A+

Driving business success

Issue 3 / Volume 15 / March 2019

Plus:

Greater Bay Area
Tax experts discuss the recently released development blueprint

Stock Connect
The impact of the cross-border access scheme to Hong Kong

Success
Galerie du Monde's Finance Manager George Tong

CHIEF ACCOUNTANT

IFAC's new CEO Kevin Dancey on how he will lead the organization amid falling public trust in professionals, and proposed changes to the standard-setting process

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

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"The Greater Bay Area represents a great opportunity for our profession to expand our service offering in one of the world's most dynamic and exciting development areas, and to help our compatriots to expand their businesses globally."

Dear members,

It has been another busy month at the Institute preparing for the future. In the middle of the month we held our annual strategy away weekend discussing plans for the Institute's future, including the Seventh Long Range Plan, the progress of the Digital Strategic Plan, and improvements to the member services including new professional courses and other new services to help you become Accountants Plus.

We also discussed the Greater Bay Area (GBA) initiative, which is fast becoming one of the year's most important developments, not just for the profession, but for Hong Kong's future. It's been a busy time recently with new policies and plans being released regularly. Major advancements include the release of the central government's Outline Development Plan in February and the announcement of tax subsidy policies for needed-talent who move to work in the GBA in March. You can read more about these developments and more in the roundtable discussion *A Plus* hosted this month on page 32.

This month, I attended a meeting of professional bodies and the Constitutional and Mainland Affairs Bureau to discuss our wish list for the GBA. The initiative represents a great opportunity for our profession to expand our service offering in one of the world's most dynamic and exciting development areas, and to help our compatriots to expand their businesses globally, and at the meeting I explained what we would like to see improved to help us achieve this and help our members already operating in the other GBA cities.

We're not only looking at maintaining good relations with our close neighbours in the Mainland, but all over. With this in mind, on 27 March I led the Institute's senior leadership in welcoming representatives from the Beijing Institute of Certified Public Accountants to Hong Kong to sign a cooperation arrangement to develop a strategic alliance with them. I hope to be able to share more news about this alliance in the coming months.

Back in Hong Kong with the gazettal of the Financial Reporting Council (Amendment) Bill 2018, work has now turned to preparing for implementation. The Institute has joined the government's steering group which is holding regular meetings to ensure the new system is up and running in time, including discussing the oversight and registration mechanisms so that there is a smooth transition of the oversight of auditors of listed companies from the Institute to the Financial Reporting Council (FRC). We endeavour to voice the views of the profession throughout the process and work with our colleagues at the FRC to achieve the best for Hong Kong.

I attended the prize ceremony for the Oxfam Trailwalker 2018 on 22 February, and was honoured to accept the Outstanding Fundraiser Award on behalf of the Institute. Thank you to all the Institute members who take part and represent the profession in the Trailwalker, and to all of you who donated in support of the worthy cause. As a Trailwalker participant, I know that the donations help to motivate us through the gruelling 100-kilometre walk.

Patrick Law
President

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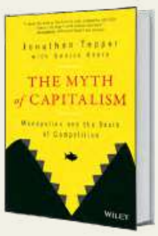

Book review

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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Institute news

Institute hosts budget forum

The Institute hosted a lively budget forum in the evening of budget day on 27 February. Panellists, Legislative Councillor Kenneth Leung, Chair of the Taxation Faculty Executive Committee, KK So, Professor Ho Lok Sang, and shareholder activist David M. Webb, discussed their views on the budget and on the government's fiscal and related policies. Curtis Ng, Convenor of the Budget Proposals Subcommittee, was the moderator. Read Ng's response to the 2019-20 Hong Kong budget on page 17.

Hong Kong's Financial Secretary, Paul Chan, adopted a fairly fiscally prudent approach, seeking to manage overall expenditure and meet the community's expectations in various areas. Among the key objectives of the budget are solidifying Hong Kong's position as a financial service centre, strengthening its role in innovation and technology, and supporting diversification of the economy.

Institute meets the Accounting Standards Board of Japan

Representatives of the Institute and the Accounting Standards Board of Japan met on 25-26 February in Hong Kong to provide updates on their respective activities. They also exchanged views on how to improve the accounting for goodwill, business combinations under common control and intangible assets, as well as observations on the quality of fair value measurement and the implementation of major new International Financial Reporting Standards in respective jurisdictions. The two bodies also explored opportunities for future cooperation, and agreed to continue holding bilateral meetings.

Institute takes part in Hong Kong Money Month 2019

As part of Hong Kong Money Month 2019, the Institute organized seven "Rich Kid, Poor Kid" storytelling sessions in primary and secondary schools for over 1,000 students. Through the events, our Accountant Ambassadors told attendees about the importance of fiscal prudence and setting financial goals.

Compliance Department annual report released

The Institute has published the 2018 Compliance Annual Report, which outlines the Compliance Department's key activities for 2018. The report also features the process review of the department's operations carried out by the Regulatory Oversight Board. The report is available on the Institute's website.

Compliance Forum 2019

The Institute's Compliance Forum will take place on 10 April. Speakers will help members to better apply professional scepticism; comply with relevant professional requirements; and strengthen the quality of their professional work through compliance. The forum will also review past cases to identify common pitfalls. Interested members should enrol by 3 April on the Institute's website.

Oxfam Trailwaker 2018 awards

Institute members were honoured at the prize presentation ceremony of Oxfam Trailwalker 2018, held on 22 February. The Institute's team SARA, which achieved an Institute record-breaking time of 16 hours and 42 minutes, received the Speed Award for the accountancy category. The Institute was also presented the Outstanding Fundraiser Award for raising HK$167,888.

Post-marathon drink

All CPA runners are invited to join the post-marathon drinks on 29 April to share their experiences of the Standard Chartered Marathon. The event will feature the presentation of CPA marathon trophies (for members) and SRC marathon trophies (for QP graduates and students) to outstanding runners. Find out more on the Institute's website.

Council minutes

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

(From left to right) Curtis Ng, Ho Lok Sang, Kenneth Leung, David M. Webb and KK So

Disciplinary findings

Deborah Annells, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principles of *Integrity, Professional Competence and Due Care* and *Professional Behaviour* in sections 100, 110, 130 and 150 of the Code of Ethics for Professional Accountants, as well as section 270 Custody of Client Assets, section 460 Clients' Monies and section 450 Practice Promotion of the Code, as well as professional misconduct and dishonourable conduct.

Annells controlled a group of companies in Hong Kong which provided trust and tax advisory services. Between December 2011 and March 2014, the Institute enquired into various complaints lodged by Annells' clients and a former employee. The subject matter of the complaints included the use of trust monies dishonestly and for unauthorized purposes, failing to separate client funds from funds of the practices, the use of forged documents or making misleading statements to clients regarding the integrity or application of their funds, and the theft of client funds. Annells was also alleged to have made disparaging remarks about the services of another CPA who was her former employee.

During the course of the disciplinary process, Annells was prosecuted in both the District and High Courts for a number of offences including perverting the course of justice, theft, fraud and possessing a false document. She was convicted of 45 offences of theft, one offence of possession of a false instrument, and one offence of fraud, and was sentenced to nine years' imprisonment in July 2016. Due to Annells' incarceration, the Disciplinary Committee directed that the matter be decided on the papers and no oral hearing be held. Notwithstanding her conviction, Annells denied a majority of the disciplinary charges brought against her.

Decisions and reasons: The committee ordered that the name of Deborah Annells be removed from the register of CPAs permanently. In addition, Annells was ordered to pay partial costs of the disciplinary proceedings. The committee will determine the amount of costs to be paid by Annells after considering the parties' submissions on that issue.

The committee noted that the breaches concerning trust monies and client funds in this case are at the most serious end of the potential range of misconduct by a CPA. While noting that Annells is serving a prison sentence as punishment, the committee considered that the interests of the public require protection against her unscrupulous conduct once she is free to work again. The committee further noted a number of aggravating factors: Annells' lack of remorse and financial benefit from the breaches, the absence of restitution to the clients, and the number of clients affected. The committee was therefore of the view that Annells' actions warranted permanent removal of her name from the register of CPAs.

Chan Chant Fai, CPA (practising) and Fairyield CPA Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply section 290.128 of the Code of Ethics for Professional Accountants, dealing with independence requirements for audit engagements.

Fairyield audited the financial statements of a private company for the financial periods/years ended 31 March from 2005 to 2012. Chan was the engagement director.

At the time of the audits, an immediate family member of Chan was a director of the client company. This significant threat to auditor independence could have only been reduced to an acceptable level by Chan withdrawing from the audit team. Chan's failure to do so significantly compromised the independence of the audits.

Decisions and reasons: The Disciplinary Committee reprimanded the respondents and ordered them to jointly pay a penalty of HK$200,000 and costs of the Institute of HK$35,134. When making its decision, the committee noted independence is a fundamental principle of the profession, and sufficient sanctions must be imposed for this breach to maintain public confidence in the profession. In mitigation, the committee noted the private company was set up solely to handle assets of a family and had no outside creditors or debtors, and that the respondents did not stand to make any financial gain.

Details of the disciplinary findings are available at the Institute's website: *www.hkicpa.org.hk.*

Mainland to start teaching investment to children in schools

Mainland China's Ministry of Education plans to introduce investment education in schools across the country as part of its national curriculum, the *South China Morning Post* reported this month. "The Ministry of Education will work to incorporate securities and futures knowledge in the curriculum to increase financial literacy [among young Chinese] in an innovative way," China Securities Regulatory Commission spokeswoman Gao Li said. Finance and investment knowledge will be included in related subjects taught at primary and middle schools, but will not be compulsory, according to a news report by *Xinhua*. The report also said some schools could run optional investment and financial management courses. Investor education is already offered in some schools in Shanghai, Sichuan and Guangzhou, but has not been part of the national curriculum before.

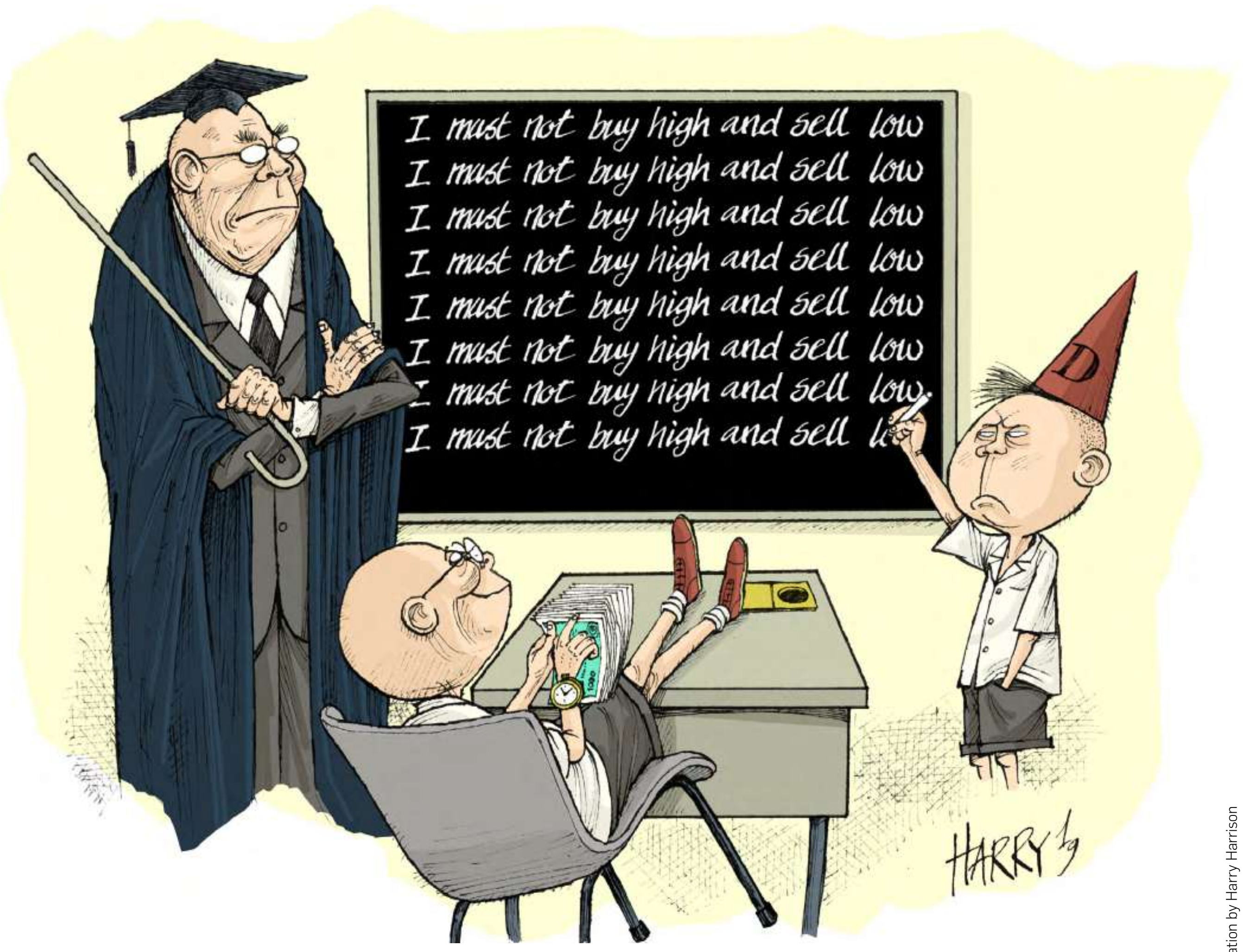

Illustration by Harry Harrison

New law gives Hong Kong citizens new tax breaks

Hong Kong lawmakers passed an amended law on 20 March allowing taxpayers to collect up to HK$60,000 in tax deductions. The new law, which comes into effect on 1 April, aims to encourage more voluntary retirement savings in pension schemes. Citizens will be able to claim their deduction on their tax returns in the new financial year. Wong Ting-kwong, lawmaker from the Democratic Alliance for the Betterment and Progress of Hong Kong, said the new law hopes to encourage more people to better prepare for retirement. "We support the law change, but we would also like to see the government review the scheme in the future and increase the tax incentive cap to HK$100,000." The government is also introducing a Voluntary Health Insurance Scheme to ease the strain on overburdened public hospitals. It hopes to shift 1.5 million people from public to private health care by offering the public a range of private health insurance products.

Stronger regulator to replace U.K. audit watchdog

Britain's accounting watchdog, the Financial Reporting Council (FRC), will be replaced by a new regulator with more stringent powers, in a bid by the government to restore public trust in the audit market. The Audit, Reporting and Governance Authority will be able to investigate company directors, issue a wider range of sanctions in cases of corporate failure, and publish reports into a company's conduct and management. The move comes amid the FRC's effectiveness being scrutinized following the collapse of Carillion, and accounting scandals at BHS and Patisserie Valerie in the last few years. Chairman of the FRC, Win Bischoff, will step down from his position once the leadership of the new body is appointed.

EY Japan appoints first female chair

Ernst & Young ShinNihon has appointed Masami Katakura as chair of the firm, beginning 1 July. The appointment marks the first time a woman will hold the position of chair of any major or mid-sized audit corporation in Japan, according to the firm. Katakura, aged 50, originally from Tokyo, first joined the firm's predecessor Ota Showa Audit in 1991, made senior partner in 2011 and was later promoted to managing partner in 2016. She will lead the digitization and globalization of operations. Current Chairman Koichi Tsuji will go on to lead the parent company, EY Japan. According to a study by McKinsey & Company, Japan significantly lags behind other countries in Asia in terms of female board-level representation.

£1 trillion moved out of U.K. in light of Brexit

Financial services companies in the United Kingdom have begun initiating no-deal contingency plans, shifting an estimated £1 trillion worth of assets out of the U.K. The move is an attempt by financial services firms to mitigate the impact of a no-deal Brexit on their business and customers. According to EY, 39 percent of all financial services companies publicly announced their intentions to move part of their operations out of the U.K. as of last month, up from 36 percent in November last year. Dublin is the most preferred location for companies moving operations, followed by Luxembourg and Paris.

A world of numbers

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The number out of the 93 billionaires in the United Kingdom who have moved their assets overseas to legally avoid paying taxes according to *The Times*. Of that figure, half have moved assets within the past decade to territories including the Bahamas, Monaco, the British Virgin Islands and the Cayman Islands.

US$120 billion

The proposed initial public offering value of ride-hailing giant Uber. The company is expected to launch its IPO next month, joining a long list of tech companies expected to go public this year, including Slack, Pinterest, Palantir Technologies, and Uber's competitor, Lyft.

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The number of weeks of unpaid leave staff at EY Australia are able to take, beginning 1 April, as part of the firm's new Life Leave Scheme. The new initiative seeks to address a growing demand for a more flexible working environment, and to retain the firm's employees, of whom 80 percent will be millennials by next year.

William "Rick" Singer

1 PwC finds accounting fraud at Steinhoff

Steinhoff, a South African furniture and household goods retailer, has been found by PwC to have fictitious transactions totalling US$7.4 billion between the financial years of 2009 and 2017, according to the Steinhoff company website. The firm found that the transactions, made by a small group of former top executives and outsiders, inflated earning and asset values which led to increased profits. In December 2017, South Africa's audit regulator announced a probe into Deloitte, which has audited Steinhoff for almost 20 years. The scandal has led to Steinhoff's market value losing 216 billion rand (HK$117 billion) since 2017, and several resignations including chief executive officer Markus Jooste, who denies any wrongdoing. Steinhoff said it would fully cooperate with any criminal investigations, and pursue claims against those responsible for fraud.

2 Levi's goes public for the second time

Levi Strauss launched its initial public offering on the New York Stock Exchange on 20 March, valuing the company at US$6.6 billion. It marked the jean maker's return to the stock market after 34 years. The public offering raised US$623 million through the sale of 36.7 million shares at US$17 apiece, higher than the price range of US$14 to US$16 previously set by the company. The San Francisco-based blue jeans inventor first went public in 1971 before being privatized in 1985 after profits and its share price fell. The company, which began trading under the symbol "LEVI," joins a string of high-profile IPOs hitting United States markets this year. Traders donned denim jackets and jeans, breaking the no-jeans dress code at the New York Stock Exchange on opening day. The company said it will use its share of the IPO proceeds for general corporate purposes, including potential acquisitions.

3 EY replaces KPMG as Aston Martin auditor

Aston Martin announced this month the appointment of EY as its auditor, after KPMG declined to reapply for tender less than three months after the company made its debut on the London Stock Exchange. EY will take over the audit of Aston Martin Lagonda Global Holdings plc for the financial year ending 31 December 2019. According to *Sky News*, the tender process was part of the group's ongoing corporate governance procedures and does not reflect any dissatisfaction with KPMG's work. Richard Solomons, Chair of the Aston Martin Audit and Risk Committee, said: "On behalf of the board I would like to thank KPMG for their service over the past 12 years as auditor to the Aston Martin Lagonda group since 2007, as well as their support for the IPO last year."

4 Forensics helped reveal college scandal

Forensic accountants at the United States Federal Bureau of Investigation helped uncover the details of the college admission cheating scandal, which has seen more than 50 people – 33 of them Hollywood celebrities and athletic coaches – charged in connection with the case. The parents are accused of paying more than US$25 million between 2011 and 2018 to college admissions consultant William "Rick" Singer, who used part of the money to inflate student test scores and bribe college officials. Dr. Jennifer Stevens, Assistant Professor of Accountancy at the Ohio University School of Accountancy said: "[Forensic accountants] have played a huge role in the indictments. What the investigators would have done is trace the funds from the illegal entities to the people and vice versa, for the bribes and payments."

As Canadian Institute of Chartered Accountants president and CEO, Kevin Dancey led the Canadian accounting profession's unification, becoming the unified body CPA Canada's first president and CEO.

After three years at the helm of CPA Canada, Kevin Dancey strides the global stage as the newly appointed Chief Executive Officer of the International Federation of Accountants. He talks to *A Plus* about progress, public trust, and the pursuit of higher quality

Photography by Juliet Shayne Lui

As the president and chief executive officer of CPA Canada, Kevin Dancey took a keen interest in one of the organization's beneficiaries, the CPA Martin Mentorship Program, designed to help Canadian students from indigenous backgrounds to excel at high school, pursue post-secondary education, learn about career options, including accounting, and benefit from connecting with CPAs in their communities.

"I've always believed in volunteering, and accountants have great skills to help make charities sustainable and effective," says Dancey, who held the top role at CPA Canada from 2013 to 2016 and has been, since 1 January, Chief Executive Officer of the International Federation of Accountants (IFAC).

At IFAC, Dancey intends to ensure that education remains a priority. "We've made an early start, for example, by setting out a new direction for education," he tells *A Plus* from the federation's headquarters in Manhattan, New York. "We believe there are benefits to be realized from a comprehensive and integrated approach to international accounting education."

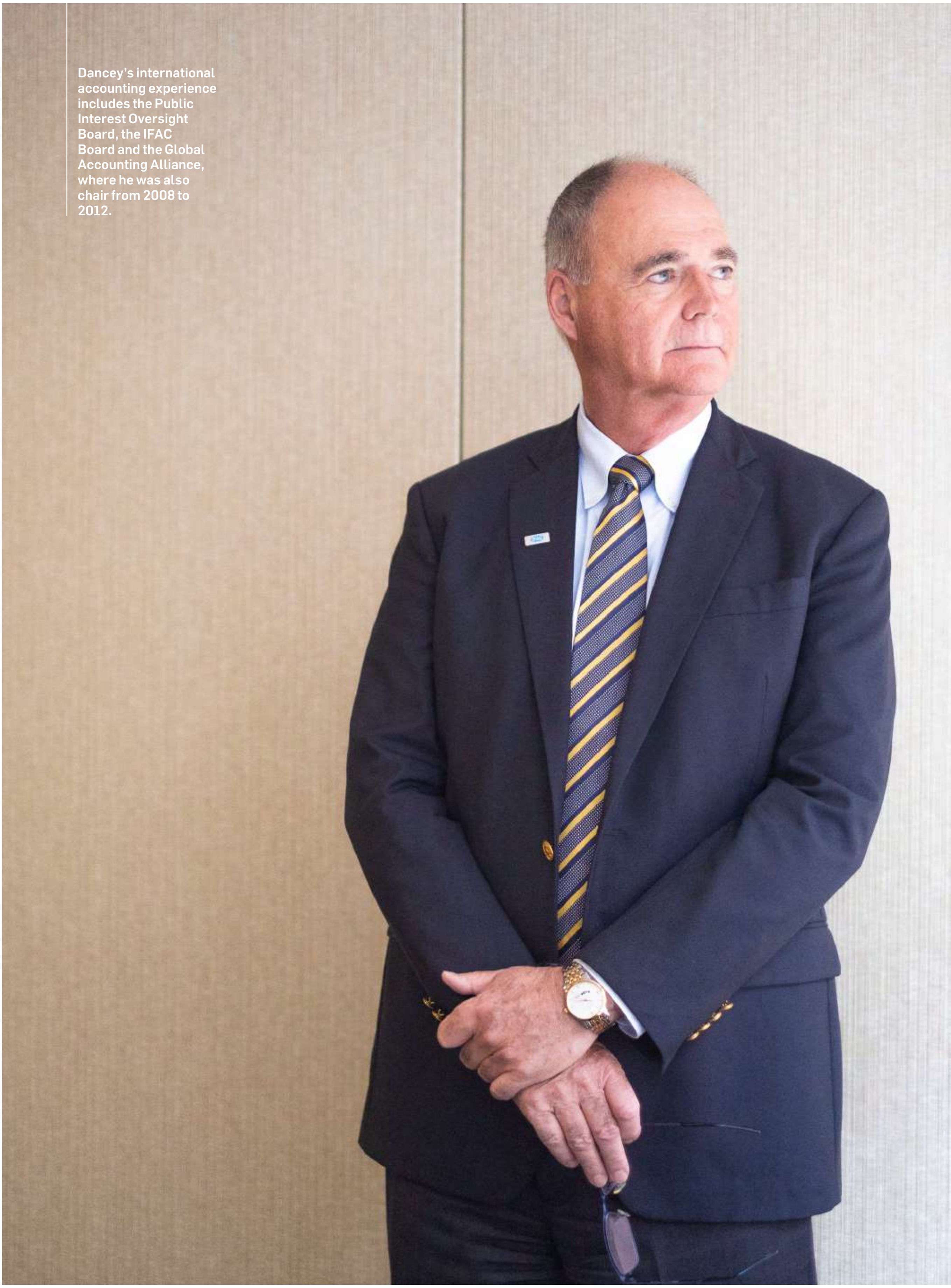
IFAC, he adds, is in a great position to offer its services as an educator. "The spirit of volunteerism that fuels the work of all IFAC's standard setting boards and committees is profound," he says. "Tens of thousands of voluntary hours are committed by our volunteer experts from the four corners of the earth. IFAC's staff itself is also very diverse culturally, speaking many different languages."

In September last year, IFAC's International Accounting Education Standards Board announced the creation of the International Accountancy Education Transition Advisory Group to advise IFAC on the development of, and transition to, a new model to assist the global profession to address the challenges of a rapidly changing environment. "The new model will be operational later this year," says Dancey.

One of the education challenges for the profession

THE GLOBAL ACCOUNTANT

Leadership profile
Kevin Dancey



Dancey's international accounting experience includes the Public Interest Oversight Board, the IFAC Board and the Global Accounting Alliance, where he was also chair from 2008 to 2012.

is increasing specialization, fuelled by evolution in fields such as data analytics, international taxation, forensics, fraud and valuation. "As our education initiative shows, IFAC fully understands the need to prepare the profession for these big and challenging issues," says Dancey. "The good news is that our member organizations are taking these issues seriously too."

The new IFAC leader cites major events that have focused on areas such as new technology and corruption-fighting issues. "Last year, in Argentina, IFAC signed an agreement with the International Bar Association that will help us explore further ways in which the profession and lawyers can partner together to combat fraud."

Restoring public trust

The subject of fraud reminds Dancey of the issue of public trust. He believes professional accounting bodies can respond to perceptions of falling confidence, but insists accountants are still widely trusted. Dancey cites the *G20 Public Trust in Tax* report conducted by IFAC, the Association of Chartered Certified Accountants and Chartered Accountants Australia and New Zealand.

"There is strong evidence of a profound public trust deficit," he says. "The report found that 67 percent of people in G20 countries distrust politicians to make the right decisions on tax policy, but that accountants, the top-graded cohort, are regarded highly by almost 60 percent of survey respondents."

This, he adds, is just one example that shows how accountants and professional accounting organizations are uniquely positioned to rebuild trust in the global economy that has been weakened by the financial crisis and stock market volatility.

"Ours is a profession rooted in

> **"Accountants are part of the solution to the public trust crisis; we have a strong story to tell."**

strong skills and backed by a code of ethics that has been revised and restructured to make it even more relevant in the global economy," says Dancey. "Accountants are part of the solution to the public trust crisis; we have a strong story to tell."

The IFAC leader rejects calls, such as those in the United Kingdom, to break up the Big Four firms – Deloitte, EY, KPMG and PwC – to increase competition or the creation of audit-only firms. "It's important to note that big companies can employ thousands or hundreds of thousands of employees all around the world," he says. "They are large, complex entities operating a complex business environment. It is their demand for global audit services that has driven the growth of the large firms."

Dancey doubts the calls for the Big Four to dissolve, or significantly restructure, would actually improve the market. "All the ideas doing the rounds, including audit-only firms, have the very real potential to add cost, complexity and confusion to a fragile business environment without any hard evidence that they would increase audit quality."

Audit quality, says Dancey, is always a subject up for discussion and refinement. "There are always lots of ideas out there, but most of them don't start with the obvious: we must always regard audit quality as the paramount objective," he says. He insists that any change must be thoughtful and measured. "The International Auditing and Assurance Standards Board's *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* should be compulsory reading by everyone involved in this big and important conversation."

Emphasis on quality

The pursuit of higher audit quality is a key theme of IFAC's Strategic Plan 2019-2020. "The plan emphasizes the importance of being more nimble and agile in both its anticipation of change and response to it," says Dancey. "The plan, entitled *Build Trust. Inspire Confidence*, sets out the IFAC vision and purpose, and our aspirations for a dynamic, future-focused global profession. Our three strategic objectives centre around international standards development, adoption and implementation; preparing a future-ready profession; and speaking out as the voice for the global profession on major public interest issues, like tax and audit quality, which I've been speaking about recently."

Dancey says that while the plan's timeframe officially covers this year and next, it's been developed to be relevant well beyond that period and aligns with the goals of the Monitoring Group, the forum of international regulatory bodies and related organizations committed to advancing the public interest in areas related to audit quality.

The Monitoring Group released a consultation last year on the international standard setting approach. Dancey says he has been encouraged by recent collaborative dialogue with the group and other stakeholders. The group's final recommendations are expected to be issued by the end of this month. "The good news is that on many issues, IFAC and the Monitoring Group agree: we all seek a standard setting model that continues to

serve the public interest, produces high-quality standards, and is fit for the future.

One priority for Dancey is ensuring the full engagement of national accounting bodies, such as the Hong Kong Institute of Certified Public Accountants. "IFAC is relentlessly focused on stakeholder satisfaction, and that means ensuring our recently-approved strategy delivers for our members and our broader stakeholders," he says. "A key driver of our success will be how successfully we leverage the talents and experience of our member organizations, like Hong Kong."

Dancey says member organizations are critical to standards adoption and implementation. "It's always great to see the Hong Kong Institute of CPAs' deep commitment to high-quality standard setting by both commenting on exposure drafts of proposed new standards and also conducting training to prepare members for new standards," he says. "I understand they recently welcomed an International Ethics Standards Board for Accountants (IESBA) board member to a meeting of its Ethics Committee ahead of the June effective date for the revised and restructured code of ethics – a great example of the IESBA's forward thinking."

Dancey hopes to leverage his Canadian experience – "I came from a bilingual country with many different provinces, each with their own priorities" – to embrace the diversity that IFAC offers. "The

"A key driver of our success will be how successfully we leverage the talents and experience of our member organizations, like Hong Kong."

IFAC family represents more than three million accountants," he says. "That's a lot of languages and cultures representing a wide economic spectrum in which to balance priorities and chart a course for the future. It also, of course, represents the most tremendously exciting opportunity."

Progress via diversity

With global economic growth expected to slow down in 2019 as tighter monetary policy, weaker earnings growth and political challenges confront the world's major economies, accountants might well have to be prepared for another looming crisis. "IFAC has identified global financial regulatory divergence as a key threat to economic stability," says Dancey.

While business and finance are increasingly global, he notes regulation frequently isn't. "IFAC developed 10 principles for good regulation based on an excellent roundtable hosted by the Hong Kong Institute of CPAs in 2015, which brought together business leaders, regulators, academics and investors," he says. "From that idea, we were able to project concrete suggestions into the global discussion.

"Last year, IFAC partnered with the Organization for Economic Cooperation and Development to estimate the cost of regulatory fragmentation just in the financial sector. The cost was conservatively estimated at more than US$780 billion a year. IFAC's members, like Hong Kong CPAs, are already trusted advisors to businesses and government, so I think it's less about IFAC helping its members prepare for the next crisis, but IFAC supporting their efforts to prepare government and business for it."

Dancey sees benefits from the profession engaging with each other and sharing ideas, such as at the World Congress of Accountants (WCOA) held in Sydney last November. "One of the biggest lessons from WCOA was that there is no magic bullet that will solve every accountants' technology skills gap," he says. "Every accountant needs to have their own personal plan on how they will learn new trends and keep abreast of new technologies." The good news is, IFAC's members like the Institute are really focused on this issue and, around the world, are offering high-quality conferences to learning and development programmes for their members. "It certainly pays to belong to a professional accounting organization!"

Despite serving as a member of the IFAC Board from 2006 to 2012, Dancey says he is impressed by the effectiveness of its small team. "Most people are surprised to learn that our headcount, including those engaged in standard setting, is about 80 people," he says. "IFAC's phenomenal output is derived from a group of outstanding employees who care very much about our members."

Dancey says IFAC's leadership, from the board down, has a passion for more diversity, both in terms of gender and culture, on the boards and committees. "As the board's Nominating Committee has observed, there will always be more need for women to be empowered at the national level to aim high for senior management and increased experience levels. IFAC realizes so much is being done by our members to support greater diversity, including Hong Kong."

With his work with indigenous Canadians in mind, Dancey hopes to lead the organization into an era of greater diversity. "From our education initiative to the many Global Knowledge Gateway articles submitted by member organizations, it's clear that promoting diversity is taken seriously by our members too."

In January, IFAC published *Enabling the Accountant's Role in Effective Enterprise Risk Management*, a report identifying three ways in which CFOs and finance functions can enhance their contribution to enterprise risk management:
1. Align risk management with value creation and preservation;
2. Drive insights and enable decisions through provision of risk modeling and analytics, data governance and identification of organizational risk appetite; and
3. Enable integration and interconnectivity by breaking down siloes across the organization to share information.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Curtis Ng, Convenor of the Budget Proposals Sub-committee, on why there is room for more tax-related measures following the recent budget speech

The 2019-2020 budget: a reasonable response to a challenging environment

"Good things come in threes" – an old saying and one which the Financial Secretary Paul Chan will be disappointed to have not been able to realize as he gave his third budget speech amid a challenging global macroeconomic and local business environment. Despite the global uncertainties (e.g. Brexit, United States-China trade tensions) and a slowdown in Hong Kong's gross domestic product (GDP) growth, the financial secretary still forecasts a healthy surplus of HK$58.7 billion for 2018-19. This was lower than for his previous two years, particularly last year's record surplus of HK$138 billion.

Unsurprisingly then, this year's budget was more cautious than his previous, with more focus on addressing long-term socio-economic and business needs rather than short-term one-off relief measures or tax incentives. Although the financial secretary was not able to achieve his third "good thing," the budget can still be divided into another trio.

Giving with one hand

As anticipated, the budget has set aside substantial funding for healthcare, including earmarking HK$10 billion to ensure stable funding for Hong Kong's much strained public healthcare services. While these measures were generally welcomed by the public, no details were provided on how these funds will be used to solve immediate problems such as manpower and hospital bed shortages, which put significant pressure on healthcare services over the busy winter period.

Maintaining Hong Kong's role as "Asia's World City" in the digital age requires it to invest in its smart capabilities. As such, the funding for the Smart Government Innovation Lab to investigate the use of technology to improve public services, and creating business opportunities for start-ups and other Hong Kong businesses, is welcomed.

We are also pleased to see that the government considers some of our proposals, such as providing tax initiatives to develop the ship leasing and marine insurance sectors.

Taking with the other

It has been a busy time for tax policy developments over the last two years, with 12 new tax bills proposed and many of them implemented. However, it was still disappointing that the government did not propose new tax incentives that would benefit a wider spectrum of industries and taxpayers, such as:

- Expanding the scope of the research and development (R&D) super tax deductions of 300 and 200 percent to include R&D work subcontracted to group entities and third parties;
- Group tax loss relief and loss carry back, which are available in a number of other jurisdictions; and
- Home rental tax deductions, which had appeared to be in the pipeline last year but no measures were announced.

Indeed, this year's budget contained bad news for residents, with the reductions in a number of the recurring sweeteners, which many of the middle class have long relied upon. The measures reduced include:

- Lowering of the profits tax and salaries tax rebate cap, from HK$30,000 last year to HK$20,000 this year;
- Lower ceiling per quarter for waivers of rates, reduced from last year's HK$2,500 per quarter to HK$1,500 per quarter; and
- An extra one month (as opposed to two months last year) allowance to recipients of Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance or Disability Allowance.

Many of the middle class were disappointed at a reduction in concessions, which were intended to specifically address their needs amid the burden of high property prices and an ageing population.

And leaving untouched

There are outstanding concerns from the general public that the proposed vacancy tax will not be an effective means of freeing up more vacant flats to the public, as developers may simply resort to various tactics to counteract the effects of the tax. With this proposal tabled for discussion by the Legislative Council's housing panel on 1 April, it will be interesting to see how this proposal will evolve or, indeed, if it even gets approval in its current format.

With Hong Kong's substantial fiscal reserves continuing to grow, and now standing at over HK$1.1 trillion (almost 40 percent of GDP), the financial secretary has ruled out the possibility of expanding Hong Kong's tax base to raise government revenue in the near future. While this may be prudent now, anticipated significant expenditure such as the Lantau Tomorrow Vision reclamation work may put heavier pressure on Hong Kong's current narrow tax base in the coming years.

Moving the Tax Policy Unit (TPU) to report directly to the office of the financial secretary may allow greater focus and resources on new and improved tax measures. We hope this will include investigating more strategic tax issues that could help support Hong Kong's economic development and competitiveness, including a review on the effectiveness of the new tax policies. We would also like to see the financial secretary expand the expertise of the TPU through hiring taxation and industry experts, economists and academics, as well as government representatives.

Overall, this was a fairly prudent approach to managing the budget in order to meet society's expectations while solidifying the city's position in the face of increasing global competition.

ONE CHINA, TWO STOCK CONNECTS

Since launching in 2014, Stock Connect has helped bolster Hong Kong's role in connecting the Mainland with the rest of the world. Nicky Burridge finds out how else the cross-border access scheme has impacted Hong Kong, how investors have benefited, and what the current issues are

Illustrations by Ester Zirilli

More than US$60 billion of foreign money is expected to flow into Mainland Chinese stocks, known as China A-shares, during 2019 following a decision by global index provider MSCI earlier this month to increase the weighting of Chinese equities in its benchmark indices. The move will see the proportion of A-shares in MSCI's Emerging Markets Index quadruple from 5 percent to 20 percent.

The inclusion of A-shares has been helped by Stock Connect, which refers collectively to the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect. "Stock Connect has proven to be a robust channel to access China A-shares," MSCI says, in a consultation document issued in relation to the planned increase in the weighting.

First launched in November 2014, the Shanghai-Hong Kong Stock Connect enabled international investors to invest directly in shares listed on the Shanghai Stock Exchange through Hong Kong, while Mainland investors could buy equities listed in Hong Kong. The scheme was expanded in December 2016, with the launch of the Shenzhen-Hong Kong Stock Connect. Today it covers more than 2,000 equities in Hong Kong, Shanghai and Shenzhen.

As of 15 November 2018, the total turnover of northbound trading reached RMB8.77 trillion (US$1.31 trillion), with a net inflow of RMB614.8 billion (US$91.5 billion); while HK$6.55 trillion (US$830 billion) was traded southbound, with a net inflow of HK$812.8 billion (US$103.6 billion), according to the Hong Kong Stock Exchange.

Stock Connect has had a significant impact on the investment landscape since it was first launched. "Historically, there was very little interaction between onshore and offshore investors, with both of them restricted to their respective markets. Stock Connect created a direct linkage between the two exchanges," says Jason Lui, Head of Equity and Derivative Strategy, APAC, at BNP Paribas Hong Kong.

Ferry Choy, Director of Flagship Appraisals and Consulting, explains that prior to programme, international investors had to go through agencies or side products in order to invest in Mainland China's market. "This was a real obstacle. Now with an account in Hong Kong, they can directly invest in either the Shanghai or Shenzhen exchanges," he says.

The initiative has brought significant benefits for investors in both Mainland China, known as onshore or southbound investors, and those in Hong Kong, known as offshore or northbound investors, particularly in terms of portfolio diversification.

The Stock Connect schemes allow Mainland traders to invest in 417 Hong Kong-listed companies out of a total 2,331 companies listed in the city, as of the end of February.

Choy says: "Stock Connect between Hong Kong and China provides a much wider range of stock options to investors. Hong Kong stocks tend to be more focused on banking, finance and real estate companies. Shanghai stocks tend to be more weighted to industrial and manufacturing industries, while Shenzhen is weighted to technology."

Lui adds that the scheme gives foreign investors access to some unique stocks that are only listed in Mainland China, such as liquor, household appliances, healthcare and other new China-type companies. "For domestic Chinese investors, having the ability to buy Hong Kong shares is the first time they could allocate their assets overseas," he adds.

Boosting Hong Kong

Alongside the obvious benefits for investors of portfolio diversification, Stock Connect has also had a number of secondary benefits. Choy believes the inflow of cash has helped with the rapid development of private enterprises in Mainland China. It is also leading to more global buyers holding renminbi, he adds, promoting the internationalization of the currency, which is an important factor in international trade relations.

Dennis Lam, Equity Analyst at UBS Wealth Management, Chief Investment Office, points out that foreign capital flows have also increased the overall liquidity for the three stock markets involved in the scheme.

Lui agrees, saying: "There has been pretty decent growth in terms of the overall Hong Kong market turnover. I remember back in the days before Stock Connect, a HK$100 billion daily turnover used to be the high-water mark, but now we are regularly reaching that."

Meanwhile, Choy thinks the scheme makes Hong Kong a more attractive place for companies to list. "It opens the door for Mainland companies that face a long waiting time to list on Mainland China exchanges. It is also attractive to those international companies that have a substantial business exposure in Mainland China to be listed in Hong Kong too.

"For domestic Chinese investors, having the ability to buy Hong Kong shares is the first time they could allocate their assets overseas."

"As international companies are looking to do initial public offerings (IPOs) in Hong Kong, more and more money will flow into Hong Kong, strengthening the city's international position as the international financial centre in Asia."

Paul Chau, Managing Director of China Galaxy International Securities, and Chairman of the Hong Kong Institute of CPAs' Corporate Finance Advisory Panel, thinks this creates opportunities for Hong Kong CPAs. "As a key objective for the programme is to broaden the depth of capital and improve liquidity in both markets, the securities and asset management firms should directly benefit, and therefore so should the CPAs working in these fields, whether in front line or finance functions."

Another area in which accountants have a significant role to play is in helping to reconcile the two different accounting systems used by companies listed in the Mainland and those in Hong Kong. "One of the existing obstacles is the different accounting systems in Hong Kong and the Mainland. This issue has become more serious after the implementation of new major international standards in Hong Kong, such as Hong Kong Financial Reporting Standard (HKFRS) 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*," Choy says.

Changing investment patterns

While figures are published daily on how much is being invested through Stock Connect, there is no publicly available data on who is behind these investments.

The initial wave of southbound investing is thought to have been dominated by institutional investors looking to diversify their portfolios, but more recently, Stock Connect appears to have been gaining popularity with speculative and retail investors. "Our impression is that for the first few years, the southbound Stock Connect was more of an asset allocation inflow, mainly from institutional investors, especially insurance companies, such as Ping An, which is now one of the major shareholders of HSBC," says Lui. "I think over the past 12

to 18 months, based on the rapid rotation of top-buying and top-selling stocks on a monthly basis, it seems there has been a lot more so-called 'fast money.' We don't know if this is institutional or retail, but the behaviour suggests that it is no longer just asset allocation."

He adds that there has recently been a lot more rotation in stocks, with a stock that was a top buy one month becoming a top sell a few months down the road. Kevin Leung, Executive Director, Investment Strategy, at Haitong International Securities, agrees: "Over the past two years, we have seen a lot of Mainland capital flowing into Hong Kong and this has resulted in different trading patterns compared with before." He adds that before Stock Connect, investing in Hong Kong was driven by institutions and tended to be focused on fundamentals and value. Now it is more momentum driven. Stock Connect is also thought to have played a role in driving up equity prices in Hong Kong.

"For both markets, the capital flows from Stock Connect have become an increasingly important factor because the growing influence of such flows could drive the outperformance of certain stocks or sectors favoured by Stock Connect investors," says Lam. "In some selected instances we did see stocks having outsized returns, which were potentially driven by Stock Connect flows."

Choy believes that Hong Kong-listed stocks may have particularly appealed to Mainland investors in the early days due to a perception that they were undervalued. "After the launch of Stock Connect, Chinese investors quickly pushed up Hong Kong stock prices. However, this phenomenon did not last long. It just accelerated Hong Kong stocks to match their real value. I think the effect is a better understanding of the difference in risk and liquidity. As you know, stocks can be freely traded in Hong Kong but less so in China when the market is volatile."

Lui thinks Stock Connect may also have helped to normalize the so-called "A-share premium" in terms of valuations. "Historically, China A-shares tend to trade at a slight premium over H-shares, and that premium has actually started to come down over the past few years," he says. "There is no way you could say Stock Connect is solely responsible for that, but it certainly makes things a lot easier if people want to express a relative view in one market versus the other."

Trade and ownership limits

Despite Stock Connect making it easier for northbound and southbound investors to put money into each other's markets, there are still some restrictions in place, including trading quotas.

"We should think of the investment quotas as a moving target. The regulators have made clear in the past that they have a flexible attitude towards the Stock Connect quotas and can adjust or expand them if and when needed."

The daily quotas for trading have steadily increased since the scheme was first launched, most recently in April 2018, when the daily northbound quota quadrupled to RMB52 billion from RMB13 billion, and the southbound one to RMB42 billion from RMB10.5 billion.

There are few concerns among analysts that the quotas will be reached, with the expected US$67 billion inflow anticipated as a result of MSCI increasing the representation of A-shares in its indices. "We should think of the investment quotas as a moving target. The regulators have made clear in the past that they have a flexible attitude towards the Stock Connect quotas and can adjust or expand them if and when needed," says Lam.

Of more concern is the foreign ownership limit. Lui explains that under Stock Connect, a 30 percent limit has been put in place on the proportion of shares in a Shanghai or Shenzhen-listed company that can be held by foreign investors. "That seemed a sensible solution, but with the opening up of the Mainland China capital market, we think this 30 percent is inconsistent with where the Chinese market is heading."

He points out that foreign companies can now own majority stakes in the automotive sector and President Xi Jinping has committed to opening up the financial sector to enable foreign companies to own majority shares. "It is our hope that regulators will address this disconnect."

Another area that commentators think would benefit from regulatory attention is the issue of bonds. "Recently some convertible bonds have been launched by A-shares. As a shareholder, you have the right to subscribe to those bonds," Lui explains. "However, if you are holding these shares through Stock Connect, it is currently unclear what the long-term solution for investors to participate will be."

He would also like to see the investible universe of Stock Connect extended from its current level of just over 2,000 equities. Leung agrees: "People are looking for more opportunities to invest in different products and a fully opened-up market to enable both Hong Kong and Mainland investors to take advantage of offerings they can't find in their local market.

"Mainland investors may want to tap into the Hong Kong IPO market, while Hong Kong investors want access to different RMB-denominated products."

Since it was first launched, a number of improvements have been made to Stock Connect, including the introduction of Special Segregated Accounts and real-time delivery versus payment, which enables delivery and payment to happen simultaneously. In 2017, Bond Connect was launched enabling cross-border trading in bonds, while there is talk of an Exchange Traded Fund Connect being introduced, possibly as early as this year.

Meanwhile, Stock Connect is in the process of expanding into Europe. Shanghai-London Stock Connect, which is expected to launch this year, will enable international investors to access China A-shares through buying Global Depository Receipts – namely bank certificates for shares in a foreign company – traded on the London Stock Exchange, while firms traded in London will be able to list Chinese Depository Receipts in Shanghai. The move will enable international investors to trade A-shares during United Kingdom trading hours. They will also be able to make purchases in a range of currencies, including pounds and euros.

Lui says: "It is our view that the Shanghai-London Stock Connect will look quite different from a trading standpoint. The exchanges, as well as the regulators have done a lot of work trying to facilitate smooth trading operations, but because of the time zone and exchange rate challenges, it may not be a 100 percent replica of the Shanghai-Hong Kong Stock Connect." In the meantime, Hong Kong continues to offer the easiest route for foreign investors wanting to buy A-shares.

by Philip Watkins

Philip Watkins, Naturopath at Integrated Medicine Institute in Hong Kong, on how to take a preventive approach to managing stress, and why going out after work is a good idea

How to cope with peak season

Managing stress is nothing new in Hong Kong. With long work hours and high-pressure situations commonplace, Hongkongers were recently found to be the fifth most stressed population among 23 global economies, surveyed by United States-based health insurer Cigna.

According to the same survey, 92 percent of people in Hong Kong faced stress in their daily lives, a number beyond the global average of 86 percent. When it comes to managing the peaks and troughs of the year, it is clear that based on these statistics we are all very much in it together. So how do we help each other and ourselves during stressful periods?

One of the key elements to coping with higher periods of stress is to think back to how things have gone for you in the past. The key component that helps a vast number of people in my natural medicine practice is to properly define where the problems are going to occur before they happen.

It is far easier to prevent things from happening than it is pacify them once they're in full swing.

The first thing to do is to identify the physical effects that you experience from high stress levels:

- Do you have trouble sleeping?
- Do you find that your digestion suffers?
- Or do you stop exercising in exchange for longer work hours?

All of these things can be better remedied when you know they are coming. Can you change your exercise schedule to better allow you to manage your work hours? If so, how?

Nutrient management

If your digestion suffers, is it because your diet changes for the worse during periods of high stress? If this is the case, then maybe it's time to consider organizing a healthy meal delivery service or better yet creating a list of healthy establishments to choose from that will deliver to your home or office.

This can also be a key time to look into how nutritional supplementation may be able to help. I talk regularly with patients about looking at their nutrition as an exercise in resource management. Your body pays for the majority of its physiological transactions, creating energy and brain chemicals using the vitamins and minerals from your diet as currency, for example.

In times of increased output, this demand for currency often increases. If this currency is in short supply, it can then force the body to choose which transactions to pay for and which should go by the wayside – to perform "micronutrient triage." A good quality multivitamin with a comprehensive B vitamin group can make sure that the body has enough currency to spend on all its transactions daily. This can be a game changer for most of my patients (and myself!), and can mean the difference between a day characterized by brain fog and feelings of overwhelm, and one filled with vitality and clarity.

Make time to talk

The same can be done emotionally too. If you are prone to experiencing anxiety during stressful periods then maybe it's time to book an appointment with a counsellor. Someone who you can talk to on a regular basis can be a great help. You should also try and make more time for your friends and family.

Humans are intrinsically a social species, and through seeking social support we can greatly help our hormonal balance, especially when it comes to a specific hormone called oxytocin.

One of the key functions of oxytocin is to decrease anxiety levels and relax the body allowing you to calm down more effectively after a big day at work. People experiencing stress who have a satisfactory level of social support receive regular boosts of oxytocin allowing them to feel more confident in their ability to cope with stress, decreased anxiety as well as draw to other people, leading to a positive maintenance of their social support levels.

Maybe going out for dinner with your colleagues after work or inviting your family and friends over doesn't seem like such a bad idea now?

Put on your trainers

One of my favourite recommendations for everyone, no matter what industry they are in, is to start using the numerous hiking trails Hong Kong has to offer. While we know that exercise is an effective stress management tool, what is not commonly known is the effect that being out in nature can have on the brain.

Originally conceived in the 1980s, attention restoration theory sees people have improved levels of concentration after spending time in nature, or even looking at natural landscapes. Why not try changing your computer's wallpaper to a shot from one of Hong Kong's trails or a vibrant meadow?

This has been studied in numerous different situations, one in particular being a study where patients resting in rooms overlooking trees recovered from their surgery better than those in rooms with a view of only a brick wall. They experienced fewer complications from the surgery, recovered faster and asked for weaker painkillers.

Another study found that taking breaks outside in settings that contained some nature reduced stress, leaving the subjects feeling refreshed, relaxed and energized upon returning to work.

Managing and coping with stress has a lot to do with the understanding that it's inevitable. Thus, the choices you make and habits you create around managing it in both a preventative and proactive manner can make all the difference.

Success ingredient

George Tong

THE ART OF BUSINESS

Galerie du Monde is one of the city's oldest modern art galleries. Finance Manager George Tong talks to Kate Whitehead about Hong Kong's booming art scene, and his role in promoting contemporary Chinese artists on the international stage

Photography by Calvin Sit

George Tong is at home at Galerie du Monde, Hong Kong's oldest contemporary art gallery. He insists on a tour of the art space in Duddell Street before sitting down to talk. He is both proud and in awe of the ink paintings on display, by artists including Hon Chi-fun, Ha Bik-chuen, and Chui Tze-hung.

Tong's favourite artist is Zhu Yiyong, who was born in Mainland China's southwestern city of Chongqing in 1957, and studied at the Oil Painting Department of the Sichuan Academy of Arts. He saw Zhu's painting *Father and Son* (1980) in the gallery in the 1990s, and was immediately impressed by his work.

But, he has an even more personal connection with Zhu, who had a serious illness in the 1980s. "I also had a serious illness in the 1980s," says Tong, Finance Manager at Galerie du Monde, and a member of the Hong Kong Institute of CPAs. He had a congenital disorder. After nearly two months in hospital, he returned to work. He has since learned when to take his foot off the pedal. "I need to take care of myself," he says.

Some of the work at the gallery is from the 1970s – around the time Tong hoped to study art himself. But those dreams were dashed when his parents refused to fund him through art school. "They wanted me to be a white collar worker, an engineer or architect – but not an artist. In their mind then, I would have nothing to eat in the future as an artist," says Tong.

A dutiful son, he followed their wishes. He studied bookkeeping and accounting in secondary school and attended evening courses in accounting at the Hong Kong Polytechnic University, then known as Hong Kong Polytechnic. But as it turned out, he was destined for a career closely connected to the art world.

For five years, he studied by night and worked at accounting firm Li, Tang, Chen & Co. by day as an audit team leader. "I conducted audit and taxation work for medium-sized companies or affiliates of listed companies." In 1977, he met Galerie du Monde Founder and Chairman Fred Scholle, a German-American who had set up the gallery three years earlier. The gallery was tucked away on the second floor of a building on Old Bailey Street in Central, and Scholle offered Tong a job managing its finances.

Galerie du Monde specializes in modern and contemporary works by internationally-established Chinese artists. The gallery also nurtures and promotes emerging talent, presenting solo and group exhibitions with a focus on works of art on canvas, paper, sculpture, photography and new media. It also offers museum-standard framing, and art conservation and repair.

The gallery has been represented at Art Basel Hong Kong, one of the biggest annual art events, since its inception in 2013, and also attends the overseas fairs. Tong is looking forward to the art fair, which takes place this month. “Art Basel draws so many top galleries from around the world, and it brings in so many artists with different styles. It’s the highlight of our year,” says Tong.

When Tong started out in accounting in the 1970s, he sat the exams of the Association of International Accountants, a United Kingdom-based global accounting body. Just before the 1997 handover, he transferred membership from the British body, and became an Institute member. “The Institute is the biggest association for account-

Galerie du Monde is participating at Art Basel Hong Kong, which takes place on 29-31 March. Its booth will show the work of Taiwan’s Fifth Moon Group, whose founder – Liu Kou-sung – is regarded as “the father of modern ink painting.”

In 1977, George Tong was offered the job of managing finances for Galerie du Monde by its Founder and Chairman Fred Scholle. Tong is pictured here in front of the work of Australian artist, Juan Ford.

“Art Basel draws so many top galleries from around the world, and it brings in so many artists with different styles. It’s the highlight of our year.”

ing in Hong Kong and is well-accepted in the market. My boss (Scholle) was very happy. He said, 'oh George, you finally got recognition from the Hong Kong accounting body,'" remembers Tong.

His role is to control the buying and selling. "I can't advise which paintings will sell or not, but I can tell the gallery how much money we have to invest or when we have to stop investing," he says. "As the finance manager, I have to keep my eyes on the cash flow for the acquisition of expensive trading stocks, and I also have to give advice on the gallery's participation in various international art fairs."

Tong believes his skills as a CPA help him deal with tricky situations at work. "I use my accounting and financial knowledge to manage the fund flow of the company in order to achieve a better investment return."

Hong Kong's art boom

The 1970s and early 1980s was a good time for the Hong Kong economy, which fed through to the

Tong says the gallery's framing division gives the business stability.

art world as people began buying paintings. As Galerie du Monde grew, it needed more space, and moved in the early 1980s to a more prominent location on 26 Hollywood Road, near the Central Police Station, now Tai Kwun Centre for Heritage and Arts.

Following the move to Hollywood Road, sales doubled. It was in that location for about 10 years before moving to Pacific Place in 1988 for 19 years and then to its current home in the Ruttonjee Centre since mid-2007.

Tong recalls the excitement of helping to establish a street-level gallery. "Working as an accountant, I was new to decoration and design. We decided to divide the space into three levels – my boss thought I was crazy. You first entered a small exhibition area for paintings, then the second entrance was a little higher with sliding panels to show more paintings, and then the framing counter on the third level," he says.

The framing division is at the very heart of the business. In the early days, it accounted for 60 percent of the revenue, although Tong estimates it is now about 50 percent, adding that paintings go for higher sums. There were few custom-framing shops in Hong Kong in the 1980s and demand was strong. Recognizing the value to the business, Scholle went overseas to study framing techniques and passed those skills on to his local team.

"Without the framing business we wouldn't have had the money to buy that kind of art."

"Fred Scholle, who was familiar with the expat market, knew that expats wanted to have their paintings framed well. An unframed painting might not look that great, but when you frame it and set it off with an edge, it looks much better, and you can sell it for more," says Tong.

The framing division gives stability to the business. While it's not every day that the gallery sells a painting, the framing section receives steady orders.

Tong works out of the gallery's Ap Lei Chau back office and often slips upstairs to the 8,000-square-foot framing workshop. "There are about 10 framers, and I like chatting to them and looking at the paintings. Without the framing business we wouldn't have had the money to buy that kind of art," he says.

Getting recognized

With each location move, the gallery – and Hong Kong's art market – has grown, says Tong. "People in Hong Kong are getting richer, and many realize that investing in art is better than keeping money in the bank. Some paintings have tripled in value or even more," he adds. "A lot of people are buying not just for decorative purposes, but for investment."

The gallery invests in its artists, and spends money to promote them and send them overseas, and has earned a reputation for promoting Mainland Chinese talent. The gallery's Managing Director, Kelvin Yang, plays a key role in nurturing new talent, according to Tong. "Kelvin was born in Mainland China and

knows the China market very well. He socializes with the artists there. Once the artists know about us, they refer us to their friends."

Negotiating contracts with artists today is nothing like it was in the 1970s. When Tong joined the gallery, he recalls Chinese artists preferring to sell all their artwork in one go, to get instant liquidity. That all changed in the 1990s. As demand for Chinese art grew, artists began demanding better terms. "At the time, artists were quite poor. They would have a lot of paintings in their house, and we would buy the whole lot in one purchase. They didn't want to sell one or two paintings, or sell on consignment," he says.

Tong believes that art offers a good escape and a chance to relax the mind. He hopes that other accountants will see the merits of art appreciation. "Sometimes, to relax, I look at a painting. Each time I look at a piece of art, I see it differently – it depends on how my imagination and my mood interpret the work," he says. "If you don't buy the painting, at least have a look at it, so you can free your mind. I encourage accountants to spend more time looking at art – it will give them good health."

A closer look at China's grand plan

Last month, the central government unveiled its long-anticipated blueprint setting out the Greater Bay Area development plan – and clarifying the key role Hong Kong will play. In a roundtable discussion hosted by *A Plus*, tax experts share which parts of the document they welcome, and the issues left unresolved

Photography by Leslie Montgomery

(From left) Daniel Hui, Ellen Tong, Rebecca Wong, William Chan and Lorraine Cheung

The policy measures promulgated by the Mainland central government of the blueprint for its Greater Bay Area (GBA) initiative has increased clarity around Hong Kong's role in the megaproject. The document confirms Hong Kong will retain its current status as the region's leading financial centre and continue to act as a gateway between Mainland China and the rest of the world.

While the blueprint offers a broad overview of how the GBA will operate, a number of practical details, particularly relating to taxation, still require further implementation details.

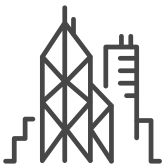
The GBA aims to create an economic powerhouse in the region by combining nine Mainland cities with Hong Kong and Macau into an innovation hub. The initiative takes its inspiration from Japan's Greater Tokyo Area, and the San Francisco Bay Area and New York metropolitan area in the United States.

The 11 cities already pack a significant economic punch with a combined growth domestic product of CNY10 trillion (US$1.49 trillion) in 2017, but the project intends to further accelerate growth in the region.

The blueprint named Hong Kong, Shenzhen, Guangzhou and Macau as being the four key cities – or "growth engines" – for the region's development. "Each city will have its own special area to focus on to ensure they do not compete with each other," William Chan, Partner – Tax, at Grant Thornton, says.

Hong Kong has been named as an international finance hub and transportation, logistics and trade centre for the GBA. Shenzhen will lead on innovation, leveraging on its status as a special economic zone, while Guangzhou will act as the provincial capital, and Macau will focus on tourism and cultural activities.

Daniel Hui, Partner, China Tax at KPMG, explains that the blueprint sets out the short-term goal of building a framework for the GBA, including infrastructure improvements, between now and 2022, with the longer-term aim of having the fully-integrated economic system effective by 2035. "Over the long term, the ambition is to create a



The promulgation of the *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* on 18 February signified a new milestone in the development of the Greater Bay Area (GBA). Under the blueprint, the major cities in the bay area will establish themselves as key hubs for different sectors. Hong Kong will be the international finance hub and transportation, logistics and trade centre for the GBA.

world-class bay area that is well placed to do business and promote growth – and also be one of the best places in the world for people to live and work," he says.

For Hong Kong, its status as an offshore renminbi (RMB) centre makes it well placed to benefit from the project. Lorraine Cheung, Partner, China Tax and Business Advisory Services at EY, says: "Because Hong Kong is still the largest RMB offshore centre, it has a competitive edge in terms of finance and in helping to facilitate the flow of money into and out of Mainland China."

This status also means the city can help GBA companies grow their international presence, particularly through the central government's main external policy – the Belt and Road Initiative. "Hong Kong can be used as an investment centre for Mainland enterprises because we have the professional expertise and the free-trade environment to help companies expand abroad," Rebecca Wong, Partner, China Tax and Business Advisory Services at PwC, says.

She points out that the blueprint also recommends channelling through Hong Kong funding from overseas that is being invested in start-ups and technology companies in the Mainland. "The blueprint makes it clear that Hong Kong has a role in helping Mainland companies access financing," she says.

"Each city will have its own special area to focus on to ensure they do not compete with each other."

Increasing mobility

The GBA is not only intended to facilitate trade flows between the key cities and beyond, but it also aims to improve the mobility of people.

Ellen Tong, Director, Tax and Business Advisory Services at Deloitte China, thinks Hong Kong will also have a key role to play in attracting talent from overseas, acting as a gateway to the GBA in this respect. "From a mobility perspective, Hong Kong is a world city, so it is easy to attract people from different parts of the world to come and work here. Leveraging its own niche, its history as a globally open city, conveniences and being part of the GBA, Hong Kong is able to attract talent, and provides people with opportunities to work in the GBA."

In a bid to encourage more people from Hong Kong to take up residence in one of the Mainland cities, the blueprint states eligible people working in the GBA will have the same access to health, education and housing entitlements that Mainland citizens enjoy. The term "eligible" is yet to be defined, but likely means Hong Kong residents given previously-announced similar policies.

More significantly, the Mainland government has also sought to tackle the personal taxation issues that have previously acted as a

deterrent to people who were based in Hong Kong but working in the Mainland on either a full-time or part-time basis.

In the first change, it has stated that a visit to the Mainland of less than 24 hours within a day does not count as a full day for the 183-day residency test for Mainland Individual Income Tax (IIT) purposes. Under the second initiative, professionals who are classed as "high-end, urgently needed talent" working in the GBA will be entitled to a subsidy such that they will be subject to IIT at a similar effective tax rate as if they worked in Hong Kong. Furthermore, the subsidy is not counted as taxable income for the employee.

Tong explains that at this stage further details on how the scheme will work have not been given, but the government may make reference to the framework used in both the Qianhai Special Economic Zone in Shenzhen and the Hengqin New Area of Zhuhai. "This means it is possible people may only be subject to tax at 15 percent, which will eliminate one of the hurdles for people from Hong Kong and some other jurisdictions who are hesitant to work in the Mainland due to the higher IIT – which has a top marginal tax rate of 45 percent."

"The blueprint makes it clear that Hong Kong has a role in helping Mainland companies access financing."

Hui adds that people will still need to pay tax at the higher rate first, and then claim back the subsidy the following year. "If the new incentive regime follows Qianhai and Hengqin models, there is still an issue over how the additional tax that is paid will be funded – whether a company or individual will pay it first and get the refund. Moreover, it creates uncertainties, inconvenience and additional administrative burden for companies and individuals to claim the subsidies. For example, how would the tax subsidies be claimed if the individual changes jobs during the year?" he says.

It is also unclear if all of the cities will offer the same level of tax rebate or if it will vary. Wong points out that the government needs to define what it means by "high-end, urgently needed talent," so that people can understand if they qualify.

Corporate taxation issues

While the Mainland government has sought to address issues around personal taxation, there are still a number of issues around corporate taxation that need to be resolved. Chan says the blueprint did not contain concessions in this area, despite the Mainland standard corporate tax rate of 25 percent being significantly higher than Hong Kong's standard

rate of 16.5 percent.

Hui agrees: "From a corporate tax standpoint, we are hoping more preferential policies will be released to attract investment into the Mainland." He adds that tax incentives could vary to align them with each city's strategic role in the project, for example, Hong Kong technology companies could be offered tax breaks if they have research and development (R&D) operations based in Shenzhen.

Aside from the higher corporate tax, Chan would also like the Mainland government to take steps to simplify the business registration processes for Hong Kong companies engaging in short-term projects in the GBA. "Certain projects involving a Hong Kong company and a Mainland one may only last a few months, but the whole process of setting up and registering a company may take longer than the actual project, which sometimes leads to lost opportunities," he says. "A way around this would be to have project-based registrations or temporary-entity registrations for foreign or Hong Kong-based companies that are cooperating with a Mainland company. Once the project is seen to be viable then the temporary registration is converted into a permanent one and a proper entity is then set up."

Another issue highlighted by Cheung involves film production companies in Hong Kong that are working with partners in the GBA. "They have no obvious mechanism by which they can inject money into their Mainland partner to fund the production, with many companies currently resorting to classifying the money as a service fee," she says. "Tax costs associated with service fees can be very high, as they can be subject to tax both going into the Mainland and when it comes back to Hong Kong."

"In the long run, the success of the GBA is not just about growth in the GBA itself, but it is also about helping GBA companies to grow and expand their businesses globally."

Tong points out that making it easier for companies based in the GBA to get money out of the Mainland could also help to boost growth and international footprints. "In the long run, the success of the GBA is not just about growth in the GBA itself, but it is also about helping GBA companies to grow and expand their businesses globally. With these, the GBA companies will be able to grow bigger and to further innovate and develop," she says.

Wong agrees, suggesting the government should experiment with easing the foreign exchange controls for companies operating in the GBA. "It is very common in the Mainland for cities to run pilot policy projects, so there are expectations that something could be done in the GBA to overcome these historical challenges," she says.

Boost for technology companies

Unsurprisingly, given the GBA's overarching aim of creating an innovation and technology hub, companies in this sector look set to be significant beneficiaries of the initiative. The blueprint sets out measures to strengthen cooperation between the 11 cities in the area of innovation and technology, including giving tech companies in Hong Kong access to R&D facilities in Guangdong.

While specific details are yet to be given, it also said it would

look at ways to facilitate innovation through measures relating to immigration and customs clearance, the flow of goods within the GBA, and increased interaction between technology specialists and academics. Higher education and R&D institutes in Hong Kong and Macau will also be eligible to apply for Mainland technology projects and funding.

Wong welcomed this part of the blueprint, saying: "Right now, it takes a lot of time to complete customs clearances for temporary importation of prototypes and moulds into the Mainland, and applications for work visas for people travelling across the border, which hinders the ability of the two sides to undertake technology and innovation exchange activities.

"We would appreciate if there were improvements to the current import and export arrangements for prototypes across the borders and the visa applications on both sides. This would be similar to the pilot project to make the flow of goods easier between Zhuhai, Hengqin and Macau."

Cheung highlights that while technology companies will have the option to use Mainland R&D facilities, many of them may prefer to keep their core R&D activities (and intellectual properties) in Hong Kong, especially in places like Science Park and Cyberport, because many start-ups include professors who are linked to one of the universities in Hong Kong.

She also points out that while companies in the sector tend to do the majority of their production in the Mainland, some key production elements that do not require much space is done in Hong Kong. "As you can imagine, supply chains can be rather complicated. But Hong Kong and the Mainland are still in two different customs areas, so when goods flow between them, it involves customs duties and value added tax."

She adds that these issues need to be overcome to enhance the competitiveness of these companies on the international stage.

Opportunities for CPAs

Despite some of the unresolved issues, the initiative still creates significant opportunities for accountants and other professional services providers. Chan points out that with three different tax systems, there will be a lot of work helping Hong Kong and foreign companies doing business in the GBA grasp the tax environment. "As Mainland companies get bigger and expand abroad, Hong Kong professionals will be able to help them with their investment structures and to understand the tax implications of the markets they are going into," he says.

Hui agrees that Hong Kong tax professionals are well placed to advise Mainland companies that want to invest overseas due to their strong international knowledge.

However, for Hong Kong professional services personnel, such as accountants and lawyers, to work in the GBA, there would need to be some form of mutual recognition of qualifications. "For legal professionals, it generally takes close to a year or more to get approval from the Ministry of Justice. Companies in the technology industry need to get advice from legal professionals specializing in intellectual property, patents and copyright," Tong says. "It would be good if the authorities could introduce a 'fast pass' for these professionals to work in the GBA."

Certain groups of professionals, including accountants, are also still only able to operate as joint ventures in the Mainland, meaning they still need to find local partners before they can open branches in the GBA.

As Cheung puts it: "There are a lot of opportunities at a strategic level but at the implementation level, rules and regulations still need working out."

INSTRUCTORS OF

The best teachers teach from the heart. CPAs who teach at the Institute tell Jeremy Chan how their desire to share knowledge keeps them nurturing the next generation of professionals, despite their hectic schedules

Photography by Anthony Tung

Melody Li became one of the Institute's Qualification Programme (QP) facilitators almost a decade ago. She has since conducted countless lectures and workshops for many fresh-faced university graduates – with a few exceptions. "I remember a senior-looking foreigner walked into my classroom one day and sat at a table," Li says. "I then found out that he was, in fact, a partner at a Big Four firm – I thought he had stumbled into the wrong venue!"

The Institute offers QP workshops for aspiring CPAs for the four QP modules – Module A financial reporting, Module B corporate financing, Module C business assurance and Module D taxation. QP students must also sit the final exam which features a workshop, facilitated by members. More than 21,000 students have graduated from the QP since its inception in 1999, with 772 having graduated from the December 2018 session alone.

But finishing the QP is just the start. The Institute offers a wide variety of courses for members (and students), such as its continuing professional development (CPD) courses – which saw 76,790 enrolments last financial year.

These courses and workshops, for members and students alike, are made possible by the many Institute members who are willing to share their specialist knowledge. While they work in different industries, they share a common enthusiasm for making a difference.

Li began by teaching accounting to both undergraduate and postgraduate students at local universities. But she sought a bigger challenge. "I wanted to apply my skills by being a facilitator for the Institute's QP." She now teaches Module C business assurance. She conducts a mixture of lectures and eight-hour workshops, and says workshops – which include group discussions and role play – tend to be the most effective. "I always look forward to this section of the class," Li says. "The students take turns to be a senior-in-charge. They assign different tasks to their teammates, lead group

THE INSTITUTE

(From left to right) Melody Li, Randy Hung and Lolita Edralin discussions, manage time and help each other."

By encouraging them to assume the role of a leader in a group setting, students develop their soft skills quicker, says Li. "They really do their best to carry out the role of a senior-in-charge. It's very interesting to see how they improve in their communication, leadership and presentation skills in just a few hours."

Li explains that every so often, older professionals attend as part of a prerequisite to attain local qualifications, in addition to their overseas certificates. Their years of experience prove extremely useful in classes. "Their work ethic positively motivates the younger students to get involved in more workshop discussions. They often share tips and even stories of past mistakes they have made," she says. "The students eagerly listened to the partner from the Big Four firm, who shared his insights on business assurance. I thanked him for his contribution after class."

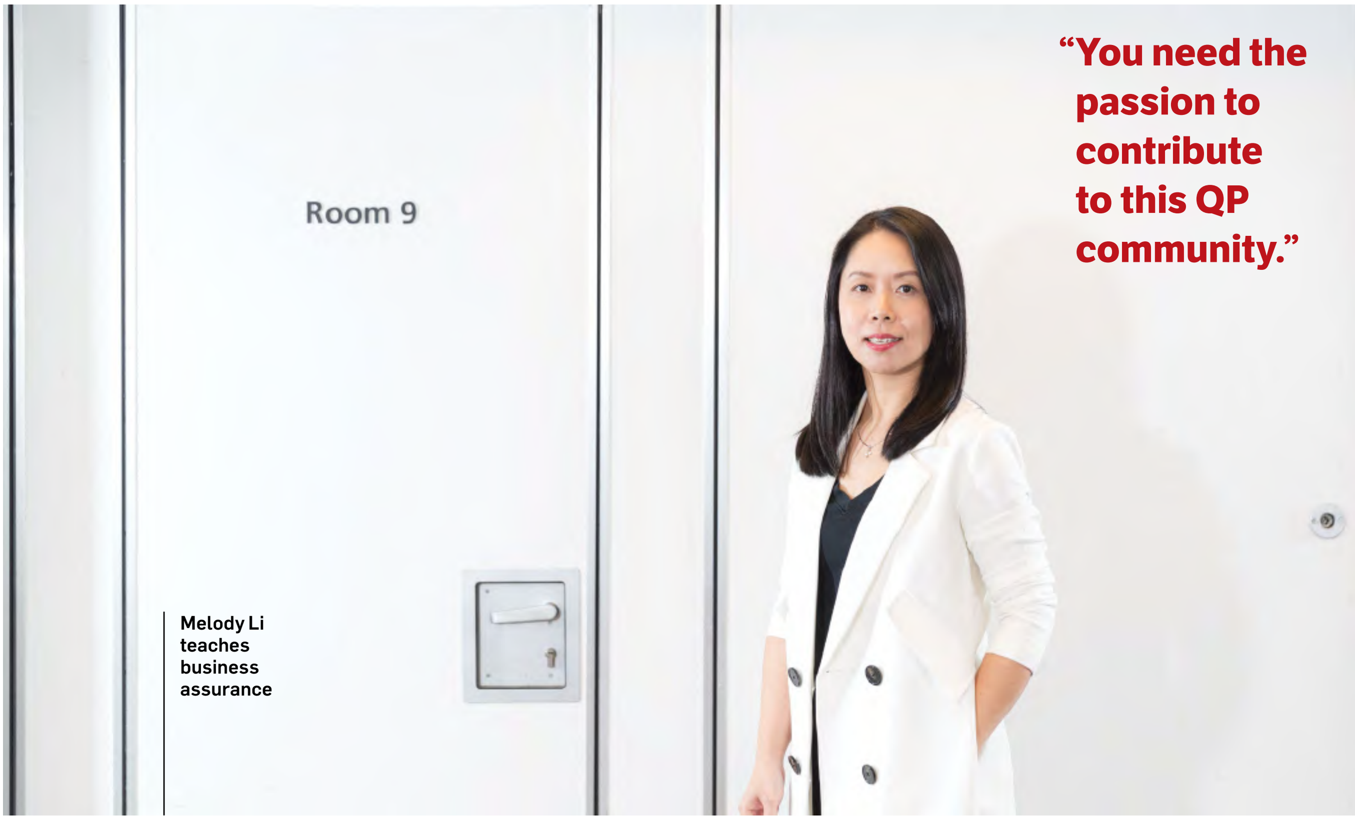
Those considering teaching should have the right qualities and be open to the difficulties, notes Li. "You need the passion to contribute to this QP community," she says. "Most of these students are young, so you need to be their mentor, and be able to coach them to be future professionals."

A learning experience

Another QP facilitator, Shane Cheung, says the programme offers the ideal platform for CPAs like him to not only share, but also gain valuable knowledge.

Cheung has been a facilitator at the Institute since 2002. He remembers how nervous he was at the beginning. "Many of the questions were outside my area of expertise and industry, such as the different accounting standards," he recalls.

QP classes are led by two QP facilitators, who first undergo a training programme. "I was very impressed with the facilitator I partnered up with, who was a practising auditor. Each time he was faced with a question, he knew exactly which section numbers, tax cases or keywords to answer with – right off the top of his head," says Cheung, Financial Controller at APEX Harmony Profits Limited, a private commercial company. "We



"You need the passion to contribute to this QP community."

Melody Li teaches business assurance

Shane Cheung teaches financial reporting

"I push myself to stay updated, so I engage in self-study to prepare for QP classes."

would also role play by pretending to be students and simulate the environment of a class – I learned so much."

Cheung, who teaches Module A financial reporting, particularly enjoys hosting group discussions. The role of a workshop facilitator is to guide students, he says. "During discussions, I like to walk around the classroom and listen to how students are performing. If I notice that a student has misunderstood a certain topic or concept, I point them in the right direction by giving them hints," he explains. "Ultimately, they are able to solve the problem by themselves."

Following the discussions, the groups present their findings, and Cheung then further tests their understanding. "We advise students on what they have missed out by supplementing their answers, or imposing other scenarios on top of their answers," he says.

He is also a marker for the QP examinations – a role that helps him as a class facilitator. "By being a marker, I get to really know and understand how students are performing, or what they are struggling with," he says. "This makes it easier for me to coach and remind future students on areas to focus on in exams."

Like his students, Cheung is always studying. "I read up on all changes that have taken place the last six months, such as the revision of standards," he says. "I push myself to stay updated, so I engage in self-study to prepare for QP classes. It's a bit like my own personal course."

Time to teach

Randy Hung's first teaching experience happened while he was a student at the University of Southern California, where he studied accounting. "I remember I always sat in the front, and always raised my hand to ask questions during lectures," Hung says. "I would also visit professors outside of lecture hours, and ask lots of questions." His diligence and curiosity led him to being invited to become a teaching fellow.

Hung is the Director of Investor Relations of China Shineway Pharmaceutical Group, Vice Chairman of the Hong Kong Investor Relations Association, and a speaker at the Institute's CPD programmes. He covers topics such as investor relations for listed companies, independent non-executive directors (INEDs), and risk management and internal control. "I've always been passionate about sharing my knowledge and experience, especially with people who are in need of that knowledge," he says. "It's my way of giving back to society."

He teaches classes of up to 60 students in their 30s and 40s. In a standard lecture on INEDs, he starts by discussing case studies based on his real-life experiences, followed by group discussions, and ends with a question and answer session. He speaks on how individuals become INEDs and the selection process. "I first want them to understand why they are in this class, as that gives the students a firm objective to meet before the end," he says. "I might ask the class 'why do you want to become an INED?' or 'what do you think an INED does in real life, every day?'"

Hung covers topics of a technical

Randy Hung teaches risk management and internal control

"If I were a student again, I wouldn't want to go to a class and listen to a long talk – I would fall asleep in a few minutes. So I'd like them to speak too."

Lolita Edralin teaches corporate financing

"When teaching CPD or university courses to adult learners, you really need to give them value. They've invested time and money to attend."

nature, sometimes as early as nine o'clock on a Saturday morning. The group discussions, he believes, are a great way for students to not only stay awake, but also ask questions to clarify their uncertainties. "If I were a student again, I wouldn't want to go to a class and listen to a long talk – I would fall asleep in a few minutes," he says. "So I'd like them to speak too."

To facilitate this, Hung splits the class into groups to discuss the subject matter. "Some groups just aren't as active as other groups, so sometimes I'll join their table as a participant to ask and answer questions," he says. "I really want them to speak more. When they start speaking more, they ask more questions too."

One challenge for Hung is finding time to prepare for lectures amid his busy schedule. "I need to balance my job, overseas work trips and classes at the Institute," he says, adding that he always makes time to prepare, no matter what. "I force myself, and stay up late if I have to. I need to make sure all materials are updated according to the latest news in the industry and accounting standards – this also means making last minute changes to powerpoint slides."

Though he isn't a fan of coffee, Hung has his own pre-class rituals. "If I'm tired before a class, I listen to loud, exciting dance music," he laughs. "I talk to people, too. You definitely wake up a little more after that." Hung wants other CPAs to give teaching a go, and says the benefits are mutual. "By speaking at these events, you make friends, stay up to date on technical information and you diversify your life," he says. "CPAs, whether in practice or corporate, need soft, human and communication skills. Being a facilitator helps with that."

A lifelong passion

Lolita Edralin had always wanted to be a teacher. She vividly remembers the first Chinese language class she taught to students in primary five as an 18 year old university student. "It was quite a scary experience – I couldn't find my notebook, which had all my teaching notes. On the second day, I was called to the principal's office because some parents complained that I had given too much homework," she laughs. Luckily, she got through that class without her notes.

That experience taught her the importance of preparation to tackle her busy schedule today. Edralin is a professor of accountancy at Hong Kong Polytechnic University, and a CPD and QP speaker at the Institute. Before becoming a full time lecturer, she spent nine years at Arthur Andersen Co. and more than 25 years at British American Tobacco, with the last five years spent implementing enterprise resource planning (ERP) systems, used by companies to manage and automate back office functions.

She began teaching ERP systems at the Institute's CPD courses in 2007, and teaches Module B corporate financing in the QP.

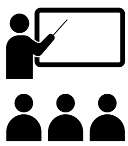
"My goal is for participants to learn something practical that they can bring back and apply in their work," Edralin says. "For example, if the participant is an auditor, I provide examples of what to look out for when auditing, and audit checklists that they can use. For those involved in implementation, I share steps, as well as issues, lessons learned and best practices for their consideration. Every company and every ERP implementation is different, so I want the sessions to give them an idea of what other companies do for them to consider in their implementation."

Having previously taught children, Edralin has had to revisit her approach to teaching. "When you teach primary school students, you are the boss, and you tell them what to do. They listen, do their work – and they are usually terrified of the teacher," she adds. "When teaching CPD or university courses to adult learners, you really need to give them value. They've invested time and money to attend. In some cases, they are also your fellow CPAs."

She aims to be as approachable as possible. "I establish my credibility at the very beginning, so for example, I tell the students about the ERP systems I've implemented, and in how many markets. This way, the students know that you know what you're talking about," she explains. "I share a bit about my background and sometimes about my family and kids. This helps to show that I'm open, not strict, and that students can approach me. I make them feel that we are all there to learn from each other."

Though Edralin is busy with her job at the university, she is able to manage her time well, and is committed to speaking at the Institute for as long as she can. "If you love something, you'll always find time for it," she says.

One thing she has learned is that a great teacher can be life-changing to grown-ups. "One participant came up to me after a CPD class, and told me she had been unemployed for a while, but had managed to get a job because she was able to clearly explain what controls are needed in ERP systems by citing examples she learned from my course."



The Institute welcomes members to become QP workshop facilitators. For more details, visit *www.hkicpa.org.hk*

Welcome to Success

QP Graduates – December 2018 Session

The Institute is pleased to announce that 772 QP candidates successfully completed the Qualification Programme in the December 2018 Session. The list of graduates is as below.

AU, Chui Shan
AU, Chung Yi
AU, Pui Yee
AU, Suet Sze
AU, Thomas Tsz Ngai
AU, Wing Tung
AU, Ying Long
BOBROWSKI, Adam Daniel
CAI, Qingzhi
CAI, Yunhui
CHAK, Wai Kin
CHAN, Cheuk Fung
CHAN, Chuen Kong
CHAN, Chun Kit
CHAN, Chun San
CHAN, Chun Sum
CHAN, Edwin
CHAN, Emil Ka Hei
CHAN, Foon Lok
CHAN, Hang Tung
CHAN, Hau Ying
CHAN, Hiu Fung
CHAN, Ho Ching, Clarence
CHAN, Hoi Man
CHAN, Hoi Yan
CHAN, Ka Hei
CHAN, Ka Ho
CHAN, Ka Wang
CHAN, Kai Hei
CHAN, Kai Wang
CHAN, Kang Yuen
CHAN, Kei Nok
CHAN, Kin Hei
CHAN, Kin Lok
CHAN, Lee Ka
CHAN, Man Yi
CHAN, Mo Hung
CHAN, On Miu
CHAN, Po Yan
CHAN, Shu Ching
CHAN, Siu Kwan
CHAN, Siu Lai
CHAN, So Wa
CHAN, Sze Hei
CHAN, Tak Lung
CHAN, Tak Yee
CHAN, Ting Ho
CHAN, Ting Yiu, Angus
CHAN, Tsing Yun
CHAN, Tsz Ying
CHAN, Tsz Yui
CHAN, Wai Yin
CHAN, Wing Sze
CHAN, Wing Yan
CHAN, Wing Yin
CHAN, Wun Hing
CHAN, Yi Kei
CHAN, Yung Shing
CHAO, Hoi Ieng
CHAU, Ching Nga
CHAU, Lok Yiu
CHAU, Man Fung, Dennis
CHE, Weng I
CHEN, Jiajun
CHEN, Peiyu
CHEN, Xiaoxi
CHEN, Xinyi
CHEN, Xueying
CHEN, Yunfei
CHEN, Yunzi
CHEN, Zeyi
CHENG, Byron Yun Long
CHENG, Hiu Fung
CHENG, Ho Man
CHENG, Hoi Man
CHENG, Hoi Yan, Sky
CHENG, Kai Ching
CHENG, Ling Ling
CHENG, Man Yi
CHENG, Wai Chi
CHENG, Wing Shun
CHENG, Yat Hong
CHEUNG, Ashley
CHEUNG, Ching Kan
CHEUNG, Chun Kit
CHEUNG, Hiu In
CHEUNG, Ka Ho
CHEUNG, Ka Yi
CHEUNG, Ki Yan
CHEUNG, Mau Kwan
CHEUNG, Michelle Chu Yan
CHEUNG, Nga Yan
CHEUNG, Nok Sum
CHEUNG, Siu Man
CHEUNG, Tai Fung
CHEUNG, Tsz Yuen
CHEUNG, Wai Yin
CHIANG, Wai Ting
CHICK, Hiu Yan
CHIEN, Sharon Shou-yao
CHIN, Chi Hin, Edmund
CHIN, Wai Ching
CHING, Ka Wai, Cathy
CHIU, Chit Yat
CHIU, Hin Ying
CHIU, Hoi Wai
CHIU, Man Wai
CHIU, Nga Yi
CHIU, Samuel Y. N.
CHIU, Shuk Ching
CHIU, Siu Lung
CHIU, Wing Yan
CHIU, Ying Wa
CHO, Ka Chun
CHOI, Lik Wei
CHOI, Man Yi
CHOI, Wing Yan, Vivian
CHOI, Wing Yi
CHOI, Yiu Chuen
CHONG, Chiu Man
CHONG, Ka Yuk
CHONG, Ling Ling
CHONG, Yan Ching
CHOR, Pui Yi
CHOU, Shih Ting
CHOW, Chi Shing
CHOW, Hoi Ying
CHOW, Ka Wing
CHOW, Lau Mui
CHOW, Mei Yiu
CHOW, Sau Chi
CHOW, Shu Leung
CHOW, Ting Ying
CHOW, Wai Yin
CHOW, Yan Wa
CHOW, Yuk Yue
CHOY, Chak Ho
CHOY, Ching Hui
CHOY, Pik Ki, Peggy
CHOY, Sze Wing
CHOY, Yin Ni
CHU, Hou Yee
CHU, Pui Ying, Cheryl
CHU, Wing Ling
CHU, Ying Tsun
CHUI, Yik Ho
CHUM, Sau Kuen
CHUN, Ka Man
CHUN, Suet Sze
CHUNG, Chuen Kwan
CHUNG, Chui Man
CHUNG, Fung Chu
CHUNG, Ka Ho
CHUNG, Lai Yuk
CHUNG, Man Tat, Wilson
CHUNG, Nok Yee
CHUNG, Po Ping
CHUNG, Pui Ying
CHUNG, Shing Hong
CHUNG, Wai Kuen
CHUNG, Yi Fong
CHUNG, Yuk Wai
DENG, Hong
DENG, Mingming
DING, Xinyi
DOU, Cong
FAN, Hiu Yan
FAN, Pui Long
FONG, Jung Sun
FONG, Wai Yan
FONG, Yu Hin
FUNG, Ching Ngai
FUNG, Chun Kin
FUNG, Ho Shan
FUNG, Loi Wa
FUNG, Oi Yee
FUNG, Sik Ming
FUNG, Sin Yee
GAO, Lan
GAO, Qi
GE, Yijie
GUAN, Bowen
GUO, Qianyu
GUO, Xiaowei
HE, Xuexi
HO, Cheuk Ying
HO, Chi King
HO, Ching Man
HO, Christopher King Tung
HO, Chung Yi
HO, Hang Yi
HO, Hei Lun
HO, Ka Yan
HO, Kin Ming
HO, Kwan Hang, Joanna
HO, Lok Kwan
HO, Sze Man
HO, Tsz Ching
HO, Tung Hing
HO, Wing Chi
HO, Wing Lem
HO, Yin Lok
HO, Yui Ting
HONG, Alan Ngou Kit
HONG, Chun Yin, Jason
HONG, Jingxiang
HU, Chun Ping
HUANG, Simin
HUANG, Xiao
HUANG, Yiu
HUI, Ching Chi, Ceclie
HUI, Ching Man
HUI, Chun Chak
HUI, Ho Yin
HUI, Ka Yan
HUI, Kit Fai, Kevin
HUI, Ling
HUI, Man Kit
HUI, Wan
HUI, Yau Ki
HUNG, Cheuk Yiu
HUNG, Chun Wa
HUNG, Ka Lam
HUNG, Lung Yan, Angel
HUNG, Ming Yeung
IEONG, Sherman
IP, Bonnie Pui Lam
IP, Ka Yan
IP, Lok Lam
IP, Wai Pan
KAM, Man Ki
KAN, Chi Hei
KAN, Ho Yan
KE, Ni
KO, Hau Lam
KO, Siu Cheong
KO, Zelos
KOK, Ming Ki
KONG, Hiu Tung
KONG, Ling
KU, Chak Ying, Jenny
KUNG, Shuk Yu
KWAN, Chun Sing
KWAN, Sui Ling
KWAN, Tin Long
KWAN, Tsz Yan
KWAN, Yee Ki
KWAN, Yee Na
KWAN, Yin Wai
KWOK, Ka Wai
KWOK, Man Ting
KWOK, Oi Yee, Angel
KWOK, On Ki
KWOK, Siu Lun
KWOK, Tsz Ting
KWOK, Wai Hon
KWOK, Wan Yi
KWONG, Man Wai
KWONG, Pui Fung, Daniel
LAI, Chun Tat
LAI, Ho Hin
LAI, Kwong Chi
LAI, Tsz Chun
LAI, Tung Yee
LAI, Yuet Yu
LAM, Chi Ling
LAM, Ching Ho
LAM, Chui Man
LAM, Chun Yiu
LAM, Hin Wai
LAM, Ka Kit
LAM, Ka Lok
LAM, Kwan Yung
LAM, Lai Shan
LAM, Ming Yee
LAM, Monica Wai Han
LAM, Oi Yin, Lorin
LAM, Po Yan, Bowie
LAM, Polly Yan Yi
LAM, Pui Yee, Eva
LAM, Russell Gareth T F
LAM, Wing Chi
LAM, Wing Ling
LAM, Wing Yi
LAM, Ying Hei
LAM, Yu Wai
LAU, Cheuk Wa
LAU, Chi Hang
LAU, Fun Fun
LAU, Hill Yu, Brandon
LAU, Him Chun
LAU, Hiu Yan
LAU, Hiu Yiu, Tiffany
LAU, Ho Yin
LAU, Hoi Yan
LAU, Ka Ming
LAU, Lok Man, Timothy
LAU, Ming Wing
LAU, Ngon Ching
LAU, Pong Shing
LAU, Sau Wai
LAU, Wai
LAU, Wai Yan, June
LAU, Wing Hin
LAU, Wing Tung
LAU, Wing Yi
LAU, Yee Suen
LAU, Yi Tung
LAU, Yin Ha
LAW, Cheuk Fan
LAW, Chi Ho
LAW, Chun Yin
LAW, Ming Chu
LAW, Nga Wing, Grace
LAW, Tak Ying
LAW, Yi Man
LAW, Yui Wan
LAW, Yuk Lun
LEE, Cheuk Yee
LEE, Chun Yin
LEE, Edmund Chung Hin
LEE, Ka Wing
LEE, Ka Yi
LEE, Ki Lok
LEE, Man Ying
LEE, Ming Yi, Madonna
LEE, Ngo Lam, Carmel
LEE, Shui Ching, Jody
LEE, Shuk Sheung
LEE, Suet Lin
LEE, Tsun Sang
LEE, Wai Chi
LEE, Wai Hin
LEE, Wang Hei, Catherine Eva
LEE, Yat Fung
LEE, Ying Hay
LEE, Yuen Kwan
LEE, Yuen Ying
LEE, Zhi-xin, Rhiannon
LEU, Wing Yee
LEUNG, Chin Cheung
LEUNG, Chui Yi
LEUNG, Hoi Lam
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LEUNG, Tan Sau
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LEUNG, Wai Shing
LEUNG, Wan Yu, Claudia
LEUNG, Wing Ki, Calina
LEUNG, Wing Yan
LEUNG, Wing Yi
LEUNG, Yin Ching
LEUNG, Yiu Kit
LEUNG, Yu Fung
LEUNG, Yue Tun, Dickson
LEUNG, Yuen Ki
LEUNG, Yuen Shun
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LI, Chung Lam, Louis
LI, Collin
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LI, Feng Hua
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LI, Jian
LI, Jingjing
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LI, Mong Se, Elsie
LI, Pui Yiu
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LI, Xuan
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LI, Zhuoyi
LIANG, Jiali
LIANG, Qiantong
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LIN, Long
LIN, San Ling
LIN, Xianzhen
LIN, Yingjing
LIN, Yuming
LING, Yuen Shan
LIU, Danni
LIU, Hao
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LO, Tin Kin
LO, Tsz Kwan
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LO, Wing Sang
LO, Wing See
LO, Wing Tung
LOK, Hiu Nam
LOK, Wang Hei, Jason
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LU, Yueting
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LUI, Kin Hang, Kevin
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PANG, Ho Hin, Benedict
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XU, Shuman
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YAN, King Chi
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YANG, Xiaoyi
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CPA Website

Political ties squeeze tax revenue: China studies

Kenny Z. Lin looks at how companies and local governments in Mainland China may use political ties to avoid paying taxes

The Mainland Chinese government's difficulty in collecting corporate taxes is created by its institutional environment, according to two recent studies published in leading accounting journals. The authors examine the effects on tax compliance of informal institutions such as the company's political ties, and formal institutions such as the government's fiscal policy and tax system. Results of both studies should be of interest to busy tax practitioners and policymakers.

Before the merger of the tax system, Mainland China had a two-tier tax administration of national and local tax bureaus. The former was responsible for collecting income taxes from centrally-controlled enterprises and the latter from locally-controlled enterprises. Although local tax bureaus were supervised by both central and local governments, directors' appointments, cadre promotions, budgets, and pay scales were determined by local governments only. Local tax agencies were thus at risk of interference by local politicians.

A majority of companies are also owned or controlled by the local governments, which are reluctant to enforce tax collection from them and other companies in their jurisdictions as they would have to share the revenue with the central government. The dual but opposing roles played by local governments, as both administrators of tax affairs and controlling shareholders of these companies, affect tax policy enforcement in Mainland China.

The importance of connections

Given this state of affairs, the first study, *Do Political Connections Weaken Tax Enforcement Effectiveness?* written by Lin, Mills, Zhang, and Li and published in the 2018 issue of *Contemporary Accounting Research*, explores whether companies with politically connected board members use their power to avoid paying corporate income tax in Mainland China. Since the level of tax enforcement varies considerably across regions, the authors use the provincial level probability of tax audits, the expertise of tax officers, and the consequences of underreporting tax liabilities to capture tax enforcement strength. The line of argument is that the high ex-ante threat of a tax audit, heavy penalties, and ex-post incidence of closer monitoring should deter companies from taking aggressive tax positions. They measure tax avoidance as the ratio of income tax expense to pre-tax book income, along with other alternative measures to produce robust findings, and capture the political connectedness of companies by the number of board members who serve or have served in a city-level government agency or are current or ex-members of the National People's Congress or Chinese People's Political Consultative Conference.

The authors opine that the process of enforcing tax laws in Mainland China is prone to political influence. For example, tax laws are interpreted and enforced differently from region to region because decentralized decision-making rights have reduced the "capability or willingness of Mainland China's tax administration to detect and constrain sophisticated tax avoidance arrangements." Uneven economic growth also means that some regions have greater resources for enforcement than others. Therefore, while government enforcement mitigates or inhibits companies' capability to avoid taxes, ties to politicians by corporate boards of directors enhance it.

Using data on listed companies in Mainland China from 2003 to 2013, they find that tax enforcement is much less effective for companies with more politically connected board members. In terms of economic importance, connected boards reduce the sensitivity of tax to enforcement by as much as 85 percent.

To strengthen their results, the authors examine the effects of a change in a company's political connections by taking into account the appointment of newly nominated connected directors. They find that enforcement becomes less effective when a politically connected person joins the board of a company with no previous political connection.

In contrast, enforcement effectiveness increased in 2012 following a nationwide crackdown on corrupt officials, which successfully reduced the number of companies with political connections. The authors suggest that tax enforcement became more effective because the crackdown "diminished the rent-seeking and favour-exchanging ability of both politicians and managers."

But how did this occur? To shed light on the mechanism through which companies avoid taxes, the authors examine the most common method of tax avoidance in Mainland China: "the shifting of income between member companies in a business group." They explain that Mainland China offers preferential tax rates to domestic companies in designated zones and industries, which creates sizable regional and industrial variations in tax rates. Large companies with subsidiaries and affiliates in different regions and industries can exploit these differences by reallocating taxable income within a group to reduce their overall tax burden.

Their findings suggest that tax

avoidance through income shifting is hampered by tax enforcement "but unwound when companies are politically connected." Specifically, the incentive to shift income for tax purposes varies, according to political connectedness and tax enforcement strength. The takeaway of the results is that government enforcement is less effective for companies with a politically connected board.

Local versus central

The difficulty in enforcing tax laws is echoed by the second study *Tax Collector or Tax Avoider? An Investigation of Intergovernmental Agency Conflicts* written by Tang, Mo, and Chan and published in *The Accounting Review* (March 2017), which examines the conflicting roles of local governments in Mainland China's tax system. Local governments are responsible for maximizing tax revenue, which the career prospects of local officials hinge on. But often, these governments are the controlling shareholders of the companies they collect taxes from. In other words, they are expected to maximize tax revenue (for their region) and maximize after-tax profits (for their companies) at the same time.

Of course, that is not possible. If local governments were allowed to keep the taxes they collect, the problem might be less severe, but since 2002, they have had to share half with the central government. So local governments have a strong incentive to engage in tax avoidance to boost their companies' after-tax returns.

The authors use the change in the corporate income tax sharing ratio in 2002 to investigate the "trade-off between local governments' tax collection and tax avoidance incentives." As in the first study, tax avoidance is measured by the effective tax rate and alternative methods. Their focus is on A-share companies listed on Mainland China's stock market from 1996 to 2006 to determine whether tax avoidance patterns shifted following the 2002 policy change.

The policy change did indeed reduce tax enforcement and increase tax avoidance of local government-owned companies. These companies engaged in less tax avoidance than central government-controlled companies before 2002, but the situation reversed after the tax-sharing change. After the change, companies with less than 40 percent of local government ownership were less likely to avoid paying taxes than companies more than 40 percent owned by the local government.

The policy change seems to have encouraged local governments to "behave in a manner that is against the central government's interests," note the authors. One solution to the problem of tax collectors also being tax avoiders, they suggest, is to increase local share of total tax collections or reduce the local government ownership of companies. This can help constrain the opportunistic behaviour of local governments and motivating them to fulfil their commitments to national interests.

Conclusions

Although Mainland China is rapidly transitioning to a market-based economy, this situation is obviously challenging. In a relationship-based society where political ties are crucial to a company's success, the dual supervision of tax administration and the wide variation in the enforcement of tax laws across the country mean that efforts to improve tax enforcement may deviate from what was intended.

Results from both studies indicate that reforms designed to increase government revenue focusing only on tax administration system will fail, unless initiatives that discourage unwritten codes of behaviour and settlement of unspoken rules outside the official channels are accompanied. This is equally true in other transitional economies. Particularly at risk, are developing countries where informal connections influence tax system effectiveness, and where intergovernmental agency conflicts affect tax collection efforts. Countries with high government ownership of companies and decentralized fiscal systems, such as Russia, India, Vietnam, and Turkey, should also design reforms carefully.

From a practical viewpoint, both tax inspectors and tax practitioners should look at the preexisting governance situation and management control and incentive systems of a company when allocating auditing resources. They should also closely scrutinize the exact timing of transactions in periods surrounding the tax law revision. To minimize litigation and reputational risk, tax practitioners should understand the enforcement behaviour of Chinese tax authorities, as government scrutiny appears to vary according to geography, company attributes, and year.

Kenny Z. Lin is a Professor at the Department of Accountancy at Lingnan University

New profits tax exemption for private funds provides welcome boost to Hong Kong's fund industry

A look at the implications of the profits tax exemption for private funds in Hong Kong

The Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Ordinance 2019 will become effective from 1 April 2019. The new regime contains a new comprehensive exemption from profits tax for private funds operating in Hong Kong.

The new legislation contains two profits tax exemptions, being:

1. An exemption for funds that meet the prescribed qualifying criteria; and
2. An exemption for "special purpose entities" established by a qualifying fund

The broad nature of the new exemption will provide opportunities for funds with Hong Kong operations to simplify their current operating protocols and undertake more investment-related activities in Hong Kong. This is a welcome development for the funds industry.

Brief history of Hong Kong tax exemptions for funds

The Revenue (Profits Tax Exemption for Offshore Funds) Ordinance 2006 first introduced a profits tax exemption for offshore funds that satisfied certain qualifying conditions, but the exemption did not cater for the types of investments made by private equity funds. Legislation was enacted in 2015 to extend the exemption to offshore private equity funds. Further legislation was enacted in 2018 to provide profits tax exemption to offshore fund companies (OFCs) incorporated in Hong Kong. The latter exemption was to supplement amendments to the Companies Ordinance to allow the use of OFCs in Hong Kong.

Overall, the then-existing fund exemptions have worked well for some types of funds – particularly hedge funds – operating in Hong Kong. However, the tainting provision in the legislation made many private equity firms reluctant to rely on the tax exemptions in their operating structure planning. As such, the new exemption should be welcomed by industry participants.

The new regime

The need for the comprehensive exemption has arisen through both practical and technical difficulties with the key existing profits tax exemptions for funds. The offshore funds exemption (revised in 2015) and the exemption for OFCs (introduced in 2018) had made many funds with investment teams in Hong Kong reluctant to rely on those exemptions.

The objectives of the new legislation are to:

1. Address some concerns raised by the Organization for Economic Cooperation and Development and the European Union in relation to Hong Kong's then-existing offshore funds exemption; and
2. Represent a significant step contributing to the government's long-stated objective of further developing the asset management industry in Hong Kong. It is also something that should be welcomed by the funds industry, in particular, private equity participants

In addition, the existing exemption for offshore funds continues to apply for any entities that do not satisfy the new qualifying criteria.

Key features of the new exemption

The new exemptions are quite broad and apply to both resident and non-resident funds, transactions undertaken by special purpose entities (SPEs) established by those funds, and most types of investments typically contemplated by private equity or other forms of alternative funds.

The wide range of potential funds that could use the exemption is certainly a positive move, and an improvement on the status quo. The specific inclusion of sovereign wealth funds within the "fund" definition is a good example of this, as is the potential ability for pension funds and other forms of single investor funds to rely on the exemption.

However, as is noted below, further clarity is needed on the ability of the latter to categories to qualify as a "fund."

Welcomed developments

The broad nature of the new exemption will likely provide opportunities for funds with operations in Hong Kong to simplify their current operating protocols and undertake more investment-related activities in Hong Kong. This is clearly a positive move and is something that the fund industry has been seeking for some time. It should also make it much easier for funds looking to establish new operations in Hong Kong. There are also potential opportunities for funds to invest in new classes of assets in Hong Kong (e.g. infrastructure assets) without the risk of additional tax on the investment returns received by the fund.

Another welcomed feature of the new funds exemption regime is the removal of the tainting provisions from the previous legislation. Accordingly, if a fund makes an investment that does not satisfy the qualifying conditions, it will no longer preclude the fund from relying on the exemption for all other investments. This is a big step forward and should allow fund organizations to rely on the exemption even though they make insignificant non-qualifying investment. This feature would provide comfort to the fund organizations to bring more of their key investment management activities onshore.

It had been proposed, before the amendment bill was introduced, in a consultation initiated by the Financial Services and the Treasury Bureau that the then-existing non-resident person's exemption would be repealed in the new legislation. However, instead of repealing the exemption, the new legislation combined the exemptions for non-resident persons (including offshore funds) with an exemption for OFCs incorporated in Hong Kong. This is a welcomed development as there was real concern about the impact on the wider wealth management industry from a proposed repeal of the exemption for non-resident persons.

Remaining areas for improvement

While overall, the new exemption is a significant step forward, there are a number of issues that should be addressed to ensure that funds can obtain sufficient comfort to place reliance on it. Some of these issues are not new and unfortunately, were not addressed in the final legislation. Past experience suggests that governance procedures adopted by medium- and large-sized funds (i.e. the types of funds that the government would like to attract to Hong Kong), will place greater emphasis on the legislative wording than interpretive guidance issued by tax authorities, particularly if the guidance does not clearly address their specific concerns. Examples of some of the areas of uncertainty include:

- The SPE can only hold and administer investments in private companies. Therefore, the status of listed security investments held by an SPE of a fund is unclear. For example, if a private equity fund makes a range of listed and non-listed investments and uses SPEs to hold those investments, the SPE exemption would appear not to apply to the listed investments. However, the listed securities should be exempt if held directly by the fund, but legal and other non-tax considerations would often preclude this.
- There does not appear to be any clear policy reason why listed investments or other non-corporate investments (e.g. partnership, trusts) should not be covered by the SPE exemption. While deliberating over the legislation, the government provided a written response that investments in a partnership or a trust qualifies as specified transactions as these are collective investments schemes. Nevertheless, the final legislation was not updated to reflect this, and may only be addressed through guidance (note, this is an example of an issue where funds are unlikely to be able to place reliance on guidance that is not consistent with the content of the legislation).
- Both the fund exemption and SPE exemption are subject to carve outs in relation to investments held for less than two years. For any such investments, the exemption does not apply where the fund or SPE has control over a portfolio company and that company has (directly or indirectly) "short term assets," the value of which exceeds 50 percent of the value of that company's total assets.
- The definition of "short term assets" is quite broad and could inadvertently capture a portfolio company of a fund with trading stock or other trading assets that represent more than 50 percent of the total value of that portfolio company regardless as to the location of that business or those assets. It is unclear what arrangements these provisions are trying to address, but at a minimum, it should be limited to portfolio companies with assets in Hong Kong and not global assets.
- The legislation specifically mentions that sovereign wealth funds can qualify as "funds" for the purposes of the new exemption. However, it is less clear on the status of pension plans or other single investor investment vehicles. It appears that the intention is that the exemption should cover these types of investment vehicles, and this has been clarified by the Hong Kong government through a written response to submission to the Bills Committee. The Inland Revenue Department should address this through its guidance notes.

Conclusions and proposed action items for the government

The introduction of the new funds exemption represents a positive step forward for the government's efforts to promote the asset management activity in Hong Kong.

At first glance, the new funds exemption for private funds appears to be something that private equity funds with operations in Hong Kong could look to place reliance upon. This should help to alleviate the need for such funds to follow detailed operating protocols and structure investments in such a way that they would not expose the fund to Hong Kong tax. This should help to place Hong Kong on a level playing field with other fund centres which provide clear and comprehensive tax exemptions for funds with operations in those locations.

However, there are still some areas where the draft legislation could be improved, and we hope that the government is willing to address those areas in the guidance notes to the legislation. There is no doubt that doing so will help with the government's stated goal of promoting the asset management industry in Hong Kong.

Our observation has been that interest in OFCs for private funds has been very limited to date, due to both the burden associated with obtaining the required regulatory approvals and some onerous aspects of the profits tax exemption for OFCs. The new legislation repeals in full the OFC profits tax exemption and incorporates OFCs into the new comprehensive private fund tax exemption. In doing so, the onerous qualifying conditions for the OFC tax exemption have fallen away, which is a positive move. However, the regulatory aspects may still continue to limit the use of OFCs in practice.

A further welcomed move is that the initial proposal to codify the taxation (or at least partial taxation) in Hong Kong of carried interest has not been included in the draft legislation. Similar provisions where included in the legislation enacted earlier this year to introduce the OFC profit tax exemption and were initially expected to be included in this legislation. Significant lobbying from the private equity industry has taken place in respect of this issue and it is pleasing that the government appears to have taken on board the likely impact that introducing such a change would have had on decisions by private equity funds on establishing and maintaining investment teams in Hong Kong.

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TechWatch 197

The latest standards and technical developments

Local updates

Members' handbook updates no. 227
Update no. 227 relates to amendments to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard.

Q&As on recognition of IPO sponsor fee income
The Institute issued questions and answers on applying HKFRS 15 *Revenue from Contracts with Customers* to the recognition of initial public offering sponsor fee income.

Hong Kong Standard on Auditing and International Standard on Auditing comparison
Comparison between Hong Kong and international quality control, auditing, review, other assurance, and related services pronouncements effective as at 31 December 2018.

Invitations to comment
The Institute is seeking comments on:

- The International Auditing and Assurance Standards Board's (IAASB) consultation paper on *Proposed Strategy for 2020-2023 and Work Plan for 2020-2021* by 4 May.
- The IAASB's exposure drafts on quality management for firms and engagements by 24 May.

Invitation to observe meetings of the Hong Kong Insurance Implementation Support Group
Register to observe meetings of the Hong Kong Insurance Implementation Support Group (HKIISG) which discusses hot topics on HKFRS 17 *Insurance Contracts*. Meeting schedule, papers and summaries can be found on the Institute's website.

Professional accountants in business

HKEX consultation conclusions on proposed changes to documentary requirements and other minor rule amendments
On 1 February, Hong Kong Exchanges and Clearing (HKEX) published conclusions related to its *Consultation Paper on Proposed Changes to Documentary Requirements Relating to Listed Issuers and Other Minor Rule Amendments* which sought comments on proposals to simplify and streamline the administrative procedures involved in submission and collection of documents to enhance procedural efficiency. It also proposed minor listing rule amendments and a number of housekeeping amendments that involve no change in policy direction. The responses were broadly in favour of the consultation proposals. A summary of the main changes is set out in the press release.

The amendments came into effect on 1 March. In respect of the amended rules relating to streamlining of listed issuers' filing requirements, they will be applied to issues of securities announced by listed issuers on or after 1 March.

Existing directors and supervisors of listed issuers are also reminded to submit their contact details as required under the amended rules to HKEX no later than 31 March.

HKEX review results of disclosure in issuers' annual reports
On 31 January, HKEX published a report on the findings and recommendations from its review of issuers' annual reports for the financial year ended between January and December 2017.

As part of its regulatory activities, HKEX undertakes two ongoing review programmes on issuers' annual reports, namely, (i) Review of Disclosure in Issuers' Annual Reports to Monitor Rule Compliance and (ii) Financial Statements Review Programme. Starting from 2019, the findings from both review programmes are consolidated into one review report to provide guidance on specific areas selected based on market trends, regulatory developments and HKEX's observations of issuers' compliance with regard to these areas.

Members – in particular preparers of listed company's annual reports – are encouraged to read the report and follow the guidance to improve their annual reports to enhance transparency to their shareholders and ensure they comply with the listing rules.

COSO guidance for healthcare providers
Healthcare organizations experience issues with system access and integrity, clinical documentation, coding, and billing, all of which may result in potential non-compliance

with relevant regulations – and costly mistakes.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), in collaboration with Crowe LLP and CommonSpirit Health, has recently published a new guidance entitled *COSO Integrated Framework: An Implementation Guide for the Healthcare Provider Industry*. The guide introduces healthcare organizations to COSO's widely used "Internal Control – Integrated Framework," and provides a roadmap to implementation to help strengthen their overall governance and internal control structures.

Small and medium practices

Ethical awareness in public practice

A distinguishing mark of the accounting profession is its acceptance of responsibility to act in the public interest. To assist members in understanding and maintaining standards set out in the Code of Ethics for Professional Accountants, the Institute's Compliance Department has compiled a list of past cases which illustrate ethical issues encountered by the practitioners. This may serve as a guide for members facing challenging ethical issues.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- 2019-20 Budget tax measures
- Passage of the Inland Revenue (Amendment) (No. 7) Bill 2018 (aligning the tax treatment of financial instruments with their accounting treatment and other changes)
- Passage of the Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Bill 2018
- Refinements to Legislative Framework for Automatic Exchange of Information come into force
- Filing deadline for voluntary country-by-country reporting
- List of qualifying debt instruments (as at 31 December 2018)
- Stamp duty statistics (January)
- Taxpayer convicted (for omitting rental income and incorrectly claiming deductions)

Legislation and other initiatives

Anti-money laundering notices

For the current lists of terrorists, terrorist associates and relevant persons/entities under United Nations (UN) sanctions, members should refer to the Institute's AML webpage which is updated regularly. The UN sanctions webpage of the Commerce and Economic Development Bureau contains consolidated lists of 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 197, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

After hours

Book review　Life and everything　Let's get fiscal

Book review

Oscar Munoz, CEO of United Airlines

Title: **The Myth of Capitalism: Monopolies and the Death of Competition**
Author: **Jonathan Tepper, with Denise Hearn**　Publisher: **Wiley**

Hong Kong consumers are more familiar than most with a lack of competition. From power to buses, and supermarkets to bookmaking, many of Hong Kong's industrial and service sectors are at best, duopolies, and some are even monopolies. Thus *The Myth of Capitalism*, by Jonathan Tepper, should have some resonance.

Tepper, is the Founder of Variant Perception, a macroeconomic research group that caters to hedge funds, family offices and high net worth individuals. He previously worked at major banks and hedge funds.

Despite his strong finance background, Tepper professes no love for the system that made him rich, and while he rightfully draws attention to poor regulation that enables companies to dominate their market, he leans towards showing the absolute worst side of corporatism.

Indeed, Tepper opens his book with one of the ugliest depictions of corporate America in recent times. In 2017, security staff dragged a bloodied David Dao, a Vietnamese-American doctor, from a United Express flight. His crime? He was on an overbooked flight and had been selected – randomly, United Airlines insisted – to be put on a later flight. His response that he had patients to urgently treat fell on deaf ears and staff sought assistance.

Other passengers videotaped the incident and United was subsequently excoriated in the press and vilified on social media. United – from their public relations staff up to Chief Executive Officer Oscar Munoz – blamed the passenger for being belligerent. Eventually, the outrage was so great that the CEO apologized and was denied a promotion, and the airline reached an undisclosed settlement with Dao.

A public relations disaster of this magnitude should have had stock market repercussions. Instead, United's shares were unaffected. "For all of 2016, the company reported full-year net income of US$2.3 billion," Tepper writes. "The results were so good that in 2016 United's board approved a stock buyback of US$2 billion, which is the financial equivalent of spraying yourself with champagne."

Such extreme incidents aside, the author presents a detailed case on how industry concentration over the past 40 years has led to – at least in the United States, the focus of his studies – low productivity, low business dynamism, higher consumer prices, record levels of inequality, low wages and lost localism and diversity.

More controversially, Tepper asserts that low levels of competition lead to low levels of innovation and thus lower levels of economic growth, citing the London School of Economics' Professor Zoltan Acs and Indiana University's Professor David Audretsch, whose study concluded that "the total number of innovations is inversely correlated with concentration and that monopoly power deters innovation."

Tepper also argues that companies with market dominance use their power to raise prices for customers and squeeze suppliers and employees. And it is true that some of the most lionized figures in American capitalism appear to resent competition. Ex-CEO of General Electric Jack Welch taught managers at his company that market dominance was vital. "Since the cult of Welch and GE has taken over," Tepper writes, "managers have sold smaller competitors to the biggest rivals, and the top firms have gobbled up any small competitor."

Warren Buffett – often called the "Oracle of Omaha" because of his Nebraska roots and sage investment advice – has praised pricing power, where companies can raise costs for consumers. "In a monopoly, one company is the only seller and can hike prices as it likes. In a monopsony, one company is the only buyer and can pay whatever prices or wages it likes," Tepper writes.

More gloomily, the brave new world of high-tech isn't going to rescue us. "Americans mythologize competition and credit it with saving us from socialist bread lines," Peter Thiel, Co-founder of PayPal, wrote in *The Wall Street Journal* in 2014. "Actually, capitalism and competition are opposites."

One of the few companies that escapes Tepper's wrath is Costco, a kind of big-box consumer-goods wholesaler that attracts retail customers through member-only warehouse clubs. "Costco workers are paid more than US$20/hour and as a result have only 5 percent employee turnover for those who have been with the company for over a year."

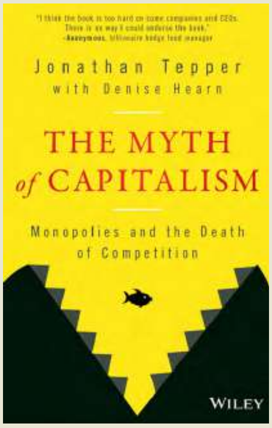
Is Costco exhibiting counter-intuitive altruism? No. It's a profitable company. "They continue to outperform industry competitors, pay workers well, offer great benefits to close to 90 percent of staff, and have very low turnover as a result," Tepper writes. Costco's model provides a living wage with health benefits, so "it also puts more money back into the economy and creates a healthier country."

Tepper suggests that despite all the innovation that's giving us Uber, Airbnb and video app TikTok, the capitalist model is in need of dire reform. If not in the U.S., where is it going to be recast in a kinder, gentler model that doesn't see bloodied medical practitioners dragged out of the seats of highly profitable airlines?

Author interview: Jonathan Tepper

Jonathan Tepper might find the United States system of capitalism dispiriting, but don't look elsewhere for joy. "I don't think that there are much more enlightened systems to be found outside of the U.S. and Europe," he tells *A Plus* from his home in Charlotte, North Carolina.

Mainland China, he notes, is "very much a command and control economy where even private businesses obey the party and state," while Latin America "has experienced booms and busts as countries have embraced capitalism and flirted with deficit spending."



Tepper says the main concern of the book is that we need to embrace more capitalism and competition, not less. "We need to fix the flaws limiting competition and capitalism in the U.S. and Europe, not discard capitalism," he says.

The author, who founded Variant Perception – a macroeconomic research unit that studies financial markets, asset allocation and asset management – insists he is not anti-capitalist. "When markets aren't rigged through excessive regulation and lobbying, the U.S. still has some of the most dynamic companies and industries out there [and] leads the world in technology, venture capital, and design."

But, he points out, there is louder clamouring for reform, noting the rise of younger voices such as Alexandria Ocasio-Cortez, the high-profile 29-year-old New York congresswoman. "She is a sign that people want something different," says Tepper. "She's clearly meeting demand that is already there with her message."

Capitalism reform was a theme of the 2016 presidential election, he adds. "Both Donald Trump and Bernie Sanders sounded the same on the campaign trail. Both talked about a rigged system. And most candidates who have announced they're running for president espouse anti-monopoly views, so the tide is turning."

Individual countries will have to address flawed systems on their own, says Tepper. "International bodies like the United Nations, World Trade Organization and Asia-Pacific Economic Cooperation are not designed or suited to solving national issues of competition and antitrust. These issues have to be treated at the national level."

Tepper says he isn't planning to write more books – at the moment. "Writing a book and getting the word out is an enormous amount of work," he says. "When I finish, I don't want to write another. Then time passes, and I forget how much work it is and I write a book. Ask me in a year or two. I'm sure something will come up."

Stay

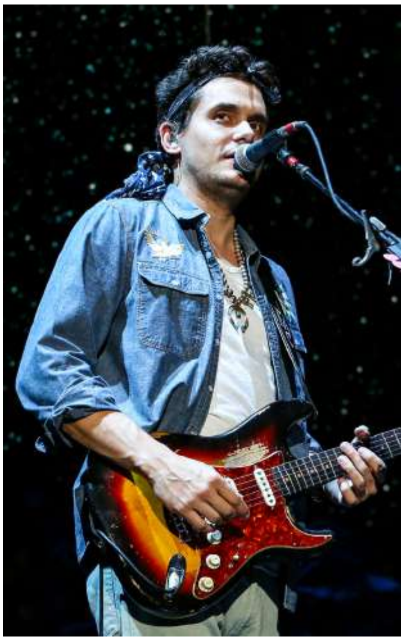

Rosewood Hotel Hong Kong

HONG KONG HOLIDAY

Rosewood Hotels and Resorts has just opened the doors to its newest hotel this month near Tsim Sha Tsui's harbourfront. It features 322 guestrooms and 91 suites and residences, an outdoor infinity pool and a fitness centre overlooking the harbour. The hotel's eight restaurants bring a variety of cuisine, such as Holt's Café and The Legacy House which serve Cantonese fusion cuisines, while The Butterfly Room and The Butterfly Patisserie offer wonderful pastries and desserts. Patrons can also indulge in classic cocktails, rare aged spirits and vintage cigars at DarkSide, the hotel bar, which features a live jazz band each night. Coming in Autumn is Asaya, its world-renowned wellness programme which first started in Rosewood Phuket in 2017. Lifestyle coaches, nutritionists and therapists will help guests to rejuvenate, and to achieve their wellness goals with the help of healthy eating plans, fitness routines and alternative therapies catered to each individual.

Address: Victoria Dockside, 18 Salisbury Road, Tsim Sha Tsui, Kowloon
Price: From HK$4,300 per night
Website: *www.rosewoodhotels.com*

Music



JOHN MAYER

Guitar legend John Mayer will be playing in Hong Kong for the first time next month. The seven-time Grammy award winner is expected to play songs from his 2017 album *The Search for Everything* as well as classic tunes such as *Gravity*, *Slow Dancing In a Burning Room*, and *Waiting on the World to Change*. He is visiting Hong Kong as part of his world tour, and also playing concerts in Tokyo, Singapore and Bangkok.

Date and time: 8 April, 8:00 p.m.
Venue: Hall 5BC, Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai
Ticket prices: HK$588, HK$788, HK$988, HK$1,188
Website: *www.hkticketing.com*

Eat

NEW SPICES

Enjoy hearty Indian cuisine at Chaiwala, a hot new eatery in Central district. Adding a modern twist to traditional Indian cuisine, the restaurant offers a wonderful selection of food in its unique three-section dining space – the "Chai bar," featuring an old-fashioned Chai stand, the "Kitchen," where patrons can watch chefs in action, and the "Dining Room," which features a large central table perfect for large gatherings. Chaiwala serves dishes such as Pani Puri with Jal Jeera, Lobster Nerulli, Kerala Fish Curry and Dakshini Prawns. Cocktails are also served in unique glassware such as its Punjab Cadillac Colada, which comes in a glazed vase-style glass and Magic Lamb, which consists of rum, citrus mix, all spice, banana, dill and sage, served in a genie-style lantern.


Lobster Nerulli

Address: Basement, 43-55 Wyndham Street, Central
Opening hours: 12:00 p.m. - 2:30 p.m. and
6:00 p.m. - 12:00 a.m. (Saturday-Sunday),
6:00 p.m. - 12:00 a.m. (Monday-Friday)
Website: *www.chaiwala.hk*

Dates: 13-16 April
Venue: Hong Kong Convention and Exhibition Centre, 1 Expo Drive, Wanchai
Opening hours: 9:30 a.m. - 6:30 p.m. (13-15 April), 9:30 a.m. - 5:00 p.m. (16 April)
Price: HK$100

Exhibition

HONG KONG ELECTRONICS FAIR

Organized by the Hong Kong Trade Development Council, the Hong Kong Electronics Fair returns to the city in April. With over 2,900 different exhibitors expected at the four-day event, visitors can expect to see the latest in the world of 3D printing, eco-friendly tech, automotive electronics and healthcare electronics. This year will feature a dedicated Start-up Zone, which will have over 100 tech start-ups from Hong Kong and abroad, and a Tech Hall with four thematic zones – virtual reality, the connected home, robotics and wearable electronics. There will also be a Tech Trend Symposium where industry leaders will share the latest in market developments and insights.

Old writer is a newcomer to us

Hong Kong's humorist on the true origins of accounting, and the uncanny similarities between bookkeeping and magic

Start saving. Sellers of a rare medieval accounting book want to sell it to one of us here in Hong Kong for HK$11.7 million. And it doesn't even have pictures.

Auction house Christie's is bringing the book, *Summa de Arithmetica*, to show around in Hong Kong in May – a month before a global auction in New York.

Apparently the auctioneers believe that Hongkongers, out of all the people in the world, are folk of taste and refinement who love a good book.

Clearly Christie's advisors have never been here.

Hongkongers don't buy printed publications unless they include racing tips or images of models – and I seriously doubt *Summa de Arithmetica* has reasonable coverage of either of these two must-have elements.

A third thing we like is celebrities.

Author Luca Pacioli is not exactly J.K. Rowling, but is "recognized as the father of accounting and bookkeeping," Wikipedia says.

Hmm. If Wikipedia says he is, it pretty much proves he isn't.

This columnist had to study Pacioli's book some years ago, and the author clearly says that he didn't invent the financial techniques in the book, but collected them from the East.

The time has surely come for Asia to point out to Wikipedia and everyone else that we invented accounting, not westerners.

Business people in China and India have been doing handwritten accounting documents for millennia, and some places still use the abacus, arguably the first portable calculator.

One 2,000-year-old double-entry bookkeeping system, Bahi-Khata, is still used in India today, and the key documents probably still have the original curry stains on them.

Besides, Asian accounting is not just older, but arguably more creative than the dry Western equivalent, anyway.

Ours has added mystical elements, for a start. Example: every Diwali, Hindu businesses from Hong Kong to India to Bali to Singapore perform a rite called the Prayers to the Account Books, in which blessings are aimed at the business ledgers. These days, people install Quickbooks or some other piece of financial software onto their computers and then do meditational prayers, similar to a Puja ceremony around their laptops. (I am not making this up.)

Secondly, elite people in Asia often require accountants to make sure the final numbers are not just accurate, but are lucky too: surely a big plus to all concerned.

You can see that happening in Hong Kong, but it's hard to picture it taking place at some big company in the United Kingdom.

Accountant: "Profit after tax this year is £94 billion, chairman."

Bank chairman: "Oh no! I'll need you to lose £6 billion pronto to make it a lucky £88 billion."

Accountant: "Sir?"

In 1977, a researcher famously compared "uses made of accounting by modern societies with the use of witchcraft in less advanced ones."

The study by Trevor Gambling found the two areas of expertise to have much overlap. Both magic and accounting involve the collection of data, the processing of multiple elements into a coherent whole, the employment of specialized jargon, the interpretation of results, etc.

In particular, accountants and witchdoctors spend much of their time finding ways to "accommodate awkward facts in a way which does not undermine the fundamental beliefs of the culture," he wrote. Witchdoctors announce their final results by dressing up in feathers and splashing chicken blood around, while we announce ours by dressing up in Prada and shaking bottles of champagne. Same thing really.

So I would conclude that Pacioli's text is important in European terms, but in the multi-millennia history of accounting in Asia, it's just a recent bit of mass-market fluff.

Maybe we should keep our HK$11.7 million for wiser purchases, such as a Feng shui-channelling waving arm cat to increase good fortune for our offices. One has to be scientific about these things, you know.

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*


PATEK PHILIPPE
GENEVE
Begin your own tradition.