



DRIVING BUSINESS SUCCESS

Issue 9 Volume 16 September 2020

PLUS:

PROFILE

Phyllis McKenna,
the Official Receiver

INSOLVENCY

Roundtable discussion on the
draft corporate rescue bill

ACCOUNTANT PLUS

Edmund Wong, Practising
Director of Patrick Wong CPA Ltd.

Experts at the Institute's
Annual Taxation Conference 2020
discuss changes to international tax
rules and how they could reshape
Hong Kong's tax landscape

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“A good working relationship with the FRC is important for maintaining Hong Kong’s status as a leading global financial centre.”



Dear members,

Happy Mid-Autumn Festival. While our celebrations – like everything this year – will more low-key in nature, we can still celebrate the event with our loved ones, and be thankful that the third wave of COVID-19 appears to have subsided. Before marking Mid-Autumn, we have the 71st Anniversary of the Founding of the PRC. Regrettably, the Institute had to cancel the National Day celebration dinner this year due to COVID-19, yet this is still a time of commemoration and joy for the future.

This month, the Institute held one of its first in-person events at Wu Chung House this year. The QP Top Student Award and Scholarship Presentation Ceremony 2020 celebrated, in an appropriate socially-distanced manner, the achievements of top performing Qualification Programme (QP) students and university scholarship recipients. Also, in memory of the late Past President Edward Chow, a new memorial prize in his name was established with donations from his family.

It was an enjoyable afternoon meeting with the winners and discussing their careers and how COVID-19 has affected their lives with them. I would like to thank the Institute staff for arranging the ceremony, as it required significant thought and consideration to ensure that all the recipients and guests could attend while managing social distancing requirements.

Speaking to the award recipients reminded me of the importance of the QP

examinations. Passing the examinations and obtaining the CPA designation is what these students were striving for. After the cancellation of the June session it is vital that we hold the December examination session, so as to not deprive these young accountants in training of the opportunity to prove themselves. Holding the examinations is also necessary for the long-term health of the profession in ensuring that there are enough newly qualified accountants for the market. This month, the Institute announced a refined contingency plan for the examinations. This contingency plan provides the necessary reserve dates in case the original dates are affected by a new wave of COVID-19 while balancing the needs of the stakeholders.

Today’s virtual world may feel disconnected, but there are still opportunities to connect with others. This was demonstrated by the Institute’s PAIB Virtual Conference 2020, which was co-hosted with Bloomberg this month. The professional accountants in business (PAIBs) who watched the conference got to hear from renowned speakers about responding to the COVID-19 pandemic and the economic situation, how technology is transforming business models, and how to succeed in uncertainty by managing organizational risks during the pandemic.

Margaret Chan, the Institute’s Chief Executive and Registrar, and I met with the Financial Reporting Council’s (FRC) Chairman, Kelvin Wong, and Florence

Wong, Acting Chief Executive Officer. We discussed the work of the two bodies – the Institute’s *Strategic Plan 2020-2022* in particular – and our continued cooperation in the future. A good working relationship with the FRC is important for maintaining Hong Kong’s status as a leading global financial centre.

The Financial Industry Recruitment Scheme for Tomorrow (FIRST) was launched on 30 September. The job creation scheme will support 1,500 new full-time jobs in the financial services sector through a subsidy of HK\$10,000 per month for 12 months for each eligible new hire to employers. CPA firms and corporate practices are able to register for the scheme, which is administered by the Financial Services Development Council. Please consider applying to the scheme and creating new positions in your firms to support the development of the profession.

Finally, being an insolvency practitioner, I took part in a roundtable this month hosted by *A Plus* on the government’s draft corporate rescue bill. You can read the thoughts of the panel in the article *Rethinking the restart process*. As CPAs, it is important for us to provide our professional opinions during consultations in order for regulations and laws to be appropriately drafted.

The weather feels like it is changing, which means cooler days are ahead. In this time of COVID-19 it is important that when the weather changes, we stay healthy, take care of ourselves and our families, and prepare for our futures.

Johnson Kong
President

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DRIVING BUSINESS SUCCESS

About our name

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



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NEWS

Institute news Business news

Refined contingency plan announced for December 2020 QP session

The Institute this month announced the refined contingency plan for the December 2020 Session of the Qualification Programme (QP). The decision came following QP students expressing their views with the Institute and thorough deliberations.

The contingency plan has been set up to maintain the date of the Final Examination on 22 November. This is less than 10 days before the original schedule and allows for two reserve dates should the November date no longer be feasible. Meanwhile the Module Examinations (Modules A-D) will be held on 28 and 29 December.

The Institute devised the contingency plan to ensure this examination session can go ahead amid the changing COVID-19 situation. It aims to continue developing Hong Kong's accounting profession while balancing the needs of stakeholders.

To assist enrolled students, the

Institute will provide additional support, including organizing a series of free module preparation and examination technique seminars. A new online information portal for the examinations is now live, and provides the latest information on the examinations and workshops, frequently asked questions and enquiry information, as well as links to study materials and webcasted seminars.

Members and students can refer to the email sent to them regarding the refined contingency plan for more details.

Membership renewal for 2021

The 2021 renewal notice will be emailed to members and practice units in mid-November. Members are required to pay their annual fee and submit their continuing professional development declaration to renew their membership for 2021. If necessary, members can update contact details via the Institute's website or

opt in for hardcopy renewal notice by 31 October.

Practice units will also only receive a hardcopy renewal notice on request if they opt in by 31 October.

New video on Strategic Plan 2020-2022 launched

Members can now watch the new video introduction to the Institute's *Strategic Plan 2020-2022*, featuring Institute President Johnson Kong and Chief Executive and Registrar Margaret Chan, to learn about the strategic objectives and related initiatives set out in the plan. The three-minute video can be found on the Institute's website and the Institute's YouTube channel.

Council meeting minutes

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

Resolution by Agreement

Ng Tsz Wing, CPA

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants.

Ng issued an accountant's report for a solicitor's firm under the Accountant's Report Rules (Cap. 159A). In conducting the reporting engagement, he failed to comply with the rules and the Institute's Practice Note 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules*. The deficient procedures related to

obtaining bank certificates for client accounts, circularizing client ledger accounts, and documenting evidence of the firm's monthly reconciliation of balances of client accounts.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:

1. Ng acknowledges the facts of the case and his non-compliance with professional standards;
2. Ng be reprimanded; and
3. Ng pays an administrative penalty of HK\$50,000 and costs of the Institute of HK\$15,000.

Details of the Resolution by Agreement are available at the Institute's website.

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NEW SCHEME TO BOOST HONG KONG'S FINANCIAL SERVICES SECTOR OPEN FOR APPLICATIONS

The Financial Services and the Treasury Bureau (FSTB) has launched a new scheme aimed at creating jobs in the financial services industry. The Financial Industry Recruitment Scheme for Tomorrow (FIRST) scheme falls under the government's second round of the anti-epidemic fund. The scheme, which is now open for applications, allows eligible employers to apply for a salary subsidy of up to HK\$10,000 per month for each new full-time position for 12 months, with all subsidies capped at 5 percent of the employer's existing headcount. Each employer may receive a subsidy for up to 25 new positions. The FSTB has set aside HK\$180 million for the FIRST scheme and hopes to create 1,500 new jobs in the financial services industry, which has been hard-hit by the coronavirus pandemic.



SFC TAKES LEGAL ACTION AGAINST TIANHE CHEMICALS GROUP FOLLOWING ACCOUNTING SCANDAL

The Securities and Futures Commission (SFC) in Hong Kong is taking legal action against Tianhe Chemicals Group, China's largest lubricant additives producer, to recover HK\$3.52 billion of proceeds from its 2014 initial public offering (IPO) following an accounting scandal. The group overstated its revenue by 53 percent or 6.7 billion yuan from 2011 to 2013, according to a statement issued by the SFC on 7 September. The group had hoped to encourage investors to subscribe for its stock offering or boost its stock price by overstating its sales, according to the SFC. The watchdog stated that it has started proceedings in the Market Misconduct Tribunal against Tianhe Chemicals Group and Wei Xuan, its Executive Director, for issuing an IPO prospectus, which contained inflated sales.

HONG KONG UNDEREMPLOYMENT RATE HITS 17-YEAR HIGH

Hong Kong's underemployment rate hit 3.8 percent in August, its highest since the 2003 SARS outbreak, with the number of underused workers climbing by 13,200 to reach a total of 149,200. The jobless rate, meanwhile, remains the same as the May to July period at 6.1 percent, according to figures released by the Census and Statistics Department on 17 September. Those underemployed work mainly in the tourism, transport, insurance and education sectors. The food and beverage services sector was the worst-hit, with the jobless rate rising to 14.4 percent and the underemployment rate reaching 8.3 percent. The third wave of the coronavirus pandemic in early July led to more stringent social distancing measures imposed by the government, which included banning dine-in services at restaurants and closing entertainment venues, health and beauty parlours and sports facilities.

HONG KONG FAMILY ARRESTED IN HK\$3 BILLION MONEY LAUNDERING PROBE

Hong Kong's Customs and Excise Department (C&ED) arrested a family of five this month accused of laundering more than HK\$3 billion through more than 100 personal bank accounts, in the biggest case of its kind. The family had funnelled the funds through accounts they had opened at nine different banks to handle the amount in alleged crime proceeds since 2018, according to investigators. Officers began probing the family's eldest son early this year following a tip-off from a bank. "The assets held by this family are not commensurate with their profiles and backgrounds," said Mark Woo, Senior Superintendent of the Syndicate Crimes Investigation Bureau at the C&ED on 14 September.

BIG FOUR FIRMS UNVEIL ESG REPORTING STANDARDS

The Big Four have joined forces to unveil a reporting framework for environmental, social and governance (ESG). The move was announced on 22 September at the World Economic Forum and is led by the International Business Council (IBC), run by Brian Moynihan, Chief Executive of Bank of America. The plan hopes to encourage more than 130 large global companies in the IBC to adopt the standards for their 2021 accounts. The ESG metrics centre around four pillars of principles of governance, planet, people and prosperity. The metrics and disclosures aim to align the existing standards to enable companies to collectively report non-financial disclosures. The move, if successful, would mark the first coordinated approach to ESG reporting and would encourage investors to move more money into the sector, which is currently thought to be worth around US\$32 trillion, according to the *Financial Times*.

ALIBABA LOOKS TO INVEST US\$3 BILLION IN RIDE-HAILING COMPANY

Alibaba Group Holding Ltd. is in talks to invest US\$3 billion in Grab Holdings Inc, Southeast Asia's biggest ride-hailing company. The move, announced on 14 September, will make the Chinese conglomerate the sole investor in the funding round. Alibaba will also spend a portion of the funds to acquire Grab's stock, which is held by Uber Technologies Inc, according to a report by *Bloomberg*. The deal is one of Alibaba's biggest bets on Southeast Asia since its US\$1 billion investment in e-commerce company Lazada in 2016, which was followed by another US\$2 billion injection in 2018. Grab, which has an estimated valuation of US\$14 billion and counts Softbank Group as one of its backers, has expanded into financial services, food delivery and mobile payments over the last few years.

SINGAPORE AIRLINES TO LAY OFF OVER 4,000 EMPLOYEES

Singapore Airlines is to eliminate 4,300 positions to cope with losses brought on by the coronavirus pandemic. The cuts will be made at Singapore Airlines and its SilkAir and Scoot units, which mainly focus on short-to-medium haul flights. The COVID-19 pandemic has led to countries shutting their borders and has especially impacted Singapore Airlines, which relies on income derived from its international routes. The airline has no domestic network and anticipates it will operate less than 50 percent of its normal capacity by the end of the first quarter of 2021. "This is not a reflection of the strengths and capabilities of those who will be affected, but the result of an unprecedented global crisis that has engulfed the airline industry," Singapore Airlines Chief Executive Officer Goh Choon Phong said in a statement.



HMRC SEES A 10 PERCENT JUMP IN TAX EVASION REPORTS

Her Majesty's Revenue and Customs (HMRC) in the United Kingdom received 73,000 tax evasion whistleblowing reports during its 2019 and 2020 financial year, an increase of 10 percent. According to U.K.-based accounting firm UHY Hacker Young, the increase indicates an increasing view among the U.K. general public that tax evasion is unacceptable behaviour. "It appears that more people than ever are choosing to report a neighbour, employer or business partner for tax evasion," said Sean Glancy, Partner at UHY Hacker Young. Glancy added that more stringent requirements for accountants to report suspected tax fraud had also contributed to the uptick. The findings come as HMRC continues to bolster its crackdown on tax evasion and avoidance and follow its probe into 250 wealthy individuals and 23 of the 2,100 largest businesses in the U.K. for tax evasion last month.



8,000 JUMBO JETS NEEDED TO DELIVER VACCINES GLOBALLY

Distributing a coronavirus vaccine around the world will require the equivalent of 8,000 Boeing 747s, in what would be "the mission of the century" for the air cargo industry, according to the International Air Transport Association (IATA). Despite no vaccine being currently available, the IATA indicated this month that it is already working with airlines, airports, global health bodies and drug companies on a global airlift plan. The plan assumes only one dose per person is needed. Challenges include finding aircraft capable of keeping vaccines at a temperature of between two and eight degrees celsius and storing them in cooling facilities once they arrive. "Safely delivering COVID-19 vaccines will be the mission of the century for the global air cargo industry. But it won't happen without careful advance planning. And the time for that is now," said IATA's Chief Executive Officer Alexandre de Juniac.

WORKING FROM HOME TO CONTINUE IN ENGLAND FOLLOWING COVID-19 CASES SPIKE

Employees will continue working from home in England, as the government reversed plans to encourage more people to return to work following a recent spike in coronavirus cases. The sudden decision, which came on 22 September, follows a warning made by scientists in the United Kingdom a day earlier that COVID-19 cases were doubling every week and could rise to 50,000 per day in mid-October if action was not taken. Prime Minister Boris Johnson, who says the U.K. has reached "a perilous turning point," also announced a new raft of measures on 23 September, which include restrictions that could last for up to six months. This includes imposing fines on those not wearing face masks and a 10 p.m. curfew on pubs, restaurants and bars, which will be restricted to table service only.

YUM CHINA HOLDINGS IPO OPENS AT LOSS

The Hong Kong stock debut of Yum China Holdings, the owner of the KFC, Pizza Hut and Taco Bell restaurant chains in Mainland China, opened at a loss when it began trading on 1 September. Shares of the Shanghai-based company started trading at HK\$410 per share, down from the HK\$412 offered at their HK\$17.27 billion secondary listing on the Hong Kong Stock Exchange. The company went public on the New York Stock Exchange in 2016. The stock dropped by as much as 6.3 percent to an intraday low of HK\$386.20 before ending its first trading day at HK\$390.20 to record an unexpected loss for retail investors who subscribed to it. The lacklustre listing, which sits at HK\$401 per share as of 29 September, comes in comparison with Nongfu Spring's initial public offering (IPO), which completed its HK\$8.35 billion IPO on 8 September, setting the record as the most oversubscribed stock in Hong Kong's financial history.





A BALANCING ACT

Official Receiver Phyllis McKenna talks to [Nicky BurrIDGE](#) on her work in closing the gap in Hong Kong's insolvency infrastructure, balancing the needs of different stakeholders, and what she loves most about dealing with failure

Photography by Calvin Sit

Phyllis McKenna, the Official Receiver, was just four months into a new post as a senior solicitor at the Official Receiver's Office (ORO) in July 1997 when the Thai baht collapsed, and the Asian Financial Crisis began. "My introduction to insolvency was fast and furious. Those first two years in the ORO were really a baptism of fire," she remembers.

But she adds that for a young lawyer, it was a great opportunity to learn quickly and be involved in some of the exciting legal issues that were arising. The cases she handled during this time included the collapse of Peregrine Investments Holdings, which required cross-border coordination with the liquidations in the Cayman Islands and Bermuda, and CA Pacific. "In those days, provisional liquidation applications would often be made urgently, out of court hours. It might be midnight up at the judge's house or in an Italian restaurant in Wanchai. It was a very busy and tough time in the ORO," she says.

A chance encounter

McKenna had never planned to come to Hong Kong. She studied law at the University of Edinburgh, and started her career as a solicitor in Edinburgh, specializing in commercial and corporate law. She later moved in-house with a merchant bank. But after a chance encounter with an old family friend who was a long-term Hong Kong resident and government lawyer,

she made the decision to come to the city, securing a position as a solicitor with the Commercial Division of the Registrar General's Department (RGD). "I arrived in Hong Kong on 1 December 1988 with the intention of completing my two-and-a-half-year contract, then taking the Trans-Siberian Railway back to London to really start my legal career," she remembers. But 32 years later, she is still here. "It is very hard to leave Hong Kong."

The RGD was restructured in 1993, and its legal officers were rotated around the four government departments of the Land Registry, Companies Registry, Lands Department and the ORO. McKenna started out working in the Companies Registry, before being posted to the ORO in 1997, where she worked for 11 years. She went on to do stints in the Lands Department and Companies Registry in various positions, returning to the ORO as Official Receiver in February 2017.

Challenging times

McKenna's role as the Official Receiver involves overseeing the government's insolvency service across five divisions, including case management, legal services, financial services and departmental administration. She says every day of her work is different, particularly this year, when, as head of department, she has had to help her team adapt to COVID-19, balancing the need to continue delivering services, with keeping staff safe. "Implementing

LEADERSHIP PROFILE

Phyllis McKenna

effective strategies to allow work from home, because we are still paper-based here, preparing and implementing contingency plans in case anyone came down with COVID, making sure we had personal protective equipment, putting in place business continuity plans, working with the court to manage the expectations of all stakeholders – this year has been very challenging and very different,” she says.

Even during a normal period, she says the office is incredibly busy and staff work very long hours. As a result, she has a strong focus on managing workloads and supporting staff, always keeping an eye on the numbers to ensure they can manage what is coming in, particularly when the economy is fragile. “It is quite a challenging environment dealing with bankruptcy cases because we are dealing with people in a really difficult time of their life. A lot of people are angry and believe you are persecuting them, so you try to make sure everyone feels supported in the process while getting the information you need to do the administration.”

McKenna likes to get to work early in the morning at around 7:30 a.m. so that she has a couple of hours before her meetings and phone calls start to catch up with emails, study new cases and generally get up to speed with what is happening in the insolvency space worldwide. “Otherwise, every day brings new problems, lots of meetings and discussions about everything from new computer systems, to difficult cases, to all sorts of complaints. It is always very varied. I can assure you that there is never a dull moment,” she says.

One aspect of her current role that McKenna really enjoys is

working collaboratively with her team of around 40 lawyers and 80 insolvency officers. “I love to see improvements and progress when our solutions do work. Insolvency is an area that demands pragmatic solutions and sometimes creative ideas, and I do enjoy that aspect of the job.” She describes the biggest challenge as being the lack of control over the number of cases they have to deal with, as a significant part of her work involves refining processes and trying to find ways to deliver more effective results.

McKenna also takes part in the International Association of Insolvency Regulators, a body that brings together government insolvency regulators from around the world. “Despite the many diverse systems in place across the member jurisdictions, the problems that we face as insolvency regulators and Official Receivers are strikingly similar,” she says. She gives the example that while government fiscal stimuli are in place, members around the world have not seen a big increase in cases, but they all anticipated a strong rise once the effects of the support end. “We are all watching and waiting and debating the best ways to deal with a huge influx of cases,” she says. Hong Kong had been due to host the association’s annual conference in November this year, but has had to change it to a scaled-down virtual event as a result of the pandemic.

A new option

Unsurprisingly, McKenna’s department has been highly involved in the new draft Companies (Corporate Rescue) Bill. She explains that it is the third attempt to pass legislation on the issue, which stems from a recommendation made by the Law

Reform Commission in 1996.


After attempts failed in 2000 and 2001, mainly due to conflicting views over the treatment of outstanding employees’ entitlement, the government revisited the initiative in 2009 as part of its response to the Global Financial Crisis, publishing a package of detailed proposals in May 2014.

A draft bill, largely based on the 2014 proposals, is currently out for consultation with stakeholders. “We have a team of lawyers in the ORO supporting the Financial Services and the Treasury Bureau technically, who work alongside the Department of Justice and the Law Draftsman in this process. Everyone is working incredibly hard to get the legislative exercise completed,” says McKenna.

The draft legislation proposes a predominantly out-of-court process to make assistance more accessible, faster and less expensive for companies. It involves an independent provisional supervisor, who must be either a CPA or a qualified solicitor, being appointed to provisionally displace the board of directors. The provisional supervisor will then put together a proposal to be voted on by the company’s creditors, with the aim of maximizing the company’s chances of continuing as a going concern. If this is not reasonably practical, they will look to achieve

“Insolvency is an area that demands pragmatic solutions and sometimes creative ideas, and I do enjoy that aspect of the job.”




 A photograph of Phyllis McKenna, the Official Receiver, standing in her office. She is a woman with short grey hair, wearing a bright teal blazer over a black top. She is holding a pair of glasses in her hands. The office background includes a desk with a computer monitor, keyboard, and mouse, a black office chair, and various framed pictures and documents on the wall, including one titled 'ASTANGA YOGA'.

As the Official Receiver, Phyllis McKenna oversees the government's insolvency service across five divisions, including case management, legal services, financial services and departmental administration.

a better return for the company's creditors than if the company was wound up immediately.

An important part of the procedure is a moratorium, which initially lasts for 45 business days, although it can be extended, during which creditors cannot take action to have the company wound up or to sue for the debts. At the end of this period, the company should either have agreed a voluntary arrangement with its creditors, ended the provisional supervision and returned to trading, or moved into voluntary liquidation.

"Balancing the interests of all stakeholders in the process is always going to be challenging, but I think this time we have done a

fine balancing act and are hopeful that we have the support from all stakeholders, with the recognition that in a restructuring situation, everyone needs to come to the table and manage their expectations if there is to be a successful outcome," says McKenna.

She is aware that some practitioners are concerned about the increased personal liabilities of the provisional supervisor, but she stresses that the personal liability is not automatically imposed upon taking office. Instead, she says, the provisional supervisor will only be liable for any pre-appointment contracts that are adopted in writing by the provisional supervisor within 16 business days of appointment,

or contracts that they enter into after assuming office. In both cases, the provisional supervisor has the option to contract out of the liability or agree with the other party on the extent of the liability. "The bill also provides for the provisional supervisor to be indemnified out of the assets of the company for any such personal liability, remuneration and expenses properly incurred, and such indemnity will generally have priority over unsecured debts and those secured by floating charge," McKenna says. She adds that the provisions on liability and the right of indemnity are largely similar to those applicable to a receiver under section 298A(2) of the Companies

(Winding Up and Miscellaneous Provisions) Ordinance.

The need for a robust regime

McKenna believes a robust insolvency regime is essential for Hong Kong to retain its position as an international finance centre. “It is important for investor confidence that business failure will be dealt with effectively and efficiently, and that wrongdoing will be investigated and dealt with.”

She adds that with Hong Kong’s increased focus on innovation, it is also key to have a safe and established way to deal with failure. “If we want to have a start-up culture here, we need to have the ability for people to put their failure behind them and continue to contribute to the economy.”

But McKenna points out that, while everyone accepts there is a gap in Hong Kong’s insolvency infrastructure due to the lack of a formal restructuring process, the courts and the development of common law principles in this area over the past 10 years have served Hong Kong well, and kept it relevant as a restructuring hub in Asia. “The expertise of Hong Kong professionals working in this field also cannot be overlooked. Success often results from the people involved in the process and how they apply their knowledge and experience,” she adds.

A digital legacy

While McKenna says her office has not yet seen a huge increase in business failures, with bankruptcy numbers around 10 percent up from last year, she is anticipating challenges ahead if the economy does not rebound quickly. “We are monitoring the environment very closely and reviewing our procedures and processes to streamline them and ensure we can continue to progress the majority of insolvency cases in a timely manner.”

Even so, she warns that the difficulties involved in liquidation and bankruptcy administration can lead to long delays in finalizing matters. “The complexities can’t be underestimated. The procedures are, for the most part, mandated by statute and there are few shortcuts. That said, we have created a fast-track system to handle the most straightforward cases.”

“If we want to have a start-up culture here, we need to have the ability for people to put their failure behind them and continue to contribute to the economy.”

She adds that they are also working to enhance their use of technology, and funding has just been approved by the Legislative Council (LegCo) for the introduction of an electronic submission system.

Creating a more technologically advanced environment for her colleagues at the ORO to make their work more manageable is something McKenna would like to achieve during her tenure as Official Receiver, alongside leaving a legacy of a strong learning environment.

A satisfying career

McKenna says the most memorable moment of her career was working with the team in Companies Registry and the Financial Services and the Treasury Bureau on the rewrite of the Companies Ordinance in 2013. “The moment the bill was passed, after 44 Bills Committee meetings and over 140 hours of deliberations in LegCo, was magical. We all celebrated with champagne, even though we still had the subsidiary legislation to

deal with,” she remembers.

She has seen a number of significant changes in the field of insolvency during her career, including the development of the recognition and assistance in corporate cross-border insolvencies. “When we dealt with the Peregrine collapse, we used protocols and parallel liquidations. It was very different,” she says.

The introduction of automatic discharge for bankruptcy in 1996, which was introduced shortly before the Asian Financial Crisis struck, also brought about what she describes as “a seismic change” to the work of the ORO. “The number of bankruptcy orders made in 1997 when I was first posted to the ORO was 639, but by 2002, the number of orders had increased to 25,328 annually. You can imagine the impact on the workload of our teams.” Numbers have since fallen back to around 7,000 to 9,000 a year.

To Institute members who are interested in working as insolvency practitioners, McKenna advises: “Get as much experience as you can. Nothing beats practice and experience for developing and refining the skills necessary to be a good insolvency practitioner.” She adds that insolvency and restructuring is an exciting area of the profession that calls for creative and innovative solutions. “It is tough, and no doubt involves hard work, but at the end of the day, it can be very satisfying,” she says.

When she is not working, McKenna enjoys spending time with her family. She is a keen hiker and likes active holidays, such as walking the Everest Highway in Nepal, sailing in Croatia, or cycling in Italy or France, as well as city breaks in cities like Hanoi or Bangkok. She is also a qualified yoga instructor, and while she no longer teaches, she tries to still practice every day, even if it is only for 20 minutes at lunchtime. “It helps to keep me calm and positive.”



Phyllis McKenna’s department has been highly involved in the new draft Companies (Corporate Rescue) Bill to introduce a statutory corporate rescue procedure and insolvent trading provisions in Hong Kong. It is currently out for consultation. Read more about the bill and its potential impact on businesses and insolvency practitioners on page 16.





McKenna, who studied law at the University of Edinburgh, previously worked with the Companies Registry and the Financial Services and the Treasury Bureau on the rewrite of the Companies Ordinance in 2013.

SECOND OPINIONS: HOW CAN COMPANIES DO BETTER IN DIVERSITY AND INCLUSION IN THE WORKPLACE?

“Businesses should develop better ways to identify cognitive differences in their recruitment process and avoid hiring people who think the same way.”



IRENE CHU

PARTNER, REGIONAL LEADER OF INCLUSION AND DIVERSITY COUNCIL, KPMG CHINA AND AN INSTITUTE MEMBER

Many organizations approach the subject of diversity and inclusion by focusing only on gender, age, ethnicity, religion or sexual orientation. While having a representative workforce is important, teams with diverse backgrounds do not necessarily translate into true diversity.

True diversity refers to differences at a much deeper level. They lie in the way we think, our attitudes, perception or tendency towards the external environment, and how we learn, obtain, process and apply knowledge etc. This type of diversity can be referred to as cognitive diversity. Cognitive diversity allows individuals and teams to not only apply what we have learned from the past (what most people do) but also to discover what we don't know and learn from others or new knowledge. A 2017 Harvard study also showed that teams with a high level of cognitive diversity deliver high performance. It supports accelerated learning and is particularly important to businesses, especially as they operate in highly uncertain environments and face highly complex problems today.

To nurture a diverse and inclusive culture, businesses should develop better ways to identify cognitive differences in their recruitment process and avoid hiring people who think the same way. For instance, at KPMG, we hire many graduates who do not major in accounting or business subjects and have different personalities, traits and cognitive styles. Our experience shows that having a truly diverse team to tackle complex client issues can often yield better and more innovative solutions.

It is also important to cultivate an environment where people feel comfortable and safe to speak up and ask difficult questions. We encourage our people to challenge the status quo and also propose new ideas. Many of our firm-wide initiatives and programmes such as religious and lesbian, gay, bisexual, and transgender-support groups originated and are being led by our younger colleagues. As our people are empowered to make decisions, we not only share and celebrate successes, but we also want them to feel safe to fail and try again. Last but not the least, diversity and inclusion is a journey, and we need to maintain a growth mindset so that we keep learning and improving.

When employees feel comfortable to be themselves and appreciate each other's differences, they can leverage those differences by collaborating and tackling problems more creatively.

Achieving diversity requires leaders to lead with purpose and commit to taking action to bridge the gap between their aspirations and reality. Leaders should also recognize that they do not have all the answers. By consistently drawing on a diverse range of capabilities, skills, experiences, personalities of their people, leaders can achieve better outcomes.



PATRICIA DWYER
FOUNDER AND DIRECTOR
THE PURPOSE BUSINESS

Diversity should be encouraged at every level of an organization. Here are three things for organizations to consider to improve their diversity.

Top of the tree: Hire differently. When the next board seat opens up, look around the room. Are you all alike? As part of transformation, could you bring in a different expertise or background? Beyond simply going for more women on the board, could we explore being truly inclusive in the way we evaluate potential new members? Someone who brings a retail experience to a table of bankers and lawyers? Accountants have moved to environmental, social and governance (ESG) due diligence work and some fund managers who have come from accounting backgrounds have found themselves better equipped in navigating ESG reporting. Lawyers have become vice chairs of technology companies, retail leaders have moved to banks and grassroots charity members have moved to corporate roles. It's possible to push for diversity in the boardroom by mixing functional expertise with a variety of backgrounds and perspectives – and they all lead to a healthier decision-making process.

Trunk: Junk the silos. If there are challenges in the accounting team, could we ask sales or human resources for outside-the-box solutions? Create “intra-preneurial” projects that promote cross-function collaboration across departments that otherwise would never work together. Pair up different roles from different markets, so employees learn about other cultures, and get best practices to be shared, etc.

At the roots: Revamp the recruitment strategy to drive the future-proofing of business. PwC went on an acquisition spree with design and innovation companies in cities including Hong Kong, Stockholm and Dubai as part of its global push to strengthen its digital innovation, experience consulting and service design portfolio. With experts in ESG, sustainable finance, and climate change and decarbonization, KPMG has launched “KPMG Impact” to bring in partner organizations and build “an experienced network of professionals from across the globe to deliver industry leading practices, research and trusted client solutions to address the biggest issues facing the planet, having a real and positive impact today and for our collective future.”

“Beyond simply going for more women in the board, could we explore being truly inclusive in the way we evaluate potential new members?”



STEVE NG
AUDIT PARTNER, HEAD OF PEOPLE AND CULTURE
GRANT THORNTON HONG KONG
AND AN INSTITUTE MEMBER

Nowadays, the human resources department is not just a supporting role in an organization. It is part of the management team with value-added functions like training, talent retention and corporate culture development. Therefore, we renamed our human resources department as “People and Culture.”

People and culture are important to the sustainable growth of an organization. One of the key elements of this is diversity and inclusion. Diversity of thought, background and experience enable great decision-making, innovation and help us meet and understand the needs of our clients. Here are a few tips for creating a diverse and inclusive organization.

Inclusion isn't fluffy: To advise your clients effectively, it's vital that you offer diverse perspectives – this goes beyond gender and ethnicity. You have to be committed to making sure that the opportunities within your organization are accessible for everyone and that you are representative of society.

Diverse teams perform better than expert teams: Evidence shows that diverse teams actually perform better than expert teams. If you have previously relied on a homogenous and expert team to make decisions, go and seek more views and you may find that better decisions will be made. For example, we work closely alongside secondees from our member firms and implement their ideas in serving our clients locally.

Creating an inclusive workplace starts at the top: According to our recent survey, just one in 661 people believe that an unconscious bias affects decision-making. However, we all have biases. You need to challenge biases when you identify them and create an environment where people feel safe to speak up. Top management has to render full support in getting staff to call it out.

Data helps you understand what you need to change: Sometimes little things, like making sure that you have the right data, can help you really understand the challenges you face. For example, by identifying the ethnicity of the employees, one can effectively calculate the ethnicity pay gap within a firm.

Transparency is key: You need to be really honest with yourself about where you are and make realistic and pragmatic commitments to change that you can actually deliver.

With the recent outbreak of COVID-19, many organizations allow their staff to work from home, which makes maintaining diversity and inclusion within the business a big challenge. Do not drop this issue from your agenda and try not to make your staff feel isolated during this difficult period.

“You need to challenge biases when you identify them and create an environment where people feel safe to speak up.”

RETHINKING THE



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ONC Lawyers

DANIEL CHOW
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RESTART PROCESS

The draft Companies (Corporate Rescue) Bill, currently out for consultation, aims to introduce a statutory corporate rescue procedure and insolvent trading provisions for the first time in Hong Kong. *A Plus* brought experts together to discuss the current strengths and weaknesses of Hong Kong's insolvency framework, what they would like to see in the new bill, and the impact a new framework could have on the city and its companies, big and small

Photography by Calvin Sit

Hong Kong is set to introduce a procedure, similar to the company administration process in the United Kingdom and elsewhere to give struggling companies the opportunity to get back on their feet. The draft Companies (Corporate Rescue) Bill, which is currently out for consultation, would introduce a statutory framework for corporate voluntary arrangements for the first time in the jurisdiction.

While Hong Kong already has a number of options for companies that run into difficulties, its lack of a formal restructuring regime has long been seen as an issue. Ludwig Ng, Senior Partner at ONC Lawyers and a member of the Hong Kong Institute of CPAs' Restructuring and Insolvency Faculty Executive Committee (RIFEC), points out that in the World Bank Group's Doing Business 2017 rankings, Hong Kong moved down one place because of its lack of a corporate rescue statutory framework.

Mat Ng, Partner, Strategy and Transactions at EY, an Institute member and former Chairman of RIFEC, added that the World Bank Group survey is important, noting that Singapore was upgraded after it amended its insolvency laws. Hong Kong's ranking can also affect borrowing costs. When banks assess risk factors in a jurisdiction in setting their interest rates, the Doing Business report is one of the things that they reference.

The lack of a proper framework for corporate

rescue is a disincentive for investors, as insolvency laws are one consideration when they decide where to invest, says Daniel Chow, Senior Managing Director at FTI Consulting, an Institute member and RIFEC member. If companies end up having to be wound up when they face liquidity problems, this is not good for Hong Kong's reputation as business-friendly environment.

There is also another economic cost to not having a mechanism to enable companies that have run into difficulties to turn themselves around. "When a company is in financial distress, if you rescue it instead of liquidating it, the company's losses can be minimized, jobs can be saved, and valuable intangible assets can be preserved," Ludwig Ng says.

Current restructuring options

Johnson Kong, the Hong Kong Institute of CPAs' President, and Managing Director – Non Assurance at BDO, points out that while there are currently a number of options for corporate restructuring in Hong Kong, they all have drawbacks.

For example, there are voluntary workouts driven by the banks, on which the Hong Kong Monetary Authority issued the guidance *Hong Kong Approach to Corporate Difficulties* in 1999. Although this works pretty well it only applies to banks and not other creditors. Under the Companies Ordinance, a company may reach



a compromise with its creditors on a voluntary basis, or go through a scheme of arrangement, but the scheme must be sanctioned by the court and approved by a majority of creditors. However, these procedures lack a moratorium, meaning that an individual creditor can still petition for a winding up order. Another option involves appointing a provisional liquidator, a route that has been developed through case law. But Kong points out that while insolvency practitioners are able to use this option to carry out a restructuring, courts have reminded practitioners that it is not the main purpose of the provisional liquidation provisions.

Chow adds that Hong Kong's current insolvency regime is also very creditor-friendly and focused on the recovery of assets, leaving limited scope for companies that want to turn themselves around. "What we need in Hong Kong is more tools for companies on the verge of bankruptcy or insolvency so that the company can survive, rather than allowing the creditor to liquidate it and realize all the assets," he says.

Mat Ng says on the plus side, the existing framework

is transparent and predictable, as it follows the common law approach, but he also agrees that because it still follows the U.K.'s old insolvency regime, Hong Kong is losing ground to other jurisdictions, such as Singapore, which is promoting itself as a restructuring hub. "Everyone else has been modernizing their insolvency regime except us, so it is very difficult for us to compete with other major financial centres around the world when we still have an outdated system," he says.

Despite the drawbacks, Terry Kan, Partner at ShineWing, an Institute member and Chairman of RIFEC, says the current system does have strengths, pointing out that it is efficient and there are many top professionals in Hong Kong looking after the interests of stakeholders. Recently, the court has also recognized a "light touch" provisional liquidation procedure, enabling the provisional liquidator to work with the management to find a solution, which is a kind of hybrid arrangement between the Chapter 11 procedure in the United States and a voluntary arrangement. Even so, he agrees the new framework would offer a valuable additional option to

companies in distress.

Ludwig Ng supplemented that the "light touch" provisional liquidation was actually a procedure developed in Bermuda and the Cayman Islands, but the Hong Kong court has taken the initiative to recognize it. Given that many Hong Kong businesses are incorporated in those jurisdictions, they have the option to make use the procedure. The Hong Kong court's flexibility is helpful because Hong Kong has not so far adopted the United Nations Commission on International Trade Law (UNCITRAL) model law on cross-border insolvency, which is a widely-adopted framework to encourage cooperation and coordination between jurisdictions in cross-border cases.

A long history

The journey to the current draft bill has been a long one. It began in 1996, following recommendations from the Law Reform Commission on the need to introduce a formal corporate rescue and insolvent trading framework in Hong Kong. Attempts to pass the bill in 2000 and 2001 failed in the Legislative Council over disagreements about the way outstanding entitlements to employees should be handled.

"What we need in Hong Kong is more tools for companies on the verge of bankruptcy or insolvency so that the company can survive."



The legislation was revisited in 2009 in the wake of the Global Financial Crisis. “I was a member of the Standing Committee on Company Law Reform at the time and I still remember in January 2009, the then Chief Executive Donald Tsang was really worried, and he gave his instruction that we needed to have the law on corporate rescue in place as soon as possible,” Kong says. “We had weekly Saturday morning meetings just to churn out the consultation paper. But Hong Kong bounced back quite quickly, so the pressure was off, and it was put on the backburner again.”

Detailed proposals on the issue were again published in May 2014, with a view to including provisions for corporate rescue in the new Companies Ordinance that year, but they were later excluded.

The current draft bill is largely based on the 2014 proposals. It would give companies the option of appointing a provisional supervisor, who would be a CPA or qualified solicitor, to replace the board of directors. The provisional supervisor would draw up a proposal to maximize the company’s chances of continuing as a going concern, which would then be voted on by its creditors.

A moratorium, to give the company “breathing space” from action by its creditors, would be in place for 45 days, with the option for it to be extended for a further six months, with the provisional supervisor able to apply to the courts for an additional six months if necessary.

Mat Ng says: “The new legislation means we will have other options we can use for suitable companies, which will lead to a more effective and less costly approach.”

Tiffany Wong, Managing Director at Alvarez & Marsal Asia, an Institute and RIFEC member, points out that having a moratorium in place is also a significant benefit of the new approach, as the current lack of a moratorium makes insolvency practitioners’ job much harder. “Without a moratorium we can’t stop creditors from taking unilateral action, which is not necessarily in the best interests of the company or the general body of creditors. It just takes one of them to file a winding up petition then the entire process falls apart,” she says.

Unresolved issues

Despite the benefits the draft bill would bring, RIF members still

have some concerns. One of these relates to the level of personal liability the provisional supervisor may have to take on.

Kong points out that concerns among insolvency practitioners about these liabilities could also limit take up of the new process as there may be a shortage of practitioners who are willing to act as the provisional supervisor. The Official Receiver Phyllis McKenna has made clarifications on this issue. See her profile on page 8 for further details.

One drawback is the lack of options for rescue financing. Wong explains: “When a company is in distress, without the option of super-priority lending, it may be difficult to attract new investors.” Wong also hopes that the bill will allow the provisional supervisor to borrow money against the assets of the company. “Businesses may just lack liquidity, rather than have a performance issue. I think allowing the provisional liquidator to borrow money would be useful in the current environment.” Kan is also concerned that the legislation is still too complicated. “It has over 400 sections, which was quite a task for the lawyers and accountants in town to read



and comment upon. “Ideally, we would like it to be concise, readable and, most importantly, something creditors can buy into. We would like it to be user-friendly.” Chow agrees, pointing out that the bill should be accessible to the lay person, so that it is easy for companies to understand what options are available to them.

Ludwig Ng says the draft bill also contains a lot of provisions aimed at preventing abuse. “While sometimes directors and business owners use winding up as a way of trying to avoid their liabilities, I think a balance has to be struck between making the process more flexible or user-friendly and preventing abuse,” he says.

Mat Ng feels that the legislation needs to show more trust in practitioners and the process, and not provides so too many opportunities for the court to intervene. “At the moment the bill is drafted in a way that seems to indicate a lack of trust between the stakeholders, so there are a lot of situations where the court could get involved,” he says. He would also have preferred it if

the new regime were more debtor friendly. “A debtor-friendly regime promotes entrepreneurship, but unfortunately in most Asian countries, the culture is still creditor friendly and the insolvency regimes treat companies as if they have done something wrong, instead of seeing the laws as a tool for rehabilitation,” he says.

In addition to local companies, the draft bill will also cover registered non-Hong Kong companies, i.e. companies registered under the Companies Ordinance but incorporated elsewhere, as many Hong Kong-listed companies nowadays are incorporated in Mainland China or in offshore jurisdictions. However, there are no specific provisions for dealing with cross-border insolvencies in the draft bill.

Kan says the courts are also looking at how to deal with insolvent companies that are listed in Hong Kong but do the majority of their business and have most of their creditors in Mainland China. “It can be very complicated. Should the lead be taken in the

Mainland or by Hong Kong creditors? The Hong Kong court is quite pragmatic,” he says.

Wong adds that Hong Kong courts have also recognized the need for Mainland administrators to act in Hong Kong to preserve companies’ assets here. “We are hoping the Mainland courts will reciprocate and recognize our Hong Kong appointment in Mainland China,” she says. Mat Ng points out that as the Mainland has a corporate rehabilitation law, once the corporate rescue framework is in place, there may be a chance of getting recognition for some Hong Kong appointments. Currently, the Mainland courts do not recognize administrators of schemes of arrangement because schemes are not always insolvencies.

Measuring the impact

The draft bill is expected to be introduced in the next session of the Legislative Council, but if it is passed, it is not certain when it will be fully implemented. Even if it comes into effect immediately, it is still likely to take time before it is widely used. “Looking at the

“If in-house accountants, auditors, and lawyers know in detail how it works, they could save a company from going into liquidation by recommending it to the management.”



statistics on Individual Voluntary Arrangement, going back to 1996, it took two to three years for the market and practitioners to get used to and understand exactly what it meant,” Kan explains.

He points out the corporate rescue process is more complicated, so it could take longer for it to be widely adopted. “Practitioners will need to promote its benefits to the market so that people understand it is a good tool. It may take one or two years before they can really see that it is useful,” he says.

Chow agrees: “Once the bill becomes law, I think it is important for the government and professionals to promote this approach to the public, bankers and other professional organizations so that they understand it is a new option for a company in trouble.”

He adds that the role of accountants is not limited to insolvency practitioners acting as the provisional supervisor, but the Institute should also promote the new legislation more widely to its members. “If in-house accountants, auditors, and lawyers

know in detail how it works, they could save a company from going into liquidation by recommending it to the management,” he says. Ludwig Ng adds that accountants on audit committees should also alerted to the new options. With new provisions on insolvent trading being introduced alongside the bill, directors will also need to be aware of the pitfalls of not initiating rescue action before it is too late.

While accountants clearly have a key role to play, Wong points out that acceptance of the new regime by the banking sector will also be critical to its success. “It is clear that the consent of the major secured creditors is needed. I have had discussions with other practitioners, and we are a bit concerned about how quickly or how willingly the banks will provide their consent in individual cases, otherwise a corporate rescue procedure will not go anywhere,” she says. Chow points out that the situation could be further complicated by the fact that often major secured lenders are no longer traditional banks, and may be investment banks, securities

companies, or even other corporate lenders.

Another measure of the success of the new procedure will be the range of different companies that are able to use it. Kong believes that the procedure is more likely to be used by larger companies. Ludwig Ng, expects the procedure to be used by companies with few creditors, while Mat Ng adds that it would be suitable for investment holding companies with few employees and mainly financial institutions as creditors. Kan hopes that after the bill has been implemented that the government will consider a simplified version of the new regime for small- and medium-sized enterprises.

Overall, practitioners welcome the new corporate rescue procedure as a useful addition to what is currently available. “It is always good to have one more tool in our toolbox,” Kan says. Insolvency practitioners generally agree that, even if the procedure is not perfect, it will be better for Hong Kong to have a statutory corporate rescue procedure in place and try to improve it over time.



The Southern Region Managing Partner at Deloitte China on how professionals can maintain good relationships with their clients in a virtual world



How to build virtual relationships with clients

The impact of COVID-19 continues to challenge organizations, their employees and their clients. As we readily adapt to a “new normal,” our virtual connections with one another have never been more important.

Against such a backdrop, we are fortunate to be living in an era of advanced communications technology. Across the world and in every section of society, technology is bringing people together and improving lives. During COVID-19, families and friends living in different countries have been able to maintain connections despite not being able to meet in person, and patients in rural areas can connect with doctors hundreds of kilometres away for remote consultations.

Meanwhile, in the business world, advanced communications technology has the capacity to improve the client experience and strengthen organizations’ connections.

The value of being able to maintain long-lasting, strong, trusting and mutually beneficial relationships in challenging times arises from the ability to truly connect with another person. In business, these bonds can elevate a service or brand. Good communication – both indirect and direct – can even inspire clients to become service or brand advocates.

Indirect communication

When it is not possible to communicate directly with existing and potential clients, organizations – particularly those that offer professional services – need to find other ways to remain “front of mind.”

Today, thought leadership is one of the key ways of achieving this. Organizations increasingly rely on thought leadership to enable them to thrive in a rapidly changing and uncertain world.

Amid the uncertainties brought by COVID-19, business leaders are keen on hearing new ideas about how to lead their organizations through the crisis, and how to transform their operations to thrive.

Customer needs are always in focus at high performing organizations. In disseminating thought leadership, this means maintaining open channels of communication to make ideas easily and quickly accessible. Fortunately, there have never been more means than there are today.

Apart from well-established platforms like corporate

websites, email and social media, an organization’s thought leadership can now be communicated through instant messaging, video calls, virtual town hall meetings, webinars and roundtables, and even e-classes.

But these must not be used randomly. The more well-considered the format and delivery platform are, the more likely thought leadership is to reach the right audience, in the right place, at the right time.

In this way, thought leadership can forge communities of existing and prospective clients united by common interests, with each community member becoming a channel of communication for the thought leader’s service or brand.

Direct communication

Although advanced communications technology has also made it possible to deliver expertise to existing and new clients without any direct interaction, it remains true that the more valuable a service is, the more important one-to-one, personal interaction becomes.

In this context, although a meeting is most likely these days to be virtual, a real, palpable connection must still be made. Despite advanced communications technology having changed how organizations engage with clients, it has not changed the rules of engagement, or the ultimate goal of creating long-lasting, strong, and mutually beneficial partnerships.

Furthermore, it must be easy for people, particularly potential clients, to connect with an organization. For example, if the experience of a video conference is poor due to a laggy Internet connection, it will outweigh the content that is being delivered, no matter how brilliant that content might be.

Leaders tasked with building connections with potential and existing clients should also aim to research and understand who they are speaking to. In the early days of a virtual relationship, it is important to use initial meetings to better understand clients’ mannerisms, and way of thinking.

Authenticity is also vital. We all look forward to less virtual and more in-person meetings when things go back to normal, but when they finally do, organizations must ensure that the images and messages they have transmitted remain consistent with those they have projected into the virtual realm.

“The value of being able to maintain long-lasting, strong, trusting and mutually beneficial relationships in challenging times arises from the ability to truly connect with another person.”

E-learning course on professional scepticism

Linda Biek explains how professional scepticism impacts audit quality, and shares information about initiatives designed to help auditors foster a more questioning mindset



Linda Biek, the Hong Kong Institute of CPAs' Director of Compliance, leads the department responsible for handling complaints about the conduct of Institute members and member firms. She is a CPA with more than 20 years of international regulatory experience. The case handlers participating in the e-Learning course have extensive experience in the profession and regulatory matters.

Exercising professional scepticism is crucial to the audit process, requiring continuous application of a questioning mind to client conversations and documents. Auditors need to be alert to signs of possible errors or irregularities and prepared to probe into them until concerns are reduced to an acceptable level. An inadequate level of professional scepticism in an audit could lead to important evidence being overlooked and material errors remaining undetected. The results could be serious for both client and auditor, as well as other stakeholders.

Lapses in professional scepticism have plagued the audit profession for a number of years, resulting in economic losses and shareholder concerns over the auditor's role as "gatekeeper" of the client's financial statements. To address these concerns, both the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) have taken forward initiatives designed to increase scepticism. Highlights include guidance which directs auditors to foster an independent sceptical mindset; be alert to contradictory evidence that warrants an unbiased assessment, and document the application of professional scepticism.

In their 2018 consultation paper proposing amendments to the International Code of Ethics for Professional Accountants, the IESBA highlighted the need for a questioning mindset. They also drew attention to the importance of maintaining awareness of potential biases as a mechanism for minimizing their impact, resulting in improved professional judgement. The IESBA recently approved revisions to the code, arising out of a project on role and mindset, which highlights threats originating from bias, pressure and other impediments. Some of the more common biases faced by auditors include confirmation, halo effect, self-serving, familiarity, and attachment. *Auditor Independence, Conflict of Interest, and the Unconscious Intrusion of Bias* (Moore, Loewenstein, Tanlu & Bazerman) validates the impact of bias in the auditing setting and provides auditors with an academic perspective regarding threats arising from biased conclusions. Standard setters' initiatives also target quality management efforts of firms to ensure tone, culture, and resources are appropriate.

Other practical suggestions are being suggested on several fronts to facilitate improvements in professional scepticism and, ultimately, audit quality. For example, Brigham Young University professors Glover and Prawitt recognize in their efforts to establish a practical framework the

need for more context surrounding professional scepticism. They propose a professional scepticism continuum to serve as a tool to guide auditors, standard setters and regulators in recognizing cues that may necessitate more persuasive audit evidence in certain circumstances. They claim auditors and regulators should expect more persuasive evidence to be gathered when, after the initial risk assessment, audit procedures reveal increased risks of material misstatement, fraud indicators, complex judgements or inconsistent evidence.

In a study about the influence of mindsets on decision-making, Professors Heckhausen and Gollwitzer find that individuals can employ different streams of thought and cognitive functioning, depending on whether they are in the process of setting a goal or determining how to implement that goal. The ability to effectively switch between mindsets is critical for auditors as they transition from planning to evidence-gathering to concluding the audit, staying alert throughout for conflicting or disconfirming evidence. Research demonstrates how participants can be motivated to employ a deliberate mindset which will strengthen their ability to identify and evaluate a variety of options before concluding on audit matters.

Compliance Forum

To assist members in their practical application of professional scepticism, the Institute's Compliance Department held a virtual Compliance Forum: A closer look at professional scepticism, which is now available as an e-Seminar. While this forum focuses on audit situations, it can be of interest to a wider audience engaged in other functions like accounts preparation and internal controls. The event takes viewers through the auditor's thought process when applying professional scepticism. In addition, it shows how the concept is applied in practice through case simulations involving major transactions and valuation of assets.

The forum is hosted by members of the Compliance Department who have extensive hands-on experience in the regulation of the accounting profession. It opens in English with a highlight of factors contributing to professional scepticism deficiencies. Case handlers then discuss various cases in which inadequate levels of professional scepticism were established. The case section of the forum is in Cantonese.

If you are interested in learning more about how to apply professional scepticism to your work, register now for this free online forum.

RULES ARE CHANGING:

With the overhaul of international tax rules, including the BEPS 2.0 initiative, and tax treaty negotiations slowed down due to COVID-19, panellists at this year's Annual Taxation Conference discussed how Hong Kong should take on the challenges and prepare for what comes next. [Eric Chiang](#) and [Paul Smith](#) report

Photography by Calvin Sit

Thanks to this social distancing world, the Hong Kong Institute of CPAs' Annual Taxation Conference looked a little different this year. One of the highlights of the year for the Institute, the affair is usually well-attended, with lively discussions mixed in with presentations and members networking at break-out sessions. This year's conference was well "attended", albeit virtually, and without some of the personal connections.

Nevertheless, the panellists still entertained and informed the virtual attendees with their knowledge and insights into the challenges facing Hong Kong due to the changing international tax landscape and COVID-19 – the topic of the first panel discussion.

CONFERENCE SPEAKERS:

(From left)

BRIAN CHIU

Deputy Commissioner (Technical), Inland Revenue Department

WILLIAM CHAN

Partner, Grant Thornton Tax Services and Chair, Institute's Taxation Faculty Executive Committee

MICHAEL OLESNICKY

Senior Consultant, Tax, Baker McKenzie

European investigation

Moderator Jo-An Yee, Partner, EY and a member of the Institute's Taxation Faculty Executive Committee (TFEC), began the discussion by asking Jonathan Culver, Tax Partner, Deloitte China, about why the European Union is looking at territorial regimes and the focus of its reviews. Hong Kong is on the list of jurisdictions that will be subject to review.

He noted that the E.U.'s Code of Conduct Group (COCG) was established as a unified body to represent the wishes of all member states. "Taxpayers may be able to negotiate a more favourable outcome for their tax planning with a single member state, or simply move between member states, but this is harder when the group acts through one body representing all member

WILL HONG KONG STAY COMPETITIVE?



ROUNDTABLE

International tax



states,” he said. Regarding the review, Culver commented that the primary objective was to check whether territorial regimes constitute harmful tax practices focusing on two aspects, passive income and active income associated with permanent establishments (PE).

“Passive income is important because it is possible for it to be allocated to a legal entity with not much substance. Income is effectively paid from one jurisdiction to another. Is that income actually going to be taxed?” he noted.

As for active income for PE, revenues are normally attributed based on internal allocation rules. “Hong Kong has a best-in-class PE definition, which provides some comfort, however, because income attributed to a PE can still be offshore sourced, it will be interesting to see what the COCG concludes,” he said.

Hong Kong’s response

Yee asked Brian Chiu, Deputy Commissioner (Technical), Inland Revenue Department, three questions about the E.U. review. “Firstly, what are the major challenges to Hong Kong?

Secondly, how can Hong Kong defend itself during the review? Finally, what will we change in the tax legislation after the review?”

“We have corresponded with the COCG and we are still waiting for the response. We will study the details and may consult stakeholders before we take any steps,” Chiu responded.

Regarding whether income is taxed, he commented that for passive income, “if there is no nexus between a tax jurisdiction and an income then theoretically the tax jurisdiction has no right to tax or not to tax the income. Hence, double non-taxation may arise if the income is booked in a tax jurisdiction with which the income has no nexus.”

For active income, the definition used for PEs is a key issue. “For example, if a PO box could be regarded as a PE, companies may allocate huge revenue to the PE. If the allocated revenue is not taxed or lowly taxed, this would concern the E.U.,” Chiu said.

Chiu finished by agreeing with Culver’s assessment of Hong Kong’s PE definition. “We will undertake FAR analysis to review the

CONFERENCE SPEAKERS:

(Back, from left)

JONATHAN CULVER

Tax Partner, Deloitte China

JO-AN YEE

Partner, EY and a member of the Institute’s Taxation Faculty Executive Committee (TFEC)

(Front, from left)

GWENDA HO

Tax Partner, PwC Hong Kong and a member of TFEC

PATRICK CHEUNG

Partner, Global Transfer Pricing Services, KPMG

function, asset and risk of the PE to judge if the revenue allocated to it is reasonable. Therefore, I don't think this would be a concern for both the E.U. and us as Hong Kong transfer pricing rules are up to the international standard."

Michael Olesnick, Senior Consultant, Tax, Baker McKenzie, agreed that it was premature to conclude now what impact the E.U. review will bring to the Hong Kong tax system. He noted that the E.U. set out that an overly broad definition of income excluded from tax could be a concern. "We will need to clarify if this would only apply to specific categories of income, or if it is applicable to the Hong Kong territorial regime more generally," he noted.

For active income, Olesnick noted that Hong Kong's territorial source regime may lead to non-taxation. "While we can ensure that the amount allocated to the Hong Kong PE is appropriate by using FAR analysis, part of the profit could still be offshore in nature and not subject to Hong Kong tax." This may allow taxpayers to secure offshore claims if they have limited operations in Hong Kong. "The E.U. expects to see substance. The two sets of testing parameters seem to be going to two extremes," he said.

Culver agreed, suggesting that the E.U.'s substance requirement and how Hong Kong exempts offshore income could be a problem. "We should keep an eye on how the E.U. would view the headquarters function in Hong Kong, particularly where there are a lot of fund flows through Hong Kong entities."

The BEPS 2.0 pillars

The Organization for Economic Cooperation and Development (OECD) began its Base Erosion and Profit Shifting (BEPS) 2.0 in 2019 to address the tax challenges linked to the digitalization of the economy. The proposals have two pillars. Pillar One covers the profit allocation and new taxing rights in market jurisdictions, which will grant

taxation rights over multinational corporations (MNCs) to locations where users or consumers reside. Pillar Two ensures a minimum level of taxation for MNCs, called the Global Anti-Base Erosion (GloBE) proposal.

Although COVID-19 has delayed international agreement around the initiative, the OECD is targeting a consensus-based agreement by the end of 2020. In June, the Hong Kong government set up its own advisory panel on the initiative, which will review the possible impact of BEPS 2.0 on the competitiveness of Hong Kong's business environment, and advise the financial secretary on strategies and measures to facilitate the sustainable development of Hong Kong as an international financial, trading and business centre.

Yee began with Pillar Two, asking Patrick Cheung, Partner, Global Transfer Pricing Services, KPMG, "What are the key design features of the GloBE proposal?"

Cheung gave the example of a typical British Virgin Island (BVI) incorporated company. The BVI company is interposed between two operating companies in different jurisdictions, and some profit is booked to this BVI company, which is not taxed. "Under the GloBE proposal, this untaxed profit booked in the BVI company will be taxed somewhere, it could be at the parent company level or the payer level by means of denial of expense deduction claim," he said. This would be similar to the approach taken through controlled foreign corporations rules or the United States' Global Intangible Low-Taxed Income (GILTI) rules, which reduce the incentive for MNCs to shift profits into low- or zero-tax jurisdictions.

Given that the proposals are new ideas to the existing international tax ecosystem, changes to the existing international tax protocol is required for successful implementation of the BEPS 2.0 proposals. "To successfully implement GloBE, we need to have structural changes

to tax treaties, agree on the loss blending method, harmonize different points of views, and get buy-in from the U.S.," he said.

Gwenda Ho, Tax Partner, PwC Hong Kong and a member of TFEC, explained that GloBE features four component rules. Firstly, the income inclusion rule, applies a top-up tax to income taxed below a specified minimum rate. Secondly, the switch-over rule, permits in certain instances taxation of otherwise exempt profits when such profits are taxed below the minimum rate. Thirdly, the undertaxed payments rule, denies deductions for related-party payments taxed below the minimum rate. Finally, the subject-to-tax rule, subjects both related- and unrelated-party payments taxed below the minimum rate to withholding and denies treaty benefits thereon.

Yee then asked the panel to share their experience of other countries, preparations for BEPS 2.0. "Everyone is doing consultations now, it seems that the delay to the initiative may not be bad," said Cheung. He noted that Singapore was working to prepare for BEPS 2.0 as it had a lot of tax incentives to attract foreign investment.

Olesnick asked Chiu about Hong Kong's discussions with other countries. "Singapore, Malaysia and a few more countries share common interests, will we work with them together and develop coordinated responses to the OECD?"

While international cooperation is a good idea, Chiu urged caution. "It takes two to tango, and we need to be very careful about cooperation arrangements with other countries. Cooperation is always possible if it is in our interests," he replied.

Disruption to the initiative

The U.S. had recently paused its BEPS 2.0 Pillar One discussions due to a need to prioritize their resources on the COVID-19 pandemic. "What is the impact of this action?" Yee asked the panel.

"The situation is not ideal, and

"It takes two to tango, and we need to be very careful about cooperation arrangements with other countries. Cooperation is always possible if it is in our interests."

without the U.S.'s involvement there could be delays in coming to a common consensus. Individual countries are more likely to take unilateral measures such as introducing a digital services tax (DST) to collect tax revenues from digital transactions," Ho noted. "The U.S. is strongly opposed to the introduction of DST and has called for commensurate measures, for instance, threatening to impose a 25 percent tariff on US\$1.3 billion of French goods if France begins collecting DST from U.S. companies next year," she continued.

The two pillars had different backers Cheung said. "The Europeans want Pillar One, but the U.S. wants Pillar Two. COVID-19 provides the perfect excuse to kick the can down the road," he said. "Yet the dynamics have not changed. Taxpayers will get caught in between and suffer if there is no agreement. The U.S. is of the view that the problems can be resolved through the BEPS 1.0 action plan. This thinking is not entirely wrong," he remarked.

Pillar One's turnover threshold of €750 million is so high that most MNCs caught by it would largely be U.S. tech companies, highlighted Olesnicky. "Clearly Pillar One is not in their favour. Agricultural and financial services, two industries that the Europeans want to protect, are carved out of the initiative," he said. "It therefore appears that the Pillar One design is very Europe-centric, and may be viewed, to an extreme, as a European attack on the U.S."

A unilateral approach has been taken by the U.S. said Chiu. "It applies its own rules like Foreign Account Tax Compliance Act, GILTI and Base Erosion and Anti-Abuse Tax," he said. "Tax jurisdictions that would like to enter a tax treaty with the U.S. has to accept the U.S. model rather than the United Nations or OECD model." The U.S. introduced new components to its tax regime from time to time, but it is questionable as to whether these measures are acceptable at the international level.

Olesnicky warned about two potential outcomes if the U.S. completely withdrew from the BEPS 2.0 discussions. "Either it's the death of BEPS 2.0, or the OECD still goes ahead with it. It is always better to have a true global solution," he said.

The upcoming U.S. election may also complicate matters, said Culver. "While it is not easy to implement Pillar One, this could become part of the political agenda in the

upcoming U.S. presidential election."

Helping Hong Kong

Noting that there was still much to be resolved, Yee asked the panel to share their ideas about how policymakers in Hong Kong can be prepared for the introduction of BEPS 2.0.

"Education and consultation are important. Taxpayers should know that BEPS 2.0 is not just about increasing tax revenues for governments, but is also to ensure a level playing field between jurisdictions," said Ho. "While certain businesses may be concerned about the potential changes, they may wish to appreciate that some of these changes may help increase their competitiveness against their overseas counterparts."

Ho finished by saying that concluding more tax treaties with major trading partners and allowing unilateral double tax relief measures would be important to address potential double or multiple taxes, thereby making the Hong Kong tax system more competitive.

For Cheung, clarity and certainty in the tax system are important. "Investors may be reluctant to come and invest in Hong Kong if we lack clarity and certainty," he said.

Efforts to avoid double taxation were important according to Chiu. "The design of Pillar Two is really a zero sum game so double taxation is unlikely. While for Pillar One, there is a chance of double taxation, and the impact should not be ignored," he said.

Yee then asked Chiu, "What has the government done in the tax legislation to prepare for BEPS 2.0?" Chiu highlighted the recently passed ship leasing bill. "We intentionally added some provisions there to make it easy to change the legislation if the minimum tax rate is implemented under the BEPS 2.0 bill, if any," he said.

BEPS 1.0 and 2.0 significantly changed Hong Kong's tax system, according to Olesnicky. "When we make changes to our tax system to make it fit to the international game rules, we

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(From left)

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"Education and consultation are important. Taxpayers should know that BEPS 2.0 is not just about increasing tax revenues for governments, but is also to ensure a level playing field between jurisdictions."



need to keep up with the OECD's recommendations," he said.

Increasing its tax take?

The final question Yee asked the panel was whether BEPS 2.0 would lead to more revenue for Hong Kong, noting that the territory was facing a budget deficit.

For Olesnicky, the deficit represented a good time to review the fundamentals of the system. "Shall we keep the source rule in our tax system? What about the possibility of introducing new taxes like a goods and services tax or capital gains tax?" he asked. "Maybe we should do a systematic rather than a piecemeal review," he concluded.

Culver agreed, saying that

BEPS 2.0 would bring big changes to Hong Kong. "It is sensible to conduct a holistic review of the tax system, and ensure that with the implementation of new changes, Hong Kong could be a more attractive place for foreign investors," he said.

There may even be a win-win for Hong Kong. Ho suggested that if Hong Kong can grasp the taxing right, it may be able to collect some extra global tax revenue, while taxpayers should prefer paying a lower tax rate in Hong Kong than a higher rate in another jurisdiction.

Chiu said that while the tax treaty negotiations have slowed down due to COVID-19, Hong Kong remains committed entering into more tax

treaties. "We work to maintain Hong Kong's status as an international financial hub and enable it to keep on prospering," he said.

Olesnicky suggested maintaining the source rules, and implementing the minimum BEPS 2.0 rules when finalized. "We just need to take defensive measures to tax those revenues affected by the implementation of BEPS 2.0," he suggested.

Concluding the panel, Chiu said that the IRD had heard about this proposal but had to ensure that it was acceptable for both the OECD and Hong Kong – a reminder that international agreements require communication and continued engagement.



The full conference is available as an e-Seminar now, featuring presentations on changes in the tax landscape and Board of Review cases and the two panel discussions.



Running the family firm is no small task for Edmund Wong. As Practising Director of Patrick Wong CPA Ltd. and President of the Society of Chinese Accountants and Auditors, he finds himself wearing many hats on any given day. He tells **Louise Tam** about the ins and outs of running a small- and medium-sized practice and how he makes time to mentor the next generation of accountants

Photography by Calvin Sit

In November 1913, a short notice ran in the *Hong Kong Gazette* alerting readers to the fact a crisis had been averted. A government directive that all accounts in the then-British colony should be produced in English – to avoid the authorities missing tax from the growing number of privately-owned Chinese companies – had been avoided by the establishment of a committee that would advise the Hong Kong authorities on the “qualifications of Chinese applicants.”

During the Second World War, as the need for auditors only grew thanks to the government establishing a taxation department in order to collect money to fight the war, that committee gained prominence. And in 1942, it got the name that it uses today: the Society of Chinese Accountants and Auditors (SCAA).

In the 1940s, the society had just 40 members. Today that figure has risen to 1,300 and under its current President Edmund Wong, the society initiates discussions of issues relevant to the profession and helps its members to advance in their professional development.





ACCOUNTANT PLUS

Edmund Wong

Born in Canada,
Edmund Wong
studied accounting
at Hong Kong
Baptist University.



At 34 years old, Wong is the youngest president the society has ever had. He attributes that meteoric rise to his father, Dr Patrick Wong, who founded an accounting firm of the same name in 1975, which today has connections with CPA firms across Mainland China, in England and other countries. “I started as a practising accountant at the age of 28,” says Wong, an Institute member, adding that graduating

into an accounting legacy was the perfect springboard for his career.

Born in Canada, Wong was raised in Hong Kong before heading to the Scottish capital of Edinburgh to finish his education. But he didn’t stay for long. “I thought living in Scotland would be extremely boring as I attended an all-boys boarding school,” he laughs. “Plus, I missed Hong Kong.”

Wong returned to the bright

lights of the big city to attain his undergraduate accounting degree from Hong Kong Baptist University. Having had the benefit of admiring Hong Kong’s success as a global financial centre from afar, Wong had decided to be part of it.

When he graduated in 2007, he didn’t immediately join the family fold, instead initially taking a trainee audit job at Deloitte. After five years with the Big Four firm,



“It was expected of me after I studied accounting at university, because I was so influenced by my father.”

he left, and joined Patrick Wong CPA Ltd. “It’s a family business,” he says. It was his duty as a son to join the firm, and help his father continue his legacy. “It was expected of me after I studied accounting at university, because I was so influenced by my father,” he adds.

Wong’s time at Deloitte was a “remarkable” experience, he says, as it equipped him with a firm understanding of the technical knowledge necessary to be a professional accountant and provided him a wide range of training in management. It gave him the confidence to take on a leadership role in the family firm. When Wong joined Patrick Wong CPA Ltd., he immediately began to introduce services beyond audit – a saturated market, he says – bringing in consultancy and advisory services, risk management and compliance services. Audit accounted for 85 percent of the firm’s business when Wong joined. It now makes up around 70 percent of the firm’s revenue, though Wong would like to see it make up even less. The Big Four, he adds, have brought revenue from audit down to half their business in recent years. “Hong Kong is an open market and there are too many practitioners in the market – especially in audit,” he says. “This makes it very competitive.” Many small- and medium-sized practitioners (SMP) still focus on audit, he says, because they aren’t confident enough to get out of their comfort zone. But Wong has been bold enough to strike out. “That’s how we could make the firm long-lasting and still survive,” he says. “Otherwise we could easily be replaced.”

A wild storm

Today, Wong is Practising Director at the firm, a role which spans operations, managerial responsibilities, talent management, quality control and managing the firm’s reputational risk.

This year, that challenge has taken on an entirely new dimension. The COVID-19 pandemic has rocked businesses across the world, as the bottom falls out of many sectors, particularly tourism and food and beverage. Wong’s bread and butter is serving family-owned small- and medium-sized enterprises (SMEs), which have been hit particularly hard.

“A lot of SMEs are facing the challenge of a decrease in turnover because of fewer tourists and due to the different precautionary measures from the government,” Wong says. Some clients have seen their rental income fall by 40 or even 50 percent. To help its clients survive what could be



The Society of Chinese Accountants and Auditors (SCAA) is an incorporated body of professional accountants in Hong Kong established since 1913. The SCAA has over 1,000 members today.

one of the roughest economic periods of their lives, Wong's firm has adjusted audit fees for some of them. "We are trying to cover the cost of the time we've spent, without compromising our working quality," Wong adds. "We're a bit like pilots guiding our passengers through a wild storm right now."

COVID-19 has, of course, affected Patrick Wong CPA Ltd. too. When it hit at the beginning of the year, the company was heading into one of its busiest periods, with audit engagements for corporations licensed by the Securities and Futures Commission due to be filed by the end of April.

"We did not have any work-from-home policies at the beginning," Wong says. Instead, the firm provided face masks, hand sanitizer and social distancing options to its staff members, as it worked out how to keep operations running while providing a safe work environment. Unnecessary face-to-face contact with clients was kept to a minimum, as the company experimented with using different technologies to navigate the pandemic.

Then, of course, there were his duties as head of the SCAA. Normally, the society holds over 100 functions throughout the year for members and friends of the society to discuss a wide range of topics. Its council has members across the Greater Bay Area, and serves as an important network linking professionals in the region; their Spring Dinner, for example, is normally a 40-table affair. Perhaps even more importantly, the SCAA regularly invites officials from government departments in Beijing to Hong Kong to discuss policy and business opportunities. "Our members

treasure this opportunity to have a nice dialogue with the government officials," says Wong.

But when COVID-19 hit, those in-person events became impossible due to social distancing restrictions. With the borders closed between Hong Kong and Mainland China, delegates couldn't attend if they wanted to, so the society has resorted to hosting virtual events. It still maintains a close relationship with the Institute, through National Day dinners at the Hong Kong Convention and Exhibition Centre with around 60 tables and PRC delegates held in previous years. Wong adds that despite COVID-19, the SCAA's connection with the Institute remains a powerful one for lobbying the government.

A passion for the profession

Wong says the biggest challenges he faces in his professional life is recruiting young people. "Quite a number of accounting graduates are reluctant to work in the accounting field," he says. "They think they'll face long working hours, and won't be able to head home until three or four in the morning." Instead, accounting graduates are pivoting into other financial fields, such as banking. Wong says his firm markets itself as a company that offers opportunity beyond audit: "What we are like policemen or investigators – we try to explore the story behind the figures as the figures themselves do not tell the whole story. We are the ones finding out the truth, and that doesn't make for boring career! Accountants are the gatekeepers of the Hong Kong economy." That is the message he tries to give to young people at career fairs at local universities, while also promoting the idea that at a medium-sized firm, employees have a good work-life balance and leave the office on time.

Wong himself has no such reservations – he is in love with the profession. He dedicates his spare time to teaching programmes for the Strategic Business Reporting module, which is a professional level examination paper offered by the Association of Chartered Certified Accountants, an experience he says is extremely rewarding when he mentors a struggling student to success. "It's like passing the torch," he says. Wong also teaches accounting and finance modules from bachelor's to master's level at various universities to inspire young people and share his love for the job. He admits that it makes for quite a demanding schedule as he needs to spend a lot of time putting material together for his classes. "I spend a lot of time

"What we are like policemen or investigators – we try to explore the story behind the figures as the figures themselves do not tell the whole story. We are the ones finding out the truth, and that doesn't make for boring career! Accountants are the gatekeepers of the Hong Kong economy."





preparing and lecturing, but when the students tell you that they have passed their examinations and will become qualified accountants,” that the time spent it well worth it, he says. Wong is also committed himself to continuous learning and hopes that it could influence his students to do the same. He has completed three master’s degrees in finance, corporate governance and business administration within the last 10 years. “And right now, I am doing my fourth master’s degree with Hong Kong Polytechnic University,” Wong adds.

Wong has advice for graduates interested in becoming qualified CPAs. “I would like to tell them

that a CPA qualification is not a destination – it’s basic training for many people in the business field,” he says. “Knowledge in accounting and CPA training will provide you with many opportunities to work in different roles and for you to understand the business environment. Therefore, it’s great training whether or not you choose to stay in the accounting profession.”

In his day job, Wong is taking on a greater role helping the firm, and says that joining a family business was an art to master. “Working with my dad is full of challenges and we need to adjust and adopt different cultures and working styles for a “cross-

generation” collaboration, as we have quite different philosophies in management and work styles.”

For others thinking of leaving a Big Four firm for a smaller operation, Wong says that the joy of working in an SMP is the personal relationship he has with his clients. “They always ask advice about the business, and sometimes we talk about our personal life too! For example, they’ll ask which kindergarten their children should go to. That’s the reality. I treasure that relationship,” he says. “We are like friends, and that makes a big difference. At a smaller firm, our clients trust us and that’s what I enjoy most.”

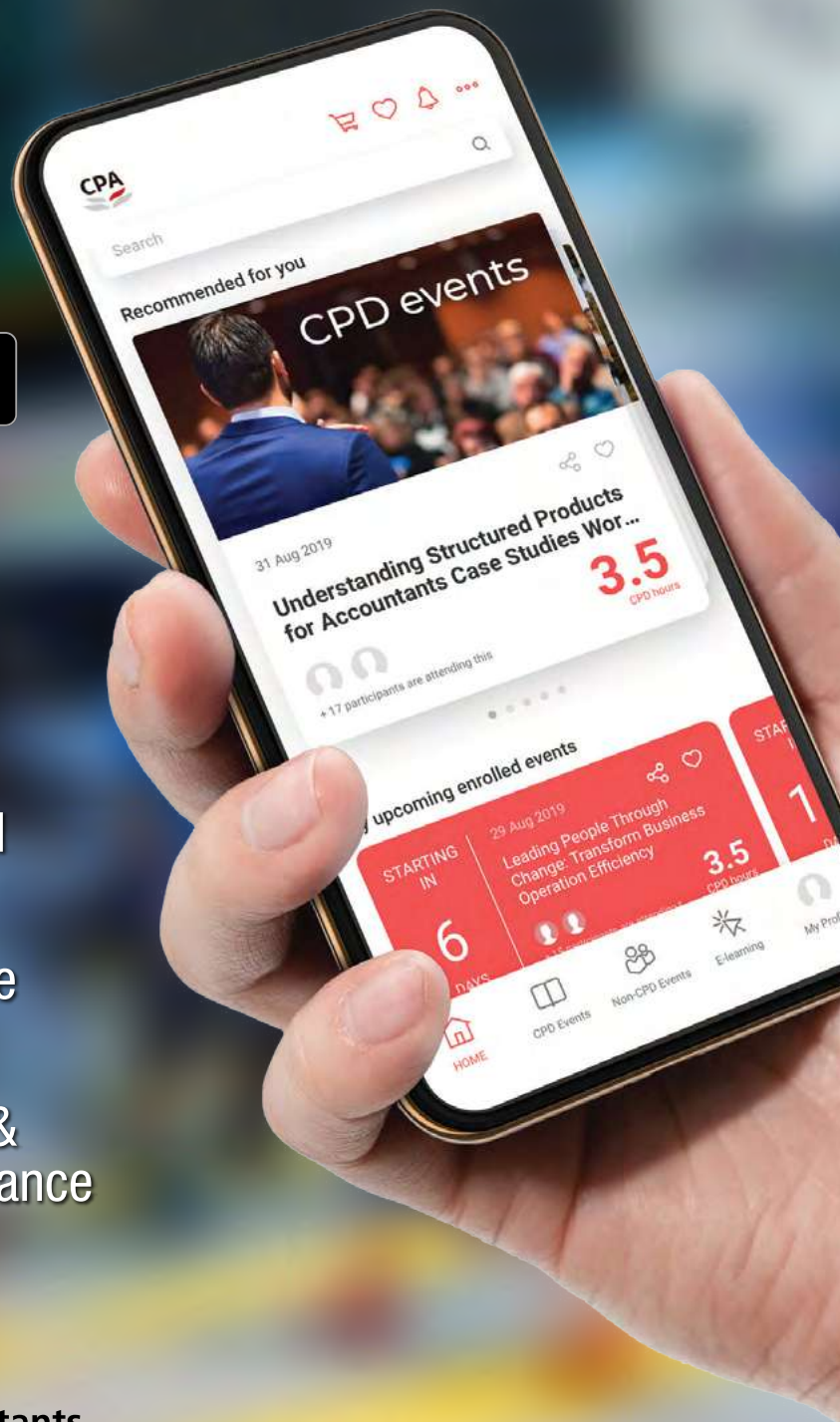


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Hong Kong Institute of
Certified Public Accountants
香港會計師公會

The Chief Executive Officer of International Federation of Accountants on how important work is underway to create a reporting system that delivers consistent, comparable and assurable information relevant to enterprise value creation and sustainable development



It's time for a new sustainability standards board

No one predicted what has transpired in 2020. While the COVID-19 pandemic and its impacts have been front of mind for businesses and policymakers, focus on the sustainability agenda has not been lost. In fact, throughout 2020, amid calls to “build back better,” momentum has been steadily building to a crescendo of proposals for rationalizing and organizing what and how companies communicate with their investors and other stakeholders about sustainability factors – often referred to as environmental, social, and governance (ESG) or “non-financial” topics. One of the most important voices, yet to be heard, is that of the IFRS Foundation Trustees who are expected to initiate an important public consultation shortly.

An important moment for our profession

From the International Federation of Accountants’ (IFAC) point of view, this consultation could not come too soon. The time is now – to answer the demand from investors, companies, policymakers and all the other stakeholders who will benefit from a reporting system that delivers consistent, comparable, reliable, and assurable information about the impact of sustainability issues on company performance, as well as the impact that companies have on society. Climate change may be the most pressing issue, but not the only topic to be addressed.

In our view, the IFRS Foundation, with its independence, good governance, and track record of due process, is optimally positioned to lead by establishing a new International Sustainability Standards Board (ISSB) alongside the International Accounting Standards Board (IASB). Under the IFRS umbrella, this new board can garner support from public authorities like International Organization of Securities Commissions (IOSCO) and others, which is critical to legitimacy and the ultimate adoption of sustainability reporting requirements. The ISSB must not interfere with the ongoing work of the IASB. But the ISSB would be well positioned to ensure that its standard-setting is compatible with the work of the IASB. A framework such as integrated reporting, in conjunction with the IASB’s Management Commentary project, will help link up conventional financial reporting with sustainability reporting. The overall relevance of corporate reporting, and what the accounting profession delivers, will be greatly enhanced.

Enhancing corporate reporting – the way forward

IFAC has set out a pragmatic “way forward,” with two essential “building blocks” as its centerpiece.

1. The ISSB will develop reporting requirements for material non-financial information focused on company performance, risk profile, and economic decisions – referred to as “enterprise value creation.” This information will be of interest to investors and consistent with information currently deemed to be material to investment and capital allocation decisions under financial

reporting regimes like IFRS Standards and United States generally accepted accounting principles.

2. Also important is sustainability-related information that addresses broader, material sustainable development and company impacts on economy, environment, and people. The ISSB has a collaborative role to play here.

These building blocks should leverage the expertise and disclosure requirements of leading initiatives, including the CDP, Climate Disclosure Standards Board, Global Reporting Initiative (GRI), and Sustainability Accounting Standards Board (SASB). A recent joint paper by these organizations, plus the International Integrated Reporting Council, explains how these initiatives complement one other and contribute towards a steady state system. Our way forward aligns well with the conclusions and collaboration proposed by these five organizations.

Finally, we also propose a “safety net” (building block 3) to accommodate any supplemental jurisdiction-specific issues and requirements that support local public accountability.

Current developments

Other developments have occurred that will contribute toward a global system. As the international body that brings together the world’s securities regulators, IOSCO has decided to elevate responsibility for sustainability reporting to a board-level task force. In Europe, the European Commission has asked The European Financial Reporting Advisory Group to look into sustainability standards for reporting in the European Union. Next, the World Economic Forum, in cooperation with the International Business Council and the Big Four global accounting firm networks, published recommendations for “Stakeholder Capitalism Metrics” that largely draw on existing standards of GRI, SASB, and others. These efforts are important steps, and must ultimately contribute towards the development of an independent, private sector system with clear public authority backing – a truly *global* solution. A global system also includes jurisdictions that are not currently using IFRS Standards for financial reporting. With that in mind, we would encourage a new ISSB to engage with *all* jurisdictions. Some will adopt and require ISSB standards; others may pursue a voluntary or best-practices approach.

Call to action

These are exciting times. As a profession, we can feel good about doing our part to help companies, economies, and societies achieve a more sustainable future. We have an opportunity to enhance our skills and bring new relevance to corporate reporting and assurance.

Now is the time for professional accounting organizations around the world to lend their expertise and advice as the IFRS Foundation Trustees evaluate taking up this challenge. IFAC offers the Trustees its full support in addressing this important public interest need.

Time to reflect – Don't be the next “test case” in Hong Kong on the Reflective Loss Principle

A look at the justification of the Reflective Loss Principle

Shareholders, holding companies and beneficiaries of trusts who suffer losses through a diminution in the value of their shareholding/trust interest are often prevented from pursuing actions to recover those losses by the “Reflective Loss Principle.”

The principle is clearly part of the law of Hong Kong, and its application is complex. But a recent landmark ruling by the Supreme Court in the United Kingdom in *Sevilleja v. Marex Financial Limited* [2020] UKSC 31 has rejected the broad application of the principle developed over the years, and questioned its justification and whether it should still be recognized. This calls into question whether it will remain an impediment to recovery by claimants in Hong Kong and elsewhere.

This has significant implications for the potential liability of directors and officers, professional trustees, auditors and other advisors, and may lead to a materially higher risk of liability.

In detail

What is the Reflective Loss Principle?

The principle is: where a company suffers a loss caused by a breach of duty owed to it – only the company may sue in respect of that loss. No action lies at the suit of a shareholder suing in that capacity to make good a diminution in the value of their shareholding where that merely reflects the loss suffered by the company. It applies notwithstanding that the company may have declined or failed to sue: the principle is not concerned with barring causes of action but with barring recovery of types of loss.

However, the principle doesn't limit the right of a shareholder to sue where (1) the company has no cause of action, even where the loss is a diminution in the value of the shareholding, or (2) a shareholder suffers a loss separate and distinct from that suffered by the company. Each may sue to recover the loss caused to it, but damages may be limited by the rules preventing a double recovery.

Recent application in Hong Kong

The Hong Kong Courts have relied on the principle to strike out claims in the past. But recently, in *Topping Chance Developments Ltd v. CCIF* [2020] HKCA 478 (June 2020), the Hong Kong Court of Appeal, dealing with a claim brought by the holding company for the negligent audit of its subsidiaries, indicated that the complexities of the principle are such that it is unlikely that a claim would be struck out at an interlocutory stage.

The Marex Financial decision

Marex Financial had obtained judgments against two companies in the British Virgin Islands (BVI) controlled by Mr Sevilleja. Mr Sevilleja then allegedly stripped assets from those companies, allegedly to evade enforcement of those judgments.

Marex Financial then sued Mr Sevilleja personally for his conduct. Mr Sevilleja sought to bar the claim on the basis of the principle; that is, Marex Financial's loss was merely reflective of the loss incurred by the BVI companies, and therefore could not be pursued. The U.K. Court of Appeal agreed, holding that the principle applied to claims by creditors of a company, and hence Marex Financial was barred from suing.

The U.K. Supreme Court unanimously rejected that ruling. It held that the cases developing the principle were wrongly decided. The majority held that the rule, properly understood, is a rule of company law; not a general rule as to the recovery of loss. It applies in only limited situations to prevent a shareholder from claiming in respect of a diminution in the value of their shares, or a diminution in distributions they would otherwise receive from the company, where that diminution merely reflects the loss suffered by the company due to a wrong done to it and for which the company could bring its own claim. It did not prevent Marex Financial, as a creditor of the victim companies, from pursuing Mr Sevilleja directly.

The minority opinion went further, questioning whether the rule should still be recognized at all. In particular, the minority criticized the “bright line” maintained by the

majority opinion as producing simplicity at the cost of potentially serious injustice to a shareholder who has suffered loss which is different from that suffered by the company.

Implications of the decision for boards, trustees and other service providers in Hong Kong

The principle is clearly a part of the law of Hong Kong, and serves to limit the potential liability of boards, professional trustees, auditors and others to claims by shareholders or beneficiaries for losses they may have suffered. But the Marex Financial judgment raises a real issue in Hong Kong and elsewhere: will it survive here and, if so, what is its scope? Will the potential for liability expand?

Decisions of the U.K. Supreme Court are not binding in Hong Kong, but are highly persuasive. Therefore, it is foreseeable that the Court of Final Appeal may, in the right case, reconsider the principle in light of the Marex Financial judgment.

The situation is therefore in a state of flux – with implications for boards, professional trustees, auditors and, of course, their insurers.

It is therefore important that trustees and others look to strategies to help mitigate this uncertainty. Where possible or appropriate, it may be time to revisit engagement terms, trust deeds or the like. For example, in another important recent case (*Zhang Hong Li v. DBS Bank and others*, November 2019, a case about trustee liability) the Court of Final Appeal has made it clear that the duties of a trustee must be assessed in light of the express terms of the trust deed, and that well-drafted limitation, exclusion or exoneration clauses in the trust deed will be effective to protect the trustee from liability. That case arose from claims in relation to

risky investment decisions made on behalf of an investment company owned by the trust.



This article is contributed by **Gary Seib**, Partner, Dispute Resolution, and **Clement Chui**, Senior Associate, at Baker McKenzie

Proposed tax concession for carried interest

A summary of the Institute's submission in response to the FSTB consultation

The Hong Kong Institute of CPAs issued a submission to the Financial Services and the Treasury Bureau (FSTB) on a proposal to provide a tax concession on carried interest. While the Institute is supportive of the general direction to offer a tax concession, the submission raises certain technical issues and points for clarification.

Eligible funds

The Institute calls for clarification if the requirements for profits tax exemption under sections 20AN and 20AO of the Inland Revenue Ordinance is a prerequisite for enjoying the preferential treatment for carried interest.

What is carried interest?

The proposal makes reference to the definition of "carried interest" in the United Kingdom with suitable modifications. Following the U.K.'s approach, carried interest means a sum which is received or accrued to the persons concerned by way of profit-related return. It is proposed that the "profit-related return" is defined to encompass three conditions: (i) the carried interest must arise only if the validated fund is making profits, (ii) the carried interest paid would vary substantially by reference to the profits; and (iii) return to external investors is also determined by reference to the same profits.

It appears that these conditions could be problematic for carried interest paid under the United States model (i.e. on a deal-by-deal basis). Therefore, the Institute recommends a wider definition of "carried interest."

Is carried interest capital or revenue in nature?

If the holding period is long enough, carried interest in part or in full could be regarded as capital in nature in both the U.K. and U.S. Hence, lower tax rates for capital gains may apply. However, carried interest recipients in Hong Kong would be subject to profits tax or salaries tax based on the entire amount received as no part of it would be considered as capital in nature.

As capital gains are not taxable for profits tax, the preferential regime could be even more attractive if the government would agree to treating the carried

interest as capital in nature by reference to the holding period.

Qualifying transactions

The Institute recommends that what constitute "qualifying transactions" should be clearly explained in the legislation.

Qualified carried interest recipients

The FSTB proposed that individuals providing investment management services to eligible funds in Hong Kong who derive assessable income from the employment with the qualifying person could enjoy the concessionary tax rate. However, other employees, such as the chief financial officer, legal counsel, head of investor relations, could also be the carried interest recipients. Moreover, some investment advisors may need to travel overseas to handle projects. Therefore, the government may consider expanding the scope of the qualified carried interest recipients.

Tax loss

The FSTB proposed that tax loss of the carried interest recipient would not be eligible for carry forward. However, if the highly competitive rate is not set at zero, it is necessary to allow tax loss be carried forward to offset against future taxable profits.

Tax rate differential

The management fee and carried interest payable to the investment manager will be subject to profits tax at normal tax rates and the concessionary rate respectively. Hence, there is a tax differential. While it is common for management fees to be set at 2 percent of the fund's assets under management, the Inland Revenue Department (IRD) expects that fees are charged at an arm's length basis. To this end, would the IRD agree 2 percent as the deemed arm's length amount? Clear guidance on what would be considered as an acceptable arm's length basis would avoid unnecessary disputes.

Concessionary tax rate

Setting the concessionary tax rate at zero would make the preferential tax regime very attractive. However, there is a minimum tax rate requirement under the Base Erosion and Profit Shifting 2.0 initiative. Though most investment

managers would not hit the €750 million threshold, consideration should still be given to avoid potential tax leakage in rare cases.

Substantial activity requirements

The substantial activity requirements of (i) hiring of at least two investment professionals and (ii) a minimum of HK\$3 million local spending are friendly to the investment managers. Yet, the government should ensure that this preferential tax regime would not be considered as a harmful tax practice by the Organization for Economic Cooperation and Development.

Accounting standards

Many existing funds use Cayman structures and prepare their accounts under U.S. Generally Accepted Accounting Principles (GAAP). Yet, the IRD only accepts accounts prepared under Hong Kong Financial Reporting Standards. GAAP conversion is time consuming and cumbersome. How can this be streamlined?

Timing difference on recognition

Expense and income recognition in the hands of the fund and the investment manager are governed by two sets of accounting standards. Timing difference for the two parties may occur. The Institute calls for clarification on the acceptable tax treatments on the amounts recognized in the two parties' accounts.

The role of auditors

Under the FSTB's proposal, auditors have a role to play to report that the carried interest payers are validated funds and the carried interest recipients satisfy the substantial activity requirements.

However, it is unclear to us what the exact reporting requirements are, e.g. level of assurance and therefore the Institute sought clarification on the same.



This article is contributed by
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Upfront lump sum spectrum utilization fees held as capital in nature and not deductible

Examining the Court of First Instance judgment

The Court of First Instance (CFI) handed down its judgment in *China Mobile Hong Kong Company Limited v. Commissioner of Inland Revenue* (CIR) in July. The key issue in this case is whether the upfront lump sum spectrum utilization fees (upfront SUFs) paid by the taxpayer to the Telecommunications Authority (TA) were capital in nature and not deductible.

The CFI dismissed the taxpayer's appeal and upheld the Board of Review's (board) decision that the upfront SUFs were capital in nature and not deductible.

This article summarizes the relevant facts of the case, highlights the key findings of the CFI and discusses our comments on the industry-wide "black hole expenditures" issue.

Background of the case

Below is a summary of the key facts of the case:

- The taxpayer is a mobile telecommunications and related services provider in Hong Kong. Since 1996, the taxpayer has paid annual spectrum utilization fees (annual SUFs) to the government for the use of 2nd Generation (2G) frequency bands assigned to it for its operations.
- In 2007, the TA recommended to the government that the future 4th Generation (4G) spectra would be allocated by auction and the SUF would be in the form of an upfront lump sum payment. The auction of 4G spectra was completed early 2009 and the taxpayer was the successful bidder of one of the frequency bands. The taxpayer paid a one-off lump sum SUF in the amount of HK\$494.7 million in March 2009.
- In 2008, the TA proposed to the government to make certain unallocated 2G frequency bands

available to the existing 2G licensees by auction. In addition to the annual SUFs, a successful bidder was required to pay a one-off lump sum SUF. The taxpayer was the successful bidder of two frequency bands in the auction held in June 2009 and made total lump sum payments of HK\$15.1 million.

- In its audited financial statements, the taxpayer classified the upfront SUFs as non-current intangible assets and amortized them on a straight-line basis over the relevant licence periods.
- The taxpayer sought to deduct the annual SUFs and amortization of the upfront SUFs in its profits tax computations for years of assessment 2009/10 to 2011/12. The assessor raised assessments for these years of assessment in accordance with the returns.
- Subsequently, the assessor raised additional assessments disallowing the deduction of the amortization of the upfront SUFs on the basis that such fees were capital in nature. These assessments were confirmed by the determination of the Deputy CIR.
- The taxpayer appealed against the assessments to the board, which dismissed the appeal and held that the upfront SUFs were capital in nature and not deductible.
- The taxpayer then lodged an appeal against the board's decision to the CFI.

The CFI's judgment

In the appeal before the CFI, the taxpayer sought to draw a distinction between (1) a payment for the "right to use" radio spectrum (which is capital in nature) and (2) a payment for the "use of" such spectrum (which is revenue in nature). The taxpayer's key argument, based on the various provisions of the

Telecommunications Ordinance (TO), was that the upfront SUFs were paid for the use of, as opposed to the right to use, the 2G and 4G frequency bands and therefore were revenue in nature and deductible.

The CFI dismissed the taxpayer's appeal and upheld the board's decision that the upfront SUFs were capital in nature and non-deductible. Below is a summary of the CFI's analyses in its judgment.

"Right to use" vs. "actual use of" the radio spectrum

- It is not necessary in every case to draw a distinction between a payment for the "right to use" and a payment for the "use of" an asset for the purpose of determining whether the payment is capital or revenue. It is, in the judge's view, wrong in principle to treat such distinction as being decisive of determining the nature of a payment.
- Upon a consideration of the legislative regime under the TO and looking at the matter from a practical, business and common sense point of view, there is no reason to believe that the legislature had the above distinction in mind. There is nothing in the TO suggesting that the obligation to pay the upfront SUFs would only arise upon actual use of the assigned spectrum.
- The upfront SUFs were the considerations which the taxpayer had to pay in order to be able to use (i.e. for the right to use) the designated spectrum. They were payable by the taxpayer regardless of whether it actually used, or made use of, the spectrum, and regardless of the extent of its use of the spectrum.
- The notices of terms and conditions issued by the TA relating to the 2G and 4G auctions specified the "right to use" the specified frequency bands.

Capital vs. revenue expenditure

- There are well-established principles for determining whether an expenditure is capital or revenue in nature. As a question of law, there is no single decisive test and the issue has to be approached by applying common sense from a practical and business point of view having regard to all relevant features of the case. Some useful *indicia* can nevertheless assist in answering the question, namely whether the expenditure (1) is incurred "once and for all" or is "recurring", (2) is incurred with a view to bringing into existence an asset or an advantage for the enduring benefit of a trade and (3) relates to the costs of creating, acquiring or enlarging the permanent income-producing structure as opposed to performing the income-earning operations.
- The 4G spectrum and the additional 2G spectrum acquired by the taxpayer were part of the necessary and permanent profit-earning structures required by it to venture into a new line of business (i.e. the provision of 4G services) or expand and strengthen its existing line of business (i.e. the provision of 2G services).
- The upfront SUFs would bring about enduring benefits to the taxpayer's business as the taxpayer could provide 4G and additional/enhanced 2G services to its customers for the next 15/12 years respectively.
- The upfront SUFs were lump sum payments incurred once and for all, instead of periodic payments to meet an ongoing demand for expenditure.
- The change in the method of fixing and payment of the SUFs from an annual royalty basis to an upfront lump sum basis was driven by economic, business and administrative considerations. The motive or purpose of the recipient (i.e. the TA) in the method of payment is irrelevant in deciding whether the payment is capital

or revenue in nature as far as the profits tax position of the payer is concerned. The correct question is what the expenditure is calculated to effect from the payer's practical and business point of view.

- There are significant differences between the annual SUFs and the upfront SUFs. In particular, the annual SUFs were made annually and calculated by reference to the network turnover of the taxpayer subject to a minimum amount. These are the relevant factors which support the view that the annual SUFs were revenue in nature (a view that the CFI assumed, without deciding, was correct).

The takeaway

The CFI's analyses on the nature of the upfront SUFs, based on the agreed facts, are in line with the legal principles established by the judicial precedents in determining whether an expenditure is capital or revenue in nature. It may be worth noting that the judge made a comment in their judgment that a distinction between the "right to use" and the "use of" an asset is not decisive, or even not necessary, in determining the nature of a payment. Arguably, an upfront lump sum payment made to secure the right to use an asset for the next 10 years is different in nature from an upfront lump sum that represents payment made in advance for the annual use of the asset for the next 10 years. Since this distinction formed the crucial argument of the taxpayer, it has yet to be seen whether the taxpayer will further appeal the case to a higher court.

Certain expenditures incurred by telecommunication service providers for acquiring an intangible, such as the upfront SUFs in this case and the payments for acquiring an indefeasible right of use (IRU) of certain capacity of a submarine/optical fibre cable, have been a controversial

issue from a business perspective. As decided by the CFI in this case, the upfront SUFs are not tax deductible despite these expenditures were necessarily incurred by the taxpayer in producing its chargeable profits in Hong Kong. These so-called "black hole expenditures" may also exist in other industries such as the catering and retail industries where a lump sum may be incurred to acquire a licence or franchise for running a business.

The non-deductibility of "black hole expenditures" is an industry-wide issue and will hinder the development of Hong Kong as a world-class telecommunication services centre. Therefore, the government should consider expanding the existing scope of tax deduction for capital expenditures incurred for acquiring intangible properties to cover not only patents, trademarks and copyrights, etc. but also other intangibles such as spectra and IRUs as far as they are used in producing profits chargeable to tax in Hong Kong. Similar to granting depreciation allowances to investment in plant and machinery or allowing one-off deduction for computer software under section 16G of the Inland Revenue Ordinance, providing tax deduction to this type of capital expenditures will encourage investments in the relevant business sectors, such as the telecommunication industry.



This article is contributed by
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TECHNICAL NEWS

The latest standards and technical developments

Members' handbook

Members' handbook update no. 243 relates to the issuance of *Classification of Liabilities as Current or Non-current* (Amendments to HKAS 1 *Presentation of Financial Statements*). The amendments, which clarify how to classify debt and other liabilities as current or non-current, are effective for annual periods beginning on or after 1 January 2023, and apply retrospectively. Earlier application is permitted.

Update no. 244 relates to the updates of Practice Note (PN) 810.2 (Revised) *The Duties of the Auditor of an Insurer authorized under the Insurance Ordinance* to incorporate guidance for reporting under paragraph 36(2) of Part 6 of Schedule 3 to the Insurance Ordinance; and PN 860.1 (Revised) *The Audit of Retirement Schemes* to incorporate changes arising from the Occupational Retirement Schemes (Amendment) Ordinance 2020 and the revised Registrar's Guidelines on the preparation of the Statement of the Employer's Auditor under section 20(7A) of the ordinance.

Update no. 245 contains amendments to Hong Kong Financial Reporting Standards (HKFRSs), which are effective for annual reporting periods beginning on or after 1 January 2020.

Financial reporting

Guidance for COVID-19 financial reporting issues for SMEs

The Institute recently published guidance highlighting key COVID-19-related considerations when preparing financial statements under the *Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard*. The Institute previously published guidance in March and June on financial reporting issues for statements prepared under HKFRSs.

Institute's roundtable discussion on IASB Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*

Last call to join the Institute's roundtable discussion on 6 October to share your views on the International Accounting Standards Board (IASB) Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment*, 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 discussion paper by 14 November.

Amendments to IFRSs in response to the IBOR reform

The International Accounting Standards Board (IASB) has amended International Financial Reporting Standard (IFRS) 9 *Financial Instruments*, International Accounting Standard 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, IFRS 4 *Insurance Contracts*, and IFRS 16 *Leases* as a result of the interbank offered rates (IBOR) reform project. The amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships arising from the replacement of an IBOR with an alternative benchmark rate (replacement issues).

The amendments complement those that were published in September 2019 under phase 1 of the project, which address issues affecting financial reporting in the period during which there is uncertainty about contractual cash flows and hedging relationships arising from the IBOR reform (pre-replacement issues).

A project summary has been published to provide further information on the work related to phase 2 of the project, and the amendments are effective for annual reporting periods beginning on or

after 1 January 2021, with early adoption permitted.

Auditing and assurance

Institute publishes a quick guide to auditing and COVID-19

The Institute has put together a summary of the key issues and considerations impacting the audit of financial statements as a result of COVID-19 and resources from global accounting bodies to help members navigate some of the challenges for the next reporting.

Invitations to comment

The Institute is seeking comments on the International Auditing and Assurance Standards Board (IAASB) Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's Responsibilities in a Financial Statement Audit* by 11 December.

IAASB stakeholders' survey

The IAASB invites interested stakeholders to complete the online survey on experiences and feedback on the Auditor Reporting Standards by 23 October.

IAASB's virtual roundtables

The IAASB invites interested stakeholders to attend its virtual roundtable on *Unique Aspects of Fraud in Audits of Less Complex Entities* on 7 October to explore issues and challenges related to fraud through discussions with experts and leaders.

IAASB's webinar

During the webinar, the IAASB answered questions on the recently released Exposure Draft *Proposed International Standard on Auditing (IAS) 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including*

the Work of Component Auditors) and Proposed Conforming and Consequential Amendments to Other ISAs.

IFAC resources on COVID-19

The International Federation of Accountants has launched various resources to support practitioners during the pandemic:

- IFAC's COVID-19 Resource Page.
- A statement that public interest responsibilities must remain paramount in an age of COVID-19.
- The Practice Transformation Action Plan, which covers four key focus areas for small- and medium-sized practices.

IAASB's project update

The IAASB Audit Evidence Working Group has published a Project Update for ISA 500 *Audit Evidence*, to update stakeholders about its information gathering activities, issues identified to date, and the way forward.

IAASB's illustrative examples for ISA 540 (Revised)

The IAASB's implementation working group on ISA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures* has issued illustrative examples for auditing expected credit loss accounting estimates. These examples have been developed to assist the auditor in understanding how ISA 540 (Revised) may be applied to accounting impairment losses under IFRS 9 *Financial Instruments*.

Revisions to notes relating to the Legislative Council election

The Registration and Electoral Office has updated the 2020 Legislative Council General Election – Notes for Candidate and Independent Auditor (Claim for Government Payment in respect of Declared Election Expenses under Cap. 241L).

Ethics

Invitation to comment

The Institute has extended the comment period for Exposure Draft of *Code of Ethics for Professional Accountants – Chapter G Section 100 Professional Ethics Relevant to Anti-Money Laundering and Counter-Terrorist Financing Compliance for Accounting Professionals* until 20 October.

This is a component of the Institute's proposal to enhance the risk-based supervision of accounting professionals concerning anti-money laundering and counter-terrorist financing compliance.

The IESBA's July meeting

The meeting summary of the International Ethics Standards Board for Accountants' (IESBA) July virtual meeting is now available.

Extended external reporting

Statement of intent to work together towards comprehensive corporate reporting

Five framework- and standard-setting institutions of international significance have co-published a shared vision of the elements necessary for more comprehensive corporate reporting and a joint statement of intent to drive towards this goal by working together.

Corporate finance

Institute's submission

The Institute issued a submission on 10 August, in response to the consultation proposals by the Securities and Futures Commission (SFC) on amendments to the *Code on Real Estate Investment Trusts*.

Invitation to comment

The Stock Exchange of Hong Kong Limited (HKEX) is seeking comments on Consultation Paper *Review of Listing*

Rules Relating to Disciplinary Powers and Sanctions by 9 October.

Review of Chapter 37 – Debt Issues to Professional Investors Only

On 21 August, the HKEX issued the consultation conclusions on its Review of Chapter 37 – Debt Issues to Professional Investors Only. Most of the original proposal will be implemented.

In its response to the initial consultation paper, the Institute queried whether the eligibility exemption for all "state entities" should be maintained, given the broad definition and that not all such entities would have their debts guaranteed by the state. This point has been taken on board. We also suggested that the definition of "professional investor," as it relates to an individual, is due for a review, although this question was not specifically raised in the consultation.

Codification of General Waivers and Principles Relating to IPOs and Listed Issuers and Minor Rule Amendments

On 28 August, the HKEX issued the consultation conclusions on Codification of General Waivers and Principles Relating to IPOs and Listed Issuers and Minor Rule Amendments. The views of the Institute (and the majority of other respondents) were accepted and the HKEX will not adopt the proposal to codify the relevant factors considered in granting a waiver from the requirements, under Main Board Listing Rule 3.28, regarding the experience and qualification of a company secretary.

The Institute's submission to the consultation can be found on its website. Please refer to the consultation paper and consultation conclusions for further details.

Changes to open-ended fund companies regime and consultation on customer due diligence requirements

On 2 September, the SFC issued the



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consultation conclusions on its proposed enhancements to the open-ended fund companies (OFCs) regime. The enhancements include:

- Removing all investment restrictions for private OFCs.
- Allowing licensed or registered securities brokers to act as custodians for private OFCs.
- Introducing a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong.

Please refer to the press release for details. The changes took effect on 11 September and the SFC has issued a circular on the implementation.

The Institute submitted a response to the consultation paper in February. The Institute, in general, supported the SFC's proposals.

The SFC is further consulting on the customer due diligence requirements for OFCs to better align them with the practices adopted by other funds in Hong Kong. The deadline for submission to the SFC is 5 October.

Taxation

Institute issues submission on proposals regarding carried interest

The Institute issued a submission to the Financial Services and the Treasury Bureau on a government proposal to provide a tax concession on carried interest. While the Institute is supportive of the general direction to offer a tax concession, the submission raises certain technical issues and points for clarification.

Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- Inland Revenue Department's (IRD) public services resumption and extension of filing deadlines.

- List of Qualifying Debt Instruments (as at 30 June 2020).
- Stamp Duty Exemption on the Sale and Purchase of Hong Kong Stocks by Exchange Traded Fund (ETF) market makers for the Allotment and Redemption of ETF Shares or Units.
- IRD waives surcharges for payment of tax by instalments for businesses and individuals in need.
- DIPN 22 (Revised).
- DIPN 49 (Revised).
- DIPN 53 (Revised).
- E-Stamping Circular on enhancements to e-Stamping of share transfer instruments.
- Hong Kong and Serbia enter into tax pact.
- HK-Macau tax arrangement in force.
- Circular Letter to Tax Representatives – Block Extension Scheme for Lodgement of 2019/20 Tax Returns [Extended Due Dates for 'D' and 'M' Code Returns].
- Stamp Duty statistics (July and August 2020).

Legislation and other initiatives

Announcements by the government

Members may wish to be aware of the following matters:

- Government continues to relax social distancing measures under Prevention and Control of Disease Ordinance.
- Government has resumed normal public services.
- Hong Kong's Gross National Income and external primary income flows for first quarter of 2020.
- Hong Kong once again ranked as world's freest economy by Fraser Institute.
- Specifications under the Prevention and Control of Disease (Regulation of Cross-boundary Conveyances and Travellers) Regulation.
- Policy Address consultation launched.

AML notices and news

The list of individuals and entities

published under section 33 of the United Nations Sanctions (Central African Republic) Regulation 2020 (Cap. 537CM) was updated on 7 August. See the related United Nations Security Council (UNSC) press release for the changes.

The lists of individuals and entities under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2019 was updated on 21 August. See the related UNSC press release.

The updated list of terrorists and terrorist associates designated by the UNSC was gazetted on 11 September pursuant to the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575). See the related UNSC press release.

The United Nations Sanctions (Democratic Republic of the Congo) Regulation 2019 (Amendment) Regulation 2020 and the United Nations Sanctions (South Sudan) Regulation 2019 (Amendment) Regulation 2020 were gazetted on 11 September.

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

Members may wish to be aware that the Hong Kong Customs have cracked down on the largest money laundering case in its history.



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

There's more to tennis than having a powerful stroke. It requires consistency, determination and a smart strategy in order to outsmart even the most cunning opponents. Four CPA tennis players tell [Jeremy Chan](#) how they fell into the sport and how joining the Institute's Tennis Interest Group has presented exciting opportunities for them to play and improve

Photography by Anthony Tung

Most athletes who tear a muscle mid-game might simply call it a day. Not Cynthia Chan. She recalls how an injury during one tournament organized by the Leisure and Cultural Services Department (LCSD) in 2013 almost made her quit. "During the semi-finals I tore a muscle in my leg, and it really started to hurt," remembers Chan, General Manager of Milverton Limited, a member of the Hong Kong Institute of CPAs and Convenor of the Institute's Tennis Interest Group (TSIG).

She had the option of dropping out of the competition, but wanted to continue and try her luck at finishing as a runner-up. "I didn't want to just forfeit and give up like that. That isn't part of my personality," she adds. After resting at the first aid tent with an ice pack wrapped around her sore leg, she picked up her racket, took a deep breath and stepped right back into the competition. Giving it her all, she carefully played through the pain and ended up finishing as a second runner-up that hot summer's day.

That episode reinforced her enthusiasm for the sport. She noticed there wasn't an interest group for tennis players at the Institute, and decided to start one the following year. "I really love playing tennis, and wanted to introduce the sport to all Institute members and provide an opportunity for them to play tennis with each other," she says. The interest group started by offering training courses, one for beginners and one for more intermediate players. As Chan remembers, as soon as the enrolment form was sent out by email, the response was overwhelming. "Both courses were full on the first day the Institute posted the form," she says. "I was so happy about it."



Cynthia Chan, General Manager of Milverton Limited, founded the Institute's Tennis Interest Group in 2014.

KEEPING AN EYE ON THE BALL



WORK AND LIFE

CPA tennis players

Irene Tang, Company Secretary and Chief Accountant at Quali-Smart Holdings Limited, joined the TSIG in 2016.



Chan began contacting tennis coaches to teach members and booking courts around the city for the training. The first class

“I remember how my friends laughed and also how embarrassed I felt. But in my heart, I told myself: ‘I will learn this sport and become good at it one day.’”

kicked off in May 2014, with classes taking place every Tuesday evening. The interest group grew in size, and saw members compete in a tennis tournament organized by the Chinese Manufacturers’ Association of Hong Kong (CMA) that same year and the Recreation and Sports Club for Hong Kong Professional Bodies (RSCP) in 2015. Chan started organizing friendly internal competitions such as the Tennis Fun Day cum Mini Tournament, which began in 2017. The group was crowned champions at a tournament by the CMA in 2017 and one by the RSCP in 2019. Currently, there are over 330 members in the TSIG.

Chan, who says her favorite tennis player is Russian-born Maria Sharapova, has played tennis for just over a decade. “I’d always enjoyed watching tennis tournaments on TV, but I never really knew how to play,” she says. So when a friend invited her to play one weekend, she jumped at the opportunity, and quickly found out how difficult it was at the start. She returned as many shots as she could, but often found herself hitting the ball too high, sending it out of the tennis court. “I remember how my friends laughed and also how embarrassed I felt,” says Chan. “But in my heart, I told myself: ‘I will learn



this sport and become good at it one day.”

She learned the basics by practicing with her boyfriend, who is also a passionate tennis player and a former assistant tennis coach at his university. Chan eventually began taking formal lessons and spent the next few years working on her serve and swing. Her partner saw how much she progressed and encouraged her to take part in competitions as a way to improve.

With tennis courts open this month, she looks forward to practicing with her boyfriend, now her husband, and also hopes more Institute members will consider joining the TSIG. “We’ve got very

good coaches,” Chan says. “During the training courses, we group members by their playing ability so they won’t feel too much pressure. If beginner players don’t have their own tennis rackets, the coaches are more than happy to bring rackets for them.”

Strength from within

Irene Tang wants other tennis players to know that strength isn’t everything when it comes to scoring points. It’s a combination of strategy, form, and most of all, consistency. Her favourite tennis player, United States-born former world number one in women’s single tennis Serena Williams, is an example of this. “She has had a long career in tennis and needs to compete with younger and more energetic tennis players on the court. Yet, she’s still able to maintain her physical and mental strength throughout each game, no matter who she plays with,” says Tang, Company Secretary and Chief Accountant at Quali-Smart Holdings Limited, and an Institute member.

She joined the TSIG in 2016, after learning about the interest group through an email. She made it through the selection process, and took part in an RSCP tournament the same year with other selected players within the interest group. She says the experience and opportunity to play helped her to improve as a doubles player. “It’s satisfying to synchronize with your partner and execute planned strategies,” she says. Though she and her teammate didn’t win that year, Tang kept on trying, taking part again in 2017 and, along with her teammates, was crowned champion in 2019.

Maintaining a level of synergy with one’s partner during a mixed doubles match takes practice, according to Tang. “In a mixed doubles match, opponents will often try to target female players, as they assume they are the weaker player,” she explains, adding how she has a

“A lot of my female friends also think that they have to be really strong to play tennis – that’s not the whole truth.”

strategy for this. “I would try to direct the ball to the opposite side of the court as wide and deep as possible so the opponent would have to hit back with a backhand shot, as they are less powerful than forehand shots. This provides a better chance for my teammate or myself to attack or control the next returning shot in our favour. Those shots are sometimes tricky to make when we are still not familiar with the way the opponents playing style or even our own partner.”

When Tang began playing tennis in 2000, she enjoyed playing singles matches. “I began by playing with friends on the weekends – they weren’t too good at tennis either, but they were certainly better than I was!” she remembers. She quickly fell into the sport and took the time to read more about it on the Internet, where she stumbled upon forums with beginners looking to play. “There, I found a tennis interest group that organized friendly games open to everyone,” she adds. With weekly gatherings of around 20 people who all took turns playing in doubles matches, Tang met many like-minded individuals and practiced playing with them. Over time, she became more of a serious player, and says she has spent the last 10 years working on her technique and form.

Tang is focused on maintaining her consistency and form as a tennis player, and hopes to introduce more of her friends to the sport. “A lot of my female friends also think that they have to be really strong to play tennis – that’s not the whole truth,” Tang stresses. “One can also score points with the correct form and technique.”

A life-long passion

Jason Lee remembers how gobsmacked he felt when he saw the then 17-year-old junior tennis player and high school dropout Michael Chang beat Ivan Lendl, a three-time former champion, in the French Open in 1989 on TV. “I was very impressed by his performance,” says Lee, Finance Manager at Time Grand Limited and an Institute member. “To see a short tennis player competing against a much taller and stronger opponent – and then beating him! That really inspired me to start playing tennis.” Lee, who was also in his teens at the time, didn’t have his own equipment, but that didn’t stop him from asking his friends if he could borrow a tennis racket and a ball to start practicing.

He continued watching tennis tournaments such as the Association of Tennis Professionals and Women’s Tennis Association Tour on the TV and copied as many moves as he could, from how to serve and how to perform forehand and backhand strokes. The only training he received was through a tennis coach in his university’s tennis team. “The coach helped me

to correct and fine-tune everything I knew – even the motion of my arm and shoulder when performing a stroke,” Lee says.

But after coming out to work, there was little time for practice. “It was also hard finding people to play. All my tennis buddies from university had also graduated and were focused on their careers too.” He eventually heard about a tennis group through a group of his friends, which he joined, and was able to train regularly.

Lee found out about the Institute’s newly-established TSIG in 2014. There, he was able to meet passionate tennis players like himself and have the opportunity take part in tournaments. He took part in the RSCP tennis tournament in 2019, and remembers how challenging it was to play against certain teams, especially the Hong Kong Medical Association (HKMA), in the men’s doubles. Playing with a partner he met in the TSIG has also added a new level of excitement to the sport he has played for decades. “I had always been more of a singles player, but nowadays, I play in more doubles matches,” he says. “You need to

“When I’m on the court, I forget about all my worries and focus on the game.”

motivate that person and that person has to motivate you too. That’s what I like about it.”

Outside of the TSIG, Lee has also participated in tennis competitions organized by the Federation of Community Tennis Club and the Hong Kong Tennis Association. He has taken part in the LCSD’s District Age Group Tennis Competition each year since he graduated and was the doubles champion of Tuen Mun district and singles champion of Sham Shui Po district, both in 2019. He also came in third place for the Men’s F grade singles in the 2018 Master Games, also by the LCSD.

He looks forward to playing more doubles matches, but most of all, playing tennis for as long as he can. “It’s the one thing that has always brought me joy,” he says. “When I’m on the court, I forget about all my worries and focus on the game.”



Jason Lee, Finance Manager of Time Grand Limited, joined the TSIG in 2014.

Anthony Wong, Chief Financial Officer of Tang Palace (China) Holdings Limited, has played with the TSIG since 2014.



Like mother, like son

It was one weekend of playing tennis with his mother that would ultimately change the life of an eight-year-old Anthony Wong. “I remember my mum just decided to bring me to the tennis court for a game. I wasn’t even sure what was going on at the time – but I just played,” says Wong, Chief Financial Officer of Tang Palace (China) Holdings Limited and an Institute member.

The young Wong, who had previously played table tennis, found the sport to be oddly similar. “It felt like a game of table tennis – except the players play standing on a very large table,” he laughs.

His mother, a skilled tennis player herself, took the opportunity to teach him from the ground

“As a kid, my mum would also remind me to keep calm, concentrate and play as consistently as I could.”

up. “As a kid, my mum would also remind me to keep calm, concentrate and play as consistently as I could,” he says.

Wong joined the TSIG in 2014 and has taken part in the RSCP tennis tournament every year since he joined. He says he has recently been working on perfecting his serve technique – in particular, his second serve. In a tennis match, each player is allowed two serves at the start of each game point in the event the ball is accidentally hit out of bounds on the first try. However, if the player hits the ball out of the court during the second serve, the player commits a double fault and the opponent would receive points. “It’s quite an important yet difficult aspect of tennis,” explains Wong. “The first serve is always done using a lot of strength, so when it comes to doing the second serve, you’ve got to play it safer – but it can’t be too weak of a shot.” Executing it, adds Wong, requires a combination of strategy and the right mindset. “You have to be confident when serving – try not to think about hitting the ball out or into the net. Focus on hitting it so the opponent is forced to return the hit

using a backhand stroke.”

Wong has also begun playing more doubles matches and says he enjoys the tactics needed to outsmart opponents, which requires a meticulous discussion with his partner prior to each game. “We discuss how far from the net we should stand when opponents approach the net, or who hits the ball when it lands in the middle,” he says. “Communication is important, and it always feels great when we correctly execute our tactics and win a point.”

He also hopes to see new faces at the TSIG and encourages players of all levels to consider joining. “Tennis is an all-round sport,” he says. “Not only is it an intense, physical exercise, but it’s a great way to improve one’s mental health. I’ll always love it.”

He says it’s a great way to meet new people, and bond with people new and old to the sport – after all, he’s been playing tennis with his mum since the start. “She’s getting older, but we still play tennis regularly – at least once a month. It’s how we spend quality time together,” says Wong. “She’s been my coach since day one.”



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

YOUNG MEMBER OF THE MONTH

Leanne Law

LEANNE LAW

Accounting Manager at
Ednovators



Photography by Anthony Tung



As Accounting Manager of Ednovators, a local non-governmental organization (NGO), Leanne Law relies heavily on her accounting expertise to help the NGO find the best way forward. She tells *A Plus* how she advises management in her role and why she plans to continue working with NGOs in years to come

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

I'm an Accounting Manager at Ednovators, a local NGO. We believe that technology can be better utilized to teach children. Our mission is to introduce innovative teaching methodologies to schools, with the aim of enriching the education of both students and teachers around Hong Kong. By partnering with schools, we arrange training and one-on-one coaching for teachers to learn how to use teaching methodologies in their lessons. For example, we have been training teachers to effectively use video conferencing software such as Zoom to conduct online classes. We also coach teachers in employing the use of "design thinking," a solution-based approach to solving problems, in their lessons. Many of our courses overlap with the required training courses provided by Hong Kong's Education Bureau. In my role, I'm in charge of managing the NGO's budget, overseeing its internal controls and handling financial documentation. When we receive funding, I put together a report to indicate how the money will be used. The job is going well. I manage another bookkeeper who is in charge of other basic accounting duties, while I'm in charge of preparing financial reports. I also work directly with the board of directors and executive directors, which is something I truly appreciate.

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

For me, it's working with members of management, who may or may not have knowledge in accounting. So it's my job to convey the meaning behind the numbers in a way that they understand. For example, if the company is working with a limited budget, I would have to determine how long we can operate with this budget, the impact it would have on the teachers, and whether it would be enough to finance any overseas training for them. This is also the most rewarding aspect of the job. It's the first job I've had that allows me to work directly with the board of directors and executive directors, so I need to respond quickly to their needs. It definitely takes time to develop the right approach to communicate with them.

What inspired you to become an accountant?

In secondary school, I actually wanted to become a teacher. But after my final exams, I didn't receive an offer to do a teaching degree. Instead, I was offered the opportunity to study an associate degree in accounting. I decided to go with it since I'd already learned a bit about it. I enjoyed it, and decided to pursue a full degree in accounting. I've been an accountant for over 10 years, and can say that it offers a very stable career.

Where do you see yourself in the next five to 10 years in your career? Which field do you plan on specializing in, and why?

My goal is to become a financial controller of an NGO within the next 10 years. There is a sense of purpose that comes with working at an NGO, and it truly feels rewarding to help meet social needs. I started my career at the Hong Kong Examinations and Assessment Authority, and then worked at the Hospital Authority for three years where I was in charge of management accounting and overseeing its yearly budget. I went on to work at Room to Read, an international NGO focused on the education of children in Southeast Asia and Africa. At Room To Read, I had the chance of working with accounting and development staff in the United States and needed to familiarize myself with generally accepted accounting principles. I then worked at The Nature Conservancy in Hong Kong where I focused on environmental protection before coming to work at Ednovators. Having experienced what it's like to work at NGO, I hope to continue working at one for the foreseeable future. The people I've met are truly passionate about their jobs and are all committed to working towards the NGO's mission.

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

The QP is a basic requirement for all CPAs in Hong Kong. Having a CPA qualification gives people more confidence in the work that you do. I found the Module A financial reporting to be the most helpful. The QP lays down the foundation for someone to become an accounting manager or to take on a senior accounting position.

SPOTLIGHT ON WHERE TO EAT

Institute members share their favourite places to enjoy good food and drink

AnOther Place

“I recommend AnOther Place, a contemporary western fine-dining restaurant in Tin Hau. Though it is located in an industrial building, it is cozy and offers customers with the great view of Victoria Harbour. It is definitely a place for wine lovers as it offers a free corkage fee. AnOther Place also has wine storage service as well, meaning you can pull out a few bottles from your storage and drink on the restaurant’s dining table!” says Cheng.

- Charles Cheng, Assistant Financial Controller of Furrion Limited



Plumcot

“I love this quaint little bakery called Plumcot, located in Tai Hang. Their authentic French pastries to die for! I recommend trying out their croissants and salted chocolate cookies – they are out of this world,” says Ho.

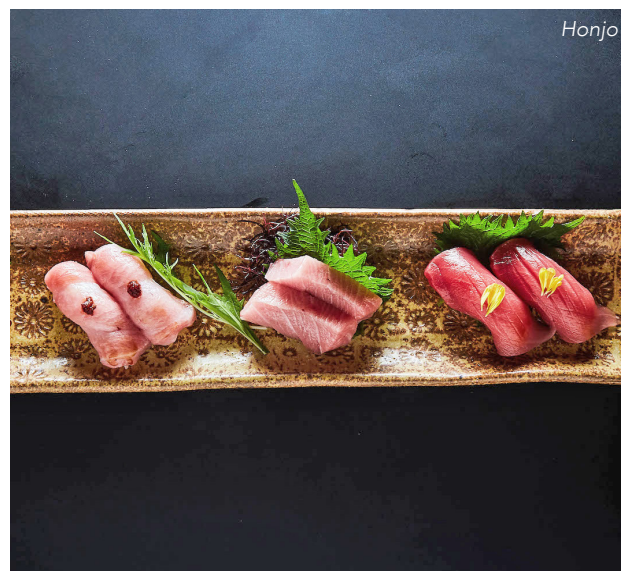
- Fiesta Ho, Finance Manager of a U.S. technology company



Honjo

“I recommend Honjo in Sheung Wan for dinner – they have a great sashimi, maki and nigiri selection. There are also cooked options such as honey miso baked chicken and a flank steak with wasabi mashed potatoes. Check their free flow option too,” says Law.

- Nicole Law, Audit Manager at EY



EYES & EARS

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



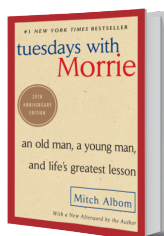
The Bee Gees at the 1997 American Music Awards

What I'm listening to

- Susanna Chiu, Former Director at Li & Fung Development (China) Ltd.

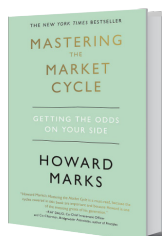
Without fear of disclosing my age, I can say that I still love the Bee Gees. I've been listening to them since I was a teenager and their songs were always there to accompany me as I grew up. Their music truly captures the optimism and romance one experiences in those years. I am especially drawn to magnetic voices, hence Barry Gibb is one of my favourite singers. My favorite songs are *Stayin' Alive*, *How Deep Is Your Love*, *Too Much Heaven*. I believe Barry's falsetto really shines in the song *Tragedy*, which is a magnificent tune. All their songs are beautiful, musically and lyrically.

What I'm reading



I recommend *Tuesdays with Morrie*. The book is a memoir by American author Mitch Albom about a series of visits Albom made to his former sociology professor Morrie Schwartz, as his professor slowly dies of Amyotrophic lateral sclerosis or ALS. If you ever find yourself asking: "What's the meaning of life?" this book will definitely encourage you to stop and think about what is truly important in your life. It will provide the reader with new insights to live a balanced life.

- Brenda Chan, Executive Director at Dongxing Securities (Hong Kong) Co. Ltd.



I suggest *Mastering the Market Cycle – Getting the Odds on Your Side* by Howard Marks. This book helped me to clearly understand why market cycles fluctuate as a result of investor behaviours, and what to do when faced with such situations. The theories described in this book have helped me to stay calm and to make good decisions, for example, when the market experiences a significant decline. It also explains how opportunities can still come along in bad times.

- Lawrence Li, Vertical Planning and Operations Manager at Klook



I've been baking bread at home lot more using recipes found in "學做麵包的第一本書：12個基本做法，教你完成零失敗的歐日麵包。" This recipe book will teach you how to bake everything from European-style wheat-based breads to soft and fluffy buns from Japan. It's a great book for beginner bakers, as each recipe comes with detailed step-by-step explanations and photos to follow. I've also signed up for baking classes on weekends so this book has been very helpful.

- Sabrina Khan, Chief Financial Officer of Aptorum Group Ltd.

I'm an accountant, nudge, wink

Hong Kong's humorist on how the definition of "accountant" has suddenly taken on new and interesting meanings



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*

In the bizarre world of cyberspace, there's a hot new line in circulation: "I'm an accountant."

You can suddenly find this bland phrase on YouTube, Patreon, OnlyFans, and TikTok (or at least you could until it disappeared from

Hong Kong).

Many of the people using the phrase are young and unusually attractive – and the vast majority of them have never been accountants.

What's going on?

It all started earlier this summer when a singer, songwriter and wannabe actor named Rocky Paterra was musing on the difficulties of having an embarrassing job such as being a wannabe actor, which means doing auditions full time for zero cash.

To pass the time, the New Yorker made a short TikTok rap video in which he says, over a rhythmic beat, that people with embarrassing jobs should just say "I'm an accountant." (The implication being that that is the least embarrassing job in the world.)

The rap song includes a sample dialogue.

"What do you do?"

"I'm an accountant."

"Where do you work?"

"At a place where accountants work."

(Apparently, the term "firm" was far too technical for Rocky.)

Okay, so it wasn't exactly the wittiest rap in the world, but the tune got picked up and reused by lots of other wannabe actors, and then spread to people with a range of embarrassing jobs.

People in the commercial sex trade added it to online profiles and it soon had millions of views.

Folks with a range of jobs are singing it.

Buzzfeed reported that a mother who can easily cover her rent by selling pictures of her feet uses it.

The rap has given Rocky, 28, his 15 minutes of fame, and added a new catchphrase to the world. But you can see the problem.

Now, any accountant who puts "#I'manaccountant" as part of their profile

on social media platforms may get a puzzled response from plugged-in people. They aren't going to know if you're saying you are qualified to audit their business or if you make a living selling video clips of yourself slowly eating bananas.

The obvious answer to the problem, of course, is to offer both services at the same hourly rate. "Would you like me to audit your accounts, or is there some baffling fetish I can help you with?"

In recent weeks, accountants themselves have started using the dire rap in a sort of ironic, self-mocking way. "I'm an accountant." "Where do you work?" "At a place where accountants work." Ha ha ha.

Still, one can't help but wonder whether accountants could take a further step in the same direction to build up a big client base. Of course, you'd have to do it in rap. "Imma audit your biz'niss, plan for your tax, I won't be lazy, I never be lax."

But many ambitious accountants with social media skills were probably put off by the recent experience of one Clairra Janover.

Earlier this year, the Asian-American woman, who had just been offered a job in a Big Four firm, made a 15-second TikTok video threatening to stab anyone who used the politically incorrect phrase "all lives matter."

This triggered thousands of horrified replies.

She wrote a long apology to the Big Four firm that had offered her a job, but they sacked her over a five-minute phone call.

Apparently addicted to TikTok, she then posted two videos of herself crying. If you're having your 15 minutes of fame, you might as well extend it for as long as possible, right?

Meanwhile, one way of getting over any possible misunderstanding is to add a second phrase. For example, you could turn up to accountant meetings with a T-shirt saying: "I'm an accountant, not a magician."

That one would actually be quite useful in Hong Kong.





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