on the pitch.”**

team play in friendly matches. By participating in friendly-games with firms and industries, known as the Happy League and the SS League, the team is able to play and train in a real-life match, all at once.

### An iron heart

Ivan Shum, Senior Finance and Accounting Manager of Ground International Development Limited, got into the sport at the age of eight. He joined the FIG in 2012 playing mainly as a defender and midfielder. “I’ve always loved playing football,” Shum says, citing ex-Real Madrid’s legendary forward Raúl as his all-time favourite player. Shum says though the roster of the Institute’s team changes, and depends on which players are available to take part, the team still discusses their strategies before each match. “For example, if the opposing team has many tall players, we won’t perform too many long passes, to maintain possession,” he says. “We also assign our fastest and tallest members to different parts of the pitch. We tend to place faster runners at the front.”

Shum’s fondest memory was scoring two goals in one match during the Homeless World Cup – an international four-a-side charity event, which since 2003 has promoted the social inclusion of homeless people and disadvantaged groups through football. The event receives donations from various

companies and celebrities, who are then eligible to compete. The donations go toward subsidizing the winning team to play at the International Homeless World Cup overseas. Some teams are made up of players once homeless such as ex-convicts, gambling addicts and asylum seekers, and some are made of local celebrity football players, politicians and corporate sponsors. The Institute’s team takes part every year, and has done so since 2013.

He recalls how he stayed determined during one game against local professional players who had just conceded their 11th goal. “When you play football, there are always ups and downs. You need an iron heart and you cannot give up easily,” he says. “I made use of every minute and did not get discouraged by the score. We scored one goal during the first half, and one in the second.”

### The common goal

Another player, Bernard Fung, plays as a forward and midfielder. He remembers playing from the age of seven with his elder brother. “We played on building rooftops with 20 to 30-year-old guys,” recalls Fung, Senior Risk Manager of Link Asset Management Limited.

Since joining the FIG a decade ago, he has also seen the team pull through thick and thin. “Most guys in the FIG usually play for fun, so

playing in different leagues is a challenge for us,” he says. He has just taken part in this year’s seven-a-side CPA Football Competition. With matches taking place on weekends over three months, and 19 CPA teams vying for the top prize – the Charles Mar Fan Cup. His most memorable game was a recent match against PwC.

“Our opponents managed to concede a goal in the first half, and one of our key players got injured too. It was a bad start,” Fung says. He remembers rounding up his teammates during half-time to keep their spirits up. “We discussed which position to play in, which formation to assume, and who to pass the ball to. It was important to deliver the message clearly.” With the team playing in synchrony, they scored one goal before the final whistle, luckily ending with a draw. Though his team didn’t advance too far in the competition, Fung is proud of the team’s determination.

In his 10 years with the FIG and playing on the Institute’s teams, Fung points out he notices more younger players joining the interest group compared to before, and that he sees an encouraging level of synergy between players of different generations. “We have some players in their 20s and some in their 50s. In the office, they are bosses or employees, but on the field they are football players. It’s not uncommon to see

Tom Ho (right)  
is the Convener  
of the Football  
Interest Group





## Work and life

CPA footballers

**“We all love football, so it’s easy to make friends and network too, as there is always something to talk about.”**

Alex Yu (right) plays as a midfielder



younger players giving their seniors commands on the pitch,” he laughs.

### Passing it on

Alex Yu joined in 2013, and quickly noticed the camaraderie shared among the players. “We all love football, so it’s easy to make friends and network too, as there is always something to talk about,” he says. Yu is a midfield player in the team and Risk Control Officer at a finance firm.

Yu got into the sport at the age of five. Despite being busy on the weekdays, being part of the FIG has given him the opportunity to continue pursuing his passion for the sport with other like-minded professionals, he notes. “It has also kept my skills sharp all these years,” he says. “When I was younger, it

was always about winning a match. Of course, it feels good to win, but to me, it’s about maintaining that close friendship with my teammates. Without them, I don’t have people to play football with.”

Yu has also picked up another hobby – teaching football. He wakes up early on Saturdays and Sundays to teach the essentials to an eager group of primary school kids, and has been doing so for almost three years. “We work on techniques such as passing, shooting and dribbling through and around opponents.”

Yu says he wants the children to enjoy football lessons he never had as a kid. “When I was their age, I didn’t have the chance to attend any of these classes, and I never had a coach. Most of us learned to play football by playing with others.”

Seeing the kids improve each session and enjoy themselves brings a smile to his face, and Yu says he will continue teaching them as long as he can. “The kids have so much fun. They’re always laughing with each other during classes, and that makes me laugh too.”

He is grateful he joined the FIG in the first place, and recommends it to all members of the profession. “CPAs should join more interest groups. Join something you are really interested in.”

### Reacting quick

Standing with his eyes fixed, legs apart and arms outstretched is Chris Chen, the team’s goalkeeper. Unlike his teammates who played as children, he only started playing football in his university years.



Bernard Fung (front row, first from right)  
 Ivan Shum (front row, second from right)  
 Chris Chen (back row, first from right)  
 Alex Yu (back row, second from right)  
 Tom Ho (back row, fourth from left)



Before that he was a basketball player, to both his team’s surprise – and delight. “After joining the Institute’s team, they asked me to be the goalkeeper since they knew I was a basketball player and might do better at catching a ball,” he laughs. “I wasn’t much of an outfield player anyway.”

Chen, Finance Manager of a listed company, joined the FIG the same time as Shum in 2012, and was intrigued with the prospect of playing football in a CPA team, but what struck him the most was his role. “It’s my job to save the ball, and if I make one little mistake, the other team might score a goal so it can be stressful sometimes,” he says.

The most demanding situation, he says, is facing a penalty

shoot-out. “It’s very hard for a goalkeeper to save a penalty, because players shoot from close-range,” he explains. “You have to either react very quickly, or guess which direction your opponent will shoot. It’s a combination of reaction time and a bit of luck.” Though he has conceded a few penalties, he has also saved a handful. “You will miss a few, but you have to move on quickly.” Chen intends on remaining a goalkeeper, and looks forward to improving with each match. “I usually chat with my teammates after some matches and ask ‘what could I have done to save that goal?’ I always look forward to the next one and think about how to do things better.”

Chen says long working hours

is no excuse, and highly recommends interested CPAs to consider joining the interest group. “We are looking for playing willing to participate and play long-term,” he says. “This is a great platform to not only play football and exercise, but also make friends from different industries. Come and sign up!”

With almost a year to go until the next CPA Football Competition, the five players aren’t too fussed about winning or losing. Instead, they look forward to keeping the FIG, and the undying spirit of the interest group, alive and kicking. Fung says: “Don’t just sign up to win and score goals, sign up to learn from being part of a great team, and get something out of it.”



The Football Interest Group is looking to recruit passionate players to play in friendly matches and competitions. For more details on sports and recreational interest groups, visit [www.hkicpa.org.hk](http://www.hkicpa.org.hk)



## Second year experiences with revised auditor's reports

Auditors have had to report key audit matters (KAMs) of listed companies since December 2016. This enhances auditor's reporting by communicating with stakeholders matters of the most significance in the auditor's professional judgement. This report, from the Institute's Standard Setting Department, is the second year review of this new style of reporting. In our first study, the Institute concentrated our study on the types of KAMs reported in the first year of implementation. For this second study, we added an analysis of the qualitative aspect of KAMs to understand the effects on users of financial reports, gain more insights into the areas of improvements and benefits, and determine how the profession could better respond to stakeholders' needs.

For this report we analysed 429 auditor's reports of Hang Seng Composite Index (HSCI) and 50 reports from the Growth Enterprise Market (GEM) of the Stock Exchange of Hong Kong Limited.

### Key statistics

Similar to our study in 2017, reports disclosed at least one KAM but not more than eight, except one company in the Properties and Construction sector (where the auditor issued a disclaimer of opinion and did not report any KAMs). Companies with the highest number of KAMs reported were 8 KAMs for HSCI companies and 6 KAMs for GEM companies. 96 percent of HSCI company reports analysed and 94 percent of GEM companies disclosed between one and four KAMs.

Compared with the first year, there was no significant difference in the average number of KAMs overall. The average for HSCI companies in 2016 reports was 2.5 while in 2017 reports average was 2.4 – a marginal decline. The number is unchanged for entities from the GEM, where the average remained at 1.8 (see diagram 1).

Our study found that 46 percent of HSCI companies examined had the same nature and number of KAMs reported as in our first study, while 43 percent had

partially or completely different KAMs.

The most common types of KAMs reported were similar to our first study, upon which impairment of receivables, loans and advances and goodwill remained the most commonly identified KAMs across many industries. The top KAMs for each board samples are illustrated in diagrams 2 and 3.

We also found that the most commonly reported KAM types are also commonly noted as KAMs in auditor's reports from other jurisdictions, which indicates that auditors worldwide were identifying similar topics as KAMs during their audits.

### In-depth review

We selected a number of auditor's reports and KAMs for in-depth review, analysing four main areas:

**Number of audit procedures reported**  
Our review noted that on average, 4.0 audit procedures per KAM were reported for HSCI companies and 3.6 for GEM companies. Diagram 4 shows the numbers of audit procedures performed per KAM.

### Reporting style

We observed that a majority (76 percent) of the audit reports used bullet points to describe audit work performed while the remaining applied paragraphing.

### Describing the outcome of auditor's procedures

Although auditors are not required to describe the outcome of their procedures performed, paragraph A51 of Hong Kong Standard on Auditing (HKSA) 701 *Communicating Key Audit Matters in the Independent Auditor's Report* states that auditors may provide an indication of the outcome of the auditor's response in the description of the KAM in the auditor's report. We found a number of descriptions, including the following examples:

*"We consider the management conclusion to be consistent with available information."*

*"Based on the work performed, we*

*found the Group's revenue from sales of goods being tested were recognized in a manner consistent with the Group's revenue recognition accounting policy."*

*"Based on the results of our procedures, we found management's assessment of occurrence of impairment and the models and inputs used for determining the impairment losses was acceptable."*

*"We found that the assumptions made by the management in relation to the value in use calculations to be reasonable based on available evidence."*

### Feedback from users

The Institute's study supplemented by feedback collected from members of the profession and investor community including financial reporting and audit regulators, equity researchers and corporate governance consultants, provided comment on the quality of disclosure. Throughout this report these survey respondents are referred to as users. Analysis of the feedback covered two broad themes:

### Why the matter was considered to be one of most significance in the audit and therefore determined to be a KAM

In general, users view the reporting of KAM favourably as it provides enhanced information about significant accounting and audit issues of the company and how they were dealt within the audit, which is useful to their analysis of the company.

A common response from users was that most KAMs used generic description and standardized language which did not provide sufficient insight into the reported KAMs and nature of audit work performed. This is demonstrated in the example below:

### Impairment assessment of trade and other receivables

*"In determining whether there is objective evidence of impairment loss, the Group takes into consideration the credit history of the customers and the current market condition which may require management judgment."*

Diagram 1 KAMs reported by Main Board entities by sector 2017 & 2016 average

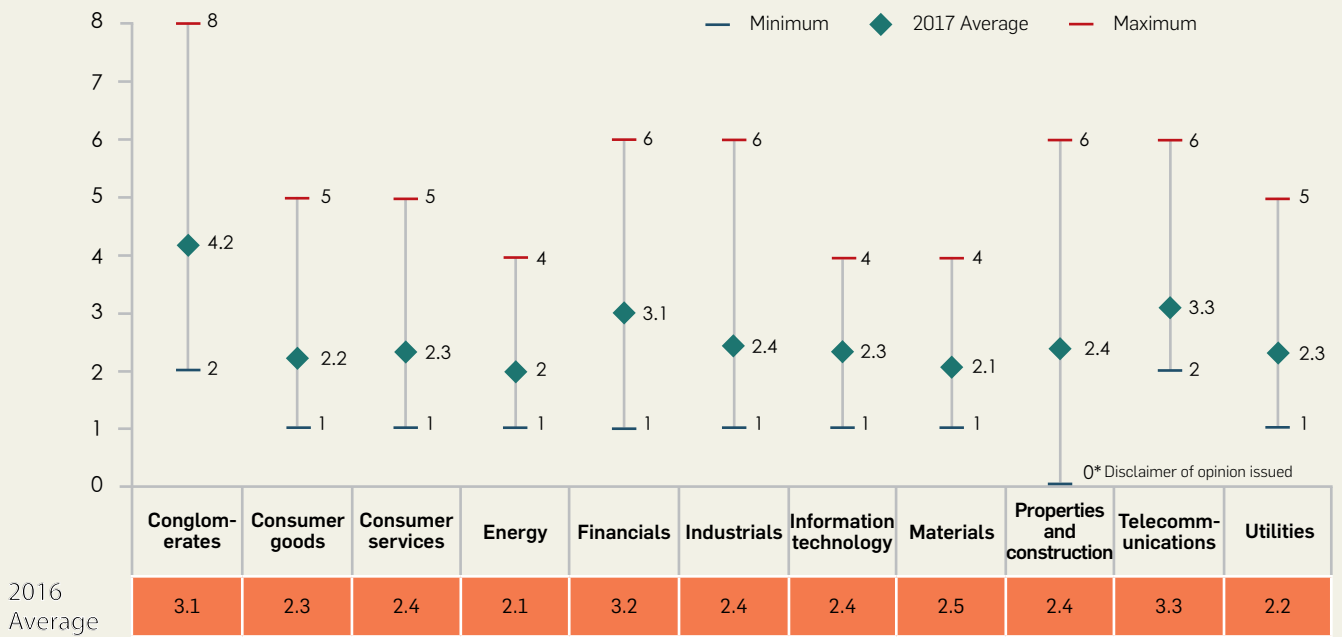


Diagram 2 Comparison of top 10 KAMs reported by Main Board samples

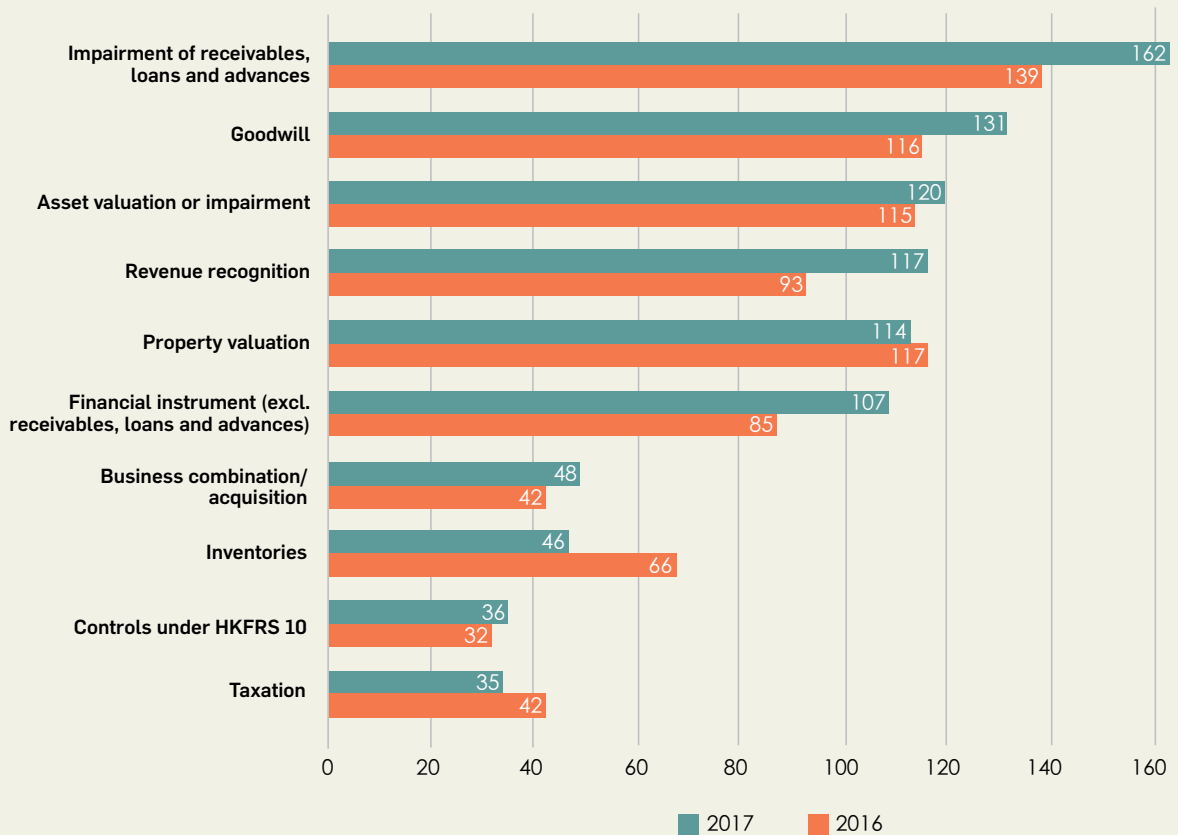




Diagram 3

Comparison of top KAMs by GEM samples

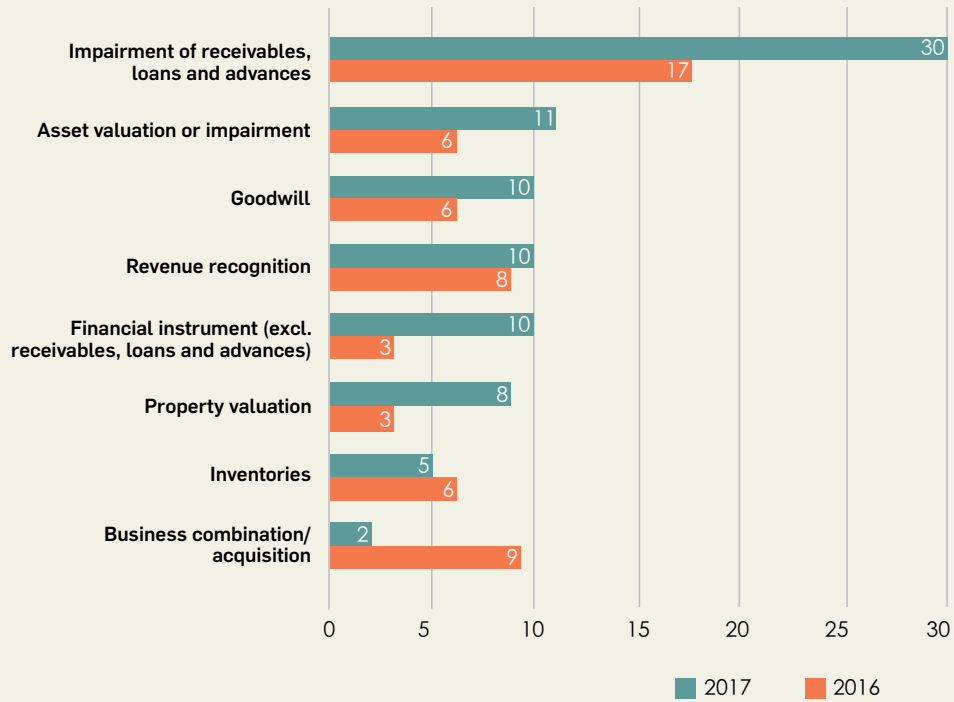
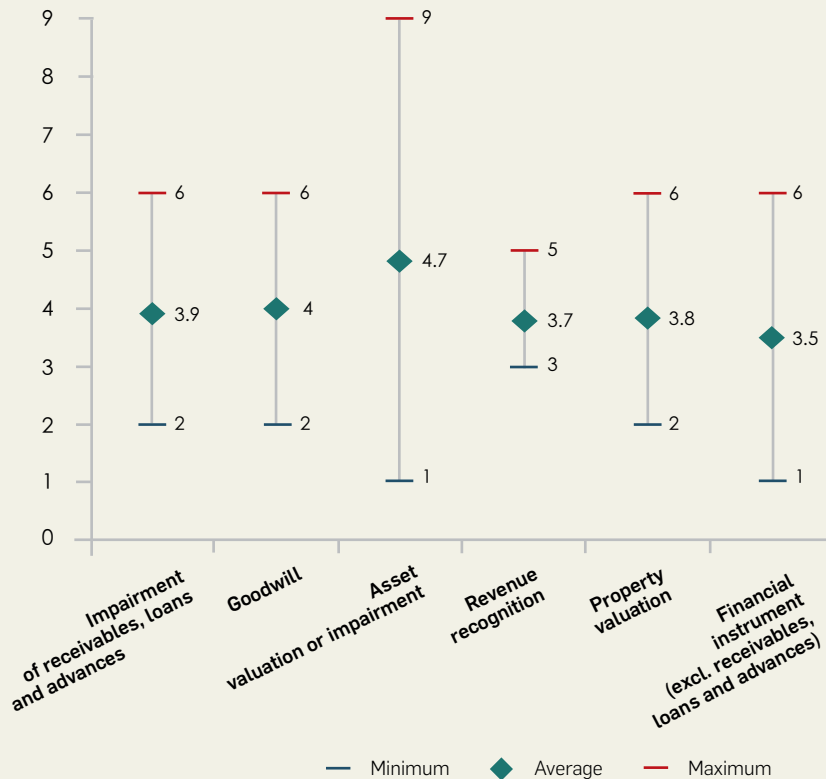


Diagram 4

Number of audit procedures reported, 2017



Some KAMs identified did not include sufficient descriptions of the reasons the auditor determined the issue to be a KAM. They only mentioned issues involving management judgement or described management's assessment process. Below is an example of a KAM identified with insufficient description:

#### **Impairment assessment of trade receivables**

*"Assessing impairment of trade receivables is a subjective area as it requires the management's judgement and uses of estimates. We have identified impairment assessment of trade receivable as a key audit matter."*

Paragraph A34 of HKSA 701 states that the description of a KAM is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significant identified, and how the matter was addressed in the audit. This corresponds to one user's remark that the granularity of a KAM description enhances the auditor's transparency.

#### **How the matter was addressed in the audit**

From the feedback, we discovered that the description of KAMs in some samples was clear and concise but with little insight into how the audit procedures were performed. The example below demonstrates this:

#### **Impairment assessment of goodwill and intangible assets**

*"Our audit procedures in relation to management's impairment assessment included:*

- *Evaluated the methodology used by the Group in performing impairment assessment;*
- *Challenged the reasonableness of key assumptions based on our knowledge of the business and industry; and*
- *Reconciled input data to supporting evidence, such as latest financial forecasts approved by the management and considering the reasonableness of these forecasts."*

In certain samples, audit procedures

were simply listed without sufficient information on how the audit work eased concern about the KAMs. When procedures performed were not adequately described, the description of outcome was regarded as unhelpful. The majority of users would like to see how audit procedures had been altered to the entity's specific circumstances and better understand how each KAM has been satisfactorily addressed.

Paragraph A46 of HKSA 701 says that the amount of detail to be provided in the auditor's report to describe how a KAM was addressed in the audit is a matter of professional judgement. The auditor may describe:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement,
- A brief overview of procedures performed,
- An indication of the outcome of the auditor's procedures, or
- Key observations with respect to the matter, or some combination of these elements.

Relatedly, one user commented that the limited explanation of audit procedures performed, led the user to question if sufficient audit work was performed by the auditor. This is illustrated in the example below:

#### **Impairment assessment of goodwill**

*"Our main procedures in relation to the impairment assessment of goodwill included:*

- *Assessing management's determination of the Group's cash-generating units based on our understanding of the nature of the business and the economic environment in which the cash-generating units operate.*
- *Based on our knowledge of the business and industry, challenging the reasonableness of the underlying key assumptions and data used in the cash flow forecasts (including revenue growth rate, operating profit, and discount rate used.)*

*Based on our procedures described, we found the estimations of management in relation to*

*goodwill is supported by plausible evidence."*

Although it is not a mandatory requirement of the standard, generally users value enhanced disclosures of outcomes of audit procedures performed, preferring greater transparency about the auditor's view on the appropriateness of management estimates.

#### **Conclusion**

From the study of second year reports, we saw benefits in the enhanced auditor reporting format but there is still room for improvement in order to achieve the objective of improving the auditor's report's communicative value. Auditors are recommended to strike a balance between reporting granular, entity-specific KAM and providing an appropriate level of information that does not go beyond those disclosed by management in the annual report.

The Institute will continue to monitor the qualitative aspects with year on year information to provide deeper insights on how the profession could better respond to stakeholders' needs.

The full report can be read at:  
[bit.ly/2ndYearAR](http://bit.ly/2ndYearAR)



This article is contributed by the Institute's Standard Setting Department.

# A new world for taxing cross-border sale of goods

In today's increasingly digital economy, flows of goods and services can be seamlessly transacted through electronic means all over the world at any time of a day and night. Existing tax rules in most countries are not up to speed with this new economy, while the other countries are adopting their own set of rules from both direct tax and indirect tax perspectives to avoid loss of revenues. The Organization for Economic Cooperation and Development (OECD) published the BEPS Action 1 Report in 2015 and the Interim Report in 2018 to address the tax challenges arising from digitalization on cross-border trade in goods, services and intangibles, hoping to provide a more unified direction of work on digitalization. The OECD has called for international consensus on the way forward and plans to come up with a consensus-based solution by 2020. Nevertheless, some countries and the European Union (EU) have already begun to revamp their own tax regime to cater for the digital economy.

This article shares the latest developments of major economies in the world in the taxation of trade of tangible goods across the border through electronic means.

## European Union – a new VAT regime

The European Commission (EC) adopted new rules on Value Added Tax (VAT) for e-commerce in December 2017, which aims at modernizing the current VAT regime for cross-border e-commerce players, reducing administrative burden for businesses arising from different VAT regimes among the member states of the EU, and regulating tax losses from VAT fraud. The basic principle is that VAT is charged in the country where the customer is a resident, regardless of whether the customer in the member state is a business entity (i.e. a B2B sale) or

a private consumer (i.e. a B2C sale).

Under the current VAT treatment of sales of goods to private customers within the EU (i.e., distance sales), both EU and non-EU businesses are obliged to register for VAT purposes in each member state when their sales to that state exceed the given threshold. In order to make the EU VAT system more business friendly and hence encourage compliance, one focus of the new rules is to simplify the administrative procedures by the extension of the existing Mini One Stop Shop system to include distance sales of goods from January 2021. The extended "One Stop Shop system" will allow businesses to handle their VAT registration and payment across the EU through one single online portal hosted by the local tax authorities of the country of dispatch.

Another focus of the rules is to fight against e-commerce VAT fraud. The EC has proposed several measures to monitor VAT compliance and the source of data will be from key players in this economy who possess the online sellers' data. Going forward, these online marketplaces (including platforms or portals that facilitate distance sales of goods within/imported into the EU) will be responsible for ensuring that VAT is collected on the distance sales of goods by non-EU companies traded on their platforms. As online marketplaces will be liable for paying any missing VAT to the tax authorities arising from the non-compliance by the sellers it is expected that they will help ensure sales are properly reported and taxed.

With over 90 percent of the online purchases made by European customers involving a payment intermediary, data held by these intermediaries would be useful for the EU tax authorities to monitor VAT compliance. Accordingly, it has been proposed that these payment service providers (such as credit card and

direct debit providers) will have quarterly information-sharing obligations to share the relevant payment data with authorities and anti-fraud specialists. Although it will take at least some years for the EC to develop a central electronic storage system for payment information, such a measure will allow authorities to cross-check the data collected from online marketplaces and uncover the identities of those non-compliant online sellers.

## Takeaways

Although the relevant regulations are yet to be finalized, Hong Kong companies engaging in cross-border e-commerce and selling to EU customers should start assessing their current and future VAT registration and compliance obligations in the EU based on their business models in light of the enhanced transparency of data going forward. We have also seen non-EU companies start to explore setting-up local entities in the EU to centralize the distribution and local e-commerce functions, as well as enhancing their VAT management and tax efficiency.

## United States – A Supreme Court case determined that an internet furniture retailer is also a collection agent for sales and use tax

In December 2017, the Tax Cut and Jobs Act (the U.S. Tax Reform) was signed into law, the most significant overhaul of the U.S. federal tax code in more than 30 years. Yet changes in the U.S. tax systems have continued in this ever-changing world. Notably, and this time in the context of the U.S. state and local sales and use tax (S&UT), in June 2018, the U.S. Supreme Court in *South Dakota vs. Wayfair* overruled the *Quill's* 26-year-old physical presence standard by a 5-to-4 majority.

Unlike VAT elsewhere, the U.S. state and local S&UT is imposed only on end



Table 1 Effective dates and thresholds of U.S. state nexus tax rules

Wayfair ruling (June 2018)					
Pre-Wayfair	July 2018	October 2018	November 2018	December 2018	January 2019
Rhode Island (August 2017)	Hawaii	Alabama (US\$250k/*)	North Carolina	Colorado	Georgia (US\$250k/*)
Massachusetts (October 2017)	Maine	Illinois	South Carolina (*)	Connecticut (US\$250k)	Iowa
Ohio (January 2018)	Oklahoma (US\$10k/*)	Indiana	South Dakota		Louisiana
Washington (January 2018)	Vermont	Kentucky			Nebraska
Pennsylvania (March 2018)		Minnesota			Utah
		Mississippi			
		North Dakota			
		Washington			
		Wisconsin			

Unless noted:

Aggregate sales: US\$100k

Number of transactions: 200

\* No minimum number of transactions

customers, which is collected by the vendor and remitted to the relevant localities. Whether a vendor is obligated to collect and remit S&UT to a state depends on whether it has a business connection (referred to as a “nexus”) with that state. In *Quill*, the lack of physical presence in a state would exempt a vendor from having to collect and remit S&UT. Accordingly, vendors selling goods out-of-state through the internet or other distance sales (e.g. catalogue sales) would not be required to collect S&UT in the past and hence, the vendors would have a pricing advantage.

With the increasing trend of internet purchases, state tax authorities have

been challenging the physical presence standard. For example, in 2016, South Dakota instituted an economic presence standard that required S&UT collection and remittance for any entity exceeding an annual sales threshold of US\$100,000 or engaging in 200 or more separate transactions in the state, and many other states have similar statutes with the majority choosing the same thresholds.

The Supreme Court agreed to hear the case in January 2018, heard it in April, and issued its decision in June 2018, which overturned *Quill*, ruling that the physical presence rule was “unsound and incorrect” in the age of internet services.

The Court found that a “substantial nexus” exists between out-of-state retailers and South Dakota by virtue of economic and virtual contacts by the state. The *Wayfair* decision has changed the landscape of S&UT collection for remote sellers and has far-reaching implications. Many states are taking a measured approach of reviewing the case to decide how their laws apply in view of the holdings in *Wayfair* and the enforcement date. Some of the bigger states, e.g., California and New York, are still pending how to go about the Supreme Court decision. Table 1 summarizes states that have instituted the sales tax economic nexus thresholds.



Treaty protection is irrelevant to S&UT nexus as treaties are only applicable in the U.S. federal income tax context. Multinationals selling from a treaty jurisdiction, such as China, to a state and meeting that state's statutory economic presence threshold are still required to collect and remit S&UT.

#### Takeaways

The *Wayfair* case evidently opened the floodgates for state tax authorities to impose sales and use tax collection obligations on companies without a physical presence conducting sales remotely into the U.S. The differing thresholds, effective dates, and the constantly changing laws may inadvertently set traps for unwary remote sellers. To mitigate the risk of non-compliance, it is advisable for non-U.S. businesses selling to the U.S. to evaluate the implications of *Wayfair* and reassess their historic and current nexus positions and S&UT filing requirements as well as their readiness to comply. Given the varying statutory thresholds for creating a S&UT nexus in different states, a state-by-state and facts and circumstances analysis may be warranted to determine the impact on each taxpayer. Besides state S&UT, non-U.S. businesses are also reminded to monitor their activities in the U.S. and stay vigilant in the changing tax landscape to manage federal and state income tax exposure. In the absence of an income tax treaty between Hong Kong and the U.S., if a Hong Kong company is engaged in trade or business in the U.S., it could also be subject to U.S. federal and state income tax. Hong Kong companies should carefully structure

their warehousing, logistics and sales arrangement etc. so as to manage U.S. income tax risks.

#### China

The Mainland government has promulgated various policies to encourage and regulate e-commerce in recent years.

##### *The E-Commerce Law*

The law became effective from 1 January 2019 and e-commerce is defined to include all business activities of commodities sales or provision of services through information technology networks such as the internet, with the exception of internet financial products and services, use of information networks to air news, audio and video programs, publishing and cultural products etc. The law regulates different players including e-commerce platform operators, vendors operating on platforms, and sellers through other electronic portals. It has a wide coverage addressing issues including business registration; liability of e-commerce platform operations; taxation; electronic payment; online safety and security; consumer protection; personal data protection and cybersecurity; intellectual property right infringement etc. With respect to taxation, the law specifies that all e-commerce players (including platforms and operators) must comply with tax regulations to register as taxpayers and fulfil tax obligations.

Platform operators must check the business registration and tax registration information of online vendors using their platform; and provide tax authorities the identity and any tax related information of the online vendors using their platform.

The law is intended to develop fairer competition between e-commerce retailers and traditional retailers by ensuring both comply with tax rules and pay applicable taxes.

##### *Special policy for importation through cross-border e-commerce retail*

Normally import of goods is subject to import Customs Duty (CD), import VAT and (for designated types of goods) import Consumption Tax (CT). This special policy enables certain retail goods (prescribed by Chinese Customs) which are imported through a recognized cross-border e-commerce platform, to be exempt from import CD, and both import VAT and import CT are subject to a 30 percent reduction. Under this special policy, a single order should not be more than RMB5,000; while the cap of import purchases for individual consumers is RMB26,000 in each calendar year. Under the policy, while consumers who order (import) the goods are considered taxpayers of import taxes, cross-border e-commerce platforms, logistics companies or customs declaration companies should act as agents to collect and pay import taxes on behalf of consumers.

In addition, the customs administration for goods directly imported through the qualified cross-border e-commerce arrangement can enjoy a simplified importation process, where an import permit or registration upon its first importation to China is no longer required. For some products (such as healthcare products) which previously required 2-3 years to obtain the import permit, the cross-border e-commerce channel simplifies the process. The policy also



provides more choices to Mainland consumers and echo with the government's initiative of "upgrading the quality of consumption" in the country.

#### *Encouraging e-commerce exports*

Hangzhou was the first city being recognized as a pilot cross-border e-commerce zone with the purpose of experiencing various kinds of pioneer policies for import or export e-commerce. Now 35 cities in total (including Shenzhen, Guangzhou, Chongqing, Shanghai, Zhuhai, Dongguan, Qingdao, Ningbo, Suzhou and Tianjin) are recognized as pilot cross-border e-commerce zones. A new policy effective 1 October 2018 (Cai Shui (2018) No. 103) provides that enterprises registered in these zones can enjoy VAT and CT exemption for cross-border B2C exports once they fulfil the export declaration requirements with China Customs. This policy helps ensure diligent export declaration for e-trade, and reduce the tax uncertainties for cross-border e-commerce enterprises who have not established good internal control and documentation for its export sales and VAT invoices, etc.

#### **Takeaways**

There are tax and non-tax incentives in China to help e-commerce players. Companies should thoroughly study the regulations as well as local practices when designing their optimal business model. Hong Kong companies who wish to engage in e-commerce retail business in the Mainland should evaluate the feasibility and tax implications of different operational models (such as domestic vs. cross-border e-commerce) and the inventory model (such as direct mail or storage in bonded

warehouses, etc.). In a nutshell, conducting e-commerce locally in the Mainland would require a company to set up there and be subject to the regulatory administration of the E-Commerce Law and local taxation; but may attract more online sales traffic. Using a cross-border e-commerce model can save the operating and tax costs of running a company in China and enjoy the import tax incentives brought by the new policy; which may be easier to start with for companies who have limited knowledge of the Mainland market and want to minimize the trial costs.

#### **Hong Kong**

Hong Kong does not have a specific set of tax rules to deal with the digital economy. The typical role played by Hong Kong companies in the sector is that they are always used as intermediaries to sign contracts with overseas platforms and book part of the sales margin. As some of these Hong Kong companies have no or minimal business activities in Hong Kong, they may report their sales revenues as offshore-sourced and non-taxable following Hong Kong's territorial source principle. However, as some taxpayers may have insufficient practical experience of dealing with the Hong Kong Inland Revenue Department (IRD), they may not be able to provide sufficient transaction documents and records in substantiating the offshore claims when questioned by the IRD. As such, it is important for companies to evaluate their offshore tax positions, transfer pricing arrangements for related party transactions, and ensure necessary documents are maintained in order to reduce any potential tax exposures.

#### **Conclusion**

Globally taxation regimes are becoming more transparent. Practices of improper importation procedures and failure in complying with tax registration and tax filings of cross-border e-commerce players are increasingly unsustainable. The profitability of e-commerce would be seriously affected if the tax compliance costs are not properly taken into account. Some companies face difficult times in handling tax audits and end up closing their e-retail shops due to tax non-compliances in the EU/the U.S. Some cross-border e-commerce companies have found it difficult to get finance from investors or list on a stock exchange if they are not well prepared for tax risk management and have not budgeted the time and cost needed for the tax rectification process. Corporations should understand their tax duties and responsibilities in the jurisdictions where their businesses are carried out or where their goods are being delivered and consumed; study the preferential policies and transfer pricing schemes that may be applicable; and revisit their business plans and cost structures to ensure regulatory compliance and maintain a competitive edge.



**Rebecca Wong** is China Tax Partner, **Sophia Chan** is Hong Kong Tax Partner and **Irene Hui** is U.S. Tax Director at PwC



# TechWatch 195

## The latest standards and technical developments

### Meeting minutes

#### Auditing and Assurance Standards Committee minutes

Minutes of the 370th and 371st meetings are now available.

#### Financial Reporting Standards Committee minutes

Minutes of the 246th meeting are now available.

### Local updates

#### Ethics circular

The Institute has issued a revised Ethics Circular 1 which provides guidance for small and medium practitioners on the Revised Code of Ethics for Professional Accountants.

#### FAQs issued by the Securities and Futures Commission

The Securities and Futures Commission (SFC) has issued frequently asked questions (FAQs) which seek to clarify the application of the secrecy provisions under section 378 of the Securities and Futures Ordinance to the disclosure of supervisory information by licensed corporations to auditors, counsel, solicitors or other professional advisors.

#### Members' handbook update Nos. 222 - 223

Update no. 222 contains updated

Statement 1.102 *Corporate Practices (Registration) Rules* and Statement 1.102 (sch.) *Schedule to the Corporate Practices (Registration) Rules* "Corporate Practices (Model Articles of Association)."

Update no. 223 contains Hong Kong Standard on Auditing 540 (Revised) *Auditing Accounting Estimates and Related Disclosures and Conforming and Consequential Amendments to Other International Standards* and Practice Note 830 (Revised 2018) *Reports by the Auditor under the Banking Ordinance*.

#### Invitation to comment

The Institute is seeking comments on the IASB Exposure Draft ED/2018/2 *Onerous Contracts – Cost of Fulfilling a Contract (Proposed Amendments to IAS 37)* by 8 March 2019.

### Professional accountants in business

#### HKEX introduces e-training for listed companies' directors

On 18 December 2018, the Hong Kong Exchanges and Clearing (HKEX) introduced e-training for directors of listed companies. The courses are designed to help directors understand the new corporate governance requirements that took effect on 1 January 2019.

The first e-training course covers the following six topics:

- Corporate governance update 2018

- Appointment of independent non-executive directors (INEDs)
- INEDs' role
- Directors' attendance at meetings and dividend policy
- Weighted voting rights issuers' corporate governance requirements
- Key messages and conclusions

#### New IFAC report explores how CFOs can play a central role in effective risk management

As businesses face rapid change and increasing uncertainty, PAIBs must seize the opportunity to play an amplified role within their organizations to identify, measure and mitigate emerging risks. To add value, PAIBs must be seen as risk experts who are outward-looking and provide valuable insights to help organizations manage risk, respond to uncertainty, and achieve their objectives.

A new IFAC report *Enabling the Accountant's Role in Effective Enterprise Risk Management* explores the opportunity for professional accountants, CFOs and the finance function to enable more effective enterprise risk management throughout their organizations.

#### Companies convicted of failing to keep significant controllers register at their registered offices

Twelve Hong Kong companies were prosecuted by the Companies Registry (CR) under section 653M(1) of the



Companies Ordinance for failing to keep the significant controllers register at their registered offices and other breaches of the Companies Ordinance. Each of the companies was fined HK\$8,000 to HK\$20,000.

For details, please refer to the highlights of prosecution cases of the CR website.

## Corporate finance

### Institute comments on proposals relating to listed issuers with disclaimer or adverse audit opinion on financial statements

The Institute issued a submission on 13 December 2018 responding to HKEX's proposals to introduce a specific suspension requirement applicable to listed issuers with disclaimer or adverse audit opinion on their financial statements.

The Institute, in principle, supports the HKEX's initiatives to strengthen market regulation and investor protection, and maintain Hong Kong's position and reputation as a major international market. However, as one of the main stakeholders, we have concerns about the details of the proposals. While we would agree that an audit disclaimer/adverse opinions may be a factor in determining whether a suspension should be called for, at the same time, the submission indicates problems that could arise from creating a direct cause and

effect relationship between an audit disclaimer/adverse opinions and a suspension of trading.

In addition, in relation to the suggestion of performing an update audit or a single financial statement audit, so as to resolve the audit issues and enable trading to be resumed, the Institute points out that there are considerations and constraints under the Companies Ordinance and accounting and auditing standards, which would need to be taken on board.

### SFC Consultation Conclusions on Proposed Amendments to the Code on Unit Trusts and Mutual Funds

The SFC published Consultation Conclusions on Proposed Amendments to the Code on Unit Trusts and Mutual Funds (UT Code) on 6 December 2018.

The SFC will implement the proposals set out in the consultation paper. Key amendments include strengthening requirements for key operators (i.e. management companies, trustees and custodians), providing greater flexibility and enhanced safeguards for funds' investment activities and introducing new fund types, such as active exchange traded funds. Consequential amendments have been made to the SFC Code on [Mandatory Provident Fund] Products, Code on Pooled Retirement Funds and Code on Investment-Linked Assurance Schemes. The revised codes became effective on 1 January

2019. A summary of the consultation conclusions is set out in the press release.

Updated FAQs have been published to provide further guidance to the industry regarding the implementation and transitional arrangements for the revised UT Code.

### SFC concludes consultation on OTC derivatives and conduct risks

The SFC released consultation conclusions on proposals to enhance the over-the-counter (OTC) derivatives regime and to address conduct risks posed by dealings with group affiliates and other connected persons.

Licensed corporations that are contracting parties to non-centrally cleared OTC derivative transactions, or which are licensed for Type 9 (asset management) regulated activity, will be subject to risk mitigation requirements. Further, licensed corporations providing client clearing services for OTC derivative transactions will be subject to segregation, portability and disclosure requirements.

Licensed corporations which have dealings with group affiliates and other connected persons will be subject to conduct requirements to ensure that risks are properly managed, that they act in clients' best interest and appropriate risk disclosure is provided.

The risk mitigation requirements will become effective on 1 September 2019, while the client clearing requirements



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[www.hkicpa.org.hk/en/members-area/hkicpasource/](http://www.hkicpa.org.hk/en/members-area/hkicpasource/)





will become effective when the new types 11 and 12 regulated activities take effect. The conduct requirements to address risks posed by group affiliates and other connected persons will become effective six months after the gazettal of the Code of Conduct amendments.

A summary of the consultation conclusions is set out in the press release.

## Taxation

### Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Gazettal of:
  - Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Bill 2018 to provide profits tax exemption for eligible funds operating in Hong Kong
  - Inland Revenue and MPF Schemes Legislation (Tax Deductions for Annuity Premiums and MPF Voluntary Contributions) (Amendment) Bill 2018 to implement the 2018-19 budget initiative of introducing tax deductions for deferred annuity premiums and MPF tax deductible voluntary contributions to encourage voluntary savings for retirement
- Double tax agreement with Finland enters into force

- Stamp Duty statistics (November 2018/December 2018)
- Filing of return of stock borrowing transactions
- Annual open data plans, which set out the datasets to be released on the public sector information portal in the coming three years

### Institute's recent tax submissions

The Institute's Taxation Faculty has responded to the invitation for comments on the Inland Revenue (Amendment) (No. 7) Bill 2018 and the Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Bill 2018.

## Legislation and other initiatives

### Anti-money laundering notices

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

### AML/CFT guidance

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

Members who are licensed trust or company service providers should also see the *Guideline on Compliance of Anti-Money Laundering and Counter-Terrorist Financing Requirements for Trust or Company Service Providers*, by 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 ML/TF risks and vulnerabilities in the Hong Kong market.



Please refer to the full version of TechWatch 195, available as a PDF on the Institute's website: [www.hkicpa.org.hk](http://www.hkicpa.org.hk)

# After hours

Book review Life and everything Let's get fiscal

## Book review



### A life-coaching bible

Title: **Girl, Wash Your Face**

Author: **Rachel Hollis**

Publisher: **Thomas Nelson**

At 18, Rachel Hollis, a high school graduate living in Los Angeles, decided that what she really wanted in life was to marry actor Matt Damon. She failed in her quest, as expected, but she came closer than many of her peers.

"I applied over and over again for jobs at Miramax Films (because they had produced *Good Will Hunting* and my 18-year-old brain assumed that Matt Damon might stroll through the lobby at any given moment)," she recalls in her latest book, *Girl, Wash Your Face*.

What brought Hollis closer to her goal was her determination, her persistence, and a sense of purpose. She did get that job with Miramax as a junior in charge of event-planning, rather than a chance to be one of the studio stars' potential brides. "In the absence of clear direction or a real vision, I just imagined one," she writes.

"I latched on to the idea of a future so I knew a direction to walk in."

That might well be the difference between crazy stalker and hopeful dreamer, and the latter is what seems to drive *Girl, Wash Your Face*, the seventh book by Hollis, a food blogger turned life coach and social media darling with nearly 1 million followers on Instagram (see author interview on next page).

Since its release last year, the book has sold more than 1 million copies worldwide with its folksy "I've done it and so can you" style. Hollis talks to rather than down to her readers, explaining how she went down a few wrong roads of life before eventually finding the right one.

The book is a voyage of discovery as the author begins each chapter with a lie she believed about life, and then

explains how she uncovered the truth. In the chapter titled "I Need a Drink," for example, she had become unnerved by her apparent reliance on alcohol to numb the strains of raising three children under five. Hollis explains how she managed to give up drinking and achieve mental clarity through self-realization.

Instead of blinding flashes, Hollis appears to have only gradually turned her life around, focusing on positive influences and cutting out the negatives – whether they are wine, Oreo biscuits, or bad thoughts about her body image.

There's no secret about the foundation of Hollis' inspiration. The publisher, Thomas Nelson, is the Christian content imprint of book giant HarperCollins. In the pages of *Girl, Wash Your Face*, Hollis often refers to the strength and virtue of her religious faith. Even the book's title

## Author interview: Rachel Hollis

invokes cleanliness, a state once popularly regarded as next to godliness.

To be fair, Hollis wears her religion relatively lightly as she encourages women to be inspired and independent enough to live their own lives. But as she advises readers to “be the hero of your own story,” she encourages them to also think of others. “This doesn’t mean you become selfish. This doesn’t mean you discard your faith or quit believing in something greater than yourself.”

Much of her advice is basic common sense, but Hollis’ peppy style refreshes some well-worn arguments. Be true to yourself, stick to your commitments, or start with achievable goals like removing something bad from your menu. “Diet Coke felt like my great white whale at the time, but in retrospect, giving up a soda was a million times easier than running marathons, hitting our annual budget goals, or writing a book.”

Any self-improvement book needs a takeaway, the pivot on which the reader can determine how the writer got to live his or her dreams, rather than merely dreaming them. “[Family] connections haven’t been the secret to my success,” Hollis writes. “The secret to my success isn’t celebrity status... It’s not about talent, skill, money, or connections.”

And the big reveal of *Girl, Wash Your Face*? “I am successful because I refused to take no for an answer. I am successful because I have never once believed my dreams were someone else’s to manage. That’s the incredible part about your dreams: nobody gets to tell you how big they can be.”

Rachel Hollis isn’t the first social media celebrity to have launched herself into fame with a bikini photograph. But she’s surely one of the few to have emphasized not her curves but her post-natal stretch marks.

“I had just run a marathon so I was, like, this is the best shape I’m ever going to be in my whole life,” she recalls from her home in Austin, Texas. “I had just got this new bathing suit and I thought, I’m going to show off this bikini.”

Then, in 2015, Hollis was a blogger, offering advice and anecdotes on cooking, style, homemaking and life with children through *TheChicSite.com* website. Her homespun charm had brought her followers on Instagram and Facebook. Many of them, like her, were young parents.

“In the very last picture, I have stretch marks all over my stomach – I carried three babies – and then I’m like you know what, all the women who follow me are mums and they probably have stretch marks too. So I end up posting the photo.”

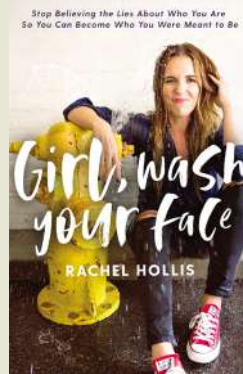
That decision propelled the photo to “viral” status, and Hollis to social media fame. “Of all the things that you want to go viral, that’s probably not it, but that was very

overwhelming.”

There’s much to commend Hollis’ own life journey as an inspiration. Born into a dysfunctional, sometimes violent, family – her older brother committed suicide when she was 14 – she managed to escape her hometown of Weedpatch, a settlement in southern California, best known as the desperate migrant camp in John Steinbeck’s *The Grapes of Wrath*, for the bright lights of Los Angeles.

Hollis had flirted with writing all her life – she began her lifestyle blog in 2008 and self-published a series of novels – but her experience with the bikini photo convinced her to turn her literary efforts towards helping other women. “It really was the first time that I saw the power of just being yourself, and showing not just the pretty stuff.”

The reaction gave Hollis’ inspiration for *Girl, Wash Your Face*. “As a [social media] influencer, I had years of women all over the world sending me [direct messages], asking: ‘How do I save my marriage?’ ‘How do I get my son to stop using [drugs]?’ ‘How do I lose the last 50 pounds?’ What I wanted to say, which never felt appropriate to say, was: ‘Stop reaching out to a stranger on the Internet and fix your own life.’”





## Life and everything

As recommended by *A Plus* editors

### Eat



Cold escabeche mussels

### UNO MAS

Transport your taste buds to the famous tapas bars and restaurants that dot the streets of Madrid, at Hong Kong's Pica Pica. Headed by Chef Edgar Barahona, who also owns Michelin-star restaurant BCN in SoHo, the eatery brings modern yet still authentic Spanish cuisine to the bustling streets of Sheung Wan, having just opened doors this month. Dishes include cold escabeche mussels, baby squid stuffed with morcilla sausage and ink sauce, and suckling pig served with sweet potato puree and raw spinach. Groups or families can dig into larger portions such as their signature Pica Pica paella surf and turf, or carabinero rice with foie gras.

Address: Shop G & H, G/F, Kai Tak Commercial Building, 317–321 Des Voeux Road Central, Sheung Wan  
Opening hours: From 6:00 p.m. (Monday–Saturday)  
Website: [www.picapica.hk](http://www.picapica.hk)

### Music



### BREATHTAKING MELODIES

Israeli-Russian trumpet prodigy Sergei Nakariakov will take to the stage in Hong Kong for the first time, playing one show as part of the 47th Hong Kong Arts Festival. The virtuoso will perform classical numbers such as Mozart's *Symphony No. 35 in D major "Haffner"* and *Horn Concerto No. 4 in E-flat*, and debut the world premiere of *Crackle, Hiss, Hum and Rumble*, commissioned by the Hong Kong Sinfonietta and written by Hong Kong composer Steve Hui. The show will be conducted by Alexander Liebreich, Chief Conductor of the Prague Radio Symphony Orchestra.

Date: 16 February at 8:00 p.m.  
Venue: Hong Kong City Hall, Concert Hall  
Ticket prices: HK\$420, HK\$280, HK\$160  
Website: [www.urbtix.com](http://www.urbtix.com)

See

ALL THE LIGHTS

Marvel at the 18 dazzling light installations of The Hong Kong Pulse Light Festival. Co-organized by the Hong Kong Tourism Board and the Tourism Commission, the festival features four light installations submitted by local artists and 14 from around the world, and is the largest outdoor light display in the city. Visitors can walk through a portal-like light tunnel, take photos beside futuristic-looking illuminated talking heads – or even change lights themselves. One interactive light installation from the Netherlands allows participants to control its lights by tapping on piano keys. Another light project, called Tapping, uses wind to generate sound.

Date: Until 24 February  
 Address: Central Harbourfront, 9 Lung Wo Road  
 Opening hours: 5:00 p.m. - 11:00 p.m.  
 Price: Free admission



*Illuminated talking heads*



*Victoria Park*

Celebrate

CHINESE NEW YEAR MARKETS

Soak up the holiday season and ring in the year of the pig at Victoria Park's flower market. Visitors can expect to pick up a variety of colourful and auspicious flowers such as orchids, golden mandarin trees, peach blossoms, winter jasmines, and items such as red packets, Chinese calligraphy and wind chimes, to bring in fortune for the year ahead. Those hungry can head to various snack stalls in between flower and souvenir booths to sample holiday snacks such as peanut powder rice cakes as well as traditional desserts. With its festive atmosphere, it is a great way to spend an afternoon or evening with family and friends.

Date: 30 January - 5 February  
 Venue: Victoria Park, Causeway Bay  
 Opening hours: 10:00 a.m. - midnight  
 (30 January - 4 February), midnight -  
 6:00 a.m. (5 February)



# The Christmas story: the first tax audit

Hong Kong's humorist on how tax evasion is, quite possibly, a 2,000-year-old practice

**Y**our humble columnist was commissioned to write a nativity play for a Christmas concert. "Make it fresh!" the organizer said.

Aiyeeah! How do you make the most told story in the world "fresh"? It's like telling a chef to think of a new recipe for toast.

Everybody already knows the story: Joseph and Mary go to Bethlehem, shave a baby, and visitors arrive – angels, shepherds and "wise men from the East."

Cue music, roll the credits. What to do?

I went back to the original text and found the answer. Roman chief Caesar Augustus wanted to know how much tax money and potential army recruits there were in the land. So he organized a census, the text says. On a certain day, all people were to go back to be counted at the towns of their birth – such as Bethlehem.

Aha! The nativity story is actually about an executive-level tax audit of a particular district. It's right there in the text!

So I wrote the story from the point of view of the tax accountant and census taker assigned to the Bethlehem tax jurisdiction. It may not have been the best play since Shakespeare, but it was certainly... fresh.

Afterwards, this columnist got to thinking. The official Christmas story was written by a doctor named Luke.

What if archeologists found the notes of one of Caesar's tax accountants, who must have existed?

And it came to pass that Caesar Augustus wanteth more money. "Let us raiseth up the taxes, even unto the level of the heavens," saith he.

"Nay," saith the present writer, one of Caesar's tax accountants. "That would surely cause thy approval rating to fall greatly, even down to Sheol. Instead, let us counteth the people and identify which districts useth loopholes to avoid paying rightful tribute to their honest, hardworking oppressors."

"Thine idea totally rocketh," saith Caesar. "Make it so."

And it came to pass that a census was announceth.

And when he heareth the news, Joseph the carpenter waxed wroth. "Right in the middle of the winter holidays! Why dost this always happeneth unto me?"

**"The nativity story is actually about an executive-level tax audit of a particular district."**

He and his pregnant wife Mary travelleth to Bethlehem on a donkey. But there was no room at the inn so their baby was born in a stable.

And it came to pass that a group of shepherds came to Bethlehem to see the "newborn king."

"I am a tax accountant for Caesar," saith I. "Payest thou taxes?"

"Nay," saith the shepherds. "We are part of the informal economy. Thou canst not touch us, guv."

Then came a group of angels singing: "Glory in the highest."

"Doest thou get one of these every year?" I said, showing the chief angel a green envelope. The angel was exceedingly puzzled.

"Well, you will from now on," saith I.

Then came three wise men from

the east, bringing gold, frankincense and myrrh.

"Aha!" saith I to Joseph. "Thou must pay capital gains tax on these gifts."

"Nay," saith the wise men. "These gifts are for the baby, and thus must be considered assets held in trust."

"That seemeth to me like a tax dodge," saith I.

But in truth, it had come to pass that my stony heart had been touched by the scene and I was moved to write tax exemptions for all persons present.

The following day, this official travelleth from morning even unto night to get back unto Caesar's palace where all the tax officials giveth reports.

When it came to my turn, Caesar asketh: "Any news from Bethlehem?"

"Nay," saith I. "But we need to increase the census number by one, since a peasant carpenter in a stable had a baby boy."

"Well, that's hardly going to change the world, is it?" saith Caesar, moving on to the next tax official.

I looketh out of the window, and in the evening sky, a tiny star twinkleth.

Cue music.

Roll credits.



## Nury Vittachi

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





Success symbol



Success ingredient

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