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DRIVING BUSINESS SUCCESS

Issue 3 Volume 16 March 2020

PLUS:

CORPORATE GOVERNANCE
Celebrating 20 years of the Best Corporate Governance Awards

ACCOUNTANT PLUS
Sabrina Khan, Chief Financial Officer of Aptorum Group Limited

SECOND OPINIONS
Do professional accountants in business really need to be experts in data analytics?

STAYING STRONG

Jack Chan, EY's Greater China Regional Managing Partner, on the strength of Hong Kong amid current uncertainties

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"We are facing challenging and turbulent times. The Institute will continue to support our members and practices in weathering this crisis."

Dear members,

I want to start off my message this month by paying tribute to a valued senior management staff of the Institute, Mary Lam (Director of Member Support) who passed away on 18 March. Mary had been with the Institute for over 23 years. Throughout all these years I had the privilege of working together with her in various capacities. She was a very loyal, competent and cheerful lady and had contributed greatly to the development of our profession. Mary will be deeply missed by all of us and we express our heartfelt sympathy to her family.

Since the outbreak of the now pandemic novel coronavirus in January, it has been a trying time for all of us. Our daily activities are disrupted. While we are now in springtime, our economy has entered a cold winter. Many commercial sectors are facing a free-fall-like decline in business, and the future is full of uncertainty.

Towards mid-March, it began to look like Hong Kong was turning a corner with the containment of the outbreak, but the latest round of overseas returnees has created a second wave of challenges. A career in insolvency has taught me to never consider a matter resolved until the ink is dry. Although events were held for a few days, and we all wish to return to normal, these are still extraordinary times, and we must continue to act extraordinarily to surmount them.

The Institute's continuing professional development activities are being delivered via webinars, many staff are working from home, the library is closed, counter hours are restricted, and face-to-face meetings are replaced by teleconferences. Nevertheless, the Institute is hard at work, issuing technical alerts, responding to queries, and putting in place contingency measures to address the evolving situation. These measures are a balance between the needs of members and students to access our services against health considerations for members, students and the Institute's staff.

Although the cancellation of the Council's Away Day in February has somewhat delayed the discussion of the strategies and initiatives of the Institute's upcoming long range plan, I am pleased to say that significant progress has been made in forming the framework to guide the development of tactical action plans. The finalization of the plan should occur in the second quarter of the year.

As has previously been reported, based on the Governance Committee's recommendation endorsed by the Council late last year, an Independent Working Group (IWG) will be set up to replace the Task Force for EGM Resolution 2. Reporting directly to the Council, the role of the IWG is to explore and help formulate amendments to the Professional Accountants Ordinance for the implementation of one-member-one-vote election of the President and Vice-Presidents. I am pleased to announce that the Council has recently approved the terms of reference and the composition of the IWG. The initial task for the IWG is to submit a draft report to Council on a public consultation.

As accountants, one of our key responsibilities is to know the financial health of the organizations or individuals we work for or advise. Given the deteriorating economic outlook, it is important to take steps to prepare for all possible financial eventualities. The Institute's Restructuring and Insolvency Faculty Executive Committee has recently published guidance, *How to Manage Financial Distress: Advice for Businesses and Individuals,* in both English and Chinese to help advise them. The English version can be found on page 44.

To help companies through these difficult times, the Institute has been advocating again the introduction of corporate rescue laws or provisional supervision, similar to corporate voluntary arrangements and administrations in other jurisdictions. Hong Kong, as an international financial centre, needs such provisions, with the introduction of a moratorium period during which all legal actions are stayed. These would help to shield debt-stricken companies and give them the time to restructure their businesses. I urge the government to speed up the process of introducing proper corporate rescue legislation. Proposals for such have been raised a number of times since 1996, and so I hope that now we can finally get the protection needed for businesses to find a "white knight" saviour to help them through this economic downturn.

In addition, on various occasions, I have been calling for a review of the maximum amount of the ex gratia payments out of the Protection of Wages on Insolvency Fund. Some of the limits have not been adjusted for many years and are very much outdated. Considering the situation, the upward adjustments of these limits are warranted.

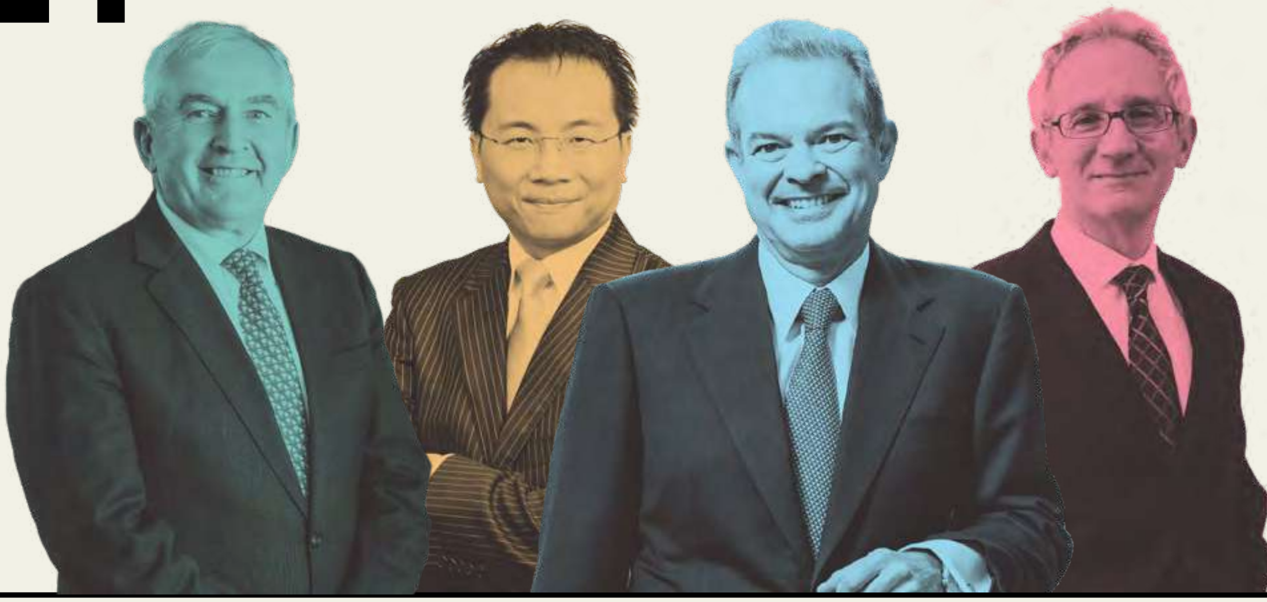
We are facing challenging and turbulent times. The Institute will continue to support our members and practices in weathering this crisis. Together, we must go forward as one to meet these challenges. I am confident that we will eventually come out of the doldrums much better and stronger!

Johnson Kong
President

CONTENTS

Issue 3 Volume 16 March 2020

24 The awards of change



30

Saving lives

How Sabrina Khan, Chief Financial Officer of Aptorum Group Limited, went from helping with a listing to leading an IPO project for a pharmaceutical company

DRIVING BUSINESS SUCCESS

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

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NEWS

Institute news   Business news

The Institute pays tribute to Mary Lam

It was with much sadness that we learned of the sudden passing away of Mary Lam, the Institute's director of member support, and a member herself, on 18 March 2020. Mary worked at the Institute for over 23 years and made a very valuable contribution to its work with her all-round knowledge and abilities, coupled with a tremendous dedication and helpfulness. During her career at the Institute, Mary provided support to members in a very wide range of areas, including members in business, small- and medium-sized practices, young members, Mainland affairs, restructuring and insolvency, forensic accounting, corporate finance, corporate and Institute governance, tax training, and continuing professional development. She will be greatly missed by her colleagues and friends in the profession. We express our deepest condolences to her family.

Roundtable discussion: comprehensive review of the *HKFRS for Private Entities*

The Institute is holding a roundtable discussion on 18 May, gathering the Institute's staff and preparers or practitioners of financial statements applying the *HKFRS for Private Entities*, to respond to the International Accounting Standards Board's Request for Information (RFI) for the *IFRS for SMEs* standard/*HKFRS for Private Entities*. Members are invited to join the roundtable to share their views on whether and how aligning the *IFRS for SMEs* standard with the full IFRSs would benefit users of financial statements without causing undue cost for small- and medium-sized enterprises. Any revisions to the *IFRS for SMEs* standard will be incorporated in the *HKFRS for Private Entities* in accordance with the Institute's convergence policy. Members can also submit comments on the RFI to the Institute by 12 June.

Corporate Finance Series webinars

Enrol in the webinars on 15 April and 29 April to learn about the different types of secondary fundraising for listed companies and gain insights on how to handle corporate acquisitions or disposals from compliance prospective.

Recordings of free webinars now available

The three webinars on topics related to the COVID-19 pandemic held in February and March are now available for free via the e-Seminars website. The courses are: leading and motivating a virtual team; practical employment issues arising out of COVID-19 outbreak; and the impact of COVID-19 on commercial contracts and points to consider in a business continuity plan.

Disciplinary findings

Hu Chiu Lun, Alan, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* (HKSQC 1), the fundamental principle of integrity in sections 100.5(a), 110.1 and 110.2 of the Code of Ethics for Professional Accountants, and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code, and being guilty of professional misconduct.

Hu was practising in his own name and was responsible for his practice's quality control system and the quality of its audit engagements. In 2016, the practice was subject to its first practice review which identified deficiencies in its quality control system concerning the monitoring process and custody of engagement documentation.

In 2017, a follow-up practice review was carried out and the Institute found that the practice had failed to rectify the deficiencies previously identified. In addition, significant deficiencies were found in procedures conducted on revenue recognition, external confirmations and forming the auditor's opinion in the practice's audit of a private company. In that audit, Hu compiled certain working papers after the auditor's report date and knowingly misrepresented to the reviewer that those working papers were prepared, and documented procedures performed, before the auditor's report was issued.

Decisions and reasons: The Disciplinary Committee reprimanded Hu and ordered cancellation of his practising certificate with no issuance of a practising certificate to him for 22 months with effect from 15 March 2020. In addition, Hu was ordered to pay a penalty of HK$30,000 and costs of disciplinary proceedings of HK$30,000. When making its decision, the committee took into consideration the particulars of the breaches committed in this case, Hu's conduct throughout the proceedings and his personal circumstances.

Law Kwong Wah, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*; HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*; and HKSA 500 *Audit Evidence*; HKSQC 1; and the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the *Code of Ethics for Professional Accountants*.

The Institute completed a practice review on K.W. Law & Co. (practice) of which Law was the sole proprietor. The review identified significant deficiencies in the practice's quality control system and two audit engagements reviewed by the practice reviewer.

Decisions and reasons: The Disciplinary Committee reprimanded Law and ordered that he would not be issued a practising certificate for 18 months effective from 4 February 2020. In addition, Law was ordered to pay a penalty of HK$50,000 and costs of disciplinary proceedings of HK$51,785. When making its decision, the committee took into consideration the particulars of the breaches committed in this case, Law's conduct throughout the proceedings and his personal circumstances.

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

HK$1.29 BILLION

OF FINES THE SFC HANDED OUT IN 2019

The Securities and Futures Commission (SFC) imposed HK$1.29 billion in fines in 2019, according to a study by international law firm Freshfields Bruckhaus Deringer. The fines are 563 percent higher than the previous year and 55 percent higher than the total of the previous four years' worth of fines at HK$830 million. The higher fines come as the city's watchdog hopes to tackle malpractice in the city and raise the quality of new listings. Five investment banks were fined HK$814 million over sponsor failures in three initial public offerings, with UBS receiving the biggest fine of HK$375 million. UBS also received a separate HK$400 million fine for overcharging clients and related internal control failures.

KPMG U.S. APPOINTS NEXT CEO

KPMG in the United States elected Paul Knopp as its Chief Executive Officer. He will succeed current CEO Lynne Doughtie, and his five-year term will begin on 1 July. Knopp has been with the firm for 36 years and has extensive experience serving large multinational clients and leading several of the firm's global audit engagements across a variety of industries. He has also served on KPMG's board of directors, including as lead director.

HKEX WARNS OF TOUGH YEAR AHEAD DESPITE PROFIT

Hong Kong Exchanges and Clearing (HKEX) noted that despite achieving a 1 percent rise in annual profit to HK$9.39 billion in 2019, factors such as the COVID-19 pandemic are likely to pose challenges to the global market. The profit came as a result of new listings and a higher turnover from the stock connect scheme, though falls short of the forecasted 2 percent growth, according to analysts polled by *Bloomberg*. Chief Executive of HKEX Charles Li noted that while the bourse operator expects more listings to take place in the second half of the year, "it will be too early to say how the virus will affect the whole year's performance in the IPO market."

DRUG DEVELOPER INNOCARE PHARMA RAISES

HK$2.2 BILLION

FROM IPO

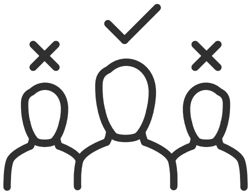
Beijing-based drug developer InnoCare Pharma Ltd. raised HK$2.2 billion from its initial public offering (IPO) in Hong Kong. The biotech company's IPO, announced on 11 March, was nearly 300 times oversubscribed after pricing at the high end of the asking range. The final price per share of InnoCare was HK$8.95. The company moved all its presentations to investors online ahead of the IPO amid coronavirus concerns, and became the first company to debut its IPO via a virtual listing ceremony at the exchange. Its listing comes amid volatile market conditions as the coronavirus pandemic has caused the worst economic and stock market downturn in a decade.

SEC ADJUSTS AUDIT REQUIREMENTS

The United States' Securities and Exchange Commission (SEC) voted on 12 March to ease audit requirements for small, publicly traded companies in the country. The new changes will reduce compliance costs for public companies with less than US$100 million in revenue and less than US$700 million in outstanding shares for five years. The changes were originally considered by the SEC in May 2019 as part of an initiative to make it easier for companies to file for an IPO. Jay Clayton, Chairman of the SEC, said the new measures build on the Jumpstart Our Business Startups (JOBS) Act, a law intended to encourage funding of small businesses in the U.S. by easing the country's securities regulations. "The amendments represent an incremental, but meaningful, change that builds on the benefits of the JOBS Act for smaller public companies," Clayton said.

PWC U.S. PAYS US$11 MILLION IN DISCRIMINATION LAWSUIT

PwC in the United States agreed to pay US$11.6 million to settle a lawsuit claiming it had discriminated against older job applicants for certain positions at the firm. The lawsuit was filed almost four years ago in a California court by Steve Rabin, a 53-year-old accountant, who alleged that the firm had violated federal age discrimination and fair employment acts. The lawsuit also brought into question the low number of workers over 40 in entry-level and lower to mid-tier positions, and claimed the firm's policies would deter potential applicants. After agreeing to settle the charges, the firm agreed to enhance its recruiting procedures to attract qualified older applicants, as well as alumni, to be hired for entry-level jobs. "The commitments in this settlement will help PwC remain one of the most sought-after employers in the country," said Shannan Schuyler, Chief Purpose and Inclusion Officer at PwC.



ANTI-MONEY LAUNDERING PART OF U.K. BUDGET INITIATIVES

A plan by the United Kingdom to allocate £100 million to tackle money laundering has been backed by campaigners, who claim that Britain is falling behind in the fight against illicit financing. The new levy, announced by Chancellor of the Exchequer Rishi Sunak on 11 March, is part of confirmed plans in the U.K.'s 2020 budget to supplement public sector funding. This includes a charge paid by all groups that are subject to U.K. Money Laundering Regulations, which include banks, accountants, estate agents and solicitors. The levy will be used to purchase new technology to aid law enforcement and hire more financial investigators. It will also help kickstart measures in the latest Economic Crime Plan, which was announced by the National Crime Agency (NCA) in July 2019. The NCA's crime plan aims to crack down on illicit financial flows by coordinating efforts between the public and private sector, such as by bringing cryptocurrency asset businesses under anti-money laundering rules.

NYSE CLOSES TRADING FLOOR AMID COVID-19

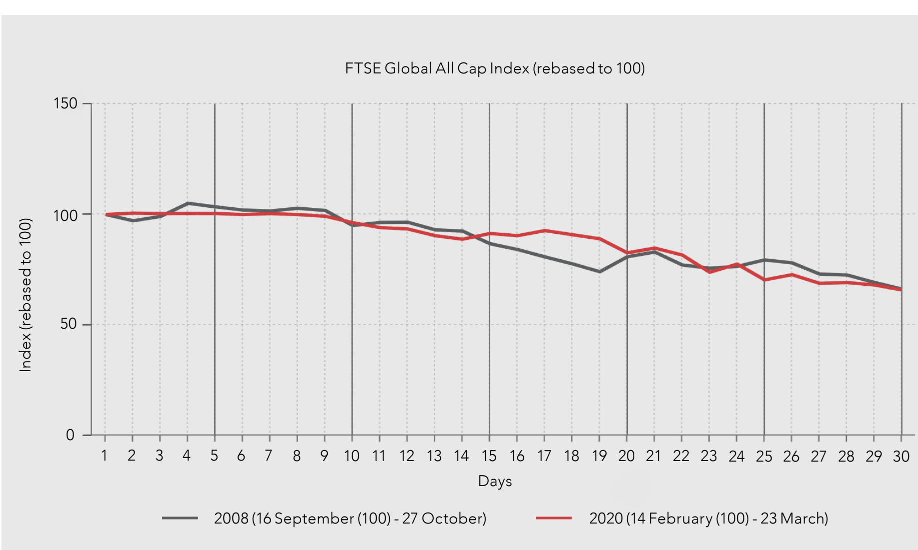
The New York Stock Exchange (NYSE) opened without its trading floor for the first time in its 228-year history on 23 March, to contain the spread of COVID-19. New York had over 59,000 confirmed cases as of 30 March, comprising more than half of all cases in the United States. The NYSE began operating on a fully electronic basis after four individuals tested positive for the coronavirus. All brokers are required to work remotely. The move is unlikely to affect investors, whose orders are executed electronically as a result of existing contingency plans put in place.

JD.COM EYES SECOND LISTING IN HONG KONG

JD.com has approached investment banks Bank of America and UBS to arrange a secondary listing in Hong Kong. The Beijing-headquartered e-commerce company, which went public on Nasdaq in 2014, plans to list on the Hong Kong Stock Exchange as early as the first half of 2020, according to the *Hong Kong Economic Times*. The plan follows competitor Alibaba, which went public in Hong Kong in November 2019. Despite its plans to list amid the coronavirus outbreak, which has affected over 80,000 in Mainland China, the company has forecast revenues to rise by at least 10 percent in the first quarter as consumers stuck at home during the countrywide quarantine turned online for most of their shopping needs.

SOFTBANK TO SELL ALIBABA SHARES TO PROTECT BUSINESS

SoftBank Group plans to sell US$14 billion in shares of Chinese e-commerce giant Alibaba in a bid to raise US$41 billion, reduce its debt and restore investor confidence amid the coronavirus pandemic. The Japanese conglomerate, which saw its market value drop nearly 40 percent compared to February, is considering raising the remainder of the money by selling a stake in SoftBank, its domestic telecommunications arm, as well as a part of Sprint Corp. following its merger with T-Mobile U.S. Inc. The move, announced on 23 March by SoftBank Chief Executive Officer Masayoshi Son, sent its stock up 21 percent in Tokyo the following day.



GLOBAL MARKETS: FALLING FAST

The COVID-19 pandemic has seen global stocks experience their worst six weeks since the Global Financial Crisis of 2007-08. Markets have fallen by over a third as measured by the FTSE Global All Cap Index, which tracks the performance of the large, mid and small cap stocks globally and contains around 8,000 stocks from developed and emerging markets.

STAYING RESILIENT

Jack Chan, EY's Greater China Regional Managing Partner, has enjoyed a front row seat for much of Mainland China's economic development. He talks to Kate Whitehead about being involved with the country's first wave of initial public offerings and now the development of green finance

Photography by Calvin Sit

Jack Chan was preparing for a trip to Shanghai and Beijing to meet some key clients in early March. The travel restrictions in response to the COVID-19 outbreak meant he needed to self-quarantine for two weeks on his return, but Chan, EY's Greater China Regional Managing Partner, was unperturbed. This trip had been postponed a couple of times and couldn't be put off any longer. Besides, he's got the experience of successfully working through the 2003 severe acute respiratory syndrome (SARS) epidemic.

When SARS broke out, he was working at PwC and had recently been seconded to Beijing. He was in the middle of restructuring a big financial institution when part of the city was closed down and he and his colleagues weren't able to work on site. "We had to rely on email, phone calls and fax," recalls Chan, a Hong Kong Institute of CPAs member.

These days, he is overseeing more than 20,000 people, a diverse talent pool, but he hasn't forgotten the experience of SARS and believes that persistence and the trust of people – his own team and his clients – is what will get them through COVID-19. "I'm relatively more optimistic than some of our younger people who might not remember SARS. In terms of financial strength and technology, we are far, far ahead compared to 17 years ago, so we should be confident," says Chan, who took up his current role at EY at the beginning of this year.

"I'm relatively more optimistic than some of our younger people who might not remember SARS. In terms of financial strength and technology, we are far, far ahead compared to 17 years ago, so we should be confident."

The vast technological developments are not merely allowing people to work from home through COVID-19 but transforming the way accountants work and what they can offer. "In our audit procedures, we have adopted a globally developed software that embraces many audit elements. For example, in the sample testing process, we have a tool to help us pick the sample, which improves efficiency and allows our professionals to focus on the specific risk that could be associated with a particular item," says Chan. "In our advisory services, we advise our clients how to best use technology to innovate their business models. We work with them to develop business scenarios, which is key for enabling different players in an ecosystem to map out their business strategies."

Chan noted as an example how big data can shed insights on the best approach to launch a wealth asset management product, where analysis can be done to accurately predict behaviours of target customers.

Forward with fintech

Chan speaks passionately about fintech. Hong Kong, he says, has three unique advantages that give it an edge as a fintech hub: its status as an international financial centre with a robust legal and regulatory regime; its access to a deep pool of capital, which is especially important for raising money for research and development (R&D); and a simple, straightforward tax system. "Hong Kong is part of China and the China market is huge. So, once we develop something or we have new offerings, we don't need to worry about finding a market because we have a very big one behind us," he says.

For Chan, it's something of a bugbear when people suggest that Hong Kong is lagging behind Mainland China in terms of fintech because the general population relies heavily on credit cards and the Octopus card, and hasn't widely embraced mobile payment systems. "The adoption of fintech by Hong Kong and other mature markets is relatively low compared to developing or emerging markets such as Mainland China and India. Because we had very good alternatives, we developed gradually. It was not that long ago when many people in Mainland China did not have access to basic banking services, but through some very impressive technological advancements such as mobile payment, banking services have become much more accessible," says Chan.

R&D, he says, is essential to building a strong foundation in order to stay on top of this fast-evolving industry. To do that, Hong Kong needs to nurture local talent. "For local talent we should start early, bringing this element into secondary school curriculums and university courses."

Going green

Another one of Chan's passion projects is EY's Climate Change and Sustainability Services, which he established in 2018 in EY's Greater China Financial Services to provide financial institutions with green bond assurance, green finance advisory and other services. While climate change and other sustainability services are nothing new for EY as a group, it is new for Mainland China and the emerging markets, but they are catching up fast, he notes. "Mainland China has been ahead of the game in green finance development. Chinese issuers have been leading both on-shore and off-shore green bonds and green notes issuance in the world in the last five years," says Chan.

Climate change and sustainability is high on EY's agenda. Investors now want to know whether the projects they are investing in have a sustainability or green element. "It's why I'm pushing for this very hard. We have been the leader in the green space for three or four consecutive years in terms of helping enterprises to issue green bonds and help them to run through the process," says Chan.

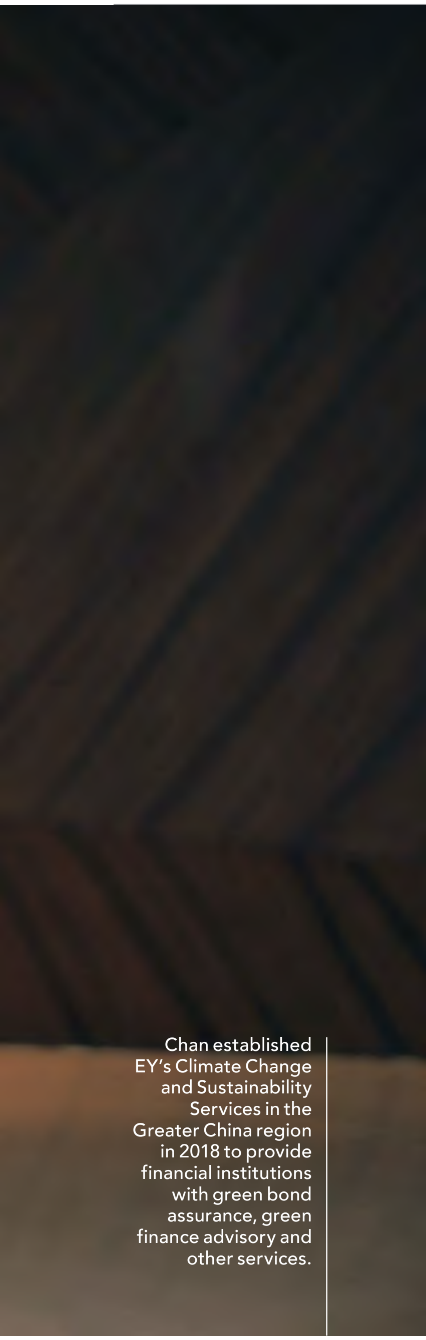
Jack Chan, an Institute member, oversees all business functions of EY Greater China region with 20,000 people in 29 offices.

Ensuring GBA success

Acknowledging the challenges posed by the recent protests in Hong Kong, Chan remains optimistic about the opportunities afforded to Hong Kong by the Greater Bay Area (GBA) development plan, an initiative that sees Hong Kong, Macau and nine cities in Guangdong's Pearl River Delta create a mega-cluster. "If we can be more proactive and participate in this development plan, and focus on playing the vital role as the international financial, transportation and trade centres as well as the global offshore RMB business hub, I am confident that Hong Kong will continue to thrive in the whole game," says Chan.

He points to several factors that are essential to the success of the GBA – the free-flow of talent, capital and information. While there are challenges in each of the three, he sees progress. Currency controls mean that the free-flow of capital is still some way off, despite the situation having improved from a few years ago. The challenges around a free-flow of talent are more easily surmountable. "There are incentives that encourage Hong Kong people to work in the GBA where their tax payment will be equalized," he says. As for the free-flow of information, that depends largely on the nature of information but progress has been observed, he adds.

The experience of witnessing such rapid change in Mainland China has likely helped frame



Chan established EY's Climate Change and Sustainability Services in the Greater China region in 2018 to provide financial institutions with green bond assurance, green finance advisory and other services.

Chan's upbeat perspective. Early on in his career, as a senior manager at Arthur Andersen, he travelled frequently to the Mainland and was involved with the country's first wave of initial public offerings (IPOs). "It was a very exciting time. Back in 1993, I was involved in Hong Kong's first batch of H-share listings. Those were the good old times," says Chan. "When we told our clients we were auditors, they thought we were auditors from the government bureau, so they showed us a lot of respect."

It was the former Chinese leader Zhu Rongji who led the drive for Chinese companies to reform and get access to the capital market. The Big Six accounting firms were drafted in to manage the process. The Big Six is now the Big Four, and Mainland China has its own large accounting firms which, with the support of government, have become competitive. "That started about 10 years ago when the Ministry of Finance introduced audit rotation to encourage some of the big local firms to start trying to serve the big businesses and enterprises," says Chan.

While the Mainland firms have grown quickly, the Big Four still have the competitive advantage of having a global network and are still better perceived by investors, he says.

Starting out

After graduating in Professional Accountancy at the then Hong Kong Polytechnic in 1992, all the Big Six firms offered him a position. He chose Arthur Andersen for its great training package. When Arthur Andersen collapsed and merged with PwC in 2002, Chan was promoted to partner at PwC Hong Kong and Mainland China. He joined EY in 2006.

Based in Hong Kong – with secondments to Chicago and Beijing – Chan has always focused on financial services. His experience has been wide-ranging, but it's his previous dual role as EY's Greater China Financial Services Leader and a member of the Greater China Region Leadership Team that he finds most rewarding. "Wearing this dual hat is a precious and memorable experience. It's challenging working out how to bring people together and how to make the dialogue work," he says.

Success, he says, requires passion and dedication. Working with a diversified pool of talent keeps him engaged and pushes him to perform his best. For those starting out in accounting, he recommends cultivating a positive, open-minded outlook. "It's a people business so we have to communicate with people all the time. If a person is too shy it would be very difficult," says Chan.

Always on

Striking a work-life balance can be difficult to achieve in the "always on" culture of the profession. Chan says the boundaries between "work" and "life" are blurred, and that during high pressure periods he wakes up in the early hours of the morning, thinking about the day ahead. "I could work for 14 to 16 hours in terms of engagement, but whenever I have some time off, I spend it with the family," says Chan, who has a daughter at university.

When he's not with his family, his leisure time is divided between his twin passions of football and horses. He enjoys watching the English Premier League matches and has been a Liverpool supporter for 40 years. He has even been to Anfield to watch his team play at their home stadium. His fascination for horses began when he was at secondary school and earning some extra money as a private tutor to a boy whose father was a race commentator. When the boy's father came home, Chan would ask him for tips for a sure win.

"He always joked with me, 'The only tip for a sure win is to not bet.' He taught me a lot – how to see the form of the horse, how to look in its eyes and tell if it was in a good mood or not," remembers Chan.

That early interest in horses became a lifelong passion, and he's now part of a syndicate that buys racehorses. For Chan, the social side of the hobby is as much fun as the horse racing. "We can have a small gathering among friends," he says. "Whether the horse will win or not we don't know, but it's a good excuse to get friends together and enjoy a whole afternoon or evening."

Green finance has gathered momentum since the 2015 Paris Agreement on climate change. In September 2018, the Securities and Futures Commission announced its Strategic Framework for Green Finance. It sets out a five-pronged strategy which goes beyond Hong Kong's current focus on green bonds and is aligned with global market and regulatory developments.

SECOND OPINIONS: DO PROFESSIONAL ACCOUNTANTS IN BUSINESS REALLY NEED TO BE EXPERTS IN DATA ANALYTICS?

VICTOR TAN
CO-FOUNDER,
INFINITY CUBE,
AND AN INSTITUTE MEMBER

In recent years, data analytics as a discipline has taken on a sophistication that suggests a complexity and a need for advanced skill sets that are largely inaccessible to ordinary people. Terminology and jargon such as big data, data mining, data cleansing, data visualization, algorithms, etc., add to the inaccessibility. Taken together, data analytics appear esoteric and limited to the initiated few.

Stripping away all the jargon and the hype, data analytics is a basic and fundamental skill that everyone is capable of doing and exercising on a daily basis. It is a uniquely human ability to observe things around us and analyse them to come to a decision. For instance, window shoppers check the range of available products, prices, locations, etc. (data sets), compare and analyse the data sets, taking into account perhaps additional data sets such as brands, distance of the shops, transportation convenience and costs, etc. (data analysis), to arrive at a decision whether or not to buy and, if to buy, where to buy.

The difference between data analytics at the daily level and the level at which it feels like rocket science is the wide and varied data sets that were not available previously. With cheap computing power, the level of data analytics possible has grown from the routine to the amazing. With the advances in computing technology, it has become easy to organize, structure and contextualize (data cleansing) these data sets, leading to raw data being turned into INFORMATION.

Every accountant has a data analytics toolkit – one example of a tool in that toolkit is the “analytical review” procedure, i.e. the process of comparing changes in account balances from one period to another, or comparing related accounts. By training, accountants have developed a keen ability to derive insights simply by analysing financial accounts. To aid such analysis, accounts are presented in a columnar format showing one period’s results to the next. If an accountant has more than two periods of data, better insights can be derived. Even better insights can be derived if the accountant has data from other sources, e.g. from a competitor company (ideally after data cleansing to make comparison meaningful), and so on. As the data sets become wider and more varied, the insights from the analysis can become better, not just as a comparison between periods or related accounts, but also in terms of new patterns of insight that were not previously observable. The more tools in the accountants’ data analytics toolkit, the better equipped the accountant is to observe patterns in data that will prove valuable – and valuable here means the ability to support good decision making in business.

Professional accountants in business (PAIBs) should be, at the very least, highly proficient in data analytics. PAIBs who are experts in data analytics will be worth their weight in gold to their employers and clients.

“Professional accountants in business should be, at the very least, highly proficient in data analytics.”

TERRY SMAGH
SENIOR VICE PRESIDENT, ASIA PACIFIC
BLACKLINE

Finance and accounting teams are still dependent on spreadsheets. A survey conducted last year by KPMG and ACCA in Hong Kong finds that financial professionals spend about two-thirds of their time on descriptive and diagnostic analytics, and only a third predicting future trends.

Many of today's accountants are therefore still knee-deep in performing transactional duties, such as entering journals and tying out reconciliations. This manual crunching of information not only makes hunting for financial variances and anomalies challenging, but also potentially creates risk in spreadsheet-centric activity.

Automating tasks and data analytics need to go hand in hand. With automation handling repetitive tasks, accountants' roles have evolved to focus on conducting strategic research and analysis.

"Automating tasks and data analytics need to go hand in hand."

Increasingly, businesses expect to obtain up-to-date reports to help inform critical decisions. This can only be done when they have greater visibility, control and transparency of their financial data. Additionally, investors today demand a more granular view of their portfolio companies' financial data and how they are performing in near real-time, in order to take necessary steps, especially in light of the current uncertainties and new challenges.

Audit analytics – Audit data analytics enables auditors to focus on what matters with immediate visuals on key indicators, period-on-period variances, benchmarks against typical thresholds, comparisons and variances around business units, accounts, products, and processes. Less time is wasted on confirming the obvious and more time on assessing relevant transaction risks in real time.

Benchmark analytics – Typically, companies compare finance and operating metrics, such as profit margin and return on assets, against same-industry and same-sized peers. Accounting benchmarking on the other hand, compares internal data with curated external data for comparative statements and provides insight into where the biggest margins are for improvement or rectification. Where necessary, businesses can adjust and manage performance targets – be it to accelerate change or improve processes.

Financial analytics – As accounting teams increasingly see more business exposure, they are expected to play a greater role in supporting decision-making and take on an active role in financial analytics – interpreting the key performance indicators like revenue, expenses, and cash flow, which are critical for business decisions. Financial analytics will enable them to have insight into the company's risk exposure with specific customers, whether capital and headcount investments are aligned with the right opportunities, or if the company has a good handle on revenue from new initiatives.

KANE WU
CO-FOUNDER AND CHIEF EXECUTIVE OFFICER,
THINKCOL TRANSFORM LIMITED,
AND AN INSTITUTE MEMBER

In this day and age, it's essential to equip oneself with more than one skill set. With skills in data analytics, accountants can better conduct their work with higher efficiency, predict and anticipate needs, and explore potential opportunities.

"Data analytics is essential to any industry as well as different levels of organization."

Traditionally, accounting is deemed as a provider of historical information. The analysis of previous year data is undertaken to perform the audit or prepare the tax return. Given the amount of raw, historical data available to them, accountants have the necessary information to understand the uniqueness of a business and anticipate its key needs. Through identifying a pattern using historical data, accountants can use past indicators to develop foresight and advise businesses on the best course of action. Their hypothesis can be supported by the data and, therefore, better visualized.

Throughout the years, there have been rapid advances in artificial intelligence (AI) and continuous advancements in computational power. No organization wants to be left behind. To reap the maximum benefits of converging the disciplines of accounting and data analytics, it's essential to not only have both data scientists and accountants in an organization, but also accountants who have a basic understanding of data analytics.

Many people who have never used data analytics techniques before fear data science. But in fact, most accountants already incorporate basic data analytics skills into their daily work, for example with the use of advanced Excel formulas. While others also utilize Excel macros as well.

Incorporating data analytics tools is not as challenging as most people think. There is software available in the market that incorporates drag-and-drop tools to make it simple for professionals to quickly learn and use. For instance, instead of using Excel to manually plot numbers, data visualization tools such as Tableau can automate the task. Other data analytics software, such as KNIME, can transform maths and numbers. These tools help to visualize, summarize and reformat data so that counterintuitive insights are easily detected.

Data analytics is essential to any industry as well as different levels of organization. My data science consultancy, ThinkCol, has witnessed the growth of many companies through promoting data analytics in the form of basic data science training for staff and the implementation of AI systems. Discovering the diamond in the rough may not be as difficult as it seems. It's time for the accounting profession to further take charge of their data and encourage the appropriate use of data analytics tools.

SUPER-CONNECTING HONG KONG

Hong Kong will soon see the launch of fifth-generation wireless technology (5G) services, prompting companies to plan out how to make the most of the higher speeds and lower latency to transform their business or expand their service offerings. Nicky Burridge finds out how companies should prepare for the changes 5G will bring

Illustrations by Ester Zirilli

Hong Kong's blistering summers make heatstroke one of the most common causes of casualties in the city, and those particularly at risk are construction workers. A mobile operator is hoping to change that and improve their safety.

In January, SmarTone launched a new solution called SmarTworks, which puts Internet of Things (IoT) sensors on safety helmets to track workers and monitor their biometrics. It monitors the hygiene, temperature and humidity of sites to ensure a healthier working environment. It also instantly alerts site supervisors if workers enter an unauthorized area, while it also sends out an emergency call if a worker suffers a sudden fall.

The solution helps to improve site efficiency through locating workers, automating attendance record-keeping and assisting managers in the real-time allocation of resources. It does so thanks to the launch of fifth-generation wireless technology – 5G – in Hong Kong.

The provision of 5G is set to usher in a new era of digital transformation, driving innovation, and enabling businesses to improve their operational efficiency, as well as creating new business models.

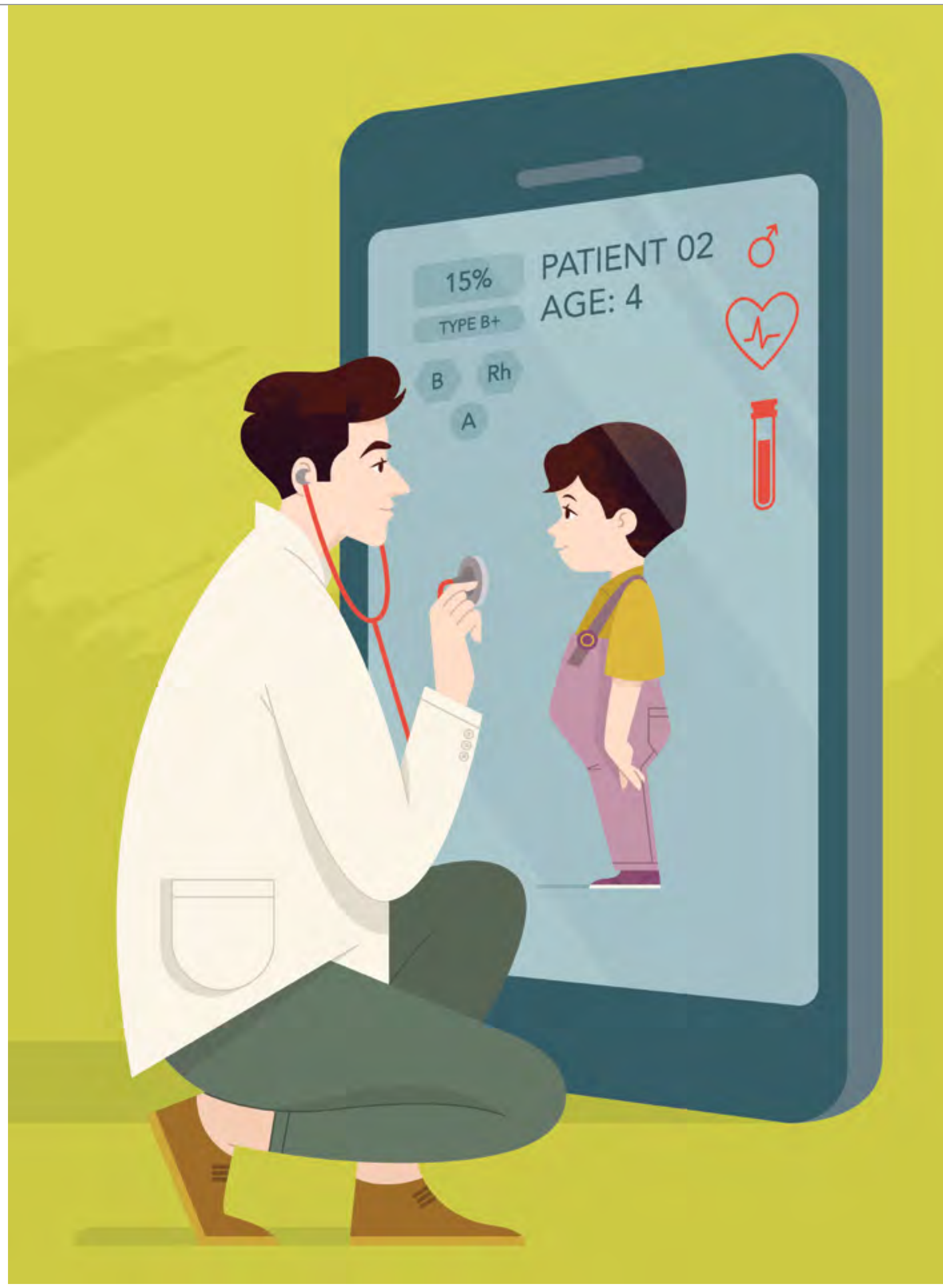
Wilson Chow, Global TMT Industry Leader at PwC, explains that 5G has three main characteristics that make it a game changer in terms of technology enablement: speed, with a range of one to 10 gigabytes per second; efficiency, enabling far higher capacity and connectivity of devices and data-sharing in an energy-efficient way; and low latency, with delays of as little as one to five milliseconds, compared with a latency of up to 15 milliseconds with 4G. "These three major characteristics enable massive machine-to-machine communication and more reliable IoT communication," he says.

While the technology has already been launched in some markets, such as in Mainland China, South Korea and the United States, the pace of the rollout is set to accelerate this year, with GSMA Intelligence, an industry organization representing mobile operators worldwide, estimating that more than a fifth of the world's markets will have launched 5G services by the end of 2020. The technology is expected to lead to US$13.2 trillion in global economic value being created by 2035, according to a January report on the impact of 5G by the World Economic Forum in collaboration with PwC.

A new era for telecoms

The Office of the Communications Authority auctioned off 200 MHz of 5G spectrum in the 3.5 GHz band to four mobile network operators in October 2019. SmarTone Mobile Communications Limited, Hong Kong Telecommunications Limited (HKT), Hutchison Telephone Company Limited and China Mobile Hong Kong Company Limited collectively paid just over HK$1 billion altogether in spectrum utilization fees.

SmarTone plans to launch its first 5G services in the second quarter, with the service initially offered in places where there is a high population flow, such as commercial areas. It expects 80 percent coverage across Hong Kong by the end of this year. HKT is aiming to launch 5G services and plans in April.



Hutchison's mobile arm, 3 Hong Kong, expects to launch them on 1 April, with indoor coverage initially limited to certain shopping malls, Hong Kong International Airport and the Hong Kong Convention and Exhibition Centre. Outdoor coverage will be focused around the business districts of Central and Admiralty, and other high traffic areas including Causeway Bay, Tsim Sha Tsui, Mong Kong and Yau Ma Tei.

Chow points out that because of the heavy capital investments mobile operators have made in the 5G network, they will need to explore new business models to cover these set-up and maintenance costs. As such, he thinks they will move on from business-to-business and business-to-consumer models to business-to-business-to-consumer ones, under which they will sell 5G services to other businesses, which will then sell them on to their own customers.

"We have been seeing a lot of telecoms operators in Hong Kong designing their own IoT solutions and smart home solutions. Through mergers and acquisitions and partnerships, they are also working with technology companies and media companies to jointly capture new services and revenue opportunities from the 5G network," he says.

Operators are already looking to expand their coverage, as well as explore new offerings to capitalize on the new service, becoming full-service providers offering streaming and gaming services. "5G is not just about price and more data; it is about how we use the data, and the unique experiences and content that we can provide to our consumers," says Susanna Hui, Group Managing Director at HKT. "While at this stage we cannot disclose details of the specific offers and our monetization models, on the consumer side, we will be working with our content media group to provide an extensive and unique content portfolio."

SmarTone, has teamed up with start-ups, including virtual car racing company Formula Square, to provide new content for customers, such as immersive virtual reality (VR) and high definition (HD) experiences, music streaming and new cloud gaming opportunities. It is also developing a range of solutions for enterprises, and alongside its construction offering, it has also trialled innovations in healthcare, including a 5G-connected ambulance that enables doctors to provide remote assistance to patients in moving vehicles, all of which are made possible by the increased connectivity of IoT that 5G enables. "In the digitalization era, more businesses in Hong Kong are proactively adopting different digital solutions not only to improve their business effectiveness and efficiency, but also to fulfil specific purposes, such as improving staff safety and well-being," SmarTone's spokesman says.

Enhanced entertainment

For consumers, the introduction of 5G will bring increased access to entertainment services, with more streaming options, including for high-end gaming, such as cloud gaming service Google Stadia and Xbox Project xCloud. The speed of 5G will enable a 1 GB file to be downloaded in less than 10 seconds.

It will also enable ultra-HD live videos, such as of sporting events, to be streamed. The viewing experience can be further enhanced through more immersive augmented reality (AR) effects. For example, HKT had planned to offer enhanced coverage of the now postponed Euro 2020 football championship, with features including immersive VR and HD experiences and 360 degree multi-angle views. The higher speeds and lower latency of the 5G network will also enable VR gaming to become a fully immersive experience as players will no longer be held back by time lags.

Accelerating digital transformation

While telecoms may be the most obvious sector that is set to benefit from 5G, the technology is also expected to drive innovation and accelerate digital transformation for other businesses.

Kenny Koo, Hutchison Telecommunications Hong Kong Holdings' Executive Director and Chief Executive Officer, says: "We expect 5G to expedite the pace of digital transformation in Hong Kong, corporate enterprises and even consumers' everyday lives by linking multiple technologies like artificial intelligence (AI), big data, video analytics, robotics, IoT, AR and VR, and autonomous driving on a single platform through technological breakthroughs, including super high speed, low latency and massive connectivity." He expects 5G to increase the use of robots in customer service, such as for unmanned concierge, campus patrol and goods deliveries, while smart property management is also likely to be accelerated by the technology.

Shashi Gowda, Associate Director, Management Consulting (Information Technology Advisory) at KPMG China, says: "5G has the potential to be up to 100 times faster than 4G. This significant increase in bandwidth performance enables a wide range of sophisticated use cases, driving market excitement," he says. "From VR to remote surgery, from drones to self-driving cars, the ability to combine massive data speeds with mobility allows for areas of innovation not possible with 4G or other wireless technologies."

He adds that 5G also enables billons of endpoints to be connected in an "everything-to-everything mode," enabling the creation of complex market solutions that are massive in scale, permanently connected and fully interactive. "Each benefit [of 5G] is significant on its own, but when these are combined with security, mobility and global network roaming, 5G enables an unparalleled level of market innovation," he says.

Based on the impact 3G and 4G had on companies, Chow at PwC expects 5G implementation for businesses to take place over five to six years. In the first two years, when 5G coverage is likely to be limited to urban and densely populated areas, he thinks the industries impacted will be smart home and security solutions, and video streaming businesses, as they embed technologies such as VR and AR to enhance content quality and user experience.

During the next two years, when the network also covers residential areas, Chow expects to see developments involving IoT, industrial automation and smart manufacturing.

In the fifth and sixth years, when the 5G network has full coverage across Hong Kong, he thinks it can modernize the city by supporting autonomous vehicles and smart city innovation.

Steve Lo, Asia-Pacific Chief Innovation Officer at EY, expects companies to leverage 5G to boost their digital capabilities in areas such as AI, autonomous operations, VR and robotics to deliver big gains in productivity. He gives the example of an insurance damage appraiser using 5G-enabled connectivity to send a large number of photographs on-the-spot from an appraisal location back to the claims team. "This will help to speed up claim processes and lower the chance of human error," he says.

Lo also expects companies to use 5G to realize the full benefits of IoT. "IoT adoption is occurring at a rapid pace, and many analysts forecast investments in IoT will double in the coming five years," he says. He expects manufacturing companies to be particular beneficiaries in this area, pointing out that IoT offers shorter machine downtime, higher product quality, predictive maintenance and more informed decision-making.

Gowda thinks the introduction of 5G will also lead to significant developments in smart city solutions. "Smart city ecosystem providers will take advantage of 5G capacity to provide always-on IoT solutions that enable an increasing range of solutions, such as smart grid and smart traffic solutions," he says. Meanwhile, SmarTone's spokesman suggests companies

"Each benefit [of 5G] is significant on its own, but when these are combined with security, mobility and global network roaming, 5G enables an unparalleled level of market innovation."

Steve Lo, Asia-Pacific Chief Innovation Officer at EY, points out that 5G adoption is likely to involve capital intensive hardware, meaning companies will need to put in place a forward-looking financial budget to ensure funds are readily available when needed. "EY's latest study shows that one out of seven businesses has already apportioned IT budget toward 5G adoption, and more than half of them have plans for deployment within two years," he says.

> **"Promised capabilities are not yet fully realized or mature... Business and market strategies, as well as early adopters of 5G technology, need to incorporate these limitations into viable business models."**

should prepare for the changes 5G will bring by looking into cross-industry collaboration with start-ups and business partners to co-create new 5G use cases.

Small- and medium-sized businesses are also set to benefit, according to Kevin Fitzgerald, Managing Director – Asia at accounting software group Xero. "Moving business operations online used to be out of reach and expensive for smaller organizations. However, with 5G as the foundation, the true benefits of cloud-based operations will be brought to light," he says. He gives the example of e-commerce sales information being seamlessly integrated with accounting and fintech software to offer business owners deeper insights that will help them to drive long-term growth.

Managing the data

Institute members who are consultants can assist companies in capturing the opportunities 5G creates by helping to analyse the vast amounts of data that will be collected. "The high performance of 5G could enable live big data analytics, allowing users of financial information to react to business intelligence faster," says Lo.

Gowda agrees: "By providing tools, frameworks and subject matter expertise to tackle customer challenges, accountants can support their clients' efforts to reduce the cost of operations, enable rapid decision-making, support new product development and market innovation, and evaluate market conditions, as well as accurately predict and forecast trends and activity."

But he cautions that 5G will take time to fully mature and accountants will need to help their clients' factor this into their business plans. "Promised capabilities are not yet fully realized or mature. For example, latency of one millisecond has not yet been demonstrated in the field. Business and market strategies, as well as early adopters of 5G technology, need to incorporate these limitations into viable business models to actualize value, return on investment and profitability," he says.

In the small- and medium-sized sector, Fitzgerald points out that the introduction of 5G to existing apps on cloud accounting platforms will give small businesses and their advisors a broader overview of the business across different functions. "Accountants can harness the high volume of real-time data by conducting short and long-term cash flow forecasting and support their clients with business planning as efficiently as possible." He adds that tax preparation and other administrative tasks can also be automated, enabling accountants to conduct more strategic, analytical work for clients.

As well as helping companies to access the new opportunities, accountants can also help them to manage the risks 5G creates. Lo points out that the widening use case scenarios that 5G enables, such as autonomous vehicles and smart health care, make network security a paramount issue. "As companies start to adopt new technologies, there is no substitute for a well implemented cybersecurity governance programme to prevent undesirable network incidents from taking place."

Data privacy and security should therefore be on top when companies build their 5G strategy, says Chow of PwC. "As accountants, we are experts in how to give assurance on systems, how to build in the proper safeguards and also monitor systems to ensure there is proper control over how the data being is captured, processed and stored," he says.

He adds that accountants can also help their clients manage the risks from disruption, pointing out that 5G will likely drive innovation and lead to new business models, which have the potential to disrupt incumbent companies. He suggests companies should aim to become disruptors themselves through embracing the emerging technology or forming partnerships with technology start-ups.

Lo expects 5G to also have an impact on accounting firms through the applicability of machine learning and AI in assisting in certain parts of their audit procedures. "5G networks are well positioned to accommodate the substantial bandwidth required for high-speed processing. These new technologies will have profound impacts on the accounting industry, and it is crucial that practitioners in the field understand the technology, adopt an open attitude and be prepared for change," he says.

by KK So

The Immediate Past Chair of the Institute's Taxation Faculty Executive Committee and Partner, Tax Services at PwC Hong Kong, on the various implications of the government's 2020-21 financial budget

A different budget for a different time

The Financial Secretary, Paul Chan, has delivered a very different 2020-21 financial budget to the usual budgets Hong Kong people have come to expect. It is different in that it proposes a record-setting HK$10,000 cash hand-out to each and every Hong Kong permanent resident aged 18 or above. It is also different in that it sets a record deficit of HK$139.1 billion for the coming year. Finally, it is different in that it heralds four more years of operating and consolidated deficits in the medium term and, perhaps, beyond.

These different measures are driven by the very different times that Hong Kong people have experienced of late, marked by the China-United States trade conflict, the local social unrest, and the impact of the COVID-19 coronavirus.

Against this backdrop, the Hong Kong Institute of CPAs (and hopefully Hong Kong people at large) generally embraces the package of stimulus and relief measures proposed in the budget and, consequentially, the deficits, while this is not without reservations.

Appropriate responses for challenging times

The HK$10,000 cash hand-out may be the signature policy of the financial secretary's stimulus and relief package of HK$120 billion – but it is not the only one. Residents will be eligible for other benefits including a tax rebate, rates waiver, an additional month social security allowance, and/or a one-month rental subsidy for public housing. However, we are certain that there are less-fortunate people out there (including the so-called "N-nothings") who may need more help from the government. In this regard, in our budget submission we proposed the government should take good care of them via the Community Care Fund.

For the business community, the package provides a range of measures including low interest loans, profits tax rebate, waiver of rates and fees, subsidies for utilities bills and concessions on rental for government properties.

These measures are in addition to the government's earlier commitment of HK$30 billion to the Anti-epidemic Fund that began operating in February.

As always, to address the dire needs of the community, time is of the essence. We would urge the government to implement the measures speedily and in an efficient manner.

Looking beyond

Aside from the short-term stimulus and relief package, Chan also proposed a raft of measures in a bid to strengthen our trade and industry in the medium- and long-term and to protect our environment, including some measures which the Institute and community have long called for. Such measures include: to establish a limited partnership regime and provide tax concession for carried interest issued by private equity funds, to waive stamp duty on exchange-traded fund transactions, and to promote electric transportation.

On the other hand, the proposed record-high budget deficit for 2020-21 and four more years of both operating and consolidated deficits have certainly raised the eyebrows of a lot of people. While we have no doubt about Hong Kong's financial health in the short term – with over HK$1.1 trillion in financial reserves – one may wonder as to whether Hong Kong is stepping onto the path leading to a structural deficit trap. It is hence incumbent on the government to address the situation before it is too late.

We would urge the government to exercise diligence in keeping its expenditure in check. However, in view of the rapidly aging population and in the interest of not compromising the quality of government services, one can only expect government expenditure to continue growing at a faster pace.

Review and progress

In response, the government should re-evaluate the long-term viability to rely on capital revenues (mainly from land sales) to subsidize its operating expenditure, and its implications for other social policies. It should also explore effective ways to increase and diversify its revenue sources. The Institute has long been advocating a holistic review of Hong Kong's tax system, after becoming concerned about the narrow tax base and the lack of a comprehensive review for over 40 years. Furthermore, the Organization for Economic Cooperation and Development's proposal to impose a global minimum tax rate only heightens the need for the review as the competitiveness of Hong Kong's tax system could be undermined. We are glad that the financial secretary has acknowledged the need for work to be done in this regard, and indicated his plan to invite scholars, experts and members of the business community to tender advice. We look forward to contributing our expertise to the consultation.

Overall, we welcome this very different budget, and believe that it is appropriate for this very different time that we find ourselves living in.

"While we have no doubt about Hong Kong's financial health in the short term... one may wonder as to whether Hong Kong is stepping onto the path leading to a structural deficit trap."

HOW TO...

by Karen Ho

The Head of Corporate and Community Sustainability at WWF Hong Kong on how companies can achieve a greener work environment

How to foster sustainability in your workplace

Hongkongers typically spend more time at the workplace than at home. A workplace that is green and encourages sustainability will not only reduce a company's carbon footprint, but also lead to more productive, healthier and happier employees.

However, promoting a greener workplace in the long-run goes beyond decorating the office with more plants, recycling paper and allowing in more natural light. It requires a proactive approach – one which involves changing the mindset of employees, engaging in more dialogue, and the accurate tracking of sustainability performance. Below are a few insights from the World Wide Fund for Nature's (WWF) business sustainability programmes to help businesses create a more sustainable workplace.

Set up a strategy

Once your organization has decided to go ahead with its green mission, it is important to put into place a strategy that aligns day-to-day work processes with your sustainability efforts.

If, for example, your aims include reducing energy usage, consider switching to energy-efficient lightbulbs, enabling power-saving features on computers and printers, using the air-conditioner responsibly and turning off lights when not in use.

If your aim is to go paperless, start by identifying how much paper is used for marketing, internal reports and mailing purposes – and how many of those can be done electronically instead. If possible, try to move all marketing and advertising campaigns online and encourage employees to cut down on printing by creating and sharing documents and admin forms electronically. While it may be impossible to stop using paper altogether, companies can take simple steps to reduce their consumption, such as by printing on both sides of paper, using scrap paper and encouraging active recycling – or improve their sustainability by ordering paper from sustainable sources, such as Forest Stewardship Council certified paper.

Form a "green team"

With your objectives and strategy in place, a green committee, consisting of a group of employees who engage in dialogue on sustainability matters, can help to promote your objectives within your organization. To promote your initiative, members of the management team and the green committee can work together to establish a green mission statement or policy for the workplace.

The team can then begin identifying the opportunities for sustainability within the business, and educate employees on sustainability by suggesting ways they can change habits both at work and at home. The team's activities could include evaluating the company's procurement to identify more sustainable alternatives, organizing green days, and encouraging staff members to recycle.

Nurture and train a sustainability mindset

To build a mindset of sustainability within the workplace, employees need to feel connected to the mission.

Your green committee can help to lead this. Through regular training and internal marketing, the team can create a feeling of individual responsibility for employees, and in turn, an environment that recognizes the importance of sustainability. Consider allocating a training budget for employees to attend seminars or conferences related to how they can each do their part at work. Training sessions don't need to take up too much time at work either. Companies can host "lunch and learn" sessions and bring in a guest speaker, share a video, or hold casual discussions to encourage employees to come up with sustainability ideas. Also, by implementing their ideas, employees are able to see an impact, feel valued and will encourage others to do the same.

Track sustainability performance

After all these steps, it's important to note that evaluating sustainability performance is no different from that of financial performance. Periodical reviews allow companies to measure effectiveness and to identify and address any gaps.

Reporting is particularly important for listed companies, as preparing an environmental, social and governance (ESG) report annually is a requirement in the listings rules of the Hong Kong Exchanges and Clearing. Most of these companies are well-aware of the performance metrics and key performance indicators in the aspects of ESG, but may view the ESG reports as a regulatory requirement and outsource the process to external consultancies to conduct stakeholder engagement, data analyses and reporting. This is a missed opportunity. The ESG report should be seen as a competitive advantage, as the company needs to embrace the sustainability mindset and apply it to the daily business.

For small- to medium-sized enterprises, the WWF's Low-carbon Office Operation Programme (LOOP) can help. LOOP is a web-based accounting tool that assists office managers in measuring and keeping track of carbon emissions generated from office activities such as electricity use (i.e. lighting and office equipment), transportation (company vehicles, how employees commute to work) and use of resources (paper and water). LOOP also helps companies reduce their overall carbon emissions through change of policy, use of innovative technology, and helping employees adapt to these changes.

Investing in a sustainable work environment comes with long-term benefits. It is important to listen to employees and stakeholders to understand how they feel about the existing activities, and engage them in brainstorming new ideas. Don't forget to celebrate when your company hits a sustainability target or a milestone. Communicating the achievement of a sustainability milestone makes a great difference in boosting morale and reinforces the seriousness in pursuing a sustainability path.

THE BEST CORPORATE GOVERNANCE AWARDS AT 20:

THE AWARDS OF CHANGE

In the first of a series commemorating the Best Corporate Governance Awards' 20th anniversary, Nicky Burridge talks to those who have witnessed Hong Kong's corporate governance landscape transform since the awards first launched. From highlighting the importance of disclosure, to focusing on sustainability, the awards have reflected the changing priorities of corporate governance and helped to shape the agenda

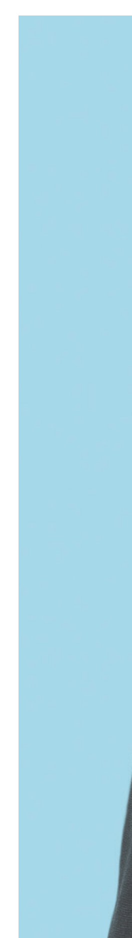
Hong Kong was already a regional leader in the area of corporate governance when the Hong Kong Institute of CPAs first set up the Best Corporate Governance Awards in 2000, albeit regional standards at that time were not highly developed. The awards, like the Institute itself, have been through name changes since. But the Hong Kong Society of Accountants, as it was known, had been active in the area of corporate governance since 1995, producing five publications on areas such as recommendations to improve corporate governance, setting up audit committees and directors' remuneration. "We were pretty much in the vanguard in Hong Kong in promoting good corporate governance," Peter Tisman, the Institute's Director of Advocacy and Practice Development, says.

Even so, he describes the corporate governance framework at the time as being "pretty rudimentary," with the Code of Best Practice, an early corporate governance code, running to only one or two pages. "There was a preponderance of family-controlled businesses, and disclosures were not particularly good in some areas. There was not much information on things like the number of board meetings held, attendances at meetings and remuneration packages," he says. Tisman adds that although the judges at the first awards described corporate governance in Hong Kong as being respectable by international standards and high by regional standards, it was felt that more needed to be done to ensure the city remained competitive as an international financial centre.

While he thinks awards on their own can never really be drivers of change, he does think the Institute's awards have helped to identify trends, support change and nudge companies and public sector organizations in the right direction. He gives the example of the Sustainability and Social Responsibility Reporting Awards, which were introduced in 2011. "There wasn't too much happening at that time, but they picked up very quickly," he says.

Changes to the awards also reflect Hong Kong's developments in the area of corporate governance, with an increased focus, and sometimes new awards, introduced over the years specifically on areas such as risk management and internal control, and the governance of Mainland enterprises. In 2016, the awards underwent a refresh, with the word "disclosure" dropped from their title. "Good disclosure has always only been one aspect of good corporate governance. In 2000, the disclosures were generally insufficient and that was the right thing to focus on," Tisman explains. "But over the years, we have emphasized that what we are looking for is a sound corporate governance culture, something that is entrenched in the DNA of the company."

To ensure the awards remain current, the organizing committee carries out a debriefing every year looking at how they can improve the awards the following year. "We are always exploring the boundaries of investor and public expectations," Tisman says.



From top left, clockwise: Nick Allen, Independent Non-Executive Director at CLP Holdings; Chris WH Chan, Professor and Associate Dean (Asia) at Ivey Business School; Peter Tisman, the Institute's Director of Advocacy and Practice Development; and Richard Lancaster, Chief Executive Officer at CLP Holdings.

Peter Tisman, Institute's Director of Advocacy and Practice Development

The growing focus of companies on corporate governance is reflected in the way the awards have expanded. In the first year, the judges looked at just 50 annual reports and there were seven winners. Last year, the judges went through more than 500 annual reports and sustainability reports, with 26 awardees. "Over the years it has become a much bigger enterprise. We are very appreciative of the time and effort contributed every year by the reviewers, judges, committee members and Institute staff who make it all work," Tisman says.

As corporate governance itself has evolved in Hong Kong, so has the role of accountants. "Accountants have been involved in advising businesses on corporate governance, risk management, and internal controls, and that has developed over the years as these areas have become more important," Tisman says.

He adds that there is now also an expectation on the profession to play an important part in the development of environmental, social and governance (ESG) reporting, particularly in terms of the quantification and analysis of ESG reporting. "There are the beginnings of a push for more standardized assurance on ESG reports, and the profession will definitely have to play a role in that," he says.

Tisman would like to see the awards become more automated, using technology to take into account a broader range of corporate communications to gain a deeper understanding of companies' underlying corporate governance and sustainability culture. He would also like to see more developments around stewardship codes and the role of institutional investors, with greater integration of corporate governance and sustainability.

But ultimately, he says he would like the awards to cease to be needed, with many listed companies and public sector organizations self-initiating all of the things that communities, investors and stakeholders want to see.

Recognizing the benefits

Chris WH Chan, Professor and Associate Dean (Asia) at Ivey Business School, and a long-standing judge of the awards, has seen companies' attitude towards corporate governance transform over the years from doing the bare minimum, to recognizing the benefits of having good practices.

He says the baseline for corporate governance in Hong Kong has improved significantly since the awards first launched. "Negative events like the Global Financial Crisis [of 2007-08] shake people up and make them do more, but I think it still comes down to how owners and senior managers see the importance of corporate governance in their whole value model," he says.

As corporate governance evolves, Chan thinks standards in Hong Kong need to reflect the higher concentration of state-owned enterprises (SOE) and family-owned companies in the city. "There are the minimum things you need to do in corporate governance, no matter whether you are an SOE, or family-owned or listed company. But at the same time, because of the different types of corporate ownership, the application of corporate governance needs to be different," he says.

For SOEs, Chan focuses on cross-enterprise loans, and the transfer and sale of state-owned assets, as well as whether the government plays an active

> **"I think it still comes down to how owners and senior managers see the importance of corporate governance in their whole value model."**

management role on the board, when judging the awards. In the case of family-owned companies, he looks at board formation, pointing out that 15 years ago, the boards of family-owned companies only needed to have three independent non-executive directors (INEDs). That has now changed with INEDs needing to make up a third of the board, although Chan would like to see their representation increased further to 50 percent.

He adds that 10 to 15 years ago, INEDs typically came from the same small pool of people, and there was a lot of crossover between INEDs on the boards of different companies. "Now, I see an improvement. You see more people who are much more independent, much more vocal and active," he says.

Another area in which Chan has seen change is transparency over the appointment of non-executive directors and INEDs, as well as greater disclosure about board meetings. "Companies report not just attendance, but also some of the topics discussed now," he says. Even so, he adds that companies still underreport on the criteria for the appointment of directors and the activity of their directors.

Chan thinks the Institute's awards have definitely helped to raise awareness of the importance of corporate governance among companies. "For them to recognize that having strong and admirable corporate governance practices actually adds value to shareholders was not an easy task, but I think we have done a lot to promote and ingrain that in a lot of companies' mindset," he says.

He thinks the awards have also created peer expectations among companies, as well as helping to influence Hong Kong's regulatory framework. He has been particularly impressed to see more medium-sized companies and even start-ups entering the awards in the past five years.

Overall, he thinks whether companies consider corporate governance to be just a compliance exercise or whether they see it as something that adds value to shareholders has a huge impact on the way they go about it. "Even today, I would say a lot of medium-sized companies in Hong Kong are still doing the minimum required by the regulator, but at the same time, over the years, the top 30 percent to 40 percent of companies are moving forward and realizing that corporate governance is something that can be good for the company."

Continuous evolution

Energy group CLP Holdings has won a Best Corporate Governance Award every year since the awards' inception. The company credits its success to its culture of continuous improvement. Richard Lancaster, Chief Executive Officer of CLP, explains that the company is constantly looking to improve its performance in every aspect of its business. "We believe that a strong, successful and sustainable company does every aspect of its business well. Whether you look at our operational performance, or our safety performance, or our financial performance, all of those contribute to the strength of the business, and corporate governance is part of that," he says.

He adds that CLP's business is underpinned by a strong set of values that influence everything it does. "In the energy industry, we are providing a social service to the community. We are very conscious that we need to be doing the right thing all the time and have a high degree of transparency,"

Chris WH Chan, Professor and Associate Dean (Asia) at Ivey Business School he says. “We have a very simple but very clear set of values: we care about people, the community, and the environment, as well as caring about business performance and making sure we are fully compliant with laws and standards.” Lancaster says these values go from the company’s Chairman, Sir Michael Kadoorie, through the board of directors and the senior management, right through the whole organization to the people who work in the front line.

He adds that CLP has put in place a strong framework for its corporate governance to ensure it is firmly embedded into the group’s culture, with both the group’s board and Audit and Risk Committee engaged in monitoring how well the group is complying with these systems.

Lancaster points out that corporate governance itself has evolved in the 20 years since the Institute’s awards were first launched in response to both changes in the business environment and in stakeholders’ perceptions of businesses. Like many businesses, CLP is also facing big strategic challenges, such as climate change. He says this has created changing societal expectations on businesses and has led to increased interest in the ESG aspects of companies. “I think we have been able to position ourselves as being in front of the wave because we have a strong corporate governance framework, a strong culture, and because we take it seriously.

“The biggest benefit CLP has seen from its focus on corporate governance is the level of trust it has enabled to build up and maintain with the company’s stakeholders,” Lancaster says. “Our whole approach to corporate governance, the transparency, and the seriousness with which we take it, has all helped to maintain trust.”

Lancaster also stresses the importance of communicating changes to CLP’s corporate governance policies to its stakeholders, who include investors, its customers, suppliers and partners, as well as its own staff. “When you are evolving, improving and refining your corporate governance systems, sometimes people just see it as a box-ticking exercise without necessarily understanding the real inherent value. The communication and maintaining that alignment with stakeholders has been the biggest challenge.”

Going forward, he says, CLP will continue to focus on its ESG reporting, which it has been strengthening in recent years. The group is also entering a period in which some of its long-serving directors will step down. “We have just changed our board diversity policy in the last year and we are using an external search process to bring in new directors, so that we can continue to have a very strong and diverse board in the years ahead,” he says.

He adds that the benefit the company gains from consistently winning the Institute’s Best Corporate Governance Awards is twofold. “Firstly, it’s a great motivator for our employees and helps reinforce the culture we have to ‘always do the right thing.’ Secondly, it brings external validation to our high corporate governance standards which helps maintain the trust of our stakeholders.”

The company’s conscience

Nick Allen, a long standing Independent Non-Executive Director at CLP Holdings, thinks INEDs have an important role to play in strengthening corporate

“Our whole approach to corporate governance, the transparency, and the seriousness with which we take it, has all helped to maintain trust.”

Richard Lancaster, Chief Executive Officer at CLP Holdings

Nick Allen, Independent Non-Executive Director at CLP Holdings (second from left)

governance and board oversight. "At one level, one can look at the INEDs as a sort of conscience of the company. I think bringing in independent views means that management of the company has to take a broader view of issues than they might do if managing a private company," he says.

Allen also thinks strong corporate governance only really develops when companies put a major focus on it, something he says the electric company has always done. During the 10 years that he has been on the board, he has seen an evolution in this focus, with an increased emphasis put on climate change.

The Sustainability Committee, on which Allen sits, has also taken on a more prominent role, looking at both longer-term sustainability issues, as well as taking a shorter-term tactical view on investments. Other changes include the company putting more resources into communicating with its stakeholders, not only in terms of annual reporting and its annual general meeting, but also arranging more than 50 shareholder visits to one of its facilities every year, hosted by a member of the management team or an INED.

The role of INEDs has also evolved, with CLP's Human Resources and Remuneration Committee, and Nomination Committee now chaired by Allen. "I joined the board primarily because of my financial background, and I was seen to have an important role to play on the audit committee. "But now I chair both the nomination and the human resources committees, while I sit on the sustainability and the finance and investment committees, so I have a much broader role within the organization," Allen says.

He points out that the culture around independent directors has grown significantly in the past 20 years, with INEDs now receiving a lot more training. There have also been a number of regulatory developments, such as the Securities and Futures Ordinance on corporate disclosure, which Allen says means INEDs must be cognisant of what their responsibilities are. "We have the continuing updating of the ESG listing rules. Another example is that most boards will be thinking about what public announcements they should be making to the market about the impact of the coronavirus, so I think the external pressures have increased."

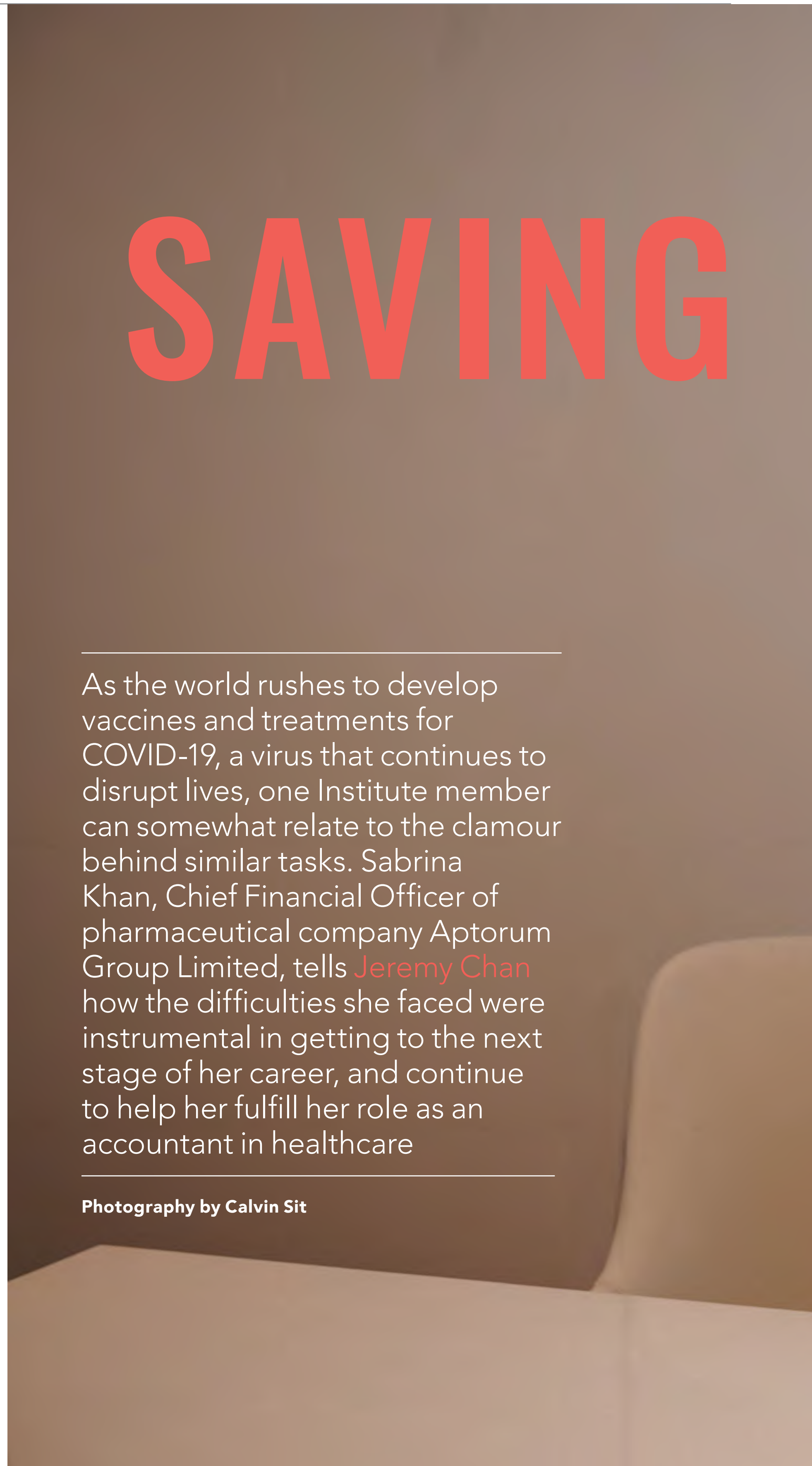
Allen believes it is important for companies to have a blend of INEDs from different backgrounds on their boards. "A lot INEDs, and I am one of them, tend to come from professional backgrounds, whether they are lawyers or accountants. It is important on boards to have both industry expertise, and entrepreneurial talents with experience of actually running businesses, because you will get different reactions from that INEDs group in different circumstances," he says.

He adds that one of the biggest challenges of his role as an INED is balancing the need to act as an important oversight of the statute of governance and the operations of the business, while not acting as a drag on its speed and efficiency.

What constitutes good corporate governance is constantly changing, and companies that want to be leaders in this area must remain agile and respond to the evolving demands of their stakeholders. While Hong Kong has come a long way in the past 20 years, there is still more to be done, as businesses face an increasingly complex and challenging environment.

Look out for the second part of the BCGA at 20 series in the June 2020 issue of A Plus.

The Institute's Best Corporate Governance Awards launched in 2000, when there were only three categories, in which diamond, platinum and gold awards, could be given out, with overall one grand award. In 2019, the awards had grown to include six main categories, Sustainability and Social Responsibility Reporting Awards, Self-Nomination Awards, and website corporate governance information commendations, amounting to over 40 possible awards.



SAVING

As the world rushes to develop vaccines and treatments for COVID-19, a virus that continues to disrupt lives, one Institute member can somewhat relate to the clamour behind similar tasks. Sabrina Khan, Chief Financial Officer of pharmaceutical company Aptorum Group Limited, tells Jeremy Chan how the difficulties she faced were instrumental in getting to the next stage of her career, and continue to help her fulfill her role as an accountant in healthcare

Photography by Calvin Sit

Sabrina Khan considers her foray into accounting to be the most fortuitous mistake she has ever made. Having just completed secondary school, she was determined to study marketing. But on the first day of university at the University of Hong Kong (HKU), she realized she had accidentally filled in the incorrect course code in the university application form – a course code to study accounting and finance. Instead of being disappointed, she decided to test the waters. She ended up enjoying what she learned. "I spoke to my mum and said 'actually accounting isn't that bad,'" remembers Khan.

Today, she is the Chief Financial Officer of Aptorum Group Limited and a member of the Hong Kong Institute of CPAs. Aptorum is a Hong Kong-based pharmaceutical company specializing in the acquisition, development and commercialization of novel drugs that tackle viruses and chronic diseases. The company focuses on developing drugs for unmet medical needs, such as diseases that are difficult to treat, resistant to antibiotics or have no cure. This includes forms of cancer, antibiotic-resistant diseases such as MRSA, pathogens such as influenza, and disorders such as endometriosis, a chronic and incurable condition only affecting women. In addition to drug products, the company is also involved in the development of medical and surgical robotics.

Since its founding in 2016, the company has quickly grown. It obtained licenses from educational institutions such as HKU, Chinese University of Hong Kong and Hong Kong Polytechnic University to develop therapeutic drugs. In 2018, it opened its first research and development (R&D) centre at Hong Kong Science Park. It also launched its own clinic, Talem Medical, to focus on the treatment of chronic diseases. At the end of 2018, the company went public on Nasdaq.

LIVES


Sabrina Khan is Chief Financial Officer of Aptorum Group Limited. She's in charge of managing the company's finances and raising capital to fund drug development research.

Khan joined Aptorum in 2017 as CFO. She is mainly in charge of the company's finances, implementing internal controls and managing regulatory submissions in Hong Kong and the United States.

She says the company's main source of revenue stems from the commercialization of therapeutic products. "All R&D payments need to go through various reviews and must be approved by the R&D department, project owners and also the finance team," says Khan.

She keeps costs under control through careful budgeting. "We have monthly budget and progress reports to closely monitor payments and to also ensure expenses are within budget. If we notice any deviations in terms of spending or progress, we need to communicate this with the project owners and alert management in advance."

As CFO, she is also responsible for raising capital to fund the company's R&D operations.

One of them is its new subsidiary group, Smart Pharma, which was established in 2019. The group makes use of Smart-ACT, a specially-designed platform used to screen over 2,600 existing drugs approved by the U.S. Food and Drug Administration (FDA) to determine whether they can treat orphan diseases that affect a small percentage of the population. "We discover and repurpose drugs that can treat these orphan diseases, of which 90 percent do not have effective treatment," explains Khan. "Our aim with Smart-ACT is to generate three to five repurposed drugs annually that can reach phase two clinical trials, which involves testing of the drug in small doses on humans, for further development, out-licensing and co-development with major pharmaceutical companies."

The use of existing drugs, enables the R&D team to skip the first phase of drug testing, which involves lengthy toxicology tests. "We can shorten drug development from more than 10 years to three to four years. In some cases, we can cut the total cost of development by up to 90 percent," Khan says.

So far, the company has been able to identify three drugs, one of which might be able to treat neuroblastoma, a rare form of cancer that develops from nerve cells called neuroblasts. It is the most common cancer in infants and the third-most common cancer in children after leukemia and brain cancer. Sufferers have a life expectancy of around two years. "We've just discovered a drug that can tackle it," she says, adding how the team expects to reach phase two in clinical trials in the second half of this year.

Being part of a discovery like this brings a deep level of job satisfaction to Khan. "I'm not a doctor nor a scientist, and can't physically develop treatments to save lives. But as an accountant, I can use my expertise in finance to raise capital for the company's research," she says. "I feel like I'm saving lives in that sense."

In light of the COVID-19 pandemic, Aptorum is on the hunt for promising drug candidates. On 30 March, the company announced the launch of another R&D project specifically targeting the coronavirus. It has used its platform Smart-ACT to complete initial screening and identified three potential drug candidates that could fight the virus, of which there is currently no available cure or vaccine. It is collaborating with Covar Pharmaceuticals, a Toronto-based pharmaceutical development solutions company, and also entered into agreements with HKU's Microbiology Department to conduct further preclinical investigations of those selected drug candidates.

> **"I'm not a doctor nor a scientist, and can't physically develop treatments to save lives. But as an accountant, I can use my expertise in finance to raise capital for the company's research."**

The company hopes to soon seek approval from regulatory agencies to initiate clinical trials on suitable candidates. "All pharmaceutical companies are working to develop a vaccine," Khan says. Though it will take time to slow the spread of the virus, she adds how each individual must do their part in the meantime. "The virus won't completely go away. It might simply become a flu that regularly comes," she explains. "Hong Kong has been able to control the outbreak rather well – especially after SARS in 2003 – but we need to stay alert and continue practicing good hygiene such as by regularly washing our hands and following guidelines issued by the World Health Organization."

Khan says the team looks forward to furthering their research with their second R&D centre, which the company purchased property for in 2018. "Our current R&D centre is focused on drug development. We hope to expand our development work under the Smart-ACT platform and in infectious diseases with the new R&D centre and use it to strategically deliver our clinical assets going forward," she says.

In April 2019, Aptorum signed a US$90 million agreement with Accelerate Technologies, a Singapore-based technology agency, to expand its reach beyond Hong Kong and create up to 20 deep tech start-ups in Singapore's healthcare and life sciences sector over the next five years. The start-ups will leverage the technologies co-developed by Aptorum and Accelerate. Both companies will also support the start-ups' growth by connecting them to relevant market partners and clients through their global network.

Khan graduated from the University of Hong Kong with a bachelor of accounting and finance. She began her career at EY.

Lessons in listings

After graduating, she began her career at EY, and it was there she received her CPA qualification. She then took on the role of senior finance manager at Global Cord Blood Corporation in 2009. Formally known as China Cord Blood Corporation, the life sciences enterprise specializes in the storage of umbilical cord blood stem cells via cryopreservation to treat genetic disorders. "When I first joined China Cord Blood, I was like any other accountant," she says. "Aside from the training I received from the Big Four, I didn't know much about the commercial world."

The CFO of China Cord Blood at the time took note of Khan's rapid progress, and assigned her a more daunting challenge – helping the company to list on the New York Stock Exchange (NYSE). She was surprised, but determined. She worked on the project with the CFO, and the experience ultimately taught her how to list. "I was involved in the whole process from start to finish – from reviewing the financial and business agreements to writing the prospectus. It was an opportunity to learn," she says.

This golden opportunity also demanded a new level of work ethic from Khan. "There were many instances where I would work from nine in the morning until the very next morning," she says. "I had to draft the documents and carefully read every single sheet of paper." Because it was her first time working on a listing, she was committed to doing a good job and not let the CFO down. By observing and following his advice throughout the process, she took careful note of how the CFO led them both through the process. "He was very patient," she says. There were times Khan wasn't sure whether they would meet the deadline, but the CFO's encouragement and professionalism kept Khan motivated. "He was also understanding, and that made me want to put in all my effort. I would say he influenced me a lot." Through their combined efforts, the company eventually went public on NYSE at the end of 2009.

Khan says that the listing experience also taught her the importance of motivating a team during tough times. "Every team needs to work long hours when it comes to completing an initial public offering (IPO)," she says. "You need to know how to motivate them to put in the work – and often, the long hours – in order to wholeheartedly complete a task. It's an art."

Her four years at the company also inspired her interest in healthcare. "I began learning about how umbilical cord blood stem cells are stored and how they help to treat critical illnesses in patients," she says. "I found it very interesting."

Theory in practice

After Global Cord Blood Corporation, Khan joined medical aesthetic group Neo Derm Group Limited in 2013, where she worked for three years. She then worked at wealth management business St. James' Place Wealth Management – Asia in 2016, for a year.

When Khan joined Aptorum, the company was considering its listing. Though it had already been eight years since her last and first ever listing, her experience working on a U.S. IPO gave her the courage to take on the assignment, despite the list of things to do. "We had to manage the company secretary matters, undertake the financial reporting, set up the internal controls, prepare the prospectus and even build the website. All these things were part of the IPO requirements," says Khan.

Khan's second IPO experience taught her the importance of managing people. As a newcomer, she first had to win the team's trust. "It's very difficult to drive a team just using your title, and the effort of one individual isn't enough to complete an IPO. They need to be willing to work with you as well as for the best interest of the company, so our goals must be aligned. It involves a collective effort from a united team," she says. "At Aptorum, this includes all teams – the R&D, finance, back office and human resources teams. Everybody has to play their role." Khan says the team was able to align those goals through frequent meetings involving all departments, according to Khan. "The best way to do this was by sharing ideas. We had regular meetings to discuss updates and learn from one another," she says. In December 2018, the company completed its listing on Nasdaq. It raised upwards of US$12 million from the listing. As Khan remembers, time was on their side. "This all happened a few days before the U.S. federal government shut down for more than a month."

Sound advice

Khan attributes her expertise to the challenges she had overcome over the course of her career, even from her early years. "After graduating, I received an offer from the Big Four and trained as an auditor. Training was tough," she says. "There were weeks where I worked 16-hour days and at times, I wanted to give up."

Though she notes it wasn't her plan to become an accountant from the beginning, she saw merit in the profession, and felt fulfilled in being able to apply what she learned. "Back in university, we learned about debit and credit. But I had no idea *why* we were learning about it," she says. "At the Big Four, I was exposed to different companies and projects and could physically deal with a set of accounting records in front of me. I started to really learn and understand what accounting truly is."

Though times can be challenging for young professional accountants in practice, Khan advises them to learn from the experience. "As an auditor, you have access to clients' financial records, and this helps you to understand the full operations of a company, even across different industries, in a short period of time. You might not get the same knowledge and exposure if you were an in-house accountant," she says.

> "My knowledge today didn't come from school – it came from my time at the Big Four and from subsequent work experiences."

"I always tell my team 'if you're young and you have the ability, try to learn, and take up as many assignments as you can,'" she says. "I know it's tough – many of my colleagues gave up after the first few years. My knowledge today didn't come from school – it came from my time at the Big Four and from subsequent work experiences. Without all this training, I don't think I'd be the CFO of a listed company today."

However, Khan also stresses the importance of mental health and reminds accountants to take a deep breath once in a while. "When you find yourself stressed out, don't forget to take a break," she says. "Walk outside the office and take the time to recharge." Indeed, when Khan isn't busy at work, she is busy recharging with her dogs. She has three puppies. "I've got two Pomeranians and one miniature schnauzer – they occupy all my free time," she laughs. "They're all around a year old and still very active so that keeps me busy at home. They're always so much fun to be around."

She looks forward to seeing Aptorum grow, and growing alongside them. "We hope to transition from a preclinical stage company to a full-fledged clinical stage company in 2020," she says. "I'm very excited to be part of this growing team."

Welcome

Hong Kong's
CPA Qualification
香港會計師專業資格

QP Graduates – December 2019 Session

The Institute is pleased to announce that 574 QP candidates successfully completed the Qualification Programme in the December 2019 Session. The list of graduates is as below.

AU YEUNG, Hang Kwan
AU YEUNG, Man Ting Vivian
AU, Wai Man
AU-YEUNG, Florence
CAI LEE, Anne Lucia
CHAK, Yuen Ting
CHAN, Wai Ming Carmen
CHAN, Cheong Tai Kevin
CHAN, Cheung Ching
CHAN, Chi Wang
CHAN, Chin Kwan
CHAN, Choi Fong
CHAN, Christie Man-see
CHAN, Chui Man
CHAN, Hiu Lok
CHAN, Hiu Man
CHAN, Hiu Ying
CHAN, Ho Hin
CHAN, Ho Lun
CHAN, Ho Ying
CHAN, Jennileen Wong
CHAN, Ka Cheung
CHAN, Kai Yin
CHAN, King Shan
CHAN, Kingsley Cheong Chun
CHAN, Kwan Sim
CHAN, Kwok Ho
CHAN, Lai Shan
CHAN, Lok Yee Lilian
CHAN, Na Ching
CHAN, Pak Hong
CHAN, Pak Lun Byron
CHAN, Pansy Pui Hei
CHAN, Pui Pui
CHAN, Rachel
CHAN, Shue Kiu Arthur
CHAN, Siu Tak
CHAN, Siu Wai
CHAN, Stephanie Wai Chee
CHAN, Sze Chai
CHAN, Sze Wing Rayna
CHAN, Ting Ting
CHAN, Tsz Cheung
CHAN, Tsz Ching
CHAN, Tsz Long Angus
CHAN, Tsz Ping
CHAN, Wai Kiu
CHAN, Wai Kwan

CHAN, Wing Ting
CHAN, Wun Kei
CHAN, Yan Ting
CHAN, Yau Yin
CHAN, Yee Ting
CHAN, Yin Lam
CHAN, Yu Chung
CHAN, Yuk Chi
CHANG, Michael Jing Ka
CHANG, Ting Wai
CHAO, Xinya
CHAU, Alex Chun Nang
CHAU, Andis Tsun Hei
CHAU, Cheuk Chi
CHAU, Hoi Ying
CHAU, Ki Shing
CHAU, Tsz Ching
CHEN, Ruoyao
CHEN, Xin
CHEN, Yechong
CHEN, Yin
CHEN, Yingxuan
CHEN, Zhiming
CHENG, Chun Yin
CHENG, Hiu Lee
CHENG, Ho Chun
CHENG, Kit Ting
CHENG, Lok Him
CHENG, Po Ki
CHENG, Sze Wing
CHENG, Wing Lam
CHENG, Yi Ching
CHENG, Yiu Kuen
CHENG, Yuen Shan
CHEUK, Ting
CHEUNG, Cheuk Ching
CHEUNG, Chin Hang
CHEUNG, Edwina Jane
CHEUNG, Hiu Kiu
CHEUNG, Ho Man
CHEUNG, Ho Yin Thomas
CHEUNG, Ka Ki
CHEUNG, Kai Cho
CHEUNG, King Wai Sophie
CHEUNG, Ling Sin
CHEUNG, Lok Hang
CHEUNG, Man Sze Alison
CHEUNG, Pui See

CHEUNG, Sui Man
CHEUNG, Wai Yin Clement
CHEUNG, Yam Sing
CHEUNG, Yu On Andy
CHEUNG, Yuen Man
CHIANG, Chieh Ning
CHIEN, Jun Rong Stephanie
CHIU, Chun Fung
CHIU, Chun Po
CHIU, Hei Yiu
CHIU, Ka Yan
CHIU, Lok Tung Vivien
CHOI, Boh Lun Alan
CHOI, Ming Yee Crystal
CHOI, Pik Wan
CHONG, Hoi Ki
CHONG, Ka Hung
CHONG, Ting Kwan
CHONG, Wing Yee
CHOW, Ho Hen
CHOW, Shun Man
CHOW, Sik Wang
CHOY, Wut Luen Lilian
CHU, Ho Yan Gwyneth
CHU, Pui Man
CHU, Sze Wing
CHU, Wenrong
CHU, Wing Hei
CHU, Ying Tak
CHUI, Ka Chun
CHUI, Ka Lung
CHUI, Kwok Fai
CHUNG, Cheryl
CHUNG, Cho Man
CHUNG, Choi Wai
CHUNG, Wai Yin
CHUNG, Wing Yin
DAI, Jiahui
DING, Xiaoman
DONG, Shengnan
FAN, Ching Wan
FAN, Juan
FAN, Wing Sze
FONG, Shu Keung
FONG, Suet Yee
FONG, Yin Yu
FU, Wai Shan
FUNG, Hiu Nam

FUNG, Hiu Wai Beatrice
FUNG, Ho Man
FUNG, Ka Fung
FUNG, Yat Lai
FUNG, Yuk Yiu
GAO, Jingyi
GAO, Yuan
GOH, Xin Ying
GOO, Soyeon
GUO, Haoyang
HAU, Ka Fook
HO, Carver
HO, Chien Ying Christy
HO, Ching Hang
HO, Ka Fai
HO, Ka Yan Brian
HO, Ka Yee
HO, Kai Po Sharon
HO, Kar Yan Teresa
HO, Lai Chun
HO, Lok Man
HO, Man Yin
HO, Sheung Him
HO, Sze Ki
HO, Tak Kin
HO, Wai Tung Nellie
HO, William Hoo Ming
HO, Wing Shan
HON, Wai Kei
HONG, Hiu Ching
HONG, Xi
HONG, Yinbing
HONG, Yining
HOU, Wen
HU, Liyang
HUANG, Huiyu
HUANG, Wenjia
HUANG, Xiya
HUI, Dek Tai
HUI, Nga Ki
HUI, Nga Yan
HUI, Ying
HUNG, Cho Lap
HUNG, Wan Lam
HUNG, Wing Ki
IP, Ka Yee
IP, Sen
JIANG, Yutong

JIAO, Yiwei
JIN, Wanchen
KAM, Hiu Tung
KAN, Wing Hei Timothy
KANAKKAPILLAI NISAR, Ashfaaq Ahamed
KEI, Ka Hung
KO, Chi Wing
KO, Ka Yi
KONG, Cheuk Nam
KU, Ka Yeung
KUNG, Kelvin Bing Kin
KUNG, Shuk Man Jenny
KWAN, Lai Ying
KWAN, Lok Hang
KWAN, Tsun Yuen
KWAN, Wing Yan
KWAN, Yui Hang
KWOK, Po Lee
KWONG, Chi Yan
KWONG, Hei Tung
KWONG, Wai Man
LAI, Ka Wai Karen
LAM, Anna
LAM, Cheuk Yuk
LAM, Hin Long
LAM, Hiu Ching Isabella
LAM, Hiu Yan
LAM, Ho Yan
LAM, Hong Wah
LAM, Ka Sin
LAM, Kenny
LAM, Ki Fung
LAM, Koon Ho Justin
LAM, Man Yuk
LAM, Mei Ling
LAM, Nang Tat
LAM, Nga Yan
LAM, Pak Hin
LAM, Shi Ho
LAM, Sze Yan
LAM, Sze Ying
LAM, Sze Yui Adrian
LAM, To
LAM, Wai Fung
LAM, Wing Sze
LAM, Wing Yiu
LAM, Yu Heng James

LAM, Yuk Ki Bridget
LAU, Cheuk Nam
LAU, Cheuk Yiu Natalie
LAU, Chung Tai
LAU, Hoi Lun
LAU, Hoi Tung
LAU, Ka Lai
LAU, Ka Man
LAU, Kwai Na
LAU, Lai Tung
LAU, Tsz Chun
LAU, Wing Hong
LAU, Wing Kwan
LEE, Chak Tung
LEE, Chloe
LEE, Chun Yin
LEE, Hiu Ying
LEE, Hong
LEE, Man Shan
LEE, Man Yi Vivien
LEE, Ting Ting
LEE, Wing Yan
LEE, Yau Tung
LEUNG, Cheuk Kwan
LEUNG, Chun Ming
LEUNG, Hin Yeung
LEUNG, Hiu Tung
LEUNG, Hoi Ching
LEUNG, Ka Chung
LEUNG, Ka Yan
LEUNG, Ka Yin
LEUNG, Kam Yan Teresa
LEUNG, Ki Ming
LEUNG, Kin Ling
LEUNG, King Nam
LEUNG, Ngo Yin
LEUNG, Tsz Kei
LEUNG, Wing Fai
LEUNG, Wing Hong
LEUNG, Wing Tung
LEUNG, Yee Hung
LEUNG, Yu Hin Brian
LEUNG, Yuen Shan
LI, Chi Leung
LI, Chi Sum
LI, Hiu Ying
LI, Hoi Fai
LI, Ka Chun

to Success

LI, Man Ting
LI, Pang Ching
LI, Peitong
LI, Ruochen
LI, Shuk Yung
LI, Wing Shan
LI, Xiangwen
LI, Yan
LI, Yik Wai
LI, Yiyang
LIANG, Ian Li Hsien
LIN, Tsz Yan
LIN, Xiaoying
LIU, Chi Hoi Benson
LIU, Hoi Yee
LIU, Sum Lo
LIU, Tze Ying
LIU, Wai Leung
LIU, Yang
LIU, Yuen Tung
LIU, Yun Ning
LO, Chi Wing
LO, Chun Yin Anson
LO, Hei Yin
LO, Kwok Chun
LO, Wai Ki
LO, Wai Lok Wallace
LO, Yuen Man
LOK, Hei Tung
LU, Yuling
LUEN, Pui Ying
LUI, Hiu Man
LUI, Jennifer I Shan
LUI, Wai Man
LUI, Wing Yan
LUI, Yuen Wing
LUK, Wing Laam
MA, Ching Ting
MA, Congying
MA, Kin Lok Mathew
MA, Siu Ki
MA, Yan Kit
MAI, Junpeng
MAK, Cheuk Ying
MAK, Ho Ching
MAK, Man Ting
MAK, Tung Ching Eileen
MAN, Chun Hung
MAN, Hiu Fung
MEI, Di
MENG, Yu
MENG, Ziqing
MO, Yuen Yu
MOK, Bertus Wik Hin
MOK, Ka Yi
MOK, Yuen Ying
MUI, Cherlane
NG, Cheuk Kwan
NG, Cheuk Ying Cherry
NG, Chun Hei
NG, Fung Ki
NG, Janice Kai Yun
NG, Ka Ki
NG, Karen Pui-sin
NG, Karl Wing Rainbow
NG, Kit Ying Anita
NG, Oi Ting
NG, Serena Yin-ling
NG, Wai Yi
NG, Wing Kwong
NG, Yat Fung
NG, Yin Lam Kelvin
NG, Yu Yeung
NG, Yuen Wa
NI, Wei
OR, Ho Wing
PANG, Chiu Lun
PANG, Wai Hin
PENG, Hui
PHEN, Hok Hei
POON, Sum Yuen Michael
PUN, Hiu Tung
QI, Yang
QIU, Xiaolei
REN, Fang
SHEN, Jiabin
SHEN, Qian
SHEN, Roujun
SHEN, Yijun
SHI, Geng
SHI, Mingyi
SHI, Pian
SHIU, Hoi Yin
SIN, Ting Fung
SIU, Lai Kwan
SIU, Yik Tong Nicky
SIU, Yiu Chau
SO, Ngan Chu
SO, Ngan Ying Stephanie
SO, Wai Ka Jamie
SONG, Yanyan
SU, Qiyang
SU, Wandong
SUN, Sifan
SZE, Ho Chun
SZE, Ka Yu
SZE, Ronald
SZE, Wai Chun
SZE-TO, Yee Ting
TAI, Lai Yee
TAM, Jit Hei
TAM, Sze Wan
TANG, Ho Chun Alan
TANG, Ho Yan
TANG, Hon Chui
TANG, Jade Alicia Yu
TANG, Kin Lok Geoffrey
TANG, Kit Yan
TANG, Meiying
TANG, Tianyi
TANG, Yiu On
TANJUNG, Stephanie
TAO, Ching Yee
TENG, Chun Ting Michael
THEODORA, Sherryl
TIAN, Qingqing
TIAN, Shijia
TO, Pui Yi
TONG, Jonathan Chun Nam
TONG, Lai Wa
TONG, Po Fan
TONG, Wai Man
TSAI, Siu Ping
TSANG, Hing Kin
TSANG, Hiu Tung
TSANG, Huen
TSANG, Tsz Nga
TSANG, Wing Kei
TSANG, Yin Yu
TSANG, Yue Hin
TSE, Hiu Wing
TSE, Ho Chuen
TSE, Howe
TSE, Man Wai
TSE, Shan Shan
TSE, Yu Fung
TSE, Yu Hang
TSIM, Wai Sum
TSOI, Huen
TSOI, Shan Shan
TSUI, Shun Cheung
TUNG, Man Chun
WAN, Ka Hei
WAN, Po Yu
WAN, Yiu Tak
WANG, Fang
WANG, Ruonan
WANG, Wenqian
WANG, Xiaohan
WANG, Yujia
WANG, Yuyan
WANG, Zixuan
WENG, Cong
WONG, Alan
WONG, Chak Yung
WONG, Cheuk Lun
WONG, Chi Hay
WONG, Chi Long
WONG, Chin Fai Frankie
WONG, Chun Ho Andrew
WONG, Hang Lan
WONG, Hau Chi
WONG, Hiu Hing
WONG, Hoi Ki June
WONG, Hoi Ning
WONG, Jia Xiang
WONG, Justin James
WONG, Ka Chun
WONG, Ka Chun
WONG, Ka Chun
WONG, Ka Kit
WONG, Ka Yi Jessica
WONG, Ka Yik
WONG, Kam Fa
WONG, Karen Ka Lin
WONG, Kin Wai
WONG, King Ho
WONG, Lai Tung
WONG, Ming Yu
WONG, Pak Wai
WONG, Petra
WONG, Rui Zhi
WONG, Sin Hung
WONG, Sin Tung
WONG, So Fun
WONG, Tik Hong
WONG, Tsz Ki Kristy
WONG, Tsz Yan
WONG, Tsz Ying
WONG, Wai Sze
WONG, Wing Yi
WONG, Yuk Yi
WU, Bo
WU, Cheuk Yu
WU, Hiu Ying
WU, Hoi Ying
WU, Ka Ho
WU, Linheng
WU, Miu Wan
WU, Ryan
WU, Siqi
WU, Yi Man
XIA, Jia
XIA, Yunran
XIE, Yuanyue
XIONG, Yueran
XU, Chenmin
XU, Di
XU, Jiayuan
XU, Jie
XU, Xiaoyu
XUE, Ao
YAM, Ho Lam
YAM, Tsz Kwan
YANG, Mengqi
YANG, Shutong
YANG, Yun
YAO, Jie
YAO, Leung Yu
YAU, Chi Ho
YE, Mengying
YE, Zixin
YEE, Wing Leung Kian
YEUNG, Chee Wing
YEUNG, Chi Hin
YEUNG, Chui Ying, Elaine
YEUNG, Hoi Kit
YEUNG, Janet Hilton
YEUNG, Ka Chun
YEUNG, Ka Yee
YEUNG, Lok Yee Vanessa
YEUNG, Po Yee
YEUNG, Pui Yan
YICK, Tsz Yan
YIM, Cheuk Fung
YIM, Harrison Chun Fung
YIM, Hoi Ling
YIP, Nga Wing
YIP, Ting Fung
YIU, Wai Man
YU, Haiyan
YU, Ming Jun Timothy
YU, Miu Sze
YU, Rong
YU, Tsz Ki
YUAN, Lei
YUAN, Yating
YUEN, Ching Yee
YUEN, Hei Man
YUEN, Hok Kun
YUEN, Wai Keung
YUEN, Wing Ting
YUNG, Chung Man
YUNG, Wai Hung
YUNG, Wai Man
ZENG, Qianjiao
ZHANG, Boya
ZHANG, Jiali
ZHANG, Kan
ZHANG, Ling
ZHANG, Ruochen
ZHANG, Wei
ZHANG, Weijie
ZHANG, Xinyi
ZHAO, Jiawei
ZHAO, Shuchun
ZHAO, Yifan
ZHENG, Siqi
ZHENG, Yimo
ZHOU, Lidan
ZHOU, Wei Shu
ZHOU, Xiaoluan
ZHU, Yan
ZHU, Yiyi
ZHU, Yulin
ZHU, Zhihao
ZOU, Mengtong

Congratulations to the graduates of the Hong Kong Institute of CPAs' Qualification Programme. Under the guidance of experienced CPAs, these graduates are on their way to joining the world's most prestigious accounting professionals. And they've taken the first big step towards becoming one of Hong Kong's success ingredients.

The unsettled area in valuation: the DLOM to a controlling interest

Performing valuations is growing more complex. Ferry Choy's e-series on valuations for mergers and acquisitions will help accountants to understand the challenges and requirements that come with performing valuations under different contexts

Ferry Choy is the Managing Director of Flagship Appraisals and Consulting Limited. He has worked in the accounting and the valuation professions for over 12 years, 10 years of which were spent in valuation profession with the first two years with Sallmanns and five years with Greater China Appraisals. He is also a CFA Charterholder and an International Certified Valuation Specialist.

One of the factors to be considered in a valuation is marketability discount. As valuation analysts, we often have to value a controlling interest both in private and publicly-traded companies. In working through a valuation project, the following question will eventually come up during the concluding step: Should we apply a discount for lack of marketability (DLOM) for a controlling interest?

Before this step, valuations undertaken through commonly-used methodologies (e.g. cost approach, market approach, and income approach) with the same sets of comparable companies or forecasts will likely yield similar results. Why? Because most of the calculating steps in these methodologies have already been defined as a valuation base, or in other words, standardized. Yet, a DLOM applied to a controlling interest appears to be the only area that has never received standard guidance.

Without guidance, the application of a DLOM is up to the analyst, or the practice of the company. Typically, analysts will only apply five to 20 percent of DLOM for controlling interest. Many analysts do not apply a DLOM, especially when valuing a 100 percent controlling interest. Instead, they question the economic rationale, in terms of the expected cash flow of a business, its risk, and its expected growth, that would lower the controlling interest value. Even though they do not apply a DLOM, most analysts do agree that different levels of marketability and liquidity for controlling interests exist. According to Shannon Pratt, a well-known figure in the field of business valuation, the United States Tax Court cases have a range from 3 to 35 percent in DLOM application.

The major issues debated by valuation professionals are:
1. The size of cash flow and the cost of capital may illustrate some level of marketability and illiquidity.
2. The application of public company valuation multiples may transfer some level of liquidity.
3. The length of time to sell a controlling ownership interest may illustrate some level of marketability and illiquidity.
4. Selling a private business may be more difficult and involve higher costs (i.e. broker fees, flotation costs, legal costs, monitoring costs, etc.) when compared to selling a publicly-traded stock.
5. Whether empirical research, such as data on restricted stocks, can be utilized to gauge the price impairment for the illiquidity of a controlling interest. Although restricted stocks deal with minority sales, the underlying degree of illiquidity is comparable to a controlling interest in a private company.

Furthermore, some valuation professionals believe that the marketability and illiquidity can be reflected in the flotation cost (e.g. the expenses, such as advisory and legal fees, in taking a private company public). The U.S. Internal Revenue Service, however, argues that the flotation cost itself cannot reflect the market and time risk.

However, it is still rare to see valuations prepared by investment bankers that would apply a DLOM when attempting to sell 100 percent of a private company. Also, the sale of a controlling interest and the sale of a minority share of a public company or of a private company, respectively reflect different levels of liquidity and marketability. In short, if there is no recognized authority coordinating the effort to resolve this issue, debate will go on.

The e-series

With the continuing debate, it is important for valuation practitioners to understand the rationale behind the arguments. To assist, I have conducted several valuation related e-series for the Institute including "Valuation for Mergers and Acquisitions" and "Understanding Business Valuation for Transactions of Hong Kong Listed Companies," which focus on valuation issues and requirements for the transactions while the latter one stresses more on listed companies' specific aspects. Two other e-series, "Mastering Intangible Assets Valuation" and "Common Impairment Issues on Listed Companies and Their Mitigations," address valuation issues in the context of post-transactions, – situations which are commonly encountered in accounting professionals' daily tasks.

All these e-series aim to help accounting professionals and senior executives to understand more about the requirements and challenges of valuation under different contexts.

Valuation is becoming more common nowadays and is closely related to financial reporting for any company. By knowing more about relevant valuation rules and requirements, members will be prepared to handle any commercial negotiations.

Paying taxes in China

A look at how China performs in the World Bank Group's *Paying Taxes* report

This article follows one from January entitled *Is Paying Taxes Easy?* that introduced the World Bank's methodology of computing and comparing the paying taxes indicators among 190 economies. In this article, we will look into how China performs in *Paying Taxes*.

China is taking actions to optimize its tax environment

Improving the doing-business environment has been an important initiative in China, evidence for which can be found in the annual *Government Work Report*, various circulars, and news announcements issued by the central and local governments. For instance, the State Council released the "*Regulations on Improving the Doing-business Environment*" in October 2019, underscoring the protection of market players, market environment, government services, etc. needed to create a stable, fair, transparent and predictable doing-business environment in China.

As one of the key elements in improving the doing-business environment, optimizing the tax environment is undoubtedly among the top priorities of the nation. Recent efforts are dedicated to three areas, tax reduction and fee cut, upgrading tax legislation from tax regulations, and improving taxpayer services. China's achievements and plans in these areas as well as other fiscal and tax reforms are reflected in the *Paying Taxes* indicators (see table on p.40).

Total tax and contribution rate: a decreasing trend

Total tax and contribution rate (TTCR) measures the amount of taxes and mandatory contributions borne by a typical company in the World Bank Group's *Paying Taxes* report. The lower the TTCR, the lesser the tax burden.

For China, a developing economy with a population of 1.4 billion, managing its TTCR is a challenging task. It involves not only multiple government organizations (i.e. tax and social securities authorities, at both the central and local levels) but also a careful balance between simplification of tax regimes and the impact on government revenues and expenditures. For the *Paying Taxes* report, this is more complex due to the World Bank Group's expansion of its measurements to include two cities (Beijing and Shanghai). As the different social security contribution rates and different treatments of certain taxes between Beijing and Shanghai add to the complications.

Yet, even while facing these challenges, China has come a long way in reducing its TTCR. When comparing *Paying Taxes 2006* (which measures 2004) against *Paying Taxes 2020* (which measures 2018), there has been a substantial decrease in the TTCR from 82.8 percent to 59.2 percent. Undeniably, the series of tax reforms launched have greatly relieved tax burdens for corporate taxpayers. These include: reducing the statutory corporate income tax (CIT) rate from 33 percent to 25 percent in the 2008 reform; introducing the lower CIT rate for small and thin-profit enterprises from 2018 and further relaxing the threshold in 2019; eliminating double taxation in the turnover tax regime by expanding the scope of input value-added tax (VAT) recovery to capital purchases effective from 2009; and combining business tax and VAT through the "B2V reform" starting in 2012.

These reforms are having a significant impact. In 2018 alone, China cut taxes in the total amount of RMB 1.3 trillion. In 2019, over RMB 2.3 trillion in taxes and fees were further reduced out of the total tax revenue RMB 15.8 trillion. The amount and the speed in implementing tax reduction measures across China is impressive, and has been recognized in the TTCR in recent years' *Paying Taxes* reports.

But obviously tax reductions alone cannot bring down China's TTCR. A major component of the TTCR in China is employers' contributions to social security and the Housing Provident Fund (around 46.2 percent of the TTCR in *Paying Taxes 2020*). The government has committed to reduce this part of the labour costs for enterprises of all sizes, especially small- and medium-sized. From 2019, the employer's pension contribution rate has been standardized at 16 percent of employees' annual salary, lower than that previously collected by most cities of around 20 percent.

Number of payments

The number of payments is a relatively straight-forward indicator. It reflects the total number of payments made by the case study company in one year. According to the *Paying Taxes* methodology, joint payments can be counted as one time where two or more taxes and mandatory contributions are filed and paid in the same tax filing form. Electronic filing is also counted as one time in a year for each type of tax. This counting methodology is designed to encourage economies to simplify and digitize tax filings.

In *Paying Taxes 2006*, with a tax system involving multiple types of direct and indirect taxes, the number of payments for China was 37. With the gradual adoption of online

Paying Taxes **indicators**

China	Performance in *Paying Taxes 2020* (which measures 2018)
Total tax and contribution rate	59.2%
Number of payments	7 payments
Time to comply	138 hours
Post-Filing Index (0-100), comprised of four components	50
(A) Time to apply for a value-added tax (VAT) refund	Insufficient data
(B) Time to obtain the VAT refund	Insufficient data
(C) Time to comply with a corporate income tax (CIT) correction after the annual CIT filing	1 hour
(D) Time to complete a CIT correction, including dealing with any potential reviews such as tax audit (in weeks)	Unlikely to trigger audit

filings and electronic payment methods, China managed to reduce the number of payments to nine since *Paying Taxes 2010*. This was reduced in *Paying Taxes 2019* by one after the completion of the B2V reform in 2016 that abolished business tax. In *Paying Taxes 2020*, the country-wide successful implementation of online filings has helped China achieve a record low number of seven payments, and the country ranked at 16th among 190 economies for this sub-indicator.

Time to comply: digitalization has made a big difference

Unlike the number of tax payments, time to comply is perhaps more difficult and subjective to measure. It measures the time for the case study company taken to prepare, file and pay three type of taxes, namely CIT, VAT and labour taxes. In *Paying Taxes 2020*, China's time to comply was assessed at 138 hours – 94 hours of preparation, 37 hours of filing and seven hours of making payments.

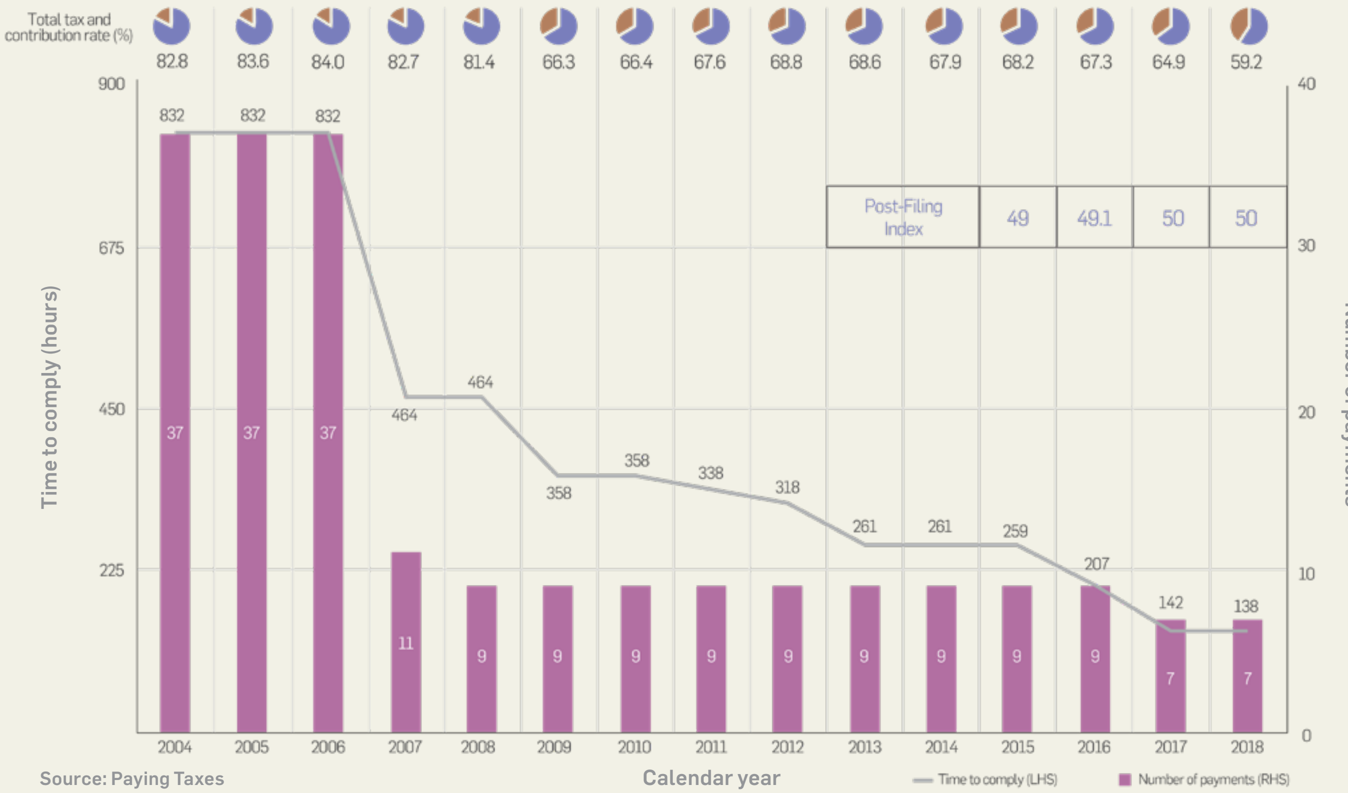
China's compliance hours has improved drastically through the years. From *Paying Taxes 2006* to *Paying Taxes 2020*, the total hours decreased from 832 to 138, though reducing compliance burden has never been easy. The inherent complexity in the design of the system requires more controls to ensure its effectiveness, for example, the use of VAT paper invoices to curb VAT fraud, corporates' withholding obligations for individual income tax, social security contributions and the Housing Provident Fund due to the difficulty in collecting them direct from individuals, etc. The wide geographic spread of corporate and individual taxpayers makes it harder to balance the effectiveness of tax enforcement and the burden of compliance. To the Chinese tax authorities, this sub-indicator is perhaps a subtle measurement of their efficiency.

Digitalization, and tax officials' cultural shift from tax enforcement to taxpayer service, are vital in slashing the compliance hours.

For tax collection and administration via digital means, Chinese tax authorities have done a lot: the Golden Tax III system was launched to connect VAT invoice management and VAT filings; artificial intelligence is increasingly deployed by tax bureaus, including handling tax queries, online tax trainings, etc. Furthermore, automatic data conversion from financial software to the tax filing system has also been introduced to create a "one-click filing" system for taxpayers. Today, almost all tax matters could be handled via online channels, and even on mobile apps. Tax authorities also promote new tax laws and regulations on popular social media, such as WeChat and Weibo, to connect with the younger generations. The use of digital means in disrupting the traditional tax administration has led to a big decrease in China's tax compliance hours.

On taxpayer service, mindset change also happened from within. Actions including eliminating tax related approvals, encouraging self-assessment in lieu of tax audits, upgrading taxpayer consultation hotlines, and the most recent organizational reform to integrate the state tax authorities and local tax authorities into one, all have helped to promote an image of easy tax-paying.

Trend of *Paying Taxes* indicators in China



Source: Paying Taxes

Post-Filing Index: input VAT refund is the hope?

The Post-Filing Index is a supplement to the aforementioned three indicators. Introduced in *Paying Taxes 2017*, the indicator measures the efficiency of processes that take place after a tax return has been filed when there could be additional interactions between taxpayers and tax authorities to agree on the final tax liabilities. The index seems to encourage economies to improve their post-filing administration processes.

China scored 50 out of 100 in the Post-Filing Index in *Paying Taxes 2020*, which measured both CIT correction and VAT post-filing refund processes. On the CIT correction indicator – measuring the time required to complete a CIT correction post-filing and the likelihood of triggering a tax audit should the case study company perform a CIT correction – China scored the full 50 marks. With respect to VAT post-filing, *Paying Taxes* measures two aspects: (1) the availability for the case study company to claim a refund for excessive input VAT credit (VAT refund); and (2) time taken to apply for and obtain the refund. China scored zero.

China used to only allow carry-forward of excessive input VAT credit to the next filing period, and a refund mechanism was not available until 2018 when a pilot refund policy was introduced for 19 sectors. This was rolled out to all industries in early 2019. As this reform came into effect only in August 2018, it was not possible for taxpayers to get a robust understanding of how long the VAT refund processes would take, and as such China scored zero in *Paying Taxes 2020*.

Beyond *Paying Taxes 2020*

The diagram above illustrates the trend of *Paying Taxes* in China from 2004 to 2018 (calendar year).

China's overall score in *Paying Taxes 2020* was 70.1, which results in its ranking of 105. The government's commitment to reform its tax system is witnessed in the steady improvement of its overall ranking since *Paying Taxes 2008* (ranked 168).

With the expansion of VAT refund policy in 2019 to all industries, we may be expecting a higher score in the Post-Filing Index for *Paying Taxes 2021* and beyond. As a matter of fact, according to public sources, in 2019, RMB 9.44 billion of excessive input VAT credit has been refunded to 852 Beijing-based enterprises and RMB 10.7 billion to 1,737 Shanghai-based enterprises.

Starting from *Paying Taxes 2021*, the World Bank Group has made some changes to the *Paying Taxes* methodology, which will result in a significant impact on the case study company parameter. More importantly, it may also change the dynamics of the overall rankings, especially for China.

This article is contributed by ***Rex Chan****, Paying Taxes Team Leader at PwC China*

Goodwill: improvements to subsequent accounting

A look at a research paper jointly published by the staff of the Institute and the staff of the Accounting Standards Board of Japan

At first glance, goodwill can appear to be a fairly straightforward concept, and one might expect that its treatment under accounting standards is fairly uncontested. In fact, goodwill has a storied history. It has been subject to a significant amount of debate over the years as to what it actually represents, and how it should be accounted for both initially and subsequently. In particular, the accounting for goodwill is surrounded by debate given the challenge of coming to consensus on the nature of goodwill. This is largely due to the fact that goodwill is not identifiable and cannot be directly measured.

This debate has recently increased in intensity with the completion of the International Accounting Standards Board's (IASB) Post-Implementation Review of International Financial Reporting Standard (IFRS) 3 *Business Combinations* (equivalent to Hong Kong Financial Reporting Standard (HKFRS) 3), which found that stakeholders have mixed views on the accounting for goodwill. In particular, some stakeholders are concerned that the impairment test for goodwill impairment is unduly complex and does not appear to be working as intended, meaning that impairment losses may be recognized "too little, too late."

In response, the IASB is carrying out a research project on goodwill accounting, and in March published Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* to explore whether companies can provide investors with more useful information about business combinations.

To contribute to the global debate, the staff of Hong Kong Institute of CPAs and the staff of Accounting Standards Board of Japan (ASBJ) have published a research paper (RP), *Goodwill: Improvements to Subsequent Accounting and an Update of the Quantitative Study*. The RP's objectives are to:

1. Share new findings from an updated quantitative study on goodwill recognized by entities.
2. Analyse the existing accounting requirements for goodwill.
3. Explore alternative views on the subsequent accounting for goodwill.

Quantitative study

The RP presents new findings from a quantitative study of the goodwill recognized by companies in major stock markets, namely Hong Kong, Japan, the United States and Europe. Key observations from the study include:

1. A steady increase in the amount of goodwill recognized by companies. From 2014 to 2018, there was an increase in the total goodwill of the stock market companies of 60 percent for Hong Kong, 74 percent for Japan, 45 percent for U.S. and 26 percent for Europe.
2. Goodwill exceeded 100 percent of net assets for 18.8 percent of U.S. and 10.1 percent of European Union (EU) companies surveyed.
3. Goodwill exceeded 100 percent of market capitalization for 2.6 percent of EU and 1.6 percent of Japanese companies surveyed.
4. The implied time to fully expense goodwill was 122 years for the U.S., 78 years for the EU, and 64 years for Hong Kong and Japan.

Considering the above, it is unlikely that the impairment-only model for goodwill is working as intended and that this has led to the "too little, too late" issue noted above as a concern among some stakeholders.

Existing requirements

IFRS/HKFRSs establish two accounting concepts for goodwill:

1. HKFRS 3 requires goodwill to be recognized upon a business combination as an asset. It is measured as the excess of the consideration paid for the acquiree over the fair value of the identifiable net assets of the acquiree (ignoring non-controlling interest and step acquisitions for simplicity). The RP refers to what HKFRS 3 calls "goodwill" as acquired goodwill (AGW), given that it arises upon an acquisition.
2. Internally generated goodwill, which Hong Kong Accounting Standard (HKAS) 38 *Intangible Assets* prohibits from being recognized as an asset.

AGW is not currently amortized but is subsequently tested for impairment regularly under HKAS 36 *Impairment of Assets*. This is an "impairment-only" regime, and a reason why stakeholders have voiced concerns around the "too little, too late" issue.

Arguments for improvements

The staff of the Institute and the ASBJ both support an amortization plus indicator-based impairment approach for the subsequent accounting for AGW, and consider this approach as an improvement to the usefulness of financial reporting. The RP refers to this as an "amortization plus impairment" approach. While the staff suggest impairment be retained, they recommend an indicator-based approach under which the impairment test would only be performed if impairment indicators exist. This is already the approach for other assets in HKAS 36.

Additionally, both staff think that amortization should be applied to the AGW arising from each individual business combination as a whole (that is, the AGW asset arising from a particular acquisition should not be disaggregated into components with different amortization schedules).

The RP presents these common views of both the staffs from bilateral perspectives, reflecting the staffs' respective ways of looking at the nature of AGW. The following provides a brief introduction to the view of each staff.

Introduction to the ASBJ staff view

The ASBJ staff think AGW is a "wasting asset" (that is, an asset that diminishes in value over time) and, to faithfully represent this nature, financial statements need to reflect the reduction in value.

As a result of this wasting nature and due to other factors, the ASBJ staff propose that AGW be amortized in addition to being tested for impairment. Impairment serves to signal the lack of recoverability of the carrying amount of AGW and amortization signals the consumption of AGW. Both impairment and amortization are necessary.

Amortization period

The ASBJ staff think that the amortization period should be based on the period that management expects to generate incremental cash inflows arising from the acquisition. In addition, the ASBJ staff think that a maximum number of years should be established by the standard-setter for the amortization period to strike a balance between the provision of relevant information and the need to respond to the concerns over the "too little, too late" issue.

Introduction to the Institute staff view

The Institute staff provides two key points as to why amortization (with indicator-based impairment) will improve financial reporting:

Key point 1: Amortization better reflects the nature of AGW.

1. *Better reflects how AGW becomes increasingly less representative of the acquiree and consolidated entity.*
   Amortization with impairment better reflects the fact over time, the historical amount recognized as AGW becomes increasingly less reflective of the current fair value or current book value of the entity, and therefore more meaningless as a balance sheet item. Over time, an acquisition may be integrated, and the overall entity enhanced and transformed in myriad ways to the point where the originally recognized AGW, and any subsequent impairment charge, becomes largely meaningless.
2. *Better opportunity to show how an acquisition is utilized*
   Amortization with impairment is preferable to impairment-only because it provides a mechanism to show the utilization of AGW. Under amortization, users will be able to see the timeframe in which an acquisition is expected to be utilized (via the amortization period), and observe a systematic allocation of AGW versus income earned by the entity. This would better tie AGW to the performance of the acquisition.
3. *Improves comparability between entities that grow organically and through acquisitions*
   When AGW is recognized as an asset, the financial reporting of entities who primarily grow organically begins to diverge from that of entities who primarily grow through acquisitions. In this way, accounting is biased towards entities depending on their growth strategy. Amortization would ensure that AGW balances will eventually be expensed in a systematic manner, and this will improve comparability.

Key point 2: Impairment-only supports increasingly large goodwill balances that may negatively incentivize management and misrepresent risks.

Increasing AGW balances can contribute to weakened balance sheets and lead to situations where more of the balance sheet is made up of a highly nebulous asset, which cannot be identified, separated, transferred or liquidated. The impairment-only regime may mask risks and exacerbate undesirable management incentives as follows:

1. It may incentivize "big bath" accounting practices due to the subjective nature of assumptions used in the impairment test.
2. It may incentivize management to pay more for acquisitions given management can ignore subsequent expense on AGW for a foreseeable future.
3. It may incentivize management to borrow against an inflated and speculative asset-side of the balance sheet.
4. To maximize financial reporting metrics management may be incentivized to delay impairment as long as possible.
5. Inflated assets and equity and suppressed expenses can influence management's decisions and affect the ability to proceed with certain corporate actions.

Amortization would ensure that increasingly large goodwill balances supported by the impairment-only model will be allocated to expense on a timely basis.

Amortization period

The Institute staff think that the amortization period of acquired goodwill should reflect the expected utilization of an acquisition. The process of determining an amortization period based on this principle will benefit both (a) management, as it will be required to think critically about its post-acquisition plans before acquisition date, and (b) users, as they will gain insight into management's expected timeline for an acquisition.

Going forward

The RP can be found at the Institute's website, and we encourage interested readers to download the full version to peruse the complete analysis of the Institute and the ASBJ.

Stakeholders are invited to provide their views on the IASB's Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*, which can be found on the IASB's website.

The Institute will be continuing its joint work with the ASBJ to share the findings and analyses from the RP globally, and provide input to contribute to improving the accounting for goodwill. The Institute will also be seeking comments on the IASB's Discussion Paper though our invitation to comment, which is available on the Institute's website.

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

How to manage financial distress

A look at the options for companies and individuals facing the risk of financial difficulties

In the current difficult economic environment, with the impact of the international trade tensions, the social unrest and, more recently, the COVID-19 pandemic, it is expected that more companies and individuals could face financial distress. As the courts have been operating on a more restricted basis over the past several weeks, statistics from the Official Receiver's Office (ORO) on corporate winding up and bankruptcy petitions, interim orders made, and individual voluntary arrangements entered into may not yet reflect the full picture. However, the community, including the accountancy community, needs to get prepared.

Against this background, companies and individuals should take precautions as far as possible and prepare themselves to cope with the rapidly evolving situation and potential financial impact that may follow. The Restructuring and Insolvency Faculty Executive Committee of the Hong Kong Institute of CPAs feels a responsibility to provide information to the public that may help in this situation. Ultimately, if companies or individuals require help to resolve their difficulties, Hong Kong has a pool of experienced insolvency professionals within both the public and private sectors who stand ready to assist and are able to leverage their expertise, integrity and professionalism.

Companies, employers and employees

Companies in distress

There are various debt relief measures available in the market. In circumstances where companies are unable to meet their financial obligations even though their business is viable, directors are encouraged to explore restructuring options that may rehabilitate and safeguard the interests of stakeholders, creditors, employees and others, as early as possible.

First ports of call: Companies with bank loans facing short-term cash flow constraints and difficulties servicing their debt should consider talking to their lenders. A number of banks at this time have indicated a willingness to talk to their customers and may be able to make adjustments to repayment arrangements.

Some landlords may also be willing to talk to tenants and make specific arrangements in relation to rental payments.

Government assistance: The government has received approval from the Finance Committee of the Legislative Council (LegCo) to set up an Anti-epidemic Fund, which includes provision for financial assistance for some especially hard hit industries, including retail, transport, food licence holders and the convention and exhibition industry. Funding has also been approved for a special 100 percent Loan Guarantee under the SME Financing Guarantee Scheme, which is intended to cover rents and employee wages for six months, or an element thereof up to HK$2 million, for eligible enterprises. Viable businesses suffering short-term cash flow problems may wish to consider their eligibility for support under these schemes, taking note of any relevant application deadlines.

Restructuring

Business restructuring may be an option. Directors and business owners should consult a restructuring and insolvency professional as early as possible and avoid potential criminal breaches of the law by, for example, continuing to run up further debt with little prospect of paying this back.

Statutory obligations

Directors and business owners need to be aware of and observe their statutory obligations particularly in this difficult business environment. Some important obligations include:

Ensuring payroll is on time: Payment of wages within seven days of the end of the wage period according to the Employment Ordinance (Cap. 57, sections 23 and 25). Failing to pay employees on time may result in directors, senior management or business owners being held personally liable, upon conviction by the court. Labour Department statistics show numerous convictions with fines in the last quarter of 2019 alone.

Keeping books and records up to date: Companies are required to keep accounting records for seven years under the Companies Ordinance (Cap. 622, section 377), as well as under the provisions of the Inland Revenue Ordinance (Cap. 112, section 51C). Requirements to keep, and make available for inspection, company records, such as minutes, memorandum, and registers are set out in sections 654, 655 and 657 of Cap. 622.

Avoiding the risk of fraudulent trading: In case of serious financial difficulties leading to a possibility of corporate insolvency, directors may be exposed to a risk of personal liability if they trade on credit while knowing that the company is unable to pay its debts (Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32, section 275)). This is particularly challenging in a tough economic environment. To mitigate the risk of fraudulent trading, directors have a duty to take appropriate action such as seeking professional advice and, where necessary, invoking the statutory insolvency regime to commence liquidation proceedings, as set out in Cap. 32.

Directors' disqualification

If a company goes into liquidation and, following investigation, one or more directors are found to be at serious fault and unfit to be directors, even where criminal prosecutions are not pursued, those directors can be disqualified by the court from being involved in the management of a company for up to 15 years (Cap. 32, Part IVA).

Employees

Senior employees may also be in a position to encourage their employer to take appropriate action if the employer is in financial distress.

Wage protection for employees: Employees should ensure that they are aware of their rights and the protections available under Cap. 57. Resources are available through the Labour Department to assist employees in relation to the protection of wages.

Individuals

Loss of employment
If an unincorporated business or a person's employer goes into insolvency, or employees lose their job due to redundancy, this could easily result in personal financial hardship. Prolonged delays over the payment of salaries, in the worst-case scenario, may also lead to personal insolvency.

Loan guarantees
In economic downturns, business owners may be at risk of defaulting on company loans where they have provided personal guarantees. Similar risks may arise from guarantees given for personal loans where the principal debtor is in default.

Risk mitigation
To mitigate financial exposure, individuals should check any financial obligations embedded in contracts or loan agreements, as either a principal debtor or guarantor.

When faced with an unmanageable debt burden, there are various options that an individual can consider. Apart from debt relief programmes offered in the market, an individual voluntary arrangement (IVA, see next column) could provide an alternative to declaring bankruptcy.

Debt counselling
Some non-governmental organizations such as Caritas and the Tung Wah Group of Hospitals offer debt counselling services. These may be helpful to those who are troubled by debts. Their services include consultation on financial issues, case counselling, emotional support and information on debt handling and solutions.

Debt restructuring
For indebtedness to banks, including credit card debts, borrowers should contact their lender, as banks are often willing to consider debt-restructuring arrangements as an alternative to bankruptcy. Such arrangements may avoid the impact on a debtor's credit record that results from bankruptcy.

Individual voluntary arrangements
There are implications that arise from going through a bankruptcy procedure, which may not apply with an IVA. Therefore, before looking to file a self-petition under the statutory bankruptcy regime, debtors may wish to consider the option of an IVA, which is a formal debt-restructuring scheme under the Bankruptcy Ordinance (Cap. 6, sections 20-20L).

Personal bankruptcy
In the unfortunate circumstances of serious financial distress, where other options are not viable, debtors should consider the bankruptcy regime under Cap. 6. It provides rehabilitation relief to debtors with no ability to repay their debts, subject to certain restrictions with which an undischarged bankrupt should comply.

While a cooperative bankrupt can expect to be discharged from bankruptcy after four years, it is, nevertheless, important to be aware of the implications of being declared bankrupt. For example, assets, including real estate property, will not automatically be returned to a bankrupt upon discharge. The ORO's website contains a good deal of information, including Frequently Asked Questions about bankruptcy.

Be aware

Other than the above, debtors may also be approached by, or encouraged to seek out the services of, financial intermediaries offering "informal" debt restructuring arrangements, which often involve taking out further loans negotiated by the agents to pay off existing debts. Debtors should think very carefully before being induced to enter into such arrangements, which will normally require fees to be paid to the financial intermediaries but, in practice, may merely defer bankruptcy, and the debtor may end up owing a larger debt. The Financial Services and the Treasury Bureau has published advice on engaging financial intermediaries.

Other resources

In summary, given the deteriorating economic environment, directors, business owners, employees and members of the public should take steps to prepare themselves for all possible financial eventualities. To reduce the risk of corporate or personal insolvency, they should look into their financial status and put in place measures to mitigate potential exposures. If their situation is already financial distressed, they should stay calm and rational and consider the various options that may be available. Where appropriate, it is advisable to consult counsellors or professional advisors, including qualified and experienced restructuring and insolvency professionals.

Online resources and more information are available from the following organizations:

- Official Receiver's Office - Publications on bankruptcy and company winding up
- Labour Department
  - Protection of Wages on Insolvency Fund Board
  - Wage Security Division
- Investor and Financial Education Council - Debt Counselling Services
- Hong Kong Institute of CPAs
  - Restructuring and Insolvency Faculty
  - Hong Kong CPA Practice Directory

This article is contributed by the Institute's Restructuring and Insolvency Faculty Executive Committee

TECHWATCH 209

The latest standards and technical developments

Local updates

Impact of coronavirus on audits and financial reporting
The Hong Kong Institute of CPAs' Issue 32 and Issue 33 of *Financial Reporting, Auditing and Ethics Alert* highlight some specific issues that are anticipated to pose an impact on a client's audit risks and financial reporting.

Invitations to comment
The Institute is seeking comments on:

- International Ethics Standards Board for Accountants (IESBA) Exposure Drafts: *Proposed Revisions to the Non-Assurance Services Provisions of the Code and Proposed Revisions to the Fee-Related Provisions of the Code* by 3 April.
- International Accounting Standards Board (IASB) Exposure Draft: ED/2019/7 *General Presentation and Disclosures* by 22 May.
- IASB Request for Information: Comprehensive Review of the *IFRS for SMEs* Standard by 12 June.

Financial Reporting Standards Committee minutes
Minutes of the 254th meeting are now available.

International updates

Audit and assurance

- International Federation of Accountants (IFAC) *Preparing for Changes to ISA 540 on Auditing Accounting Estimates.*

Ethics

- IFAC *Exploring the IESBA Code*: *Third Installment* now available.
- IESBA webinar to explain proposed revisions to international independence standards.
- IESBA Technology Working Group's Phase 1 Report explores the ethical implications of technology on the accounting, assurance, and finance functions.

IFRS updates

- February 2020 IASB Update and podcast.
- IFRS 17 *Insurance Contracts* podcast covering the February IASB meeting.
- Request for Information: Comprehensive Review of the *IFRS for SMEs* Standard webcast.
- Exposure Draft *General Presentation and Disclosures* webinar recording.

Professional accountants in business

COSO issues new ERM guidance
Enterprise risk management (ERM) has been receiving increased attention from boards and executives, as it continues to evolve in its development and uses. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has recently published new guidance *Creating and Protecting Value: Understanding and Implementing Enterprise Risk Management* offering succinct, tangible steps to implement an effective ERM programme.

The updated COSO ERM Framework clarifies the relationship between strategy and risk, and that the objective of ERM is to assist organizations in achieving their strategy and business objectives. Organizations can enhance their abilities to be successful in both addressing risks and taking advantage of opportunities by enhancing their ERM processes and integrating ERM fully into their strategy setting and performance processes.

Corporate finance

Institute's comments on the proposals by HKEX on Review of Chapter 37 – Debt Issues to Professional Investors Only
The Institute responded on 10 February to the consultation proposals by the Hong Kong Exchanges and Clearing (HKEX) on Review of Chapter 37 – Debt Issues to Professional Investors Only (see the January 2020 issue of TechWatch).

The Institute's submission indicates support for the underlying objective of the HKEX's initiative, that is, to protect the interests of investors and maintain an effective listing platform for bond market development in Hong Kong, while expressing reservations about some of the specific proposals. In particular, the proposals seem to focus primarily on ensuring the financial strength and capacity of issuers as a way of protecting investors, rather than addressing the apparent problem areas more directly, i.e. discouraging investors who do not, or should not, qualify as professional investors from investing in debts issues under Chapter 37 of the Listing Rules. In this regard, it is suggested that the definition of "professional investor" needs to be revisited.

At the same time, in focusing on ensuring size and financial strength of

permitted issuers, the proposals could over-regulate the market for genuine professional investors and affect Hong Kong's competitiveness as a debt market and regional financing hub.

Taxation

Announcements by the Inland Revenue Department
Members may be interested in the following matters:

- New Country-by-Country Reporting exchange arrangements between Hong Kong and Mainland China.
- Gazettal of:
  - Inland Revenue (Amendment) (Tax Concessions) Bill 2020.
  - Rating (Exemption) Order 2020 and Revenue (Reduction of Business Registration Fees and Branch Registration Fees) Order 2020.
- List of Qualifying Debt Instruments (as at 31 December 2019).
- Renewable energy facilitation measure takes effect.
- Tax measures proposed in 2020-21 Budget.
- 2020-21 Budget – Concessionary Measures.
- Advance Ruling Case No. 66.
- Stamp Duty statistics.

Legislation and other initiatives

Anti-money laundering notices
For the current lists of terrorists, terrorist associates and relevant persons or entities under United Nations (UN) sanctions, members should refer to the Institute's anti-money laundering 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.

FATF's publication on high-risk and other monitored jurisdictions
The Financial Action Task Force (FATF) published a statement on 21 February regarding *High Risk Jurisdictions Subject to a Call for Action*, calling on its members and all jurisdictions to apply specific measures and actions on Democratic People's Republic of Korea and Iran.

The FATF also issued a notice on jurisdictions under increased monitoring, stating that 18 other jurisdictions have been identified to have strategic anti-money laundering/counter-terrorist financing (AML/CFT) deficiencies, and are working with the FATF to address them.

AML/CFT guidance
For mandatory guidelines and information from the Institute on the AML/CFT requirements for members, see the Institute's *Guidelines on Anti-Money Laundering and Counter-Terrorist Financing for Professional Accountants*. Member practices may also find the FATF *Guidance for a Risk-Based Approach for the Accounting Profession* to be a useful reference when developing their own risk-based approach to applying the AML/CFT requirements.

Members who are licensed to provide trust or company services 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.

The FATF published guidance, in October 2019, entitled, *Best Practices on Beneficial Ownership for Legal Persons*. This paper aims to provide suggested solutions to the disclosure of beneficial ownership, supported by cases and examples of best practices from delegations of member jurisdictions of the FATF.

Members should ensure that they are 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 209, available as a PDF on the Institute's website: *www.hkicpa.org.hk*

THE ONES TO BEAT

Practicing martial arts increases strength and promotes mental clarity as well as general well-being. It's also highly satisfying. Two CPA fighters tell Jeremy Chan what inspired them to start learning martial arts and how, beyond being an effective form of exercise, it involves copious amounts of discipline, perseverance and – above all – the will to fight

David Luk was mesmerized by martial arts films as a child. The electrifying, fast-paced moves of the then 19-year-old Jet Li in the film *Shaolin Temple* captured his attention the most. "Jet Li's a real fighter," says Luk, Asia Financial Controller at TTI, a Berkshire Hathaway Company, and a member of the Hong Kong Institute of CPAs. "As a kid, I loved watching these films despite knowing nothing about martial arts."

Hong Kong's fascination with martial arts, especially street fighting, was born in the 1950s, which saw kung fu schools develop their own styles and young fighters taking their bouts to nearby rooftops to avoid getting in trouble with authorities. Martial arts-fighters-turned-film stars such as Jackie Chan, Jet Li, and most notably Bruce Lee, and films such as 1973's *Enter The Dragon*, 1978's *Drunken Master* and 1982's *Shaolin Temple* inspired cult followings and further drove Hong Kong's martial arts scene. Now, the city boasts training schools that teach various types of martial arts, including muay thai, wing chun, karate, judo, taekwondo and Brazilian jiu-jitsu. Luk does wushu, also known as Chinese kung fu. He was deeply inspired by Jet Li's agile wushu moves.

But, as he notes, it didn't start with wushu. Luk signed himself up for tai chi classes at his apartment's clubhouse, almost a decade ago. Eager to get more exercise, he began attending training sessions twice a week and quickly realized how doing tai chi helped to improve his breathing, balance and increase the strength in his legs. "When I first started, I felt I wasn't that good," says Luk. Eager to keep up with the class, he started teaching himself the different forms of tai chi, such as Chen-style, Ng-style and Yang-style, by watching tai chi videos on YouTube. "I observed how different masters demonstrated the same forms. It was a great way to learn," Luk says.

The class instructor took note of Luk's rapid improvement and, after three months, invited him to try out the more physically intense martial art of wushu. He began learning the basics of the sport with his instructor. The more Luk practiced, the more he grew interested in it. He soon wanted to become a certified wushu trainer, and enrolled himself into a master training programme at the Hong Kong Wushu Union, where he faced his first challenge as a beginner. "When I first started attending classes, we were expected to learn and master 10 different styles of wushu within three months," Luk says. "The spirit and atmosphere of each class was amazing. There were about 30 people and I would practice the forms with other students."

David Luk , Asia Financial Controller at TTI, practicing wushu at Shek O Beach

Luk spent the next few months practicing moves such as *nan quan*, or "Southern Fist" which focuses on short and powerful movements, *chang quan*, or "Long Fist" which originated in Northern China, and routines utilizing spears and swords known as *qiangshu* and *daoshu*. "There are many types of wushu, but they all share some common traits," he explains, adding how there is more than one way to block the same incoming attack, such as a punch directed at one's arm. By completing physical training courses and passing examinations, as well as a course on mentoring students, he finished the training programme in a year.

Now a qualified wushu master as well as a registered referee at the Hong Kong Wushu Union, the activity plays a more vital role in Luk's fitness routine – but he hasn't forgotten his tai chi roots. In addition to practicing wushu on the weekends, he makes time for daily tai chi routines. "I used to do tai chi around four times every week. Now I spend 30 minutes practicing it every day," he says.

He has also started teaching it at work by including tai chi drills into the company's weekly fitness class, which many colleagues enjoyed. "They were very eager to learn more," he says. So much so that Luk began hosting tai chi classes each week after work. Luk and seven other colleagues gave a tai chi demonstration during the company's annual dinner, which, as Luk fondly remembers, was met with jubilant cheers from the audience. "Though I only taught them once a week, they learned quite fast," he says. "And they were very satisfied after giving that performance."

Luk says he has also started learning wing chun and boxing, and hopes to continue coaching. "I hope to help more people, including fellow CPAs, to improve their mental and physical health through martial arts," he says. "I feel that determination, compassion and the willingness to share is instrumental in realizing the spirit of wushu."

Kickstarting new techniques

Preston Wong will never forget the moment of intrigue he felt as an eight-year-old kid after catching a brief glimpse of karate fighters in action. "One summer holiday, I was walking around Causeway Bay with my parents, when I noticed an ongoing karate class," recounts Wong, Manager, Audit at Grant Thornton and an Institute member. After pleading with his parents to visit the venue, they agreed to bring him in. It was Wong's first time

"I hope to help more people, including fellow CPAs, to improve their mental and physical health through martial arts."

Preston Wong, Manager, Audit at Grant Thornton (right), doing karate at Gojuryu Karatedo, Japan Karatedo Federation Ryushinkan Hong Kong Branch. He has practiced at the same dojo for almost 20 years.

Photography by Anthony Tung

“We need to connect all the different moves, so I always find myself asking what the next move is, or when and how to turn.”

in a dojo, a Japanese martial arts practice room, and one in which he would eventually grow up training in. “I saw many students practicing kicks and punches, which I thought was very interesting. So my parents signed me up for a trial lesson.”

With all the instructors of that particular dojo from Japan, Wong says his first class didn’t quite go as expected. “The whole lesson was mainly in Japanese – not only was I learning new moves, but I had to learn the names of those moves in Japanese,” he says. By mimicking the other students each time he was commanded in Japanese, he eventually memorized the name for each move. He spent the next seven years training twice a week to master the fundamental moves or *kihon* to pass examinations in order to climb the ranks – from white belt all the way to black belt.

Becoming a black belt karate fighter, or *senpai*, in his mid-teens was a huge achievement for Wong. “I was very happy that day. I felt like I had accomplished something – it made me want to learn even more,” he says. “The journey of karate truly begins after one receives their black belt.” Today, Wong is a second-degree black belt karate fighter and still trains in the same dojo he set foot in almost 20 years ago.

The most challenging aspect is learning and memorizing *kata*, or movement patterns. Basic patterns can comprise of 20 moves, and more advanced ones can include upwards of 60, and there are more than 100 different *kata* in karate. They all involve stepping and turning, which a fighter must memorize and perfect. “*Kata* is the essence of karate,” says Wong. “There are also elbow-breaking moves, sweeps, takedowns and trapping techniques to stop your opponent from escaping.” Wong says a single *kata* could be a three-minute long sequence. “We need to connect all the different moves, so I always find myself asking what the next move is, or when and how to turn.”

Another important aspect of karate is *kumite*, or sparring, where fighters rely on their knowledge of *kihon* and *kata* when facing opponents. “All *kata* moves are applicable in combat situations, so we need to understand the reasons behind each move as well as when and how to apply them,” Wong says.

Bouts between fighters are points-based, and competitors aim to score as many points as quickly – and safely – as possible. “There are rules within *kumite* that make it quite safe,” Wong explains. Four judges at each side of the ring closely watch fighters at all times. “A punch to the stomach or head earns you one point, while a kick to the head is three points.” But contenders do not spar with the aim of injuring their opponent. “If the judges see you punching or kicking too hard, they issue you a warning, and injuring an opponent can result in disqualification.”

This notion of controlled combat took some getting used to for Wong, especially as he also practices muay thai. He was introduced to the sport in 2017 by a colleague and now trains on his own. Even with almost 20 years of experience in karate, learning muay thai presented new challenges. “During the first few classes, the instructors noticed my stance and technique and realized that I’d done martial arts before,” he remembers. “But they still said I had a lot to learn.” Since starting, he says his kicking technique has remarkably improved. “The sport stresses powerful punches and kicks. I learned how to move my arms and waist in order to pivot and put more force into a kick,” Wong says. “The technique changed the way I approach kicks, even in karate.”

Juggling his busy work schedule with muay thai training once a week and karate twice a week, Wong recognizes the benefits of making time for both. “After an intense muay thai or karate session, I definitely approach work with a clearer mind. It allows me to focus.”

He looks forward to taking part in more karate competitions this year and also improving in muay thai. “I’m happy that I’m learning two kinds of martial arts that are almost completely different. I’m able to combine techniques from both into my training,” he says. “Now I know what to improve on in order to progress further in my journey in both.”

High crime rate and limited police manpower in Hong Kong during the early 20th century prompted people to learn self-defence techniques from Mainland Chinese immigrants, many of whom were prominent martial artists. Muay thai boxing was also introduced to Hong Kong in the 1960s by returning immigrants from Thailand. As a result, over 400 martial arts schools were established in Hong Kong during the 1960s and 1970s.

NICOLE LAW

Audit Manager
at EY

Nicole Law started her career at EY. Her passion for numbers combined with and the city's eclectic dining scene led her to swing from working as an accountant in the Big Four to the food and beverage (F&B) industry, and back to the practising sector – all within a year. She tells *A Plus* about her memorable experience working in restaurants and why she ultimately returned to the Big Four

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

As an Audit Manager at EY, I'm currently acting as an engagement manager for audits of multinational corporations, listed companies and private organizations. I lead teams performing audits, and I liaise with and solve queries from clients, partners, senior managers and junior staff. Our clients come from a diverse range of industry sectors including retail and consumer products, F&B, property development and real estate. I also closely coordinate with overseas EY offices when handling multinational corporate engagements. The job can be challenging as I need to manage the expectations of my teams and my superiors, and stay on top of existing standards and interpretations.

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

I often have to oversee the status of multiple engagements, each with their own respective deadlines and partner-in-charge. While this can be overwhelming at times, I feel lucky to be able to work with colleagues who are committed and helpful, and to have access to an established platform of guidance materials and sources. What's most rewarding is realizing I've learned something new, gained technical knowledge and solved a tricky issue.

What inspired you to become an accountant?

It must be my maths tutor. She helped me through primary and secondary school and really inspired my interest in the subject. Because of her, maths became my strongest subject, and I majored in professional accountancy at the Chinese University of Hong Kong. After working at EY for four years and helping an F&B group to list on the Hong Kong Stock Exchange, I wanted to explore accounting in the commercial sector. So that's why I joined Black Sheep Restaurants, a Hong Kong-based hospitality group and home to some of my favourite restaurants. I spent eight months there and handled the accounting-related issues for several of the restaurants under the group. On certain days, I did restaurant shifts. I would greet customers, explain the menu, take orders, serve, and also prepare delivery orders. This allowed me to better understand the whole process. It was an experience that I'll never forget, and I enjoyed working with passionate people who came from different parts of the world. I returned to EY in early 2019, eager to take on more challenges and learn more about technological advancements in the profession.

Where do you see yourself in the next five to 10 years?

I see myself taking on a more impactful and influential role at the firm, and performing audits for clients across diverse industry sectors. I'd also be open to going back to F&B one day, as it has been a field I've specialized in throughout my career and I have a passion for exploring good restaurants and good food.

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

Taking on a client engagement shortly after transitioning into my new role. A lot of the required procedures were new to me and it was quite scary at first. I spent time gathering information and instructions from our internal portal and training materials. Depending on the subject matter, sometimes it's just quicker to ask more experienced colleagues who went through the same thing. They're always happy to share their knowledge.

Which continuing professional development (CPD) course did you find to be the most useful to your job and why?

I took a CPD course on HKFRS 16 *Leases*. It was especially helpful when I worked at Black Sheep Restaurants and while at EY when I was tasked with an engagement involving a retail company. Restaurants and shops occupy physical locations, and sometimes the leases involve complex arrangements or modifications, which requires in-depth knowledge of the leases standard. I also took a CPD course on how artificial intelligence and fintech are changing the landscape of accounting. It was inspiring to learn how these technologies are able to efficiently perform simple tasks and provide more time for accountants to focus on strategic work.

SPOTLIGHT ON HONG KONG TRAILS

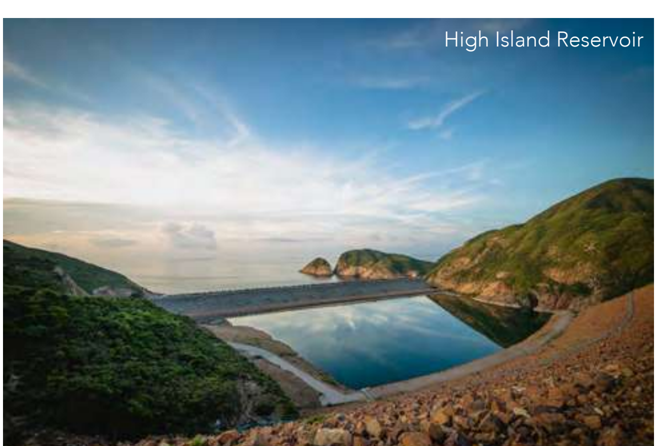
Institute members Juni Ngai, General Manager of eBRAM Centre Limited, and Gordon Liu, who is retired, recommend their favourite Hong Kong trails to hike

Kai Kung Leng

Located in Hong Kong's northern New Territories and within Lam Tsuen Country Park is Kai Kung Leng. The hike up to the 585-metre mountain peak is challenging, but promises stunning views. "Kai Kung Leng is a mountain trail with close to no trees so expect little shade and bring an umbrella and lots of water in case it gets too hot. Otherwise, there is great scenery throughout the whole trail," says Ngai. Liu says: "I recommend Kai Kung Leng trail for intermediate hikers. Walking up this trail gives you the feeling of hiking in the Alps. At the summit, you will have a full view of Shenzhen, Kam Tin, Yuen Long and Tai Mo Shan."

Tai Cham Koi

"I recommend Tai Cham Koi to Luk Wu Country Trail in Sai Kung. Though walking up Tai Cham Koi is quite tough and will make you sweat, the 360-degree view it offers at the top is very rewarding. You'll also catch a glimpse of High Island Reservoir. Attempt this hike on a clear day that isn't too humid to capture the best photos," says Liu.



High Island Reservoir

Sunset Peak

"For those who are physically fit and seeking a real challenge, try hiking the Wong Lung Hang Country Trail to Sunset Peak on Lantau Island. It is one of the most difficult trails to tackle in Hong Kong. I personally do time trials on this particular trail when I want to give my physical endurance a boost," says Ngai.

Sunset Peak

EYES & EARS

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

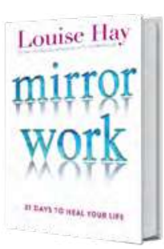
Hands Two Hands

What I'm listening to

- Albert Au, Company Secretary of a listed company

I've been listening to a piano album *Iekafue Piano* performed by the Japanese duo Hands Two Hands. Listening to their music while driving home is truly relaxing after a long day at work. It also helps when I work from home these days. I recommend every song in this album, but if you want me to pick two, I'd highly recommend their original songs *Hummingbird* and *Sweep Sweep Everyday.* Try listening to those two first!

What I'm reading



I encourage everyone to read *Mirror Work: 21 Days to Heal Your Life*, by Louise Hay. The book teaches you how to learn to love, accept and appreciate yourself through its 21-day programme. For example, we often seek the praise of others and pursue material goods, but often times, we do not get what we expect and may even become disappointed and depressed. After reading this book, I felt content with myself and also felt grateful. This book is enlightening, and I hope you have the same experience.

- Kan Miu Yee, Life Coach

Regardless of your stance on politics, *Party Time: Who Runs China and How* by Rowan Callick will help you learn more about Mainland China. The content is neither pro nor anti-communist and offers an interesting description of how facets of everyday life such as education, business, law, the military, art, culture and media are influenced by the state. A good read.

- Gordon Liu, retired

In *Work Together Anywhere: A Handbook on Working Remotely – Successfully – for Individuals, Teams, and Managers*, authors Lisette Sutherland and Kirsten Janene-Nelson dig deeper than the list of cursory tips that you usually find through a Google search. Their real world case studies and dive into data reveal real-world implementable processes and behaviours for the reader – whether you are a company leader who believes the future (even post-coronavirus lockdowns) will involve teams working remotely more frequently, or you are a freelancer who hasn't had a traditional desk in years.

- Recommended by *A Plus* editors

Put it on expenses

Hong Kong's humorist has seen some wild expenses claims over the years

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

Struggling with the business plan she was trying to write, she asked a question: "What estimate should I put in the space which says 'expenses'?"

"Picture Elton John on a shopping spree and put in a large random number," I replied. "Such as your phone number."

"Surely there must be some sort of formula?" she asked.

"The official formula is 'Think of a number and double it,'" I said.

Expenses claims are crazy. In the United Kingdom, one parliamentarian claimed expenses for little houses for his ducks, and another for a moat around his home.

Even undramatic claims can escalate. One London accountant made 328 expenses claims for taxi journeys in seven weeks. Since he was quite high up in a big accounting firm, he was allowed to approve his own expenses –and eventually had more than a thousand claims for journeys totalling upwards of £90,000 (then more than HK$900,000) before he was arrested.

And there have been people whose claims were rejected and who went to court. The most ridiculous example in my files came from (of course) the United States. A nightclub performer listed her breast implant surgery as a "work related expense" but it was rejected by tax officials on the grounds that her bust was already size 56FF – difficult to describe as undersized.

An appeal court judge, presented with details of the average upper body dimensions of her competitors, ruled that a larger chest was actually "a required condition of employment," and granted the plea.

Still, I prefer real, sometimes unpredictable expenses claims to the fake, over-organized ones that I discovered on my first day of work at a newspaper office many years ago.

Journalist union leaders told me they had calculated the maximum plausible amount a reporter might spend, and all staff had to file identical claims every week for this exact amount.

They said only one person refused to join the scheme: a religious person who insisted on writing the actual, truthful amount on his expenses form every week.

He became my hero, although he was a bit extreme. He would file an expenses claim accompanied by a receipt for "two cups of tea" but then would deduct the cost of one cup, because he had drunk it himself.

Then came the era when everyone tried to insist on itemized bills.

But they can be trouble too. I remember one case in which a Hong Kong business traveller's claim from Bangkok raised eyebrows because the bill listed: "Two beers and a virgin." He later explained that the client had ordered a drink called virgin piña colada. (Well, I believed him.)

In Hong Kong these days, we do so much on our phones that there is no chance that people will go through an itemized phone bill to check the details of every connection made.

But just a few years ago, itemized phone bills listing every call made were common in Hong Kong and elsewhere. I remember writing up an incident in Canada in which a woman sued her phone company for sending her a bill listing every call. Her husband spotted a number he had never seen before and called it – to discover his wife's secret lover. The husband packed his bags and left, and the wife sued the phone company, which seemed a bit unreasonable to me.

Anyway, in big companies these days, you no longer have to keep receipts – they give you a corporate credit card and you charge everything to that.

The time is already here when the long lists of items charged as expenses are sometimes inspected by computer programmes rather than read by humans.

I hope someone remembered to train robots that "two beers and a virgin" are an entirely reasonable part of a business lunch.