A+
DRIVING BUSINESS SUCCESS
Issue 7 Volume 16 July 2020

PLUS:

COMBATTING FRAUD

A roundtable discussion on fraud during a pandemic

PROFILE

Dr Daniel Yip, Chairman of the Federation of Hong Kong Industries

SECOND OPINIONS

How can "growth mindsets" help one go beyond and shape the future

THE WAY TO BUILDING TRUST

The Institute's new strategic plan sets out its mission to build trust in the profession and keep members relevant for the future

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PRESIDENT'S MESSAGE

"One of the strategic plan's objectives is for our services and support to be recognized as meeting the needs of members and students."

Dear members,

Hong Kong is facing its most serious outbreak of COVID-19 cases. While it can be difficult to return to lockdown conditions, we must all do our bit to stem this outbreak, protect our health and our vital healthcare resources. Remember that although we should practise social distancing, staying in contact with family and friends is important for our mental well-being. A phone call or an instant message can go a long way. Let's get through this new challenge together.

The pandemic has delayed a lot of events and new initiatives we had planned for the year. Nonetheless I'm pleased that we released the *Strategic Plan 2020-2022* last month, which details how we will build trust in our profession and prepare for the future. I was interviewed this month alongside the Institute's Chief Executive Margaret Chan about the plan, and you can find the article on page 8. We also filmed a video introduction to the plan, which will be available soon.

One of the strategic plan's objectives is for our services and support to be recognized as meeting the needs of members and students. To increase our engagement with members in the public sector, early in the month we held separate and focused outreach sessions with the Inland Revenue Department, Treasury, and Audit Commission. During the meetings, we discussed the role of the Institute and our activities and took questions from attendees. Plans are being developed to set up an interest group for our members in the public sector, to address their specific needs, support them in their career development and offer them networking opportunities.

This month, we also met virtually with the Financial Services Development Council (FSDC) to discuss ways that we could work together in developing Hong Kong's financial services industry and promote Hong Kong internationally. Working with organizations like the FSDC is one way we can advocate for our profession, and strengthen our city's leading role as an international financial centre. During the meeting, we discussed areas of mutual interest and ways to collaborate together in the future. The FSDC will soon have one of our Council's government-appointed lay members, Dr Au King Lun, as its Executive Director, which will help to strengthen our relationship. I look forward to the two bodies working closely together.

You may have recently seen a few articles and videos on social media about the Best Corporate Governance Awards from the Institute. This year, the awards are celebrating their 20th anniversary, and we held a press conference to call for entries early in July. Corporate governance is the foundation for sustainable development and market integrity. This is particularly important in times of uncertainty and market volatility. Companies with sustainable environmental, social and governance practices are more likely to outperform market counterparts during an economic downturn. Investors need to know how COVID-19 is affecting the operations of companies they invest in, and how it will affect their future. The awards are open for entries now, so if your organization wants to demonstrate its corporate governance excellence, please do not hesitate to submit your entry. Being the Chair of the Judging Panel, I look forward to reviewing the entrants later in the year, before the awards presentation in December.

I had the opportunity to share about how small firms can embrace change and become more resilient in the current economic climate during a webinar organized by the International Federation of Accountants' (IFAC) Small and Medium Practices (SMP) Advisory Group. During the webinar, "How small firms can evolve in the COVID-19 environment," we discussed how SMPs can stay relevant in the new norm and ride on the opportunity to accelerate digitalization as well as to build an advisory practice. It was interesting to discuss the issues with my fellow members of the advisory group from around the world. Although we face different local challenges in dealing with COVID-19, we can learn from the practices of accountants in other jurisdictions. It is important to remember that we are not alone in dealing with this pandemic, and that while there are differences between countries, many accountants face similar challenges. You can find a recording of the webinar on IFAC's YouTube channel.

Johnson Kong
President

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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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BCGA 2020 invites entries

The Institute's Best Corporate Governance Awards (BCGA) are celebrating their 20th anniversary this year, and are now open for entries. Over the past 20 years, the BCGA have promoted and highlighted the value of good governance, identified those listed companies and public sector organizations that represent best practices in Hong Kong, and encouraged others to follow suit. The deadline to enter is 10 August.

Recruiting QP workshop facilitators

The Institute is recruiting workshop facilitators for the new Qualification Programme (QP). Members are invited to join us in unlocking the potentials of future-ready accountants. The general requirements for facilitators are:

- A minimum of four years' membership with the Institute.
- Holding or recently held a responsible position in a professional, business, government or academic organization.
- A working knowledge and demonstrated technical competence in the module subject matter.
- Good command of spoken English.

For enquiries, please email *workshopadmin@hkicpa.org.hk*.

2020 CIA Challenge Exam

The Institute, in partnership with The Institute of Internal Auditors, is offering Institute members the 2020 Certified Internal Auditor (CIA) Challenge Exam – a fast track way to attain the globally recognized CIA designation. The application period is from 1 August until 30 September. More details can be found on the Institute's website.

Renewal of mutual recognition agreements

The Institute's mutual recognition agreements (MRA) with the Association of Chartered Certified Accountants and CPA Australia have been renewed for five years. A new MRA with the United States has also been signed, and is effective from 1 July 2020 to 31 December 2022. The full list of MRAs with overseas accounting bodies and their respective admission requirements is available on the Institute's website.

Council meeting minutes

The abridged minutes from the June Council meeting are now available. They can be found in the "Members' area" of the Institute's website.

Disciplinary findings

Fung Pui Cheung, CPA, Lee Ping Kai, CPA (practising) and Pan-China (H.K.) CPA Limited

Complaint: Failure or neglect by Fung and Pan-China to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, HKSA 500 *Audit Evidence* and HKSA 550 *Related Parties*. Failure or neglect by Lee and Pan-China to observe, maintain or otherwise apply HKSA 200, HKSA 500 and HKSA 705 *Modifications to the Opinion in the Independent Auditor's Report*.

Pan-China expressed unmodified auditor's opinions on the consolidated financial statements of Richly Field China Development Limited, a Hong Kong-listed company, and its subsidiaries (collectively, group) for the years ended 31 March 2011 and 2012. Fung was the engagement director in 2011 and Lee was the engagement director in 2012.

The Institute received a referral from the Financial Reporting Council (FRC) about irregularities in the audits. The group had agreed with a state-owned entity in China to undertake a construction project which was initially set to be completed by September 2011. From September 2011, the group signed several revised agreements with the entity which extended the construction period and redefined the scope of work. The group recognized the consideration received as deposit in advance, which was a liability, in the 2011 and 2012 financial statements.

In their audits, the respondents relied on site inspections and management representations to conclude that the construction project was in an early stage and the cost incurred was immaterial. They did not obtain and review relevant survey reports, which were necessary for assessing the progress of the project. As a result, they failed to properly evaluate whether the construction project was accounted for in the financial statements in compliance with the requirements of Hong Kong Accounting Standard 11 *Construction Contracts*.

Separately, the group engaged a financial consultancy firm for advisory service in 2010. In the financial statements, the cost of the service was recognized based on the amount paid rather than the amount accrued. In addition, the recognized cost was wholly capitalized in assets and no part of it was included in expenses. The respondents failed to critically assess whether the group's approach to accounting for the cost of the advisory service complied with applicable accounting requirements.

In addition, the group engaged two entities to assist in its investment activities in 2011, and made significant advances to those entities outside the normal course of business. In their audit, Fung and Pan-China failed to maintain adequate professional scepticism by understanding the business rationale of the advances, and critically assessing whether the group and the entities were related parties and whether the advances were recoverable.

Decisions and reasons: All the respondents were reprimanded. In addition, Fung, Lee and Pan-China were ordered to pay a penalty of HK$220,000, HK$150,000 and HK$400,000, respectively. Further, the respondents were ordered to jointly pay costs of the Institute and the FRC totalling HK$234,018. When making its decision, the Disciplinary Committee considered that the breaches were serious and warranted a deterrent sanction to convey the message that they would not be condoned. The committee also considered that the disciplinary records of Fung and Pan-China indicated their repeated failures to comply with professional standards issued by the Institute.

Ko Chiu Wan, Eric, CPA (practising)

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*; HKSA 500 *Audit Evidence*; HKSA 705 *Modifications to the Opinion in the Independent Auditor's Report*; the requirements concerning acceptance of an audit appointment under limitations of audit scope in section 410.52 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 of ethics.

The Institute conducted a follow-up practice review on Ko's sole proprietor practice, Eric CW Ko & Company. The review revealed that a number of deficiencies identified in the initial practice review had not been appropriately addressed. It also identified new significant audit deficiencies. The findings reflected Ko's failure to maintain an adequate quality control system for the practice, and raised concerns about the quality of the practice's audit engagements and the professional competence of Ko.

Decisions and reasons: The Disciplinary Committee reprimanded Ko and ordered the cancellation of his practising certificate, with no issuance of a practising certificate to him for 15 months, with effect from 2 July 2020. In addition, Ko was ordered to pay costs of disciplinary proceedings of HK$44,514. When making its decision, the committee took into consideration the particulars of the breaches committed in this case and Ko's admission of the complaint.

Yip Kai Yin, CPA (practising), Ng Man Chung, Siman, CPA (practising) and Elite Partners CPA Limited

Complaint: Failure or neglect by Yip and Elite to observe, maintain or otherwise apply HKSA 500 *Audit Evidence*, HKSA 510 *Initial Audit Engagements – Opening Balances*, HKSA 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures* and HKSA 710 *Comparative Information – Corresponding Figures and Comparative Financial Statements*. Failure or neglect by Ng to observe, maintain or otherwise apply HKSA 220 *Quality Control for an Audit of Financial Statements*. Further, Yip, Ng and Elite have been guilty of professional misconduct.

Elite was newly appointed as auditor of China Agrotech Holdings Limited, a Hong Kong-listed company for the year ended 30 June 2012. It audited the consolidated financial statements of the company and its subsidiaries for that year and expressed an unmodified auditor's opinion. Yip was the engagement director and Ng was the engagement quality control reviewer.

The Institute received a referral from the FRC about irregularities in the audit. In the previous year, the company acquired a group and issued promissory notes and convertible bonds as purchase consideration. The purchase consideration would be adjusted if the acquired group failed to achieve a required annual minimum profit. The company did not account for the consideration adjustment as a contingent consideration in accordance with Hong Kong Financial Reporting Standard 3 *Business Combinations*. The company committed further accounting errors by treating the consideration adjustment as a cash flow item and recognizing it in the financial year after the one in which the profit shortfall arose. The respondents failed to carry out appropriate audit procedures to identify the above errors in the financial statements.

The respondents appealed the committee's order, and as a result publication of the order was put on hold. On 2 June 2020, the Court allowed the respondents' application to withdraw the appeal.

Decisions and reasons: The respondents were reprimanded. Pursuant to the Disciplinary Committee's order, the practising certificates of Yip and Ng were cancelled, with no issuance of practising certificates to Yip and Ng for nine months and six months respectively, with effect from 2 June 2020 (date of withdrawal of the appeal). In addition, the committee ordered Yip, Ng and Elite to pay a penalty of HK$50,000, HK$50,000 and HK$100,000 respectively. The committee further ordered the respondents to jointly pay costs of the Institute and the FRC and it will determine the amount of costs to be paid after considering the parties' submissions on that issue. When making its decision, the committee noted that the breaches were serious. They showed that the respondents' knowledge of technical and professional standards was far below an acceptable level and, together with the respondents' past regulatory records, pointed to a blatant and persistent failure to maintain professional competence.

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

HONG KONG'S UNEMPLOYMENT RATE CLIMBS TO

6.2%

Hong Kong's unemployment rate has risen to 6.2 percent, its highest level in more than 15 years, as the city battles a new wave of coronavirus infections that could drag its waning economy further into recession. The figure, based on the period from April to June, is up from 5.9 percent recorded in March to May, and is the highest since January 2005 when the unemployment rate hit 6.4 percent. The hard-hit food and beverage sector's unemployment rate rose to 14.7 percent, its highest since SARS, and is expected to increase amid new government measures. "The still serious [pandemic] situations in certain parts of the world, and renewed surge in local cases lately serve as a timely reminder that the economic outlook is still subject to huge uncertainties," said Secretary for Labour and Welfare Law Chi-kwong.

EY GERMANY ACCUSED OF PREPARING UNQUALIFIED AUDIT PRIOR TO WIRECARD COLLAPSE

EY in Germany is in hot water after reportedly preparing an unqualified audit opinion on Wirecard's 2019 financial statements in early June, weeks before the payment company collapsed. The draft version of the audit opinion, which was delivered to Wirecard, rejected claims made by whistleblowers and concerns raised by a previous audit conducted by KPMG in Germany into Wirecard's accounts in April. KPMG was unable to confirm the existence of half of Wirecard's business and €1 billion in cash, leading the group's shares to plunge. Despite EY's audit opinion noting that Wirecard's "annual financial statements comply in all material respects with German commercial law," the opinion also said that it represented the "status quo" of the ongoing audit. EY later said it was not prepared to provide an unqualified audit.

EX-HEAD OF HONG KONG MONETARY AUTHORITY WARNS OF GLOBAL RECESSION AHEAD

Joseph Yam, former head of the Hong Kong Monetary Authority (HKMA), has warned that the world is headed towards a global recession due to the impact of the coronavirus pandemic. In a video posted by the HKMA on 27 July, Yam, who was chief executive of the HKMA from 1993 to 2009, said that cash injected by central banks won't be enough to offset declining consumption as a result of the global pandemic, which has infected over 16 million people worldwide. Yam, who helped to establish the city's peg to the United States dollar in 1983, also warns that the health crisis, coupled with tensions between the U.S. and Mainland China might drive the U.S. dollar down. "I actually worry more about the U.S. dollar falling sharply rather than the Hong Kong dollar being put under pressure on the weak side," said Yam during the video interview.

FORMER MALAYSIA PM SENTENCED TO 12 YEARS IN JAIL

Najib Razak, Malaysia's former prime minister, was found guilty of fraud and corruption linked to the disappearance of US$4.5 billion from 1MDB, a government investment fund he once controlled, and sentenced to 12 years in prison on 28 July. Razak, who served in office from 2009 to 2018, was found guilty of seven different charges of abuse of power, breach of power and money laundering in the first of five trials. He has denied any wrongdoing and hopes to appeal the ruling. The Malaysian government has also dropped charges against American investment bank Goldman Sachs, after it agreed on 24 July to a US$3.9 billion settlement for helping to raise US$6.5 billion for 1MDB. Goldman Sachs arranged three bond transactions from 2012 to 2013, of which US$2.5 billion was channelled to senior officials at the bank, according to prosecutors in the United States.

NASDAQ TEAMS UP WITH THE SINGAPORE EXCHANGE TO ATTRACT DUAL LISTINGS

Nasdaq and the Singapore Exchange (SGX) will extend their partnership to help listed companies access capital in both jurisdictions. According to a statement issued by the SGX on 21 July, the pact will include a streamlined framework for issuers seeking a secondary listing on Singapore's bourse. The framework allows documents required for the SGX listing to be based on information contained in the United States listing and filing documents to the U.S. Securities and Exchange Commission and/or Nasdaq, and to include additional disclosure in compliance with Singapore's rules. The move, *Bloomberg* reports, will boost Singapore's position as a prime location to list and comes at a critical time as tensions between the U.S. and China escalate, increasing competition between both Singapore and Hong Kong.

HONG KONG'S TROUBLED HOTELS SEEKING RATE EXEMPTION TO CUT LOSSES AMID CORONAVIRUS

Hong Kong's embattled hotel owners are pushing the government to waive rates for the next eight months up to March 2021, noting that they are operating at a loss as the coronavirus pandemic continues to keep tourist numbers at an all-time-low. The Federation of Hong Kong Hotel Owners, which represents over 200 hotels and accounts for 90 percent of the city's hotel rooms, is putting pressure on the Rating and Valuation Department to waive the rates, which is around 5 percent of net profit during normal times. The calls came as the government implemented stricter social distancing measures and temporarily banned indoor dining at restaurants on 29 July. The hotel sector, still reeling from last year's social unrest, has seen even greater losses this year, which has led to staff being furloughed or laid off.

LUCKIN COFFEE CALLS IN LIQUIDATORS TO SAVE BUSINESS FOLLOWING ACCOUNTING SCANDAL

Luckin Coffee has commissioned liquidators and financial advisors to oversee a corporate restructuring and negotiate with creditors in a bid to rescue its business, less than four months after investigators found it had inflated its revenues by nearly US$300 million. The start-up coffee chain has appointed two executives from global professional services firm Alvarez & Marsal to act as joint provisional liquidators and financial advisors from global investment bank Houlihan Lokey to work with creditors, according to a regulatory filing. The filing noted the appointments will create a stable platform and allow the company and its advisors to negotiate and restructure its financial obligations.

U.K. ACCOUNTING FIRMS SCRUTINIZED BY WATCHDOG AGAIN

The Big Four have come under fire again after an annual inspection conducted by the Financial Reporting Council (FRC) in the United Kingdom uncovered an "unacceptable" number of poorly executed company audits. The FRC found that a third of the 88 company audits in its latest review were subpar and required more than "limited improvements" in order to meet industry standards. The audits fell short in areas such as how companies report goodwill and intangible assets, revenue and contracts, and loan loss provisions. KPMG fared the worst, with only 61 percent of its sampled audits meeting industry standards. The findings add to the mounting pressure faced by the audit industry, which has faced criticism over its failure to flag up problems that led to various company collapses.

HANG SENG TECH INDEX LURES INVESTORS

The Hang Seng Tech Index, which went live on 27 July, is set to provide investors with greater access to China's technology giants. Launched by Hong Kong Stock Exchange, the new index hopes to provide Mainland China's tech companies such as Tencent Holdings, Alibaba Group Holdings, JD.com and Xiaomi with more investment opportunities as more tech companies are looking to list in Hong Kong amid growing tensions between the United States and China. Investment experts note that through the new index, it will be more convenient for investors to buy stocks from Chinese tech companies, which have generally performed well during the coronavirus pandemic due to an increase in online shopping and e-commerce. It will also encourage investors to look beyond investing in the Hang Seng Index, which is dominated by banks, property and energy companies.

BDO U.K. TO SPLIT AUDIT PRACTICE

BDO, the fifth largest audit firm in the United Kingdom, has indicated to the U.K.'s Financial Reporting Council that it will split up its audit practice from its advisory business, in a bid to convince clients it can match the Big Four on audit quality. The push to separate audit units follows a spate of accounting scandals that have brought questionable audit practices to light in the U.K. Earlier this month, the regulator told the Big Four to announce how they aim to separate their audit divisions from their wider business by October. The watchdog hopes that by having firms ringfence their audit practices, auditors will have more independence from their firms' thriving consulting divisions and challenge company directors. Mid-tier firms such as Grant Thornton, Mazars and RSM are expected to follow suit, a move that will help them to continue auditing highly sought-after FTSE 350 companies that the Big Four usually audit.

PRESIDENT OF EUROPEAN CENTRAL BANK PUSHING FOR GREENER INITIATIVES

Christine Lagarde, President of the European Central Bank (ECB), has voiced her commitment to pursuing greener objectives within the bank's operations. It is the first time the president of the ECB has pushed for more environmentally-friendly changes to its operations, which will include tapping into the bank's €2.8 trillion asset purchase scheme. The move also makes the ECB the first main central bank to use a flagship bond-buying programme to encourage green initiatives. This comes after environmental campaigners urged the ECB to switch to green bonds over "brown" bonds, which are issued by carbon-intensive companies.

A PLAN FOR ALL

Last month, the *Strategic Plan 2020-2022* was released serving as a blueprint that shares the Institute's long-term vision, and sets out its strategic aims. The Institute's President, Johnson Kong and Chief Executive, Margaret Chan, talk to *A Plus* about how the new plan will help keep members and the Hong Kong profession sustainable and relevant in the face of some unprecedented challenges

Illustrations by Gianfranco Bonadies

In Hong Kong, as with the rest of the world, the accounting profession is facing challenges in maintaining public trust. For Margaret Chan, this is clear just through talking to people. "During my interview with the Council, I encountered a lot of questions related to the public perception of the Institute and the accounting profession. People expressed concern on how to remain relevant and retain public respect. And when I engage with members, their concerns are around stringent regulation – do regulators understand their situations? There are a lot of misunderstandings about the role of regulators, our provision and services to members," says Chan, Chief Executive of the Hong Kong Institute of CPAs.

To tackle these misconceptions, everything the Institute does as an organization has to contribute to rebuilding trust in the profession, and so Chan put "building trust" at the heart of the Institute's new

strategic plan. "Some of the concerns are very valid but some are perception-driven. A lot of the initiatives we put in the plan aim, on one hand, to improve the processes and outcomes of the Institute, and on the other hand, to align understanding across the board, among society and members," she says.

Preparations for the plan began long before Chan joined the Institute in July last year, but Johnson Kong, the Institute's President, recalls that during the discussions at Council, it became clear that the CE's input was needed. "We not only needed the buy-in of the new CE, but for them to be involved in its development," says Kong.

The plan was therefore one of the important tasks Chan focused on when she joined the Institute. With a fresh perspective, she decided to approach the new plan differently from previous long range plans – by getting rid of the "long" part.

"The world is developing so fast nowadays, so a five-year planning horizon is too long. I talked to different people within the first few months of me joining and I heard different views every now and then. So I thought, 'could we really put something in writing that would remain relevant for five years?' I doubt it. That is why I thought we should focus on keeping it short," explains Chan.

Her idea of a more succinct three-year plan was fully supported by the president and the Council, and the *Strategic Plan 2020-2022: Building Trust in Our Profession* was released last month. "It's better to set it to three years and review it every year so that all the moving parts can be updated," adds Kong.

The plan identifies developing challenges for the profession and Institute to overcome and sets out strategic objectives based on the Institute's roles as a statutory organization. It also consists of specific initiatives that aim to meet those objectives, as well as a list of key action items explaining how the Institute will achieve the objectives and initiatives across the three-year time frame.

To develop a truly relevant plan, current challenges of the profession, such as advances in technology, had to be considered. "Technological advances have a huge impact on us and the way we deliver our services, the way we operate our firms, the type of services we provide and the type of training that we need to give our members," says Kong. Another major recent change in Hong Kong is the independent auditor regulatory and oversight body for public interest entity (PIE) auditors. "We're talking about independent regulation now and indeed, last year the Financial Reporting Council (FRC) took over the regulation of PIE auditors," says

Kong. "Thirdly, in our profession, we are moving away from being a generalist to a specialist. Specialization is really the way forward." He also highlights the changing operational mode of accounting firms, prompted by the COVID-19 pandemic. "In my view, the norm might become a hybrid of home and office working with more flexible hours. All these issues are incorporated one way or another in the plan."

Filling the gaps

Chan, as Kong puts it, was the main driver of the strategic plan. She and her staff had put together thoughts that formed the initial framework of the plan in preparation for the Council's strategy day in February, which was eventually cancelled because of the pandemic. Those constructive ideas and thoughts as well as the rest of the plan's development were the result of constant engagement. "We held three members' forums in September and we met with different regulators to understand their concerns and views on what they expect from us as an Institute. Drawing from what they provided, I identified areas and challenges that I think we need to address," says Chan.

She adds that extensive research was also done on the challenges faced by professional accounting bodies outside of Hong Kong. "Interestingly, the challenges that Johnson mentioned are not unique to Hong Kong. Professional bodies in other countries identified similar challenges – tough regulation, the impact of technology advancements, and the changing values and interests of younger members," she notes.

But while the responses of other accounting bodies to these challenges are insightful, Chan notes that it was crucial to ensure the plan provided solutions that were appropriate to the Hong Kong context. She points to the requirement for all registered companies to have an annual audit of their financial statements as an example of what makes the city unique from others. "We have more than one million companies registered with the Companies Registry and they are required to be audited. So you can understand the complexity of the landscape here. With many small practices conducting audits for a large number of companies, they need to understand the principle-based standards in a concise way so it is applicable to their firm or clients," says Chan. "Now with the FRC taking over the regulation of PIE auditors, we have more space to help smaller firms understand accounting principles and assist them in serving small- and medium-sized entities better. Those are the areas and gaps that I think we need fill in Hong Kong that may not be the case in other parts of the world."

> **"These initiatives have been around for a while, but now it's a matter of how we make them specific enough to make sure our members understand what we are trying to do and the community at large to recognize the value of the profession."**

The objectives and initiatives

Under the objective, "Safekeeping of our constitution, governance and organization," is the initiative to seek to implement one member one vote for the election of the Institute's president and vice-presidents. Kong sees this as one the most arduous yet important initiatives. "The action plan to achieve this will be challenging. It will probably take a long time to implement as it involves changing the Professional Accountants Ordinance (PAO)," he says. According to the strategic plan, a public consultation paper for one member one vote will be issued in the first quarter of next year.

For Chan, the initiatives related to building the profession's brand image are particularly top of mind. "These initiatives have been around for a while, but now it's a matter of how we make them specific enough to make sure our members understand what we are trying to do and the community at large to recognize the value of the profession. That's why it's great we now have a new director of corporate communications," she says, referencing the new director who joined at the start of July. "We have to promote and articulate our contributions to society. The profession has contributed positively in a lot of different areas and that should be recognized by members and society."

As part of the plan's purpose of building trust, one of the objectives seeks to ensure the quality of auditors from the point of entry and throughout the licensing period. To achieve this, the aim is to implement "registered audit practice" proposals to strengthen licensing and address audit quality issues. "Currently, after becoming a CPA member and obtaining additional years of audit experience you can get a practising certificate, qualifying you to sign an audit report. Council has previously looked into a mechanism to require evidence of competency and an appropriate quality control system to be in place for one to do an audit. So we would like to propose a related amendment to the PAO and a consultation paper is planned to be

released next year," Chan explains.

To continue promoting the "Accounting Plus" concept, one of the initiatives is to further develop specializations for members and issue appropriate ethics and best practice guidance. Chan says the Institute is focusing on rolling out a foundation course in forensic accounting as a starting point. A broader framework for forensic accounting training will also be created. "We could consider elevating the Forensics Interest Group to become a faculty. This was the approach taken for restructuring and insolvency, where the interest group and Insolvency Practitioners Committee were combined and became the Restructuring and Insolvency Faculty. Within a year, on top of the existing foundation course, we launched the specialist qualification, which was the diploma course, and then the specialist designation. So to build a framework for forensic accounting, we may follow the same plan," says Kong.

Another initiative aims to strengthen thought leadership advocacy. Chan notes that while the Institute is already active in advocating its views on a global scale across different areas, there is still room to be more vocal on other topics, particularly sustainability. "Environmental, social and governance assurance could be an area we can focus on to assist the profession and other people in Hong Kong to give rise to better sustainability reporting," she says.

The Institute is also working to elevate its policy research work. With the reality of research publications often taking years to complete, Chan would like to work on more concise pieces, such as survey reports and experience sharing. "We are trying to collate various topics and ideas, and materials that would attract sufficient interest from the community and then build on it,"

> "This plan is receptive to members. In the past, our strategic plans were very high level and talked a lot about strategies and objectives rather than gave a detailed working plan for people to know what is going to be done."

says Chan. She adds that she has observed other professional bodies increasingly bringing experts together for discussions as a way of pinpointing topics that need to be examined. "Even identifying the problem is not that easy. That is why we should try to solicit different input before we can really come to a solution." Chan and Kong suggest that future research or advocacy topics could include business valuations and how to conduct remote audits.

Kong says overall, the initiatives in the plan were designed to be straightforward for everyone. "In my view, this plan is receptive to members. In the past, our strategic plans were very high level and talked a lot about strategies and objectives rather than gave a detailed working plan for people to know what is going to be done," he says. "This plan is easy to understand and easy to follow, and I hope members will like it."

To ensure these initiatives can be achieved within the next three years, Chan says the Institute will review the plan and share updates on the plan with the Council. "One of the initiatives is actually related to the efficiency and effectiveness of our organization, so it's important to focus on using sufficient or the right type of resources and allocate those to the different action items."

Meaning for members

Both Kong and Chan are confident that the strategic objectives and related initiatives are suitable and effective for keeping members relevant and well-rewarded leaders of the profession and the wider society. "I think we have tried very hard to make sure these strategic objectives and initiatives are issues close to members' hearts. The 27 action items are very specific. If you look into it, you can see that they cover a whole spectrum of our members. We have something for accountants in business, practitioners, small- and medium-sized practices, students, young members and we have something for the staff," says Kong.

One issue that they acknowledge is important to members, and that is covered in the plan, is the improvement of work-life balance and members' well-being. "Johnson has been previously advocating for more interest groups. We want to attract members to join different interest groups so that they could engage in different activities that would help them expand their social network," says Chan. "I think another key area is finding a way to allow members to give value to society. We do have different types of volunteer work and social initiatives, and by involving members in these activities we can expand their horizon from just being accountants to being members of society."

Kong is particularly proud to finally launch the strategic plan – finalizing the strategic plan was first on his list of priorities when he became president. "It's important that we got it launched and that we have a plan in place that is really relevant to our members and sets targets of what to achieve over the

next few years. I think the most important part of it is people know what our plans are," he says. "It's a mixture of feelings. I'm very glad we have got this plan launched, but on the other hand there's a lot of things that I would like to see happen before the end of my presidency. But COVID-19 and the restrictions have made things difficult."

While COVID-19 has prevented a lot face-to-face engagements, that doesn't mean the engagements should stop. "It should never stop. The engagement exercise is ongoing. Last year, we conducted general members' forums, but if the situation allows, we would like to organize forums targeting different member segments, like a PAIB members' forum and a young members' forum." says Chan.

The big challenge, she adds, is reaching out to members who have so far remained silent, yet are crucial for the Institute to hear views and feedback from. "There is a lot of analysis we need to do, a lot of ways we need to explore to get in touch with them. I think it goes beyond forums, seminars or events. It's about other interactions like those through social media. A lot of people, especially the younger generation, do not think that they need to come to see us. So it's a matter of how we craft the message and communicate in an effective manner."

Kong and Chan hope that when members read through the strategic plan, they will see things of value to them. "Different segments of our membership have different focuses and needs but I would like them to see the bigger picture and overall direction of the Institute," Chan notes. "With the Institute serving so many members, we certainly need to do more than serve individual needs, so I hope members recognize that they are part of a family, and that in this family we are serving everybody."

Strategic Plan 2020-2022: Building Trust in Our Profession sets out strategic objectives and specific initiatives based on the Institute's vision, mission and values; trends that will affect Hong Kong and the profession; and stakeholder expectations. It can be found on the Institute's website.

SECOND OPINIONS: HOW CAN "GROWTH MINDSETS" HELP ONE GO BEYOND AND SHAPE THE FUTURE?

KIT WONG
DIRECTOR OF EDUCATION AND TRAINING
HONG KONG INSTITUTE OF CPAS
AND AN INSTITUTE MEMBER

The world is evolving rapidly, so too is the business environment. This rapid evolution is driven by factors including technological advancement, the proliferation of innovative business models, changing societal expectations and more. These changes have had a significant impact on the role of accountants in society, creating new and higher expectations of them.

Accountants are no longer left only to deal with numbers, but also to analyse and advise. In the future, the results generated by artificial intelligence, identifying the root causes of the issues, coming up with different alternatives, and articulating the messages to stakeholders will become even more necessary skills for professional accountants.

However, change isn't always welcomed with open arms. Some people succeed under change while others – who are equally talented – do not. Why is this? It is because mindset plays a crucial process. Professionals need to have a mindset dedicated to growth. Building up a "growth mindset" allows us to improve our skills, knowledge and expertise – all allowing us to better advise our clients and stakeholders.

The four key ingredients to growth are: challenges; mistakes; efforts; and feedback. Here are a few behaviours to help continuously improve ourselves with a growth mindset:

- Embrace challenging situations: Work through challenges rather than avoiding them and seeing them as threats.
- Persist in the face of obstacles: Treat them as learning opportunities rather than getting discouraged when making mistakes.
- See efforts as a pathway to success: Effort is an important part of the learning process rather than something that you must do when you are not good enough.
- Learn from pain: Appreciate constructive feedback rather than getting defensive or taking it personally.

> "The four key ingredients to growth are: challenges; mistakes; efforts; and feedback."

For future generations of accountants, the Institute's Qualification Programme (QP) aims at qualifying accountants with the agility needed to meet future market needs. By embracing the challenges through the QP, the candidates will grow and discover a plethora of relevant skills by completing training programmes, passing professional examinations and acquiring practical experience under an authorized employer or supervisor. In the longer term, we hope that these future-ready accountants will succeed not only in accounting but also in an increasingly wide range of specializations, sectors and locations.

PAUL SHE
PRACTISING DIRECTOR
MAZARS HONG KONG
AND AN INSTITUTE MEMBER

A sharing by one of my seniors, who was engaged in liquidation, inspired me to enter the profession. I learned from him that an accounting career can bring us in touch with people from a diverse range of backgrounds and offers the opportunity to meet interesting people and encounter interesting things. For me, a growth mindset opens up a dynamic and exciting career, and one I have enjoyed for many years. CPAs with growth mindsets are at a competitive advantage to take up the diversified roles available, but you must have the desire for learning and self-improvement.

CPAs should always be proactive. But how? Asking "why" can help you gain insights into what you need to do differently to achieve a goal. Hence, rather than knowing "how" and doing the tasks like a robot, always ask "why" to understand the purpose, and the pros and cons. By doing so, you can be able to overcome the challenges in the ever-changing business world.

In the long-term, the opportunities for accounting professionals will continue to grow and expand. Striving to add value to yourselves is the key to staying ahead in the profession. You need to show your strengths at work and be able to solve problems for your companies and clients. Accountants nowadays need to be more compatible and open-minded and to stay current with changes in the industry.

"Asking 'why' can help you gain insights into what you need to do differently to achieve a goal."

The CPA designation has long been a symbol of professionalism, representing competency in specialized and professional knowledge and skills. With the changing demands for accountants' services, professionalism requires growth. Increasingly, accountants must demonstrate transparency and integrity. Transparency enables our stakeholders to understand the information we give to them and the decisions we make. Integrity means that our stakeholders can trust our judgement, knowing that we make decisions that help them, yet do not harm society. Together these values build the professional image of accountants in society.

For the next generation of accountants, the new QP incorporates more business-related workshops, where students need to investigate real-life scenarios and present the analysis. Group discussions drive students to share their knowledge and think in multiple angles – a key element of a growth mindset. You will be capable of responding to the various business opportunities, taking on the challenges and excelling in the rapidly changing business world.

LANCO LEUNG
ACCOUNTING MANAGER
SWIRE COCA-COLA LTD.
AND AN INSTITUTE MEMBER

Creating value is important in an ever-changing world, especially in our profession. As professional accountants, we need to set ourselves up to be relevant and to know what is going on in the world. This is a constant process, yet by going beyond our scope of work we can create value.

Having been an internal auditor and worked in a finance department, I need to take the initiative to understand the operation of other departments and give advice to colleagues. To create value, we have to analyse the risks in different areas including finance and security. Take for instance external factors such as volatile oil prices and changes in regulatory regimes, which may pose risks to the company. During the pandemic, it is essential to keep an eye on cost control and cash flow. Avoiding liquidity risk is the priority.

"With a growth mindset complementing our CPA training, we are well positioned to go beyond and shape our future."

Assessing the possible impact of risks and the probability of their occurrence – tasks of many accountants including internal auditors – requires a growth mindset, so as to be aware of how the business environment is changing.

By making the company's operation more efficient through cost-effective suggestions to reduce risks, accountants can contribute to shaping the future of their organization or clients. When the departments' key performance indicators improve after your recommendations are adopted, you have a great sense of achievement.

To succeed in this era, accountants must develop expertise in addition to their accounting skills, such as in taxation, governance, risk management and restructuring – that is, to develop a growth mindset. With our strong analytical skills and interpersonal skills, accountants can contribute to a wide range of specializations.

With a growth mindset complementing our CPA training, we are well positioned to go beyond and shape the future. Through the QP, I was trained in a wide range of skills. My ability to apply professional knowledge and skills was strengthened and I learned new presentation skills. These skills are very helpful for my daily work, enabling me to provide explanation to figures, give an analysis for the operation and offer recommendations.

By understanding the real-world working situations, reading news to learn about the international economy and political environment, attending the Institute's continuing professional development events, and understanding your business operations, you can keep improving your skills and mindset.

REVITALIZING MADE IN HONG KONG

Hong Kong is entering a new era of the rejuvenation of manufacturing, says Dr Daniel Yip, Chairman of the Federation of Hong Kong Industries. He talks to Nicky Burridge about the move towards high value-added production and upgrading to "Industry 4.0," amid problems brought by the pandemic and the U.S.-China trade war

Photography by Calvin Sit

Dr Daniel Yip, Chairman of the Federation of Hong Kong Industries (FHKI), is on a mission to change people's perceptions about manufacturing. "People think the manufacturing industry in Hong Kong is dying. They think a lot of factories have moved to China, so there is not much left here. We hold a different view," he says. The federation, a statutory organization that supports Hong Kong's industrial and commercial sectors, is working to reinvent industry in the city.

Yip points out that the most valuable part of manufacturing is not the physical assembly of goods, but rather product design and the development of intellectual property. "It is not important if the product is made in Hong Kong or made in China. The most important thing is how you develop your product, how you engineer it and how you innovate, and that is still happening here," he says.

In fact, he believes we are entering a new era of the rejuvenation of industry in Hong Kong. "Some people think reindustrialization means relocating factories back to Hong Kong, but it really means how can we improve and advance our overall industrial systems, including design, engineering, production, and even using state-of-the-art technology to market products."

Dr Daniel Yip is the Managing Director of G.E.W. International Corporation. He has led the company to transform from an original equipment manufacturer to an original brand manufacturer.

Industry 4.0

A key part of this rejuvenation is "Industry 4.0," or the transformation of traditional manufacturing using the latest technology to enhance productivity. Yip believes the development of smart manufacturing will not only improve Hong Kong's industrial systems, but will also help to overcome some of the challenges it has previously faced as a manufacturing centre, such as high labour costs and a shortage of land.

"Industry 4.0 is the technique for the re-engineering of the manufacturing process using the latest 5G, cloud computing or artificial intelligence (AI) technology," he explains. "If we are able to use sensors and AI algorithms to monitor production speed and quality, it enhances productivity."

The Hong Kong government is actively promoting reindustrialization and the adoption of Industry 4.0, as part of its focus on innovation and technology. It has allocated HK$2 billion for a new Reindustrialization Funding Scheme to provide match funding for manufacturers setting up smart production lines in the city. It has also established Precision Manufacturing Centre in Tai Po and Advanced Manufacturing Centre in Tseung Kwan O, with a factory in the Yuen Long Industrial Estate in the process of being converted into a microelectronics centre. The three centres will provide agile production facilities for companies looking to incorporate technology into their manufacturing or testing processes.

Yip says the federation is also promoting smart manufacturing to its members, working in conjunction with the government, universities, research centres and the Hong Kong Productivity Council (HKPC), the body tasked with helping businesses introduce more efficient technology, to encourage its adoption. "We want to provide the most up-to-date information to our members to help them upgrade their overall capacity," he says. It is leveraging the expertise its automation group has in this area by hosting seminars for other manufacturing groups to learn how they can incorporate the technology into their own operations, as well as working with HKPC to offer study missions and training on Industry 4.0.

A second-generation engineer

Yip, who has been working in manufacturing for more than 30 years, describes himself as being a second-generation engineer. After completing a Bachelor's degree in Mechanical Engineering at Rutgers University in the United States, he went on to do an MBA, before returning to Hong Kong and working as an engineer at electrical appliance manufacturer G.E.W. International Corporation, which was founded by his father. He slowly worked his way up through management, eventually taking over as managing director.

Around 10 years ago, he obtained a Doctorate from the University of Warwick in the United Kingdom in engineering management. "It gave me an insight into the practical and the academia side of things. I have an engineering background, a bit of a management background and a little bit of an academic one, so I have a spectrum of different perspectives," he says.

Yip joined the federation in 1995 as a member of the electrical products group, one of 32 different industry groups the federation represents. He gradually moved up the ladder and was elected chairman of this group, followed by the elected deputy chairman of the federation eight years ago, and now chairman – a post that is elected by the heads of the 32 different industry groups. He says: "It is a great experience to be chairman as through the influence of the federation, I can work closely with my team to enhance the impact Hong Kong industry has on society. It is a great honour to be the chairman."

He spends around 70 percent of his time on his role as Managing Director of G.E.W., setting the company's strategy, monitoring its key performance indicators, and assisting with product development concepts to ensure the company meets future market demands. The other 30 percent of his time is spent at the federation, where he

> **"We have to educate young people because industry has been ignored in Hong Kong for quite a long time."**

liaises closely with his six deputy chairmen, working to promote industry in Hong Kong through a combination of advocacy, creating networks, and offering services to members in areas such as brand upgrading, talent development and product certification.

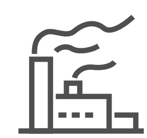
Yip says one of the aspects of his role as federation Chairman that he likes the most is working with different partners, such as the government, universities and research centres, to help promote and rejuvenate industry. "Everybody wants to help, but they don't understand the actual problems that industry is facing. By communicating with them, we can have a very beneficial effect." He gives the example of the Dedicated Fund on Branding, Upgrading and Domestic Sales, which originally offered companies up to HK$1 million if they were expanding into the Mainland and HK$1 million if they were expanding into the Association of Southeast Asian Nations (ASEAN) countries. "But some manufacturers felt they did not have the resources to expand into two huge markets at the same time. They told FHKI it would be more flexible if they could have HK$2 million to invest in either the Mainland or Southeast Asian markets. We advised the government and they changed the funding policy swiftly."

The other aspect that he enjoys is nurturing the younger generation. "We have to educate young people because industry has been ignored in Hong Kong for quite a long time." He adds that young people still think manufacturing happens in an unpleasant environment that is very dirty, noisy and hot, when in reality factories are now clean and air-conditioned, and key parts of modern manufacturing, such as developing software and other technologies, do not take place in a factory at all. As a result, the federation is working to rebrand industry to help it appeal to the younger generation, using social media to promote its activities so that young people are more likely to read about them.

The federation also puts a strong emphasis on helping young people acquire the skills future industry will need, particularly in areas such as software engineering, microelectronics devices, such as sensors and Internet of Things, data analytics and AI techniques that can be used in design and engineering. It works closely with the Vocational Training Council to ensure students are up to date with the latest industry requirements. It has strong links with City University of Hong Kong and the Hong Kong Polytechnic University, helping to design internship programmes and offer industry experience to students.

Challenges and opportunities

Like many other sectors, industry has been adversely impacted by the COVID-19 pandemic. "Manufacturers are facing issues in several areas. One problem is that customers are cancelling orders, which is creating cashflow problems, and in turn leading to companies making people redundant," Yip says. He adds that although Hong Kong is not a big centre for physical manufacturing,



The Federation of Hong Kong Industries is Hong Kong's statutory chamber. Established in 1960, its main areas of work include promoting and fostering the interests of Hong Kong industrial and business communities, facilitating trade and business development, and reflecting business communities' views to the Hong Kong government.

it is estimated that around 500,000 people are employed in support activities, such as logistics, shipping, and import and export businesses.

The federation has been appealing to the government for help on behalf of its members, and it welcomed the Employment Support Scheme and the SME Loan Guarantee Scheme. It also held meetings with the Hong Kong Export Credit Insurance Corporation, as many members were not receiving payment for orders they had shipped, due to companies overseas going bankrupt. These discussions led to the introduction of the "100 percent credit limit top-up scheme."

But Yip points out that even before the pandemic, industry had already been facing a tough 24 months due to the U.S.-China trade tensions, which saw the U.S. impose tariffs on the majority of goods imported from China. As a result, the federation has been putting efforts into helping its members diversify away from the U.S. and instead explore opportunities in Southeast Asia and Mainland China. "We try to identify new markets and how to approach those markets," he says.

The federation has been hosting seminars on different ASEAN countries, such as Thailand and Vietnam, and lobbying the Hong Kong government to introduce incentives to help companies move into new markets, such as the recently expanded Dedicated Fund on Branding, Upgrading and Domestic Sales.

The Greater Bay Area (GBA) is another area the federation is encouraging its members to explore. Yip points out that members typically think of the GBA in terms of manufacturing, but with 70 million people and the highest domestic consumption purchasing power in China, it is also an important market. "You don't have to go to Thailand or Indonesia, your market is next to you," he says. With this in mind, the federation recently set up virtual exhibition platform to help members exhibit their products to potential buyers in the GBA.

> "You have to diversify your risk into new markets and invest smartly in new products to keep ahead of competitors."

Adapting to change

Yip says accountants have an important role to play in helping companies set up operations in new countries, particularly in terms of understanding the local tax regime and getting to grips with transfer pricing rules if they have factories and a head office in different jurisdictions.

He adds that at its recent seminar on Thailand, the federation invited accountants from KPMG to talk members through the country's tax regime. "In the future, we will hold a seminar with the Big Four accounting firms on the development of the free trade zone in Hainan province, looking at the best way companies that already have operations in China can leverage the tax benefit," he says.

The challenge of adapting to changing markets is something Yip has experienced first-hand at his own company. He remembers losing business during the global financial crisis, which hit shortly after G.E.W. began expanding into the Mainland, and coincided with the enforcement of new labour laws that increased the company's labour costs by around 40 percent. "It was a very difficult moment and one I won't forget. On the one hand, we were losing business because of the global financial crisis, on the other hand, the Chinese business was slowly improving. It was an important turning point."

He also led the transformation of his company from being an original equipment manufacturer, to an original brand manufacturer, as the former became increasingly competitive due to the additional manufacturing capacity in China. This change reduced the company's reliance on the U.S. as a market, going from accounting for around half of its product sales 15 years ago, to only a small percentage now. As a result, it has not been significantly impacted by the U.S.-China trade tensions. "Riding on the growth of the Chinese domestic consumption market and starting to use e-commerce almost 10 years ago means we are not suffering so much. I want to share my story with members. You have to diversify your risk into new markets and invest smartly in new products to keep ahead of competitors. I am not the only one, there are many success stories and we try to use these case studies to help our members," he says. He adds that it is important to keep an open mind and be willing to work with young people, as they have a different perspective on future technology.

Yip's two jobs keep him busy, and he admits he does not have much time for cultivating hobbies. "I go jogging a little bit, and spending time with my family and my dog is very important to me."

Yip received a Bachelor's degree in Mechanical Engineering from Rutgers University in 1987, and an Engineering Management Doctorate degree from the University of Warwick in 2008.

by Nelson Chow

Supply Chain and Operations Consulting Partner at EY Advisory Services, on how supply chains can better navigate future disruption by preparing today

How to deliver long-term value by reframing and transforming your supply chain

There is no question that the pandemic has reshaped the relationship between business and society. The general population now views businesses as not only providers of goods and services, but as organizations that have a vital role to play in solving humanity's greatest challenges. This heightened scrutiny means capital and talent will shift from organizations that create value only for their shareholders to those that create value in the long term, across a broader group of stakeholders, including employees, consumers and society.

As the new normal emerges, economic and societal issues such as climate change, inclusivity, human rights will again dominate the agenda, and businesses will be expected to play a role in addressing them. As the backbone of every business, supply chains should be prepared to assist their businesses to deliver those long-term values.

Here are three things that businesses can do now to reframe and transform their supply chain.

1. Use data analytics to increase end-to-end supply chain transparency

A modern supply chain needs to be data-driven. With advancements in technology, data is now a key building block in many modern supply chains as opposed to just a supplement to traditional models.

COVID-19 continues to teach businesses the need to adapt. Working from home is more commonplace, and personal protective equipment and masks are deemed by many as the most valuable product of the year. Yet, many companies face difficulties in meeting changes in demand led by differences in a customer's income, consumption patterns and the desire to spend. One cannot rely entirely on human intelligence to forecast the supply required from businesses to meet market demands.

This is where data can help. By gathering and analysing big data from online (e.g. e-commerce and social media) and traditional channels (e.g. transactional records), businesses can have better visibility to forecast and model market demands. Such visibility allows companies to gain meaningful and actionable insights such as a supplier's financial health, material availability, and market and economic indicators.

These insights are especially important in uncertain times like today because they not only support but also guide decision-making on how businesses can plan workforce, optimize distribution channels, rebalance production mix and identify proactive changes in customer demands.

2. Optimize the supply chain operating model

Many linear supply chains' operating models are no longer effective today. In order to sustain profitable growth, supply chains must meet changing consumer demands and companies reconfigure their operating models.

For example, a major grocer in Mainland China has demonstrated the importance of continuously optimizing its business and supply chain model to overcome challenges in an ever-changing market environment.

During the pandemic, there was a wave of panic buying of daily essentials before the city went into lockdown. The grocer would not have been able to satisfy the surge in demand if it had kept the traditional linear procurement model of purchasing from its line of wholesalers and purchasing agents. In order to shorten their procurement lead time, the grocer expanded their sourcing channels and boosted transportation speed. They set up direct buying channels with suppliers to ensure goods and services could be sourced and delivered to their retail stores in a more timely manner.

Of course, this operating model is not meant to be around forever. The grocer will eventually need to recalibrate when the pandemic ends in order to create long-term value. The key is that operating models should align with business strategies and be flexible in navigating uncertainties.

3. Incorporate digital innovation to achieve operational excellence

In principle, an effective supply chain sources, plans, makes and moves to fulfil customer needs. What used to be a rigid and linear supply chain is now being replaced with a collaborative and interconnected supply chain network. In this ecosystem era, we recognize the importance of incorporating innovation and digital into a supply chain.

We should be continuously challenging ourselves with "what if" questions: What if we can deliver products and services that satisfy our customers in half the time and at half the cost? What if two-hour delivery and 100 percent service levels are required for survival? What if bots negotiate on behalf of the company? What if tax rates increase due to sustainability requirements and trade barriers?

These are all valid scenarios that will one day be realized. What companies can do now is to start building "new infrastructures" into their business, such as process automation, 3D printing for rapid prototyping, artificial intelligence for budgeting and forecasting customer demand, blockchain for intellectual property management and contract management, etc.

Uncertain times like today should serve as a wake-up call for many companies to start their transformation journey. Leaders of a company, no matter the industry, can take the lead to make a difference today for their business and help it to be better equipped to handle digitally disrupted markets. These are some critical questions senior management would need to constantly consider in the era of today's "new normal."

My vision for the Companies Ordinance (Cap. 622)

The re-write of the Companies Ordinance (Cap. 622) introduced a number of questions and inconsistencies. Belinda Wong's e-Series sheds light on the various legal pitfalls that may arise and help professionals avoid them

Belinda Wong is the author of *Hong Kong Company Secretary's Practice Manual* and *Hong Kong Company Secretary Checklist*, and Director of Leader Corporate Services Limited. She is a mentor of United College and an advisor to the alumni association of the Faculty of Education of the Chinese University of Hong Kong. She is also a member of the Hong Kong General Chamber of Commerce and the Chinese Manufacturers Association of Hong Kong.

In July 2012, the Companies Ordinance (Cap. 622) (CO) was passed by the Legislative Council and became effective on 3 March 2014. The ordinance provides a modernized legal framework for the incorporation and operation of companies in Hong Kong. It aims to achieve four main objectives, namely, to enhance corporate governance, ensure better regulation, facilitate business, and modernize the law. Since it is a re-write, the legal concepts remain unchanged. Many had welcomed this modernized piece of legislation, but were unaware that there are conflicts and inconsistencies therein. These include the following:

With regards to the sections on striking off, or the de-registration of a limited company, the last letter to be sent by the Registrar of Companies before taking formal legal action for striking-off is to write to the founder member(s). A founder member is one who agrees to become a member on incorporation. But, shares that are registered in the name of a member can be transferred to another individual or body corporate, and it would not make sense to send a letter to a person who may or may not still be a member. Furthermore, if a member is not involved in the management of the company, he or she should not be in a position to reply whether the company is still in operation. It is, therefore, necessary to delete the relevant section to relieve the "founder member" of the burden of answering queries from the Registrar of Companies.

Another serious pitfall is the vote counting system. Before the introduction of the new CO, market practitioners had the perception that a written resolution is equivalent to a show of hands i.e. one vote for one signature. However, in the sections on the repurchase of shares, a written resolution can be passed in lieu of holding a general meeting. The sections overlook the fact that shares subject to a repurchase would not have voting rights. A member selling part of his or her shares to the company would face the dilemma of determining whether his or her signature could be counted as a "yes" to the written resolution or treated as "invalid," as part of his or her shares should not vote in the resolution. The simplest way to avoid falling into this trap is to hold a general meeting to approve share repurchases and conduct a poll vote.

Representatives, or proxies, can now speak and vote at general meetings. But if a person is serving as a proxy to more than two members, there is a question of how votes could be counted via a show of hands. Thus, it is imperative that a mechanism for vote counting be devised via a show of hands for all market practitioners to follow.

Section 588(5) on the General Rules on Votes also contains a serious fault. It states that if any share in a company is held in trust for the company, those shares do not, for so long as they are so held, confer any right to vote at a general meeting. This leads to two issues. Firstly, the CO does not recognize trust arrangements. Trust details should not enter into the register of members. Secondly, if a company can hold its own shares, it is impossible to present the correct share capital in the financial statements. The actual amount of share capital received by the company would be different from the amount stated in the return(s) of allotments and annual returns filed with the Companies Registry. This might be construed as misrepresentation.

With all these material issues and many more in the CO, it is time for a complete review of the CO to mitigate its inherent legal pitfalls.

e-Series

To help professionals understand the issues in the CO, I have conducted an e-Series course "Issues in the Companies Ordinance (Cap. 622) – from a company secretary's perspective," highlights some of these conflicts and inconsistencies, including those discussed above, and offers measures to help professionals avoid falling into legal traps.

BEATING THE SCAMMERS

PETER TISMAN Director of Advocacy and Practice Development, Hong Kong Institute of CPAs	**JACK JIA** Partner, Forensic & Integrity Services, EY	**JANIE WONG** Partner, Addleshaw Goddard	**PETER GLANVILLE** Senior Managing Director, FTI Consulting	**GUY NORMAN** Partner, Financial Advisory, Deloitte China	**KEITH WILLIAMSON** Managing Director, Alvarez & Marsal

Companies are experiencing a growing problem. The COVID-19 pandemic has triggered and highlighted a surge of fraudulent activities that Institute members need to be on their guard against. Nicky Burridge talks to experts including from the Institute's Forensics Interest Group Management Committee, about the need for businesses and CPAs to be more sceptical than ever

Photography by Leslie Montgomery

For accountants working at companies with operations in multiple jurisdictions, it may not be unusual to receive a telephone call from an overseas tax authority. The person on the line explains that your company has unpaid tax for a previous tax year. The situation is complicated, and they spend 30 minutes talking you through it to help you resolve it.

They seem very knowledgeable about your company and its operations. It is only towards the end of the call, when you are close to making a transfer, that you become suspicious that something is not right.

This scenario is one of many examples of new and more sophisticated money transfer frauds that have emerged recently. Fraudsters have moved on from sending crude phishing emails with bad grammar and spelling mistakes, to hacking into companies' systems to gain knowledge of their operations, then using these insights to create plausible scenarios for money transfers.

While there are no official figures for Hong Kong, anecdotal evidence – as well as surveys from other jurisdictions – suggest the incidence of fraud has risen during the COVID-19 pandemic, as it typically does during economic downturns. The virus, which has led to full or partial lockdowns in multiple countries, has created both increased opportunities and increased motivation for fraud.

Peter Glanville, Senior Managing Director at FTI Consulting, a Hong Kong Institute of CPAs member and a member of the Forensics Interest Group (ForensIG) Management Committee, explains that many employers were not prepared for having their staff work from home. The situation has exposed them to a higher risk of fraud, as staff may not be protected by the same security and firewalls at home as they would be in the office. "I think it has facilitated an increase in phishing," he says. Home working arrangements also mean internal audit teams have been split up, and it takes time for them to adjust to working collaboratively in different locations, meaning they may be slower and less efficient while they adapt, according to Guy Norman, Partner, Financial Advisory, at Deloitte China, an Institute member and Convenor of the ForensIG Management Committee.

Keith Williamson, Managing Director at Alvarez & Marsal, an Institute member and ForensIG Management Committee member, points out that the financial pressure caused by the pandemic also increases the likelihood of both people and companies committing fraud. "Companies that are trying to stay alive and stave off their shareholders, and bankers and suppliers from calling in payments, may be adjusting their financial statements. Employees may be committing fraud because their personal circumstances are squeezed, and they are only earning a third of their previous pay or not getting bonuses. They may be trying to manipulate their expenses or commit procurement fraud," he says. "There may be more bribery and corruption as well because,

in a very competitive environment, companies are doing everything they can to survive."

The virus itself has also created new opportunities for fraud. Peter Tisman, the Hong Kong Institute of CPAs' Director of Advocacy and Practice Development, points out that the financial aid schemes set up by governments to support the corporate sector create opportunities for fraudulent applications to be made.

Janie Wong, Partner at Addleshaw Goddard, adds that the need for personal protective equipment (PPE) has also led to fraudsters taking advantage of people's fear to launch email scams in which they claim to be offering PPE. "It is a usual business compromise email scam, but it uses the emergency so that people may be less vigilant than usual," she says.

Common frauds

One of the key types of fraud that accountants need to be on their guard against is financial statement fraud, particularly in terms of revenue recognition. Norman explains: "In a financial downturn, companies will often be trying to pull forward revenue to meet expectations for prior months. In businesses that may have long or complicated contracts, where it is difficult to determine where revenue should actually be recognized, I think revenue recognition fraud is highly likely to be happening during these times to make companies look better than they are." He adds that as revenue recognition is one of the most complex areas of accounting, having industry expertise to understand the trends and policies of revenue recognition for other companies in the same sector is important.

Glanville says another area in which accountants need to be vigilant is undisclosed related-party transactions, with payment and ownership structures not always clear for companies in Hong Kong. "A lot of work goes into establishing whether, according to accounting standards, transactions are undertaken with related parties," he says.

Tisman warns that an issue in Hong Kong is the temptation for companies to engage in insolvent trading. "At the moment it is very difficult to take action against people who continue trading when they know they can't pay the bills. We as the Institute have been pushing for laws to be introduced against it, along with legislation to facilitate corporate rescue, for a long time," he says.

Since the pandemic first hit, Wong has also observed an increase in money transfer frauds involving sums of around HK$100,000, which is just above the jurisdictional limit of the Small Claims Tribunal. She explains that in order for companies to try to recoup their money, they need a court judgment, and in Hong Kong an expedited procedure cannot be used in a fraud case if it is defended. But going to trial is expensive, and companies are unlikely to be able to recoup more than they will spend in legal costs. "It is very frustrating, but there is not much we can do," she says.

Jack Jia, Partner, Forensic & Integrity Services, Ernst & Young Advisory Services Limited (EY),

"I think revenue recognition fraud is highly likely to be happening during these times to make companies look better than they are."

and a ForensIG Management Committee member, has seen a rise in cyberattacks with the size of these also increasing. "We are starting to see that the scale is so big, it makes a material impact on companies' financial statements and the going concern of the company," he says.

Rising challenges

The pandemic has also created new challenges for forensic accountants tasked with detecting fraud. Jia points out that instead of getting original documents from companies, forensic accountants are now being sent scanned copies, making it harder to detect if something has been changed or a page has been substituted. "We had incidents during the peak of COVID-19, when the client only allowed one person from our team to visit their site and that person could only visit it once a week. In the past, we would have three or four people on site full time," he says.

He adds that during the pandemic many companies have also been accepting scanned signatures on documents. "We spend a lot more time now examining the scanned copies and metadata to see if, potentially, the date and time of the scanned copies were manipulated and how electronic signatures were applied," he says. "With the originals you can see the ink, but now you have to try to think of equivalent procedures for scanned copies because the client is telling you this is the most original form."

Glanville agrees that not being able to have staff on the ground at companies during the pandemic has created challenges. He explains that if accountants are investigating suspected revenue recognition fraud, they would engage with a business intelligence team to establish, for example, whether sales of a particular product had really grown substantially. "We would speak to people on the ground and work out whether there was a steep ramp up in those products coming in and out of the warehouse. Having people on the ground is an important supplement to forensic accounting work. It was difficult to ask questions and verify things during the height of the lockdown." He also points to the value of shortseller reports which, he says, often have a reasonable basis for their accusations. Jia adds that while physical assets can be traced and observed, the business models of companies operating in new and emerging areas, such as fintech and online sales, make investigations more challenging, with forensic accountants needing to work with technology experts and sector specialists.

Another area in which lockdowns are likely to impact investigations is that employees working from home may be using social media and personal devices to communicate with their colleagues. "In an investigation scenario, how do you get control of personal devices that they have been using for corporate communications?" Wong says. Jia also points out that there is also ambiguity over whether corporate policies apply to personal devices. "Company policy is generally very clear if you are using company assets, whatever you put on them can

The Institute's Forensics Interest Group holds technical seminars and discussion forums on forensics topics to allow participants to learn the latest developments in this area. More details can be found on the Institute's website.

be discoverable, but if you are buying devices yourself to work from home and the company reimburses you, is that considered corporate property or personal property?" Glanville adds that working from home also generates more data that will need to be gone through during an investigation.

Preventing fraud

With fraud typically increasing during global downturns, it is important that organizations take steps to protect themselves. "Companies should maintain their levels of investment and attention to anti-fraud activity and anti-corruption, and not let their guard down, even if there is pressure on the top line and less revenue," says Norman. Tisman stresses that risk management and internal control systems also need to be reviewed to ensure they remain up to date and can address any new or emerging risks, and boards need to take responsibility for oversight. During the global financial crisis, it became clear that many boards of financial institutions did not understand their companies' business risks.

Norman says it is also important that employees feel able to call things out if they encounter something suspicious, such as through whistleblowing hotlines or complaints directed to people charged with governance, and companies should follow through with proper investigations and holding people accountable. He adds that accounting firms have an important role to play in helping to investigate issues internally. Jia agrees: "We definitely promote the integrity agenda, emphasizing trust, doing the right thing and what doing the right thing means, holding awareness training and speak out programmes, and having whistleblower protection." One concern is that, while listed companies are encouraged to establish whistleblower policies, statutory protection for whistleblowers is limited in Hong Kong.

Williamson points out that there are two sides to combatting fraud. The first is the behavioural side, which involves having a code of conduct and a strong culture of compliance. At the same time, he says companies need good internal controls with checks and balances in place to make it as difficult as possible to commit fraud. A key aspect of this is maintaining adequate separation of duties, for example, ensuring different people do procurement, invoicing and process payments. "The more eyes and checks and balances that there are, the less likely you are to have people colluding together to commit a fraud in the first place."

Jia emphasizes the importance of also conducting third-party risk management, looking at whether your vendors and suppliers have the same level of integrity as you, particularly if third parties are holding your customers' data.

Unsurprisingly, accountants have a significant role to play in helping companies prevent fraud. "As forensic accountants, we advise companies on internal

"The more eyes and checks and balances that there are, the less likely you are to have people colluding together to commit a fraud in the first place."

controls and procedures and test their controls and see if they actually work in reality," Williamson says. "Internal accountants are often the gatekeepers in companies, making sure the controls are used correctly. They have a better understanding of why controls are used in the first place, and they can train others and explain to others why they are important and make sure they adhere to them."

Tisman points out that not only does accountants' training make them well-placed to help identify fraud, but accountants also have specific obligations under the provisions in the *Code of Ethics for Professional Accountants* on *Responding to Non-Compliance with Laws and Regulations* to report incidents of suspected fraud that they encounter, either within corporations for which they provide services, or in their own firms. "If accountants do turn a blind eye, they could face disciplinary action or, where money laundering is involved, even law enforcement action, themselves," he says.

Norman suggests accountants and businesses should be more receptive to forensic investigations. "Clearly, if a business or individual hasn't done anything wrong, they shouldn't be scared. In most of the cases we go into, the companies are not very welcoming, but it is part of the process of the integrity agenda."

To help members be on their guard against fraud, the Institute's ForensIG Management Committee recently issued a new simple guide, *Combatting Fraud*, available on the Institute's website. It covers a range of scams that both individuals and corporations may encounter, including fake Internet domain names and phishing scams, and impersonation and product fraud, as well as financial statement fraud, and offers advice on how to avoid falling prey to them. The Institute decided to issue the guide in anticipation of an increase in fraud due to the economic downturn and increase in people working from home.

"We have a lot of expertise on the ForensIG Management Committee and we are trying to raise awareness of the present circumstances in which it was noticed that individual companies and financial institutions were warning people about deception," Tisman says. He adds that the guide essentially advises people to be more sceptical, and for companies to create more communication channels so that employees can reach out to the experts if they encounter something which they think may not be genuine. "It also encourages people to double-check if they are not sure about something, to go back to the reported source and check that it really is the source. If they are being asked to transfer money, they shouldn't transfer it without checking with somebody."

Glanville agrees: "It is about thinking before you act and spreading that message. If someone asks you to disclose some personal information in a telephone call, think before you do it. I say, 'hurry up and slow down.'"

Janice Wong is in the industry of boosting people's energy and helping them start the day off right. The Finance Director at Pacific Coffee Company tells Jemelyn Yadao how she transformed her finance function to drive business results, and how the Hong Kong coffee chain continuously navigates a saturated market

Photography by Amanda Kho

Brewing up value

Janice Wong is no barista, but she has no problem distinguishing the subtle and complex flavours of a cup of coffee. "Sometimes, when I'm served a milk-based coffee, I can taste if the barista has done a really great job," says Wong, a Hong Kong Institute of CPAs member.

Her palate wasn't always so well-developed. Like most CPAs, Wong was fuelled by three to four cups of coffee a day during her days as a Big Four auditor. "But we didn't actually appreciate the taste," she says. "After I joined Pacific Coffee, I was exposed to different types of coffee beans and when I drink a milk-based coffee or a hand drip coffee, I try to pick up specific flavours, guided by the operating team. It's interesting."

Wong joined Pacific Coffee Company, the Hong Kong coffee chain with 130 stores around the city, in 2017 as its Finance Director. It also has operations in Malaysia, Singapore and Mainland China. The company's internal corporate culture took Wong by surprise. "I thought because it is a coffee chain, it would be more focused on production and standardized procedures. But office staff, including finance and business development staff, are encouraged to learn how to make a good cup of coffee, and internal training classes are organized for backend staff.

"It's easy to make a cup of coffee but it's difficult to make it taste good and get the flavours right," she adds. "I never thought how much water temperature affects the coffee flavour. My colleagues tell me how to grind the beans to make it better, and how different beans would need different types of grinders. There's a lot of details."

Coffee, of course, is among the most consumed beverages worldwide. "I like being in an industry that is related to day-to-day life. It boosts people up and gives people energy," says Wong.

Transforming finance

In the same year Wong joined Pacific Coffee, its parent company, China Resources Enterprise, had set up a shared service centre in Hong Kong. Wong saw this as the perfect time and opportunity to transform her traditional finance team into a more modern one. "Paper-based or daily transaction-based work, like monthly closing or payment processes, was going to be relocated to the shared service centre, which meant the finance team had more time to work on boosting the business from a finance point of view," says Wong.

But before she got to work, Wong first had to change the mindset of the chief executive officer and operating team heads who, at the time, viewed her department as mainly responsible for financial reporting. "A key characteristic of a modern operational finance team is that it is a business partner involved in planning and evaluating business activities, rather than just reporting. To change the CEO's mindset, I shared the latest industry practices with him from a finance perspective and explained how these could be practically implemented in Pacific Coffee," she says.

Her enrolment in the Institute's Financial Controllership Programme (FCP) in 2018 and other seminars run by the Institute and the Big Four equipped her with the knowledge she needed to back up her explanations, she adds. "The FCP module I liked most was Accounting for Performance and Decision Making. The instructor shared a lot from his solid practical experience, which I found really fruitful. Also, during the group discussions for class exercises, classmates shared how things were really done back in their offices, like how to approve a transaction, manage budgets, make open or close store decisions. That provided me with new ideas," she recalls. "Through taking those classes and talking to fellow CPAs engaged in these activities, I have a better idea on how business partnering is being done at other companies."

Wong then selected a few small-scale projects to get started on, for example an advertising campaign promoting the company's new coffee beans, demonstrating how the finance function could help with planning and evaluating a project. "Among those testing points, we discussed their objectives, which were the key evaluation points at a later stage, set hard rules, for example the minimum gross profit percentage, and forecasted its financial impact and return. We assisted with post-evaluation too," Wong explains. "The CEO was satisfied with the analysis and the recommendations we provided on the projects. He then started to be more open to involving the finance team in the planning and evaluation of business activities." Lastly, Wong shared her ideas with the CEO on how to train her team to develop the operating finance function. "I suggested to assign some team members to operating teams in order to increase their understanding of the business from an operations point of view, and also to first try processing a smaller pool of data to train my team's data processing and analytical skills."

Coffee and COVID

The ongoing COVID-19 pandemic has hit many industries, not least of all the coffee sector. According to Wong, the crisis has impacted Pacific Coffee in a myriad of ways. "Short-term-wise, we've seen a decrease in profitability driven by people working from home. A lot of our stores are in commercial areas and some are inside office buildings like HSBC and some Big Four firms, so these stores have been seriously impacted by work-from-home arrangements," she says.

Despite a drop in footfall, particularly when social distancing measures were in place, Wong has observed an increase in e-commerce sales. "We see people's behaviour changing with fewer people preferring to dine out and more people moving onto food and beverage delivery, and with that, we've seen an increase in online orders of coffee beans and coffee machines. This was a surprise. So I think in the long term, we'll most likely see more people enjoying coffee at home and this will lessen the need for coffee companies to rely on the importance of a physical coffeehouse."

Overall the pandemic's impact on the industry is not so worrying, believes Wong. The sense of community that coffee shops provide will help it to survive, she notes. "It's common to see Hong Kong people studying or doing business discussions or even negotiating contracts in coffee

"Coffee in Hong Kong is actually one of the most expensive in the world – around US$4-US$5 per cup – so we have very limited room to increase the price of our coffee yet the operating costs are high."

When Janice Wong joined Pacific Coffee in 2017, she focused on helping her finance team to focus more on the operations of the business.

shops – we don't see that changing," she explains. "I think the coffee market is not seriously impacted by the pandemic because the coffee drinking habits of people in Hong Kong are deeply rooted, so I think the coffee market will still be as good as before, but the way we sell the coffee might change."

A competitive landscape

Pacific Coffee is part of a highly competitive coffee landscape, Wong says. In the last five years, Hong Kong has seen the number of independent coffeehouses increase dramatically. "The challenge for us is definitely the saturation of the market. Not only are there a lot of Hong Kong coffee shops, but we also have competitors from overseas markets like Blue Bottle Coffee," she says, referring to the coffee retailer from California that opened its first Hong Kong branch in Central in April.

Maintaining a profitable coffee business in Hong Kong is also challenging, she notes. "There was one coffee shop from South Korea that set up a shop in Hong Kong, then it left, then it came back to Hong Kong again. High operating costs and the fact that Hong Kong is one of the most expensive cities in the world make it difficult to sustain a business," she says. "Coffee in Hong Kong is actually one of the most expensive in the world – around US$4-US$5 per cup – so we have very limited room to increase the price of our coffee yet the operating costs are high."

To compete against those independent cafes, Wong says it's important for the company to focus on its core strengths. "Our core strength is our long history

Wong started her career at PwC as an auditor and then moved to a manufacturing company in Fujian then TCL Communication. She joined the Institute's Financial Controllership Programme in 2018.

in the industry. We know coffee and we have a very stable supply base. That's how we maintain our market share. Starbucks drinks are more colourful and they serve sweeter drinks, while we do not serve colourful or fruity drinks. I wouldn't say we compete with them, we just stick to our core strengths and serve coffee to different types of people."

Always moving

As the daughter of an accountant father, Wong never considered any other career path before studying accounting at The Hong Kong University of Science and Technology. After graduating, she worked on small-sized entity audits at PwC for two years before moving to KPMG to work on audits of larger-sized entities and listed companies for five years.

"Thinking back on my audit life, it was very interesting because it gave me the chance to travel across China and to Tokyo, and we got to see different business models in manufacturing, food and beverage and retail. It was also where I trained up on my basic understanding of financial statements, which is the backbone of a business. How we should interpret a financial statement and how we should determine whether there are any areas we should look deeper," she explains.

Wong was then headhunted to join a manufacturing company in Fujian as its financial controller. The company was looking to list on the Hong Kong Stock Exchange. "My primary duty was to work on the pre-initial public offering (IPO) project. I coordinated the project and helped them get listed on the main board in 2012. It allowed me to have a grasp on the capital market in Hong Kong," she says. "This was

"The experience in negotiating with the investors and presenting our business to the investors – this is what I got from the project."

the first time I was involved in a pre-IPO project and handled the regulators, the Hong Kong Stock Exchange and Securities and Futures Commission. Although Pacific Coffee is not listed now, the experience in handling external professional parties like lawyers and banks is still very useful in my current role. The experience in negotiating with the investors and presenting our business to the investors – this is what I got from the project."

After the company listed, Wong joined TCL Communication, a global mobile device manufacturer and Internet service provider headquartered in Shenzhen, as a senior finance manager. "Its headquarter is like a giant shared service centre where we supported the worldwide operations from Shenzhen," she says. Wong was responsible for the company's business in North America, and her duties included financial reporting, sales contract reviews, and working with the local finance team on tax filing, auditing, payments and credit control.

"I also helped with the business set up in South Korea, which was a new market for TCL. Business set up referred to creating the business establishment that could facilitate the needs of the new customers at the lowest cost and risk to TCL. From a finance perspective, we advised the top management on the costs, for example, cost on setting up companies and its statutory requirements, exit costs and the risks involved for different forms of businesses."

The daily commute from Hong Kong to Shenzhen was tiring, so Wong joined China Resources Enterprise as a senior finance manager before being transferred to Pacific Coffee over two years later. "Both TCL and China Resources Enterprise are sizable companies. They have a very structured organizational chart and very structured rules, so I saw the best practices on how to set up internal controls and how to structure a company, and I brought that to Pacific Coffee," she says. China Resources Enterprise bought an 80 percent stake in the Hong Kong coffee chain in 2010 and now owns 100 percent of it. The work to align the two businesses is still ongoing, adds Wong. "We are still in the process of uplifting our internal controls and other standards to the China Resources Enterprise level so my previous experiences help me with that."

Wong is keen on taking the next step in her career with the company. She recently completed her first year as a Masters of Business Administration student at City University of Hong Kong. "As a Finance Director, I have to be open to new technologies and new knowledge. When I first joined Pacific Coffee, that was my first time being a team head. Now I feel that I need to do more to work better with other departments in the company, especially people who are not CPAs, and make myself even more eligible for being top management. Through the masters programme, I hope to become a better decision maker and better communicator," says Wong, as she finishes off her go-to tall skinny latte.

Hong Kong's coffee culture has evolved significantly over the years, says Janice Wong. "People in Hong Kong have been drinking coffee for a very long time. They accept a large variety of coffee, from expensive hand drip coffee to coffee brewed in *Cha chaan tengs*. We love all kinds of coffee," she says.

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by Dr Nadira Lamrad

The Assistant Director – Sustainability & ESG Advisory of Business Environment Council highlights how sustainability professionals can broaden the scope of the enterprise risk conversation to include sustainable value creation

Bridge the gap between ESG and business risks

Over the past two years, we have seen a growing interest from financial markets in the impact of sustainability factors – referred to by the acronym "ESG" (environmental, social and governance) – on business value both in the short, medium and long term. Regulatory activity in this space has also gained momentum globally. Notable actions in Hong Kong include the release of the updated Hong Kong Stock Exchange ESG Reporting Guide in December last year, the establishment of the Green and Sustainable Finance Cross-Agency Steering Group by seven financial regulators and government bureaux in May this year and most recently, the Hong Kong Monetary Authority's publication of a white paper in July outlining initial thoughts on the approach to supervising climate-related as well as broader sustainability issues in the banking sector.

The emergence of climate change and resource scarcity as megatrends coupled with a shift to long-term thinking is driving investors to seek clear non-financial data and ask more questions in search of better risk-adjusted returns. This helps to push sustainability up the agenda of companies' boards – ideally leading to greater integration of ESG into business strategies and enterprise risks. To stand out to investors, companies, particularly those listed, need to understand the importance of systematically and consistently communicating their strategies, targets, actions and performance.

Integration of ESG

Proactive engagement is necessary. However, there is a clear gap between sustainability professionals and investors perhaps best exemplified by the defining parameters for materiality. While investors focus on financial materiality, sustainability professionals follow best practice as defined in industry reporting frameworks and guidelines to identify materiality through an environmental and social impact lens. As directors respond to investors, there is a danger that the financial materiality perspective may dominate the approach to managing and mitigating ESG risks and embracing related opportunities. To bridge this gap, sustainability professionals need to encourage the full integration of ESG into the enterprise risk management (ERM) process through the following steps:

- **Align the sustainability reporting timeline with the ERM timeline**. Allow the sustainability team to bring ESG materiality assessment results to the table as part of the overall ERM discussion.
- **Think of your role as a facilitator within this process**. Work to bring clarity and context, linking relevant sustainability factors to identified enterprise risks.
- **Bring a long-term view**. Connect today's actions to future scenarios.
- **Work with the risk owners**. Widen their perspective and understanding of relevant sustainability issues and potential challenges they may face.
- **Co-create potential mitigation plans with risk owners**. Support them in their implementation of these plans.
- **Document the business case for prioritized ESG risks**. Throughout the process document information including an overview of the risk, the causes, potential responses, roles and responsibilities and implementation timeline. This documentation provides a reference that can be used to communicate clearly with investors on the actions being taken to protect and/or create value for the business.

This approach works to bridge the materiality gap by highlighting the ways that ESG risks, which may not be financially material at face value, may have indirect effects on the ability of the business to safeguard value and achieve its strategic objectives. It has the added benefit of widening the scope of the risk conversation at the highest levels to include sustainable value creation in relation to employees, business partners, communities where companies operate, customers and other stakeholders. In the process, it also encourages internal alignment on the commitments, responsibilities, targets, the purpose and the value that sustainability brings to the overall business and to the individual business units.

Global frameworks

Sustainability professionals adopt standardized frameworks to provide consistent data points comparable across peers and over time. The numerous disclosure frameworks and guidelines, such as the Global Reporting Initiative, the recommendations of the Task Force on Climate-related Financial Disclosures, and the International Integrated Reporting Framework complement each other. Whichever framework is adopted, it is simply an avenue to systemically and transparently disclose and communicate the continuous work to measure and manage different risks and identify and capture opportunities while being mindful of the interests of a wide range of stakeholders including shareholders.

As investors ask questions related to non-financial metrics, ESG and sustainability take on new urgency and importance with decision-makers at the highest levels. Integrating ESG into business strategies and enterprise risks will provide companies with the tools to manage changes emerging in volatile, complex and uncertain times.

Amendments to the SME standard

A look at the changes coming to the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard and the reasons behind them

What is the SME standard?

In setting its policy to achieve convergence with International Financial Reporting Standards (IFRSs) in 2001, the Council of the Hong Kong Institute of CPAs acknowledged that Hong Kong Financial Reporting Standards (HKFRSs) that were to be converged with IFRSs would be more exacting than necessary for many smaller companies required to report under the Companies Ordinance (CO). Accordingly, the Council decided that the Institute should develop reporting requirements for small and medium-sized entities (SMEs) that would better meet the needs of users of their financial reports.

Following this, in 2005, the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME standard) was developed and issued by the Institute after two rounds of public consultations from 2002 to 2004. Based on the feedback received during these consultations, the Financial Reporting Standards Committee (FRSC) of the Institute decided the SME standard should be a predominantly cost-based measurement standard that is straightforward for entities with simple businesses or transactions to apply.

Is the SME standard still fit for purpose?

The SME standard has remained largely unchanged since 2005, except for the addition of sections (e.g. business combinations, consolidated financial statements, investments in associates, investments in joint ventures) to cater for new requirements in the CO enacted in 2012, which enabled the standard to be used to prepare consolidated financial statements, and again in 2015 and 2019 to clarify a few changes to the CO.

In October 2018, the FRSC commenced a post-implementation review (PIR) of the SME standard. The feedback received indicated that the standard appeared to be working as intended and remained suitable for entities with simple businesses or transactions to apply.

As a result, in September 2019 the FRSC issued an exposure draft that proposed only limited amendments to the standard. Stakeholders were generally supportive of these proposals and so, in March 2020, the FRSC issued amendments to the SME standard.

What amendments have been made and why?

The amendments to the SME standard can be found in Appendix 4 of the standard which is available on the Institute's website, and are summarized in the table on page 39.

When are the amendments effective?

An entity shall apply the amendments retrospectively for annual periods beginning on or after 1 January 2021. Earlier application is permitted.

When will the FRSC perform its next review of the SME standard?

Having considered the feedback obtained in the PIR, the FRSC decided that the next review of the standard should take place in five years' time, unless significant issues arise earlier. This will provide a stable platform for SMEs, and allow sufficient time and experience for preparers or practitioners to apply the amendments.

Support on the SME standard

Members can find the latest news and publications related to the SME standard in the SMP and SME Resource Centre of the Institute's website.

The Institute encourages anyone who would benefit from a refresher on the SME standard and its eligibility requirements to take an e-seminar, entitled "The Small and Medium-sized Entity Financial Framework and Financial Reporting Standard (Audio)" which is recommended for practitioners or preparers who want to understand or know more about the SME standard.

In addition, members can submit their technical enquiries on the SME standard to the Institute's staff through the technical enquiry form of the Institute's website.

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

Amendments to the SME standard

Amendments	Rationale behind introduction
(i) On transition from a previous set of generally accepted accounting principles (GAAP) to the SME standard, an entity is now permitted to use the previous GAAP carrying amount or fair value on transition as deemed cost for items of property, plant, equipment or intangible assets (applied consistently to each class of assets).	This transitional relief is provided as it reduces the SME's cost on transition without a significant loss of information for users of the financial statements.
(ii) Addition of lessor accounting requirements.	• The required information on leases is expected to be useful to users of SME financial reports (e.g. banks); • SMEs commonly lease out investment properties under operating leases and it would improve the completeness of the SME standard to add specific requirements; • To prevent diversity in lessor accounting, which exists because there are no specific requirements in the existing SME standard; and • The additional cost to SMEs of complying with the new lessor accounting requirements is not expected to be significant based on feedback from the PIR.
(iii) A concept of "presentation currency" is added, which is the currency in which the financial statements are presented.	• SMEs increasingly have operations that are based outside of Hong Kong and may prepare their financial statements in currencies other than their reporting currency (Hong Kong dollars); • It will improve the completeness of the SME standard to add such requirements and avoid diversity in application; and • The new requirements are not expected to add cost and complexity to the SME standard as the requirements are similar to the requirements in paragraph 15.8 for the translation of an overseas subsidiary, associate, joint venture or branch.
(iv) Clarification that the disclosure requirements in paragraphs 19.16(b), (c), (d) and (g) of the SME standard apply to consolidated financial statements only, except the disclosure requirement in paragraph 19.16(g) may still apply to company-level financial statements in specific circumstances.	Feedback from the PIR indicated there was confusion as to which disclosure requirements in paragraph 19.16 apply to company-level financial statements. The amendment is to provide clarification.
(v) Entities are now permitted to aggregate the summarized financial information of subsidiaries excluded from consolidation.	The amendment permits but does not require aggregation. This is because, depending on the circumstances, aggregation or disaggregation could either impose additional cost on preparers or it could facilitate preparation of this disclosure.

A summary of the taxation of offshore indirect transfers toolkit

An in-depth look at a new toolkit on the taxation of offshore indirect transfers

In June, the Platform for Collaboration on Tax (PCT), co-founded by the International Monetary Fund, Organization for Economic Cooperation and Development (OECD), World Bank Group and the United Nations (UN), released a toolkit on the taxation of offshore indirect transfers (OITs) providing guidance on tax treatment and implementation issues for developing countries when one country seeks to tax gains on the sale of interests in an entity owning assets located in that country by an entity which is a tax resident of another country.

The toolkit is a technical reference or guidance instead of a law or an agreement with binding powers. In the absence of appropriate legal basis under domestic law to assert the taxing right on OITs, tax certainty cannot be assured. Nonetheless the guidance is welcomed by the tax professional community.

Background

OITs, defined in the toolkit as "disposition of an indirect ownership interest in an asset, in whole or in part, in which the transferor of the indirect interest is resident in a different country from that in which the asset in question is located," have emerged as a significant issue in many developing countries. Tax administrations may find tax collection on OITs a difficult task due to the complications, complexities and technical judgements involved. For taxpayers, different definitions, scope of taxable assets and interpretations in domestic laws in different jurisdictions lead to uncertainties.

Taxation on OITs often relates to taxation on non-residents, which usually involves the allocation of taxing rights and economic interests between two or more jurisdictions. A more uniform approach to OIT taxation at the international level is therefore urgently required.

It is accepted by the Model Tax Conventions (MTCs) of the OECD and the UN that capital gains derived from OITs of "immovable" assets can be taxed by the asset location country.

The toolkit provides analysis of two options for OIT taxation, with a focus on the perspective of developing countries. The key questions addressed include:

- What considerations arise in deciding whether transfers should be taxed in the country in which the underlying asset is located?
- Which types of assets should be included in the OIT taxation bases?
- How can such taxation, if adopted, be best designed and implemented from practical and legal points of view?

The toolkit proposes that location countries may wish to tax OITs of at least those assets which are immovable, i.e. within the meaning defined in both of the OECD and UN MTCs, and perhaps other assets that also generate location specific economic income.

The toolkit suggests two models for domestic legislation for location countries wishing to extend their taxing rights. The toolkit also provides enforcement and tax collection guidance.

As previously stated, some location countries may wish to tax gains realized on OITs as is currently the case for direct transfers of immovable assets. Those location-specific incomes exceed the minimum returns projected by the investors and cannot be generated in other jurisdictions. These assets might include, for instance, telecommunication licenses and other rights granted by local governments.

The PCT advocates that location countries should have the right to tax OITs, and such assets should at least include property that generate location-specific income (such as natural resources, including physical property and related rights, regional telecom licenses or other rights), including those thoughts of as "immovable property," regardless of whether equivalent tax in regard to the transfer would be paid elsewhere. In other words, such taxation could apply not only as an anti-avoidance device to combat "double non-taxation," but rather could constitute a fundamental aspect of the country's domestic tax laws.

The two OIT taxation models

The toolkit provides two OIT taxation models, which are not mutually exclusive. However, if both models are adopted, an ordering rule is required to ensure they do not apply at the same time. Appropriate enforcement and collection rules are also critically important.

The detailed treatments, tax enforcement and collection rules under these two models are discussed below:

Model 1: impose tax on a local asset-owning entity and treat it as disposing of and reacquiring the assets (e.g. Corp. A in Figures 1 and 2 on page 41)

Model 1 is designed to tax the actual owner of the assets (e.g., Corp. A), rather than the non-resident seller, by treating the actual owner as disposing of and reacquiring the assets for their market values.

Tax treatment under Model 1

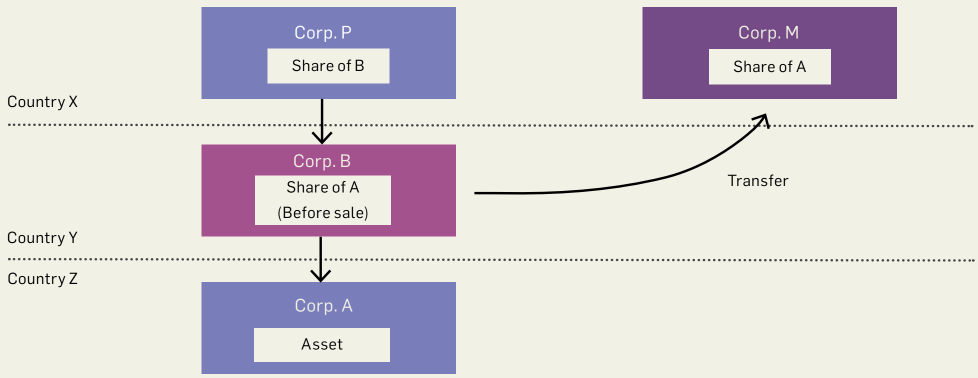
Key technical points regarding tax treatments under Model 1 are summarized as follows:

- Tax the unrealized gain, recognize losses where there are no accrued gains.
- Safe harbour rules may apply on corporate reorganization.
- Tax liability is triggered if the sale led to effective change in control by more than 50 percent.
- Change of control – the toolkit encourages jurisdictions to include definitions for "ownership" or "change of ownership" in the relevant domestic provisions.
- Deemed disposal of assets – where a change of control occurs, the local assets owner is deemed as disposing of the assets for their market value.
- Reacquiring the assets – the local entity is regarded as reacquiring the assets at the market value during the indirect

Illustrative examples of different scenarios of indirect transfers, simple and complex

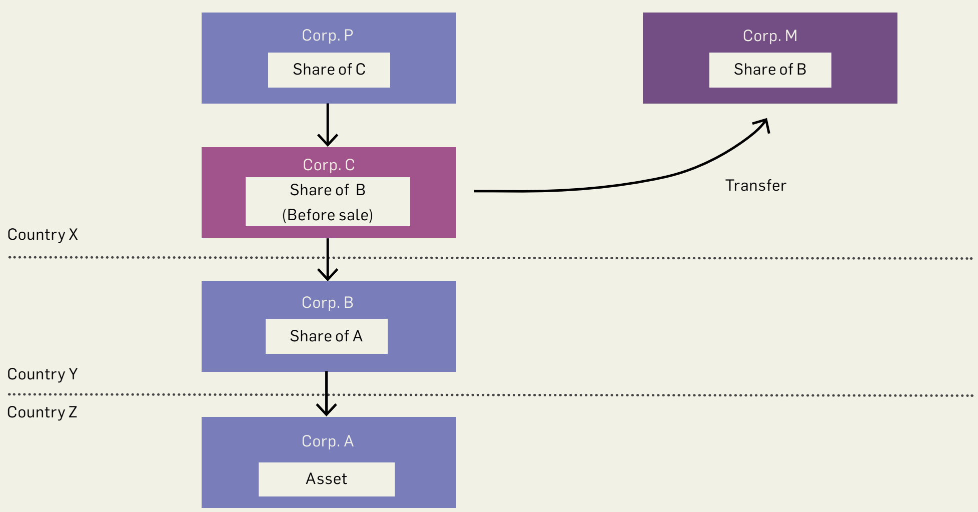
(Source: Summarized based on the toolkit.)

Figure 1: A simple example of an OIT structure



Scenario 1: Corp. B, resident in Country Y, sells its shares in Corp. A to Corp. M, resident in Country X. This is a direct transfer of the shares of A, and an indirect transfer of the assets held by Corp. A that are located in Country Z.

Figure 2: A complex example of an OIT structure



Scenario 2: Corp. C disposed Corp. B. This is a direct transfer of the shares of B and an indirect transfer of Corp. A together with the underlying assets held by A in Country Z.

transfer to avoid double taxation in subsequent change of control.

- Reset liabilities – both assets and liabilities of the local asset-owning entity are reset for ease of administration.

The introduction of domestic tax provisions does not involve complex issues such as corporate reorganizations, minority shareholders, joint venture arrangements, valuation difficulties, listed securities, and the treatment of losses under Model 1. Countries could introduce carve out rules according to their individual circumstances so as to effectively address concerns such as scenarios where the change of ownership is triggered by an initial public offering.

Under Model 1, the local asset-owning entity shall be subject to the ordinary compliance rules applicable to resident taxpayers.

Comments on Model 1

The application of Model 1 is relatively simple. However, there are certain shortcomings, namely:

- Double taxation may arise as the non-resident seller may have to pay tax in its residence country but there would be no foreign tax relief available for the seller as they are not liable for taxes in the local asset-owning country.
- As the local asset-owning entity is not the entity receiving the proceeds from the OIT, it may have liquidity problems in meeting the tax payments.
- Model 1 undermines the functions and risks of the separate legal entities, specifically at the relevant tiers of investment holding entities.
- The compliance burden on the local asset-owning entity may increase as it has to monitor the changes of its own ownership over which it has no control.

Model 2: tax the non-resident seller (e.g. Corp. B in Figure 1 and Corp. C in Figure 2 in above diagram)

The OIT is treated as being made by the non-resident seller (the actual seller), but the gain is deemed as sourced from the country where the assets locate. As shown in Figure 1, the gain realized by Corp. B (Country Y resident) shall be seen as sourced from Country Z where the assets are located, thus Country Z shall have the right to impose tax.

Tax treatment under Model 2
The source rule is combined with the taxable asset rule:

- Source rule: The entire gain shall be subject to tax in Country Z when the value of the share transferred is principally (e.g. more than 50 percent) derived from the assets in Country Z.
- Taxable asset rule: under a taxable asset rule, Country Z may choose to tax the entire gain or on a proportionate basis by considering factors such as the proportion of value attributed to the assets.

When formulating domestic tax rules, countries shall take into account any existing tax treaty obligations.

With respect to the scope of the interest which is to be subject to tax in Country Z, Model 2 provides three options:

- All interests, provided the value of the interest sold is principally (over 50 percent) derived from that asset.
- Only more significant interests (e.g. interests of 10 percent or more of the asset).
- Interest with the nominal value over certain threshold (e.g. US$1 million).

Exemptions are suggested to certain transfers such as transfer of shares of companies listed on a stock exchange or shares transfer in the course of a corporate reorganization, etc.

Enforcement/collection rules under Model 2
The non-resident seller who needs to pay tax in Country Z due to an OIT usually needs to file a tax return in Country Z. A withholding or notification/reporting mechanism can be established to promote the tax enforcement/collection and improve tax compliance, for example, control measures on local asset registration change.

Comments on Model 2
Unlike Model 1, Model 2 preserves the separate legal entity distinction between the local asset-owning entity and its relevant tiers of parent entities. The non-resident seller can claim foreign tax credit in its resident country, which effectively avoid double taxation.

However, Model 2 is more demanding for tax administrations. The compliance burden on local asset-owning entity is increased for monitoring ownership changes. Besides, double taxation may arise on subsequent disposal of interests in transferees (e.g. Corp. M) as assets after the OIT will not be stepped up to market value.

Points to note

The toolkit represents the analysis and conclusions of the tax staff of the PCT's four partner organizations but not necessarily the official views of the organizations' member countries. Further, the cases in the toolkit are solely for illustration purposes and should not be relied upon for other purposes. The appropriate choice among the two models will depend on countries' circumstances and considerations. The toolkit does not provide a one-size-fits-all solution.

Developing countries in general have concerns that OITs might be used inappropriately to avoid capital gains taxation in the assets location country. This issue is not covered in the OECD's Base Erosion and Profit Shifting (BEPS) project, but it has been identified by developing countries as significant. This toolkit is for developing countries to assist their responses to international tax issues, which the BEPS project has not addressed.

The toolkit mentioned that a general anti-avoidance rule (GAAR) could be used as a last resort to tax an OIT gain in appropriate circumstances. However, it may not be easy for countries with a weak administrative capacity to apply a GAAR rule successfully.

Some countries have adopted taxing mechanisms that operate in a similar way to a GAAR by seeking to, in effect, collapse the multi-layer holding structure and treat the ultimate non-resident seller of the interests as the seller of the local assets, who realizes a gain with a local source. Application of this kind of rule is dependence on successful establishment of international tax avoidance is involved. Otherwise, asset location country may not have the taxing right on the OIT gain. Hence, the toolkit considers this kind of rule only have limited scope application.

In Mainland China, the corporate income tax (CIT) regime provides that gains on direct transfers of assets located in China shall be taxed. The prevailing Public Notice 7 – a circular issued under GAAR – further specifies that OIT by non-resident person without reasonable commercial purpose but merely used to avoid CIT shall be re-characterized as a direct transfer of a China taxable asset. The taxing mechanisms adopted by China is to collapse the multi-layer holding structure and treat the ultimate non-resident seller as the seller of the local assets, who realizes a gain with a local source.

The toolkit commended the Chinese approach to indirect transfers of assets as relatively defensive and discretionary: OITs may be taxed if they are deemed to be structured to evade paying tax in China. The tax certainties of this kind of approach might be a concern to taxpayers if there is no enough detailed and consistent interpretations and implementation guidance at the state level.

Conclusion

The toolkit provides technical reference for both administrators and taxpayers, especially in the case of disputes over taxing rights. Location countries should have the right to tax OITs, and such assets should at least include property that generate location specific income (such as natural resources, including physical property and related rights, regional telecommunication licenses or other rights). However, this does not mean that location countries should always tax OITs. Non-tax factors such as capacity, needs of tax revenue and sentiments of foreign investment, etc. should also be considered.

A more uniform and coordinated approach to OIT taxation can contribute to coherence in international tax arrangements and enhance tax certainty. Furthermore, it is necessary to formulate a clear and uniform interpretation of domestic laws and regulations to avoid uncertainty and unfairness in implementation of the provisions.

*This article is contributed by **Jane Hui**, Leader of China Tax Centre and Partner, International Tax and Transaction Services, of EY*

A new limited partnership fund regime for Hong Kong

A look at how the new Limited Partnership Fund Bill will encourage local investments

Background

The passage of the Limited Partnership Fund Bill on 9 July is an important development for the funds industry in Hong Kong as the government looks to encourage funds to domicile here.

Asian-focused funds have always looked to Hong Kong as a regional hub in which to situate their investment teams. However, these funds have typically established or domiciled their collective investment vehicles in jurisdictions such as the Cayman Islands because such jurisdictions provide a regulatory framework with which investors are familiar, and a tax neutral investment platform which allows investors to be taxed on investment returns in their home jurisdictions. We anticipate that the limited partnership fund (LPF) regime will prove beneficial to asset managers looking for an alternative jurisdiction to establish their offshore funds.

Tax treatment of an LPF

An LPF, like any other private equity (PE) fund, will qualify as exempt from tax if it satisfies all of the conditions of the existing unified funds exemption (UFE). There is no new or separate exemption that will apply to an LPF. While the proposed LPF regime should put Hong Kong on par with other leading regulatory regimes for fund groups, the ability for the regime to entice fund groups to domicile in Hong Kong will ultimately depend on the attractiveness of domestic tax exemptions in Hong Kong for LPFs.

A key consideration by limited partners in deciding whether to commit capital to a fund established in Hong Kong is for the LPF not to be subject to direct taxation in Hong Kong. Having a fund domiciled in Hong Kong with its investment team should also align the fund with the Organization for Economic Cooperation and Development's Base Erosion and Profit Shifting initiative and thereby make it easier for fund groups to access tax treaty benefits into the jurisdictions they invest.

Most LPFs should satisfy the exemption and qualify as exempt, but for some, the current UFE may not apply to the fund's investment gains, or the conditions may simply be viewed as more onerous to comply with than in comparable jurisdictions that exempt PE funds from direct taxation.

How to make the LPF regime work

To ensure the success of the LPF regime and put Hong Kong's overall fund regime ahead of other jurisdictions, modifications to the UFE and the broader tax regime in Hong Kong are required achieve this, including:

- Broadening the asset classes to include all investment gains made by a fund, including treating interest income as qualifying income. Singapore has amended its fund exemption provisions to specifically cater for credit funds to provide a specific exemption for interest income which has resulted in many of those fund groups establishing their Asian investment platforms in Singapore instead of Hong Kong.
- Ensuring special purpose investment entities (SPEs) of the LPF can obtain tax residence certificates (TRCs). The inability to establish substantive activities in a Hong Kong SPE has been problematic when applying for TRCs from the Inland Revenue Department (IRD). The limited substance allowed in the SPEs at times also impedes the ability for SPEs to be eligible for tax treaty benefits with jurisdictions into which investments are made. Where the LPF itself is able to avail of the benefits under the UFE, its SPEs should automatically be entitled to the same benefits.
- Addressing the taxation of carried interest, given the IRD's position.

Conclusion

The introduction of the LPF regime, alongside the open-ended fund regime primarily for hedge funds, will put Hong Kong firmly in the mix as an alternative location and on par with comprehensive regulatory frameworks elsewhere, and as such should provide an alternative location for general partners (GPs) and assets managers to domicile their funds.

Importantly, GPs being able to appoint onshore or offshore fund managers, or alternatively act as the manager of the LPF themselves if they so choose, should greatly help simplify overall fund structures. The government should consider introduction of this initiative. If the government is able to implement the changes necessary to bring the fund tax exemption in line with other jurisdictions vying as a regional PE headquarters location then the LPF regime should be a boon for the asset management industry in Hong Kong.

*This article is contributed by **Darren Bowdern**, Tax Partner, Head of Alternative Investments Hong Kong, **Nigel Hobler**, Tax Partner, **Sandy Fung**, Tax Partner, **Anthony Pak**, Tax Director, and **Kasheen Grewal**, Tax Director, at KPMG China*

TECHNICAL NEWS

The latest standards and technical developments

Financial reporting

Institute's roundtable discussion on IASB Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*
On 6 October, the Institute will hold a roundtable discussion on International Accounting Standards Board (IASB) Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*. Do not miss this opportunity to share your views on the paper, which sets out possible improvements to the information companies report about acquisitions and to the accounting for goodwill. Members can submit their comments on the paper by 14 November.

Recordings of IASB webinars
- The English and Putonghua recordings of the webinars providing an overview of the Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment* held by the IASB are also now available.
- Recordings of three webinars held by the IASB on Exposure Draft ED/2019/7 *General Presentation and Disclosures* are available now. Members can submit their comments on the exposure draft by 21 August.

Amendments to IFRS 17
The IASB issued amendments to International Financial Reporting Standard (IFRS) 17 *Insurance Contracts* on 25 June. The amendments do not change the fundamental principles of the standard, but rather are designed to (1) reduce costs, (2) make results easier to explain, and (3) extend the effective date of IFRS 17 to 1 January 2023.

Project update on Business Combinations under Common Control
In an IASB project update, a board member of the IASB summarizes and discusses the board's preliminary views reached in its Business Combinations under Common Control research project. The IASB expects to issue a discussion paper in September to seek stakeholders' views.

IASB podcast and update
The June podcast, focusing on the IASB's discussions at its monthly meeting, and the *June Update* newsletter, highlighting the tentative decisions reached at that meeting, are now available.

IFRS for SMEs update
The *June 2020 IFRS for SMEs Update* newsletter, providing a summary of news, events, and other information about the *IFRS for SMEs* standard and related activities, is now available.

IFRS Interpretations Committee updates and podcasts
The *June IFRS Interpretations Committee Update* newsletter, summarizing the decisions reached by the interpretations committee at its June meeting, is now available, together with two podcasts that highlight key activities undertaken by the interpretations committee to support the consistent application of IFRSs.

Auditing and assurance

Invitations to comment
The Institute is seeking comments on:
- Exposure Draft Practice Note 810.2 (Revised) *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* by 3 August.
- The International Auditing and Assurance Standards Board (IAASB) Exposure Draft *ISA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* and Proposed Conforming and Consequential Amendments to Other ISAs by 14 August.

IFAC webinars
Join the International Federation of Accountants' (IFAC) weekly webinar series on practical audit quality considerations in the pandemic environment. Participants will hear different perspectives, experiences, and insights from a variety of audit leaders.

Revisions to Auditing and Assurance Circular
The Institute's previously-issued *Circular on Reporting under the Catering Business (Social Distancing) Subsidy Scheme* has been updated for the reporting period from May to October 2020.

IAASB guidance
The IAASB released the following COVID-19 pandemic-related guidance:
- Guidance on review engagements on interim financial information in the current evolving environment due to COVID-19; and
- Guidance on auditing accounting estimates in the current evolving environment due to COVID-19.

IAASB's June board meeting
Meeting highlights and audio recordings of the IAASB's June board meeting are now available.

Recordings of IAASB webinars

The recordings of two IAASB webinars on consultations that are currently open for public comments are now available:

- Proposed ISA 600 (Revised) webinar recording.
- Proposed guidance: extended external reporting assurance webinar recording.

Revisions to Notes relating to Legislative Council Election

The Registration and Electoral Office has updated the *Notes for Candidate and Independent Auditor of Candidate of 2020 Legislative Council Election*.

Ethics

The IESBA's June meeting

Audio recordings of the International Ethics Standards Board for Accountants' (IESBA) June virtual meeting are now available.

Extended external reporting

Invitation to comment

The International Integrated Reporting Council (IIRC) is revising the *International Integrated Reporting Framework*, and is seeking comments on its consultation draft. The consultation is open until 19 August. See *A Plus* June issue for a profile of the IIRC's CEO.

Corporate finance

Invitation to comment

The Securities and Futures Commission is seeking comments on *Consultation Paper on Proposed Amendments to the Code on Real Estate Investment Trusts* by 10 August.

HKEX launches STAGE – a new platform on sustainable and green finance

The Hong Kong Exchanges and Clearing Limited (HKEX) on 18 June launched the HKEX Sustainable and Green Exchange, STAGE. This new information platform is the first-of-its-kind in Asia, and will act as a central hub for data and information on sustainable and green finance investments in the region. Please refer to the press release for details.

Sustainability

New podcast on sustainability

Accounting for Sustainability have just launched a new podcast series featuring finance leaders discussing sustainability. The first episode, "Money doesn't grow on trees, or does it? How biodiversity impacts finance," is available now and explores why biodiversity is important to every business and how finance can contribute.

Taxation

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Gazettal of Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020.
- Stock Borrowing Relief – Filing of Return of Stock Borrowing Transactions.
- Tax obligations of property owners.
- Tax obligations of taxpayers and employers.
- Online appointment booking for Business Registration Office Counter Services (with effect from 22 June 2020).
- Departmental Interpretation and Practice Note (DIPN) 42 (Revised).
- DIPN 61 on profits tax exemption for funds.
- File your tax return on time.
- Tax concessions bill passed.
- Tax Guide for Charitable Institutions and Trusts of a Public Character (Chinese version).
- Stamp Duty statistics.

Legislation and other initiatives

FATF's publication on high-risk and other monitored jurisdictions

The Financial Action Task Force (FATF) published a statement on 30 June, advising that, in response to COVID-19, since 28 April it has decided to pause the review process for the list of high-risk jurisdictions subject to a call for action. Reference should continue to be made to the previously issued list of *High-Risk Jurisdictions subject to a Call for Action* adopted in February.

The FATF also issued a statement *Jurisdictions under Increased Monitoring.* The FATF has granted 16 jurisdictions an additional four months for deadlines.

AML notices

For the current lists of terrorists, terrorist associates and relevant persons or entities under United Nations sanctions, members should refer regularly to the Institute's Anti-money laundering (AML) webpage. Other useful documents and guidance can also be found on the same page.

Please refer to the full versions of Technical News on the Institute's website: *www.hkicpa.org.hk*

Brenda Chan, Executive Director at Dongxing Securities (Hong Kong) Co. Ltd. is Convenor of the Badminton Interest Group.

CONTROLLING THE COURT

It takes more than sharp shots and fancy footwork to become a skilled badminton player. It also requires strategy, effective communication and an unwavering drive to continuously improve. Jeremy Chan speaks to four CPAs about how they discovered their passion for the sport and the key to outsmarting opponents

Brenda Chan has been a passionate badminton player for as long as she can remember. She fell in love with the fast-paced sport right after her mother signed her up for classes at the age of nine. She also soon came to appreciate another aspect of it – the strong sense of community. "I'm the only child in my family, so I didn't have brothers or sisters to play with when I was growing up. But through badminton, I could make a lot of friends," says Chan, Executive Director at Dongxing Securities (Hong Kong) Co. Ltd., a member of the Hong Kong Institute of CPAs and Convenor of the Institute's Badminton Interest Group (BMIG).

Chan took on the role of convenor in 2019 and is in charge of budgeting, organizing training sessions and recruiting new members. There are more than 550 members in the BMIG, where members take part in regular training sessions and friendly competitions. The interest group also boasts its CPA badminton team, a team of more than 30 players who represent the Institute in competitions such as Cross-border Competition, Five-point Invitational Competition, Integrity Cup Badminton Competition and the Recreation and Sports Club for Hong Kong Professional Bodies (RSCP) Badminton Competition.

Chan began competing at an early age and viewed each competition as an opportunity to put her skills to the test. "When I was in primary school, my coach at the time encouraged me to start competing in inter-school competitions," remembers Chan. "The more I competed, the more players I met who were a lot better than I was, and I started to realize my weaknesses. But that made me want to improve."

She spent years perfecting standard badminton strokes such as net shots, where a player softly hits the shuttlecock just over the

"The more I competed, the more players I met who were a lot better than I was, and I started to realize my weaknesses. But that made me want to improve."

net, and lob shots, which involves hitting the shuttlecock as close to the court's baseline as possible. Chan's all-time favourite shot is the smash shot, a high-powered move where players forcefully hit the shuttlecock towards the floor on the opponent's side. "This is one move that requires consistent practice," adds Chan. "You can do a smash shot where the shuttlecock lands really close to the baseline, or one directed right at the opponent's shoulders or body. This makes it hard for them to deflect a shot – unless they're fast enough."

She joined the BMIG in 2012 and also began playing in the CPA badminton team that same year.

She looks forward to playing in each tournament, especially the annual RSCP Badminton Competition, which sees players from professional bodies such as the Institute, The Hong Kong Institute of Architects, Hong Kong Bar Association, Hong Kong Dental Association, The Law Society of Hong Kong, The Hong Kong Medical Association and The Hong Kong Institute of Surveyors compete in singles, doubles and mixed doubles matches with each other to win three out of five sets.

Chan says the most challenging match was a women's doubles match with the Law Society in 2018. Her opponents, who had equally strong smash shots, meant Chan and her partner couldn't solely rely on attacking. "It felt like we were defending their smash shots the entire game," she says. To deflect their smashes, Chan hit back with softer yet well-timed net shots. "This also allowed me to rest for a while, since I was playing near the net – otherwise I'd be running all over the court trying to catch their shots. When you get too tired, you'll lose focus." Chan's team ended up winning the game, but only by a slim margin of two points.

Like father, like son

Indeed, physical fatigue coupled with pressure on the court can make or break a game, according to Lawrence Li. He notes how the final moments during a men's doubles match during the 2017 Integrity Cup with a team from Qingyuan were some of the most nerve-wracking times he's experienced. With his partner, they won the first set, but the speed of their opponents wore them out during the next round. "We started losing focus, so they won the second one," remembers Li, Vertical Planning and Operations Manager at Klook, an Institute member and Deputy Convenor of the BMIG. Picking up speed, they led during the third set, but their opponents still caught up, leading both teams vying for the final winning point. "We faced a lot of pressure during the deuce point. People had gathered to watch us play – even the Institute's president," he says. "Everyone thought we were the more balanced team and would win the championship."

However, Li's team lost. But he notes how the experience gave them the motivation to train even harder for the next competition two years later in 2019. They ended up beating the Qingyuan team, this time during the semi-finals. "We had more talented and younger players in our team that year," he adds. They made it to the finals, where they defeated the Guangzhou team – something Li will always

Lawrence Li, Vertical Planning and Operations Manager at Klook, is the Deputy Convenor of the BMIG.

"What I love about badminton is playing in doubles."

David Tong, Senior Associate at Deloitte China, joined the BMIG in 2015. He has participated in overseas badminton matches since he was 14.

"I felt proud to represent the Institute's team during the finals – there was definitely an adrenaline rush."

remember. "It was a very tough match, but we'd practiced tirelessly the past two years, so we felt mentally and physically ready," he says. "I felt proud to represent the Institute's team during the finals – there was definitely an adrenaline rush." That year, Li also won the men's doubles champions with his partner David Tong.

Li first felt that rush and excitement as a child whenever he'd watch his father play badminton. "When I was around five, I would follow my dad to the badminton court where he'd play with the other uncles," he says. A friend of his dad invited the young Li to play a few rounds, and was surprised by his natural ability to keep hitting the shuttlecock over the net. "He told my dad that I had great potential. Shortly after, my parents signed me up for classes." Practicing up to five times a week, he kept at the sport and went on to found a badminton team in secondary school. "We didn't receive much support from the school at the beginning, and I remember having to bring my own rackets and shuttlecocks to each training session," he adds. He eventually pulled together a five-piece in his year just in time to compete in both local and international school competitions, winning the local school tournament in the first year and the international school tournament four years in a row. "Then the school started noticing us," Li says. "They hired a proper badminton coach and expanded the team to include students from all years in the school. I also received an award for best athlete of the year. The school started giving out academic scholarships to students who excelled in sports and supporting the teachers and coaches by running classes dedicated to more than just badminton. Our school ended up winning badminton, football, and basketball tournaments. It all started from a racquet and a shuttlecock. This is something still very meaningful to me."

Though he doesn't play badminton with his father much these days, Li says his father attends each competition just to support him. "The sport helped us to bond and maintain our relationship throughout the years."

Doubling down

For David Tong, badminton has also been a fundamental part of life since he was six – but it didn't come naturally at first. "I couldn't handle such a long racket or even hit a shuttlecock over the net," says Tong, a Senior Associate at Deloitte China and Institute member. Determined to improve, he wanted formal lessons, and convinced his parents to enrol him at the Hong Kong Sports Institute (HKSI) at the age of 10. Training three times a week, he polished his skills and eventually became lead team member of the badminton team.

At the age of 14, he was chosen to represent Hong Kong on

Thiam Weng Yap joined the BMIG in 2009. Here, he is pictured playing in the 2017 Integrity Cup in Dongguan.

> **"We all lived in dorms near the badminton courts, where we ate, trained and practiced five to six hours a day, six times a week."**

behalf of the HKSI in overseas competitions, leading him to play in tournaments in Singapore and Japan. It was also Tong's first time playing against badminton players outside of Hong Kong – something he found to be a valuable learning experience. "Each team required a different strategy," he says. "The most challenging team was a team from Indonesia. Though they were young, their skills were mature, as if they had perfected all their moves very early on." Tong was also impressed by the perseverance of the Japanese players. "They weren't the most skilled, but what impressed me the most was how they would never let the shuttlecock touch the floor," he says. "They were very disciplined and had very good teamwork. They also did everything together, from warming up to training to playing." The persistence of the Japanese players, Tong remembers, frequently wore him out. "They are high-energy players, and each round tested my physical fitness, mental strength and strategy," says Tong. "I had to figure out how to score points without using all my energy. I remember the fatigue I felt from playing with them affected my performance throughout the day."

But the difficult matches helped Tong to quickly improve, and in 2008, his effort saw him finish fourth place at the International Youth Competition in Tokyo, and in 2011, he won the Hong Kong Annual Badminton Competition, where he played in the intermediate division. "I would consider that to be my biggest achievement," he adds.

He left the HKSI at the age of 18 to focus on his studies at university, and is grateful to further his passion for the sport through the BMIG, which he joined in 2015. He made many friends through the group, including Li, who he enjoys playing doubles games with. "What I love about badminton is playing in doubles, and I'd say Lawrence is my favourite doubles player to play with," Tong says. "We support each other through each game and also strategize together – we do what we plan to do."

A sport for life

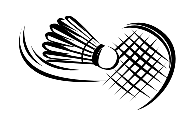
Thiam Weng Yap's enthusiasm for badminton dates back to the late 1970s. As a young boy growing up in Kuala Lumpur, he remembers joining his dad for a few exciting rounds of badminton every Wednesday night. "My dad worked at our school canteen, which was right next to the badminton courts," says Yap, Vice-President, Internal Audit at the Hong Kong Exchanges and Clearing Limited and an Institute member. "We would play as soon as he finished work, and I quickly got hooked – I think I was around seven at the time." He joined his school's badminton team, and began taking part in inter-school competitions in primary and secondary school.

As Yap was becoming a more formidable player, a chance meeting during one competition changed his life. He was spotted by a badminton coach, who then asked him to play a few rounds. Shortly after, the same coach, who was a former world champion and the chief national coach of the Malaysia National Badminton Team at the time, bumped into Yap playing another competition, and invited him to join the team. "I was very surprised. It was amazing I even had the opportunity to become a member," adds Yap, who then decided to leave school at the age of 18 to play alongside the team.

He soon realized that there was a lot to learn. "When I first joined, I found out that my basic techniques were wrong all along," laughs Yap. "I started working on my footwork, strokes and improved my level of fitness. The way I perform my strokes today was all influenced by my coach and my time playing for the national team." He then lived and breathed badminton over the next three years. "We all lived in dorms near the badminton courts, where we ate, trained and practiced five to six hours a day, six times a week." Improving his skills by leaps and bounds, he was chosen to train the national team for the Thomas Cup in 1992, a world men's team badminton competition. Too young to play with the team, Yap had to get used to training players older than him. "I was very good with my attacking games, and helped to train the key players to beef up their defence for the men's single's games," he says. That year, Malaysia won the finals against Indonesia, and it was the country's first victory in 25 years. "I was extremely proud to play a part in helping my team to achieve our first win in such a long time. We haven't even won the cup since."

Yap then found himself at a crossroads, wondering whether he should pursue badminton full-time or go back to school. "I didn't come from a rich family, so the answer was quite obvious," Yap says. He enrolled himself in a diploma programme then studied accounting in university. A decade later, he was headhunted and arrived in Hong Kong in 2007 to work at KPMG, where he found out about the BMIG through a colleague.

Like many members of the interest group, Yap feels humbled to have ample opportunities to not only compete in competitions, but also meet like-minded players. He says that though he's lost the agility he had in his teen years, the sport continues to be his go-to exercise. "It's a full mind and body workout. It trains your arms, legs, and your mind. You're always thinking about how to outsmart your opponent," he says. "Nothing keeps me feeling fit and more refreshed than playing badminton."



The Institute's Badminton Interest Group is open to all members interested in the sport. For more information on all 15 of the sports and recreation groups, visit the Institute's website.

DEREK LO

Senior Consultant at Deloitte China

Derek Lo, Senior Consultant at Deloitte China, never imagined he would be an accountant. But since taking on his role, he has found it to be a challenge yet an opportunity to learn. He tells *A Plus* how he has grown with the firm, learned how to better manage his time, and why he eagerly looks forward to helping clients navigate the increasingly complex world of tax

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

I'm a Senior Consultant in the International Merger and Acquisition Tax Services group of Deloitte China. Our group advises international companies, private equity firms and investment banks on international tax planning, restructuring and cross-border transactions. In particular, I assist our clients by helping them to perform tax due diligence on companies they are looking to acquire, tax structuring and tax regulatory consolidation with respect to their operations. I also perform tax analyses and prepare reports to assist my partners and managers to deliver work for our clients. My colleagues are very friendly, experienced and willing to share their knowledge with me.

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

The timeline of some of our projects can be very short. I need to fully understand the background of each case I'm handling, perform in-depth analyses on potential tax implications, and present those findings in an accessible manner. Tax issues often involve technical terms and not all clients understand them, so another challenge is presenting our thoughts clearly to help them understand any tax issues. For example, our team recently helped a client to lodge an "offshore claim" of their income in a tax filing. Hong Kong adopts a territorial source principle of taxation, so if a person is carrying out a business in Hong Kong, it is subject to Hong Kong profits tax if the profits are derived from a business in Hong Kong. My job requires me to understand how each client earns revenue, clarify whether their income derived is from an offshore source and then prove it to the Inland Revenue Department. Therefore, I also need a good level of knowledge of the Hong Kong tax system. It can be difficult for overseas clients to understand since their jurisdictions adopt a different tax principle. Challenging as the role may be, seeing our clients satisfied with our work at the end of the day is the most rewarding and encouraging thing.

What inspired you to become an accountant?

It was through a mentor and an accounting course I took in university. Though I majored in Financial Services at Hong Kong Polytechnic University, I had to take a compulsory financial accounting course. I quickly learned how accounting plays a vital role in business and provides investors and management with crucial financial information used in making business decisions. My mentor worked in various companies as an accountant before he decided to teach in a university, so he would always share how his accounting skills and knowledge could benefit each company. I studied mostly science subjects back in secondary school, so accounting was completely new to me. Most of my coursemates had already a bit of accounting knowledge from secondary school, but I found it quite tough.

What's the biggest challenge you've faced in your career so far?

It would be learning how to better manage my time. There are times when I need to complete a project in a very short amount of time as requested by the client, so my goal is to ensure every project is completed before the deadline and more importantly, that the client is satisfied. This means knowing when to delegate some duties to my colleagues and using to-do lists to keep track of daily duties. Right now, it's a challenge working from home, but I still make sure that I closely communicate with my team in order to still promptly deliver work to our clients.

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

What I learned from Module D taxation helps me the most in my role. It taught me the basic knowledge and principles of Hong Kong's tax system, and I still find myself applying what I learned from the QP in my day-to-day work. I didn't major in accounting, so Module A financial reporting also provided me with a very strong foundation in that area. I work closely with auditors and knowing in accounting has helped me to cooperate with them in order to provide comments and suggestions on both the accounting and tax treatment of our clients' transactions.

SPOTLIGHT ON DREAM HOLIDAYS

Institute members share where they would like to travel as soon as they can

Reykjavík, Iceland

"As soon as it's safe to fly, I will jump on a plane with my wife to Iceland for a 10-day tour in a camper van. It's been my dream to drive along the 300-kilometre Golden Circle route, and witness some of the most spectacular natural scenery this planet has to offer. I look forward to visiting glacier lagoons, cascading waterfalls, tranquil fishing villages, hot springs, and walking along volcanic black sand beaches," says Wong.

- Albert Wong, retired

Gullfoss Falls, Iceland

Osaka, Japan

"If I was given the chance to travel again, the first place I would go is Osaka. I have been to there several times and have always found it to be refreshing and relaxing. I enjoy eating the high quality yet inexpensive food there and also doing a bit of shopping. It's also convenient visiting other parts of Japan from Osaka, which is around an hour's drive to other famous cities such as Kobe, Nara, and Kyoto," says Chow.

- Charles Chow, semi-retired

Osaka

Svalbard, Norway

"Travelling to Svalbard has always been at the top of my list. It's a Norwegian archipelago inside the Arctic Circle known for its rugged, remote terrain filled with glaciers and frozen tundra where one can also see polar bears, Svalbard reindeer and Arctic foxes. Apart from the landscape and wildlife, one can also look forward to seeing the northern lights during winter, and experiencing the midnight sun during the summer," says Fan.

- Kitson Fan, Audit Manager at KPMG U.K.

Svalbard

EYES & EARS

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

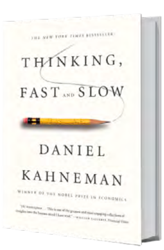
Sergei Rachmaninoff

What I'm listening to

- Andrew D'Azevedo, Tax Partner at PwC Hong Kong and Mainland China

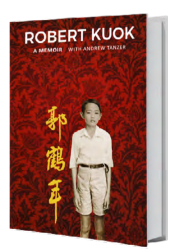
I love listening to Sergei Rachmaninoff during my commute to and from work. His *Piano Concerto No. 2 in C minor, Op. 18* is one of my favourites for its sonorous melodies and relentless passion. *The Berlin Recital,* a live recording performed by Chinese classical pianist Yuja Wang also showcases a technically flawless and brooding interpretation of Rachmaninoff's *Prelude Op. 23 No. 5 in G minor* and his *Etudes - Tableaux Op. 39 - No. 1 in C minor.*

What I'm reading



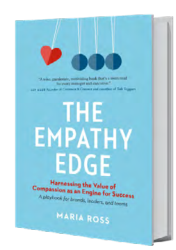
I would like to recommend *Thinking, Fast and Slow* by Nobel Memorial Prize in Economic Sciences laureate Daniel Kahneman. The book speaks on how the human mind perceives and analyses its surroundings through two "systems." The first system operates automatically and quickly, with little or no effort and no sense of voluntary control, while the second system allocates attention to the mental activities that demand it, including complex computations. After reading it, I understood more about the workings of my own mind and also became more conscious of my decision-making.

- Emily Ma, Vice President of Accounting at an asset management company



I recommend *Robert Kuok: A Memoir.* Robert Kuok is a Malaysian business magnate. He was born to an overseas Chinese family in 1923 and grew up in British-ruled Malaysia. The book talks about his uphill struggle as an office clerk, and how he went to work in a rice trading company in Singapore. The hardworking Kuok soon established his own trading business and eventually developed it into a billion-dollar conglomerate. At the age of 94, he published this book. It's a great book, and it's interesting to read it from the perspective of a very successful entrepreneur.

- Kenneth Lam, Associate Director, Advisory at Grant Thornton



Having empathy – the ability to see a situation from someone else's perspective – is likely to be a crucial success factor for individuals in business, especially as whole communities rethink their priorities during and after the pandemic. In her book, *The Empathy Edge*, author Maria Ross delves into real-life corporate case studies to demonstrate how empathy can define your leadership style, build an entire company's workplace culture to become more authentic and innovative, and shape an entire company's brand values and mission for its clients and customers.

- Recommended by *A Plus* editors

Beam me up, client

Hong Kong's humorist on the interesting yet odd possibilities of using virtual reality to hold client meetings

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*

Remember the "transporter beams" in *Star Trek* that instantly take you thousands of kilometres away?

Your humble narrator tried one out the other day. It worked! One moment I was in a laboratory at Hong Kong Polytechnic University, and after someone clamped a piece of headgear over my eyes and ears, suddenly I was on the top floor of a skyscraper in San Francisco, looking down at the Golden Gate Bridge. (Or rather, a version of that place that looked like it was made by a cut-price game designer in Shenzhen.)

It was a fascinating experience – for about 15 minutes, after which I felt nauseous and fell over. "Don't worry, that's normal," said the technician, picking me up and guiding me to a sofa. All part of the fun.

Many top businesses, including the big accounting firms around the world, are looking into the use of virtual reality (VR) equipment to enable staff to meet clients without leaving their offices.

The initial impetus, of course, was to avoid our staff numbers being decimated by an end-of-the-world plague.

But these days, we all need to downsize, and having staff numbers being decimated by an end-of-the-world plague seems like an attractive idea just now.

Yet today, chief financial officers are now tempted to make everyone do client meetings using technology to save cash on hotels and airfares permanently.

VR equipment sellers say their equipment is better than Zoom, Skype, etc. because interactions feel more authentic and participants can perceive body language. But is this true?

Your correspondent made five discoveries.

1) The gadgets let you choose how you look. This has possibilities. Say you're pitching your accounting business to a 55-year-old businessman. Why not change your avatar to Scarlett Johansson in her Black Widow outfit? You'll definitely get more attention.
2) They let you choose how you sound. If you are negotiating and don't want to take no for an answer, the obvious thing is to choose a deep bass Batman voice. "You. Will. Sign. The. Contract. NOW." (But maybe not with the Scarlett Johansson look.)
3) They let the host choose the environment. Here's a warning. Sitting at a table and talking to people is easy. It's when you have to get up to tour the client's factory that it becomes challenging.

   To stop you bumping into the walls of your office, the programmers give you a superpower. You point your finger at where you want to go, say the other side of the factory – and the world itself moves so you are suddenly there.

   I found myself zooming all over the place (you feel like the Flash, a superhero). Unfortunately, five minutes of this causes you to throw up. Your Scarlett Johansson persona stops moving for five minutes as you whip off the headset and run to the bathroom.
4) An unexpected bonus is that playful people soon start looking for ways to exploit the situation. To take an extreme example, your avatar could threaten to jump out of the skyscraper window unless the client gives you the deal you want. (Do NOT do this if you are near an actual skyscraper window.)
5) But the biggest problem was that the whole intensity of the VR experience means that neither side remembers a single word that was actually spoken.

   This may be a good thing.

   You: "Remember in our VR meeting you gave us exclusive rights to provide tax services for all your subsidiaries?"

   Client: "I did?"

   You: "Yes. It was when your Brad Pitt avatar stopped moving for five minutes."
6) The thing about the body language is false, I discovered. Your avatar has its own body language built in, so instead of your real posture of, say, cringing in a servile manner, you can simply select a more attractive set of movements from a menu.

   So if the meeting is becoming boring, for example, you can click: "Stand up" and "Do a K-pop dance."

Summary: If you want to actually get anything done, go back to Zoom. Me, I'm going to stay home and watch *Star Trek*.


CIA