



**DRIVING BUSINESS SUCCESS**

*Issue 10 Volume 16 October 2020*

Curtis Ng, Regional  
Tax Partner-in-Charge,  
Northern Region,  
at KPMG China, on  
relocating to Beijing  
during a global pandemic

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

# EMBRACING CHANGE

**PLUS:**

## **TECHNOLOGY**

The state of blockchain today  
and current use cases

## **ACCOUNTANT PLUS**

Michael Teh, Financial Controller  
at blockchain organization  
Algorand Foundation

## **SECOND OPINIONS**

What's the best way to keep  
Gen Z employees engaged?

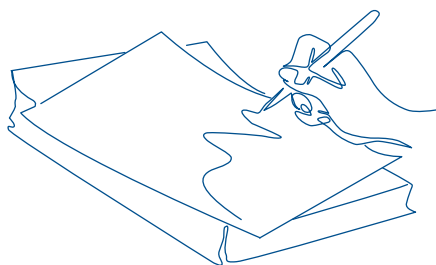
ISSN 1815-3380



9 771815 338008

HK\$70.00

# HOW TO SIGN WITHOUT A PEN?



## Benefits of e-Signatures

- ▶ Speed up the pace of business
- ▶ Reduce cost and manual errors
- ▶ Create a greener workplace

## Go Paperless with Tricor NOW!

☎ (852) 2980 1888

✉ [info@hk.tricorglobal.com](mailto:info@hk.tricorglobal.com)

[@tricorglobal](https://www.facebook.com/tricorglobal) [in](https://www.linkedin.com/company/tricorgroup) @tricorgroup [@TricorHongKong](https://www.whatsapp.com/channel/00299a5b5b5b5b5b5b5b)



卓佳 **tricor**  
At Your Service

**“For the Institute, 2021 will be an important year in the implementation of our Strategic Plan 2020-2022 and helping Hong Kong to recover.”**



Dear members,

Congratulations to our fellow members who were awarded honours and appointed as Justices of the Peace on 1 October. It is pleasing to see members being commended for their activities in our community and demonstrating the commitment of our profession to our home.

This year two Past Presidents, Roger Best and Clement Chan, received a Medal of Honour and were made a Justice of the Peace (JP) respectively. Current Council members were also among the recipients. Vice President Nelson Lam was appointed a JP, and Council lay member Wilfred Wong received a Bronze Bauhinia Star. We are grateful for their service. Finally, I want to congratulate the other Institute members who were decorated. Brian Chiu Kwok-kit, JP received a Bronze Bauhinia Star; Ho Ka-Yee and Ma Ka-Hei who received the Chief Executive's Commendation for Government/Public Service; and Andrew Weir, and Chan Yuen-sau, Kelly who were appointed as JPs.

All of these members serve as fine examples of our profession.

I look forward to welcoming members to the two online Members' Forums we will hold in mid-November. These forums follow on from the success of the ones held last year. During the events, the Chief Executive and Registrar and I will update members on the latest developments of the Institute, and you will be able to tell us your thoughts about the development of the profession. If you are unable to attend the forums, they will be recorded so you can still hear our update and contribute your views through a survey.

As well as the Members' Forums, November also features the symposium for small and medium practices (SMP) and the Young Members Conference for our members. This year, as is the new normal, both events will be held virtually – but will still deliver the information members need. At the 2020 SMP Symposium, I will discuss some of the developments at the International Federation of Accountants' SMP Advisory Group – of which I am a member – and which has been busy with preparing guidance for SMPs. Other speakers will cover important considerations for SMPs, including taxation, accounting standards, licensing regimes and anti-money laundering.

The Young Members Conference will feature a mix of young and seasoned speakers from different fields sharing their experience on working outside Hong Kong or in specialisms besides auditing and accounting. I urge young members to watch the session and consider how it can help your career. As a long-time non-assurance specialist, I extol the virtues of looking beyond auditing! Recruitment consultants will also provide tips on career planning and an overview of the current job market.

The Financial Industry Recruitment Scheme for Tomorrow, a scheme to create 1,500 jobs in the finance industry supported by the government through the Anti-epidemic Fund, received applications from almost 700 companies during its batch application period. Accounting firms comprised a significant proportion, and I hope that our firms will

use the support offered by the government to create jobs for our younger generations, many of whom are struggling in the face of an unemployment rate not seen since in Hong Kong the SARS crisis. As business leaders, we have an important role to play in supporting Hong Kong through this challenging time.

The disruption of the past year has impacted us all in many ways. Slowly, the world is learning how to handle the pandemic, and the focus of many is turning to preparing for a better future. For the Institute, 2021 will be an important year in the implementation of our Strategic Plan 2020-2022 and helping Hong Kong to recover. That's why I urge members to consider nominating themselves to serve on the Institute's committees or as a co-opted Council member.

Join a committee relevant to your interests or sector and help to build the trust needed for a better tomorrow. Members who are currently on committees must also submit their nominations. Members received an email in October about the nomination process, and nomination forms should be completed before Friday 20 November.

As we head into winter, thoughts turn to our Annual Dinner. Members have been asking me about whether the dinner – one of our most important functions – will go ahead this year, due to the restrictions on group gatherings. As these restrictions have been easing recently, the Institute is working on ways to hold the dinner, and members will be informed when the decision is made.

**Johnson Kong**  
President



## CONTENTS

Issue 10 Volume 16 October 2020

# 24

## Setting bold goals

A look at how the Best Corporate Governance Awards have led to better sustainability initiatives and targets across different companies



### NEWS

- 01 President's message
- 04 Institute news
- 06 Business news

### FEATURES

- 08 **The business of blockchain**  
With blockchain gaining traction, what's in it for businesses?
- 14 **Second opinions**  
What's the best way to keep Gen Z employees engaged?
- 16 **Leadership: Curtis Ng**  
The Regional Tax Partner-in-Charge, Northern Region, at KPMG China on his work as a tax practitioner and relocating to Beijing
- 22 **How to**  
Astrid Merkt, Clinical Holistic Psychologist and Performance Coach at Balance Health, on how to sleep better each night
- 23 **Meet the speaker**  
What to expect from the Annual Accounting Update 2020 live webinar

- 24 **The Best Corporate Governance Awards at 20: Setting bold goals**  
How the adoption of sustainability practices keeps organizations relevant
- 30 **Accountant Plus: Michael Teh**  
The Financial Controller of Algorand Foundation on his foray into blockchain
- 36 **Thought leadership: Jeff Thomson**  
The President and Chief Executive Officer of IMA® on how to infuse ethical behaviour

### SOURCE

- 37 **Responsibility of CPAs who prepare corporate financial statements**  
Guidance for CPAs who serve as directors or senior financial executives
- 38 **Views exchanged during the 2020 annual meeting with the IRD**  
A look at the matters discussed at the Institute's Taxation Faculty's annual meeting with the IRD

# 08

## The business of blockchain





# 30

## Building with blockchain

Michael Teh, Financial Controller of Algorand Foundation, on his experience being at the helm of a blockchain start-up, and why working in blockchain requires him to stay on top of it all

- 41 The interaction of the accounting standards with the tax laws – HKFRS 15 and HKFRS 16

A look at tax principles for determining whether and when accounting profits or losses are taxable or deductible

- 44 Technical news

## WORK-LIFE BALANCE

- 46 Calling the shots

CPA snooker players on the precision and practice needed to play and win each game

- 52 Young member of the month

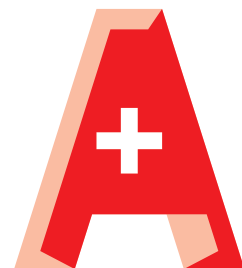
Lawrence Leung, Director of Corporate Internal Audit at adidas AG

- 54 Leisure Plus

Spotlight on weekend getaways; what members are currently reading and listening to

- 56 Let's get fiscal

Accountants are definitely superheroes, at least in the movies, says Nury Vittachi



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.



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

President Johnson Kong

Vice Presidents Lam Chi Yuen, Nelson,  
Fong Wan Huen, Loretta

Chief Executive and Registrar Margaret W. S. Chan

Director of Corporate Communications Dr Wendy Lam

Head of Corporate Communications  
and Member Services Rachel So

Editorial Manager Paul Smith

Editorial Coordinator Maggie Tam

### Office Address

37/F, Wu Chung House, 213 Queen's Road East,  
Wanchai, Hong Kong  
Tel: (852) 2287-7228 Fax: (852) 2865-6603

### Member and Student Services Counter

27/F, Wu Chung House, 213 Queen's Road East,  
Wanchai, Hong Kong  
Website: [www.hkicpa.org.hk](http://www.hkicpa.org.hk)  
Email: [hkicpa@hkicpa.org.hk](mailto:hkicpa@hkicpa.org.hk)



Editor Gerry Ho  
Email: [gerry.ho@mandl.asia](mailto:gerry.ho@mandl.asia)

Copy Editor Jemelyn Yadao

Junior Copy Editor Jeremy Chan

Contributors Nicky Burridge, Liana Cafolla

### Registered Office

2/F Wang Kee Building, 252 Hennessy Road,  
Wanchai, Hong Kong

### Advertising enquiries

Advertising Director Derek Tsang  
Email: [dereksang@mandl.asia](mailto:dereksang@mandl.asia)

A Plus is the official magazine of the Hong Kong Institute of Certified Public Accountants. The Institute retains copyright in all material published in the magazine. No part of this magazine may be reproduced without the permission of the Institute. The views expressed in the magazine are not necessarily shared by the Institute or the publisher. The Institute, the publisher and authors accept no responsibilities for loss resulting from any person acting, or refraining from acting, because of views expressed or advertisements appearing in the magazine.

© Hong Kong Institute of Certified Public Accountants  
October 2020. Print run: 7,340 copies  
The digital version is distributed to all 46,372 members,  
18,106 students of the Institute and 2,358 business  
stakeholders every month.



# NEWS

Institute news Business news

## Young Members Conference goes virtual

The Institute's annual Young Members Conference this year will be held as a live webinar on 21 November. With the theme "Out of the box – options for young accountants," the conference will include a mix of young and seasoned speakers from different fields, sharing their personal experiences of working outside Hong Kong or in specialisms outside of audit and accounting. During the two-hour event, recruitment consultants will also provide tips on career planning and an overview of the current job market. The conference aims to keep young CPAs abreast of topical issues relevant to the accounting profession and equip them with the right knowledge and tools for their career development. Those interested should enrol online by 20 November.

### Annual SMP Symposium

The 2020 SMP Symposium will be held

as a live webinar on 27 November. Two sessions will provide participants updates on current issues affecting small and medium practices, including taxation, major financial reporting and auditing standards, the TCSP licensing regime and anti-money laundering and counter-financing of terrorism requirements, Limited Partnership Fund Ordinance, adoption of technologies during the pandemic, practice review and compliance matters, as well as recent development of the Institute and the International Federation of Accountants. More details of the webinar can be found on the Institute's website.

### Mandatory CPD requirements for 2021 membership renewal

Members who joined the Institute before 1 December 2017 are required to

complete 120 hours of continuing professional development (CPD) in the three years ending 30 November 2020, of which 60 hours must be verifiable. Members facing difficulties in achieving the CPD requirements for their 2021 membership renewal, particularly due to the COVID-19 pandemic, may apply for an extension up to 31 May 2021 to make up for the shortfall in CPD hours. Applications for extension should be made to the Institute via the CPD declaration in the online Annual Return on or before 15 December. More details can be found on the Institute's website.

### Council meeting minutes

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

## Disciplinary findings

### Lo Yip Tong, CPA

**Complaint:** Failure or neglect, without reasonable excuse, to comply with a direction issued by the Practice Review Committee under section 32F(2)(b) of the Professional Accountants Ordinance, and in breach of the fundamental principle of integrity in sections 100.5(a) and 110 of the Code of Ethics for Professional Accountants.

Lo was the sole proprietor of Y.T. Lo & Co., which was subject to a follow-up practice review in May 2018. As a result of Lo's failure to cooperate, the committee issued a direction requiring him to provide the necessary information to enable the practice review to be conducted in the third quarter of 2018. Lo failed to comply with the committee's direction, claiming falsely that his office was in disarray due to a recent typhoon. As a result, the follow-up practice

review could not be conducted.

**Decisions and reasons:** Lo was removed from the register of CPAs for one year with effect from 5 October 2020. In addition, Lo was ordered to pay costs of disciplinary proceedings of HK\$64,012. When making its decision, the Disciplinary Committee took into consideration the particulars of the breaches committed in this case, Lo's conduct throughout the proceedings and his personal circumstances.

### Ng Ka Kuen, CPA (practising)

**Complaint:** Failure or neglect to observe, maintain or otherwise apply (i) the fundamental principle of professional competence and due care in sections 100.5 (c) and 130 of the Code of Ethics for Professional Accountants, and (ii) Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and*



#### *Other Assurance and Related Services Engagements.*

Ng was the sole practising director of UC CPA (Practising) Limited (practice) and was responsible for the practice's quality control system. The practice was selected by the Institute for practice review in 2016.

The practice reviewer identified multiple breaches of auditing standards in two audit engagements selected for the review. The breaches show that Ng did not carry out the audits with the level of professional competence and due care expected of him. In addition, the breaches show that the practice failed to have an adequate system of quality control to ensure that it had adequate human resources to uphold audit quality and that it performed audit engagements in accordance with professional standards.

**Decisions and reasons:** The Disciplinary Committee reprimanded Ng and ordered that the practising certificate issued to Ng be cancelled and no practising certificate shall be issued to him for 16 months. In addition, Ng was ordered to pay costs of the disciplinary proceedings of HK\$52,977. When making its decision, the committee took into account the particulars of the breaches committed in this case, Ng's conduct throughout the proceedings and his personal circumstances.

Ng lodged an appeal against the committee's order but subsequently he withdrew the appeal, whereupon his practising certificate was cancelled for 16 months with effect from 21 September 2020 pursuant to the order.

#### **Wong On Yee, CPA (practising) and CWC CPA Limited**

**Complaint:** Failure or neglect by Wong and CWC to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 230 *Audit Documentation*, HKSA 500 *Audit Evidence*, HKSA 560 *Subsequent Events* and Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. Refusal or neglect by Wong and CWC to comply with the Corporate Practices (Registration) Rules. Further, Wong and CWC have been guilty of professional misconduct.

CWC was the auditor of W. Falcon Asset Management (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance (Cap. 571) providing investment dealing and advisory services, for each of the three years ended 31 March 2015 to 2017. CWC expressed unmodified auditor's opinions on the company's financial statements for each of the three years. CWC also issued compliance reports on the company for each of the three years for the company's submission to the Securities and Futures Commission (SFC) and expressed unqualified conclusions. Wong was the engagement director in those audit and compliance reporting engagements.

In July 2017, the SFC issued a restriction notice to prohibit the company from carrying on any regulated activities, and later in February 2019 the SFC revoked the company's licence and disciplined the company. In the course of the SFC's investigations, it was found that the company had window-dressed the liquid capital reported in its monthly financial returns, in that certain personal cheques issued by one of the company's directors in favour of the company were dishonoured on the first business day after the end of the month. The SFC referred the matter to the Institute concerning the conduct of the company's auditor.

The Institute's investigation discovered a number of deficiencies. In the 2016 and 2017 audits, the respondents were found to have failed to perform sufficient appropriate audit procedures in respect of the dishonoured cheques at the beginning of various months, and failed to document a purported enquiry with management concerning the issue. Also, in respect of a bank account balance where the ledger amount varied significantly from the bank confirmation amount, the respondents failed to evaluate the implications of such a variance on the financial statements, and failed to document the associated reconciliation. Further, in the 2015 and 2016 auditor's reports, the respondents failed to state the name of Wong as the engagement director and her practising certificate number.

In the 2015 to 2017 compliance reporting engagements, the respondents failed to plan and perform procedures on the company's compliance with the regulatory requirements concerning the sufficiency of liquid capital, and failed to issue qualified conclusions for the years 2016 and 2017 in view of the circumstances surrounding the dishonoured cheques. Also, the respondents failed to plan and perform sufficient procedures on the company's control over client monies held and its compliance with the relevant regulatory requirements. Further, they made an incorrect statement in the 2016 and 2017 reports about the company being subject to a limiting condition to hold client assets, when in fact such a condition was removed in June 2015.

**Decisions and reasons:** The respondents were reprimanded. In addition, the practising certificate of Wong was ordered to be cancelled with no issuance of practising certificate to her for 12 months, effective from 5 October 2020. In addition, the respondents were ordered to jointly pay a penalty of HK\$200,000 and costs of the Institute of HK\$73,428. When making its decision, the Disciplinary Committee considered the particulars in support of the complaint, Wong's personal circumstances and the conduct of Wong and CWC throughout the proceedings.

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

## GOLDMAN SACHS FINED FOR 1MDB INVOLVEMENT

Goldman Sachs (Asia) has been fined US\$350 million, the highest fine ever imposed by Hong Kong's Securities and Futures Commission, for its role in arranging bond sales for 1Malaysia Development Berhad (1MDB). 1MDB is a state fund founded by former prime minister Najib Razak in 2009 to drive new development in the country. More than US\$4.5 billion was eventually stolen from 1MDB during Razak's term, leading to his fall from grace and conviction in July 2018 over charges related to abuse of power, money laundering and criminal breach of trust. The Hong Kong unit of the bank collected US\$210 million of the US\$581.5 million in fees from 1MDB, inclusive of US\$567 million in commission, from three bond sales from 2012 to 2013 that raised US\$6.5 billion for 1MDB, according to the city's regulator, adding that Goldman Sachs (Asia) in Hong Kong had significant involvement in the origination, approval, execution and sales process of the three 1MDB bond offerings.



## KPMG U.K. TO SELL ITS RESTRUCTURING UNIT

KPMG in the United Kingdom is looking to sell its restructuring arm in a bid to inject capital into the firm, which has seen its bottom line affected by the coronavirus pandemic this year. The firm, according to the *Financial Times*, is in talks with private equity firms about a possible auction before the end of the year. The plans come two years after KPMG rejected interest from private equity company Permira in acquiring its restructuring division. The sale of its restructuring practice, which is a significant fee-earning operation at KPMG, would also end conflicts of interest that have made it increasingly difficult for the firm's restructuring partners to take on new clients. The announcement follows Deloitte in the U.K., which also put its restructuring unit up for sale in September, but was later stopped by its global parent company.



## US\$180 BILLION NEEDED TO SAVE AILING AIRLINE INDUSTRY

The International Air Transport Association (IATA) has warned that more global airlines will go bankrupt without another cash injection to stay afloat amid the coronavirus pandemic. The airline industry, which has seen an unprecedented decline in passenger flights this year, is expected to burn through a further US\$77 billion in the second half of 2020, according to the IATA. This is despite US\$180 billion in support which includes direct aid, wage subsidies, corporate tax relief and fuel tax relief already made by governments across the world. Hong Kong's flagship carrier Cathay Pacific, which this month announced it will cut 8,500 jobs and axe its Cathay Dragon brand, will undergo a HK\$2.2 billion restructuring in the hopes of riding out the pandemic. At least 30 to 40 airlines have entered bankruptcy restructuring since the beginning of the pandemic, according to the IATA, and more are expected to go bust over the next six to 12 months.

## ANT GROUP TO RAISE

# US\$34.5 BILLION

## IN WORLD'S LARGEST IPO

Digital finance giant Ant Group is expected to raise US\$34.5 billion from its initial public offering (IPO) in Hong Kong and Shanghai. The dual listing by Ant Group, an affiliate of Chinese business tycoon Jack Ma's Alibaba Group, will debut on Shanghai's Star Market and the Hong Kong Stock Exchange on 5 November. Ma, who owns a controlling stake in Ant, billed Ant Group's share sale on 24 October. The Hangzhou-based fintech company priced its 1.67 billion A shares at US\$10.27 per share and the Hong Kong stock at US\$10.32 each. The listing is expected to top the valuation of JP Morgan Chase, the world's biggest bank and outdo Saudi Aramco's US\$29.4 billion IPO last December.

## FIRST HEARING INVOLVING SAMSUNG VICE CHAIRMAN OVER ACCOUNTING FRAUD TAKES PLACE

The trial of Jay Y. Lee, Samsung's Vice Chairman, who is accused of accounting fraud and stock-price manipulation, held its first hearing on 23 October. The court previously denied prosecutors' arrest warrant request for Lee in June, stating that even though they had secured a "considerable amount of evidence," it was still not enough to detain Lee. Prosecutors allege that the value of Cheil Industries, an electronics materials provider, was artificially inflated before its merger with Samsung's holding company five years ago to create a more favourable rate for Lee, who was then Cheil's largest shareholder. Lee is also one of 11 current and former Samsung executives indicted by South Korean prosecutors last month over charges that they inflated the assets of biotechnology company Samsung BioLogics, in which Cheil held a major stake.



## TOKYO STOCK EXCHANGE HALTS TRADING FOLLOWING HARDWARE GLITCH

The Tokyo Stock Exchange (TSE) halted trading for the whole of 1 October following a hardware breakdown, pausing buying and selling in thousands of companies. A failure to switch over to back-ups led to the system crash, according to bourse operator Japan Exchange Group. The TSE, which resumed trading the following day after its hardware was replaced, set up a panel of external board members a week later to investigate the crash. It is the TSE's first all-day stoppage of trading since the exchange shifted to a fully electronic system in 1999, with previous glitches only affecting part of the trading day. "We have caused great inconvenience to many market participants, investors and listed companies. We will take thorough steps to prevent a recurrence," said Koichiro Miyahara, President of the TSE.

## BILLIONAIRE CEO OF SOFTWARE COMPANY ACCUSED OF EVADING US\$2 BILLION IN TAXES

Robert Brockman, the billionaire Chief Executive Officer of software company Reynolds and Reynolds Co., has been indicted on charges of tax evasion, wire fraud and money laundering, in the largest tax charge ever seen in the United States. The charges involve roughly US\$2 billion allegedly hidden away in offshore accounts and laundered between 1999 and 2019 to conceal assets from the Internal Revenue Service and defraud investors in his company's debt securities, according to the Department of Justice in the U.S. on 15 October. Brockman made an initial federal court appearance on 16 October, where he pleaded not guilty on all counts and was released on a US\$1 million bond, according to a report from *The Wall Street Journal*. If convicted, Brockman faces "a substantial period of incarceration," authorities said.

## SOFTWARE COMPANY FOUNDER JOHN MCAFEE ARRESTED FOR TAX EVASION

John McAfee, Founder of cybersecurity company McAfee, was arrested this month at an airport in Barcelona on tax evasion charges. McAfee is accused of failing to file tax returns from 2014 to 2018 in the United States and concealing assets such as real estate, a vehicle and a yacht, according to prosecutors. Officials allege that McAfee earned millions of dollars through the promotion of cryptocurrencies, speaking engagements, consulting jobs and the sale of rights to his life story for a documentary, but never filed his tax returns. Prosecutors also say his income was instead transferred into accounts under different names. McAfee faces five years in prison if he is convicted of tax evasion and a year for failing to file taxes. It is the latest legal issue involving McAfee, who was previously detained in the Dominican Republic in 2019 for attempting to enter the country with firearms and ammunition.

## MAZARS LAUNCHES REBRANDING

Mazars has unveiled a new global brand identity said to reflect the firm's aspiration to position itself as an alternative to the Big Four for large multinational clients. The rebranding includes a new logo, a revamped website and pledges to always act with integrity and pursue a "commitment to a fair and prosperous world." This comes after the firm recorded a revenue of €1.8 billion this year, a 10.4 percent increase compared to last year. Globally, Mazars' revenue has doubled in size since 2010. "The rebranding has been two years in the making, and it's part of a broader evolution of Mazars globally and here in the United States. It's designed to reinforce how we work together as one team and across all 90 of the countries that we operate in," said Victor Wahba, Chairman and Chief Executive Officer of Mazars U.S.



## U.K. REGULATOR PROPOSES MEASURES TO FIGHT FRAUD

The Financial Reporting Council (FRC) in the United Kingdom has proposed enhanced requirements on auditors to identify fraud in company accounts following a spate of scandals that have damaged the profession's reputation in recent years. The FRC has launched a review into International Standard on Auditing 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, an auditing standard first adopted in the U.K. in 2004 that sets out an auditor's obligation to detect fraud. The standard currently only requires auditors to "identify and assess the risks of material misstatement of the financial statements due to fraud." The proposed new standard, which will be consulted on until January 2021, will clarify that auditors are required to look for fraud, with one new paragraph stating that the objective of an audit is to "obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud."


## GENERAL ELECTRIC FACING SEC ACTION FOR ACCOUNTING MISCONDUCT

General Electric Co. (GE) noted that it may face enforcement action from the Securities and Exchange Commission (SEC) in the United States over possible violations of securities laws related to its accounting practices for its insurance operations. Authorities are looking into how GE accounted for the run-off



of some of its legacy insurance businesses that sat inside its GE Capital division. The probe is an ongoing investigation by the SEC into GE's alleged accounting malpractices in 2018 in which GE revealed a US\$6.2 billion loss in its portfolio of long-term care insurance.






# THE BUSINESS OF BLOCKCHAIN

Blockchain is making its presence felt in a range of business processes. [Liana Cafolla](#) takes a look at where it is proving useful, some of the barriers to wider adoption, and how it could lead to deeper changes in the future

Illustrations by Roberto Cigna



In its relatively short life, the usefulness of blockchain technology has broadly been a success. Blockchain first emerged in 2008 as the enabler of Bitcoin, the digital currency that allows transfers of money without the need for an intermediary. But besides using it to handle digital currencies, it was being hailed a technology only a few years ago that would quickly transform many business processes and industries, including the accounting profession. But globally, that is not yet the case. The storm of dramatic predictions has calmed, as complex realities including implementation difficulties, regulation, privacy rules and security concerns have taken a toll on the pace of adoption. In the meantime, though, blockchain has been making itself useful in a range of different commercial environments, often in less visible ways.

It can be helpful to consider blockchain as a type of spreadsheet that allows data to be stored in a way to prevent tampering through blocks that are linked together using codes. In traditional spreadsheets, one person is usually in charge of inputting, editing and removing data. In a blockchain, no single person is in charge, and data can only be viewed or input; it can't be changed or deleted.

The main attraction of blockchain is that it addresses an age-old problem found in human transactions. "Blockchain solves the issue of trust," says Peter Woo, Founder of Hong Kong Blockchain Society and Co-founder of EMALI, a fintech company that specializes in blockchain, artificial intelligence (AI) and cryptography. Woo adds



that blockchain provides a way to enhance trust among a group of stakeholders who don't necessarily know each other, but have reached a consensus on how they need to proceed in order to complete a task.

Blockchain also makes life easier for business owners who need to be able to rely on the data of several business partners, explains Adam Stuckert, Partner and Blockchain Lead at KPMG China. "Previously, if you wanted to share data with five or 10 of your ecosystem participants – say you're a retailer and you need to share data with manufacturers, warehouses, retailers, shippers, logistics – tying your digital system into their digital systems was a one-by-one process," he says. "Every time you did it, you needed to define the standards and work with that company and so on. Blockchain-based data records allow participants to remove a lot of those complexities. It lets you trust the data without necessarily trusting on a one-by-one basis all the parties that are interacting with it."

### Blockchain in action

Blockchain-based applications are already in use in areas including contract management, healthcare certification, loyalty programmes and banking. One example of how blockchain can be used to solve real world problems is EY and Microsoft's Blockchain Royalty Application, which allows traditional methods of invoicing for software or intellectual property royalty accounting to be eliminated. The application generates invoices and statements, and allows royalties to be calculated accurately and in real time for each participant, replacing a manual process that used to take 45 days or more to do the same job. The application is also being used to handle license agreement contracts for game publishers such as Microsoft's Xbox Game Studios. "It is the first enterprise use of blockchain technology as a system of record," says Benson Ng, Hong Kong Business Consulting

Leader at EY, adding that the technology is also progressively eliminating intercompany transaction documentation and reconciliation. "In one case, we took the advantages of blockchain to resolve contract disputes for an oil and gas client with their joint-venture partners," he says. "More than 2,000 working hours on audit were saved."

As the COVID-19 pandemic continues to affect economies around the world, certification of health has become a hot topic, as it may be the only way people are able board planes or return to work in the near future. EMALI has been working with Immunodex, a multidisciplinary technology initiative founded by healthcare and tech experts in Hong Kong and Canada, to build digital health certificates (DHC), to show, for example, that a person has tested negative for the virus. "The immunity passport is a trusted, verifiable record of a person who has done the test and has antibodies," explains Woo. "We have several programmes. One of them is a back-to-work programme, another one is a back-to-school immunity passport and the third is for the airline industry. All of these are ready."

The DHC, which was launched in June, is a collection of health information on a blockchain issued by an attesting party – such as a medical laboratory or a doctor – verifying that the holder has a low risk of being infected by a disease, as shown by diagnostic assessment or immunization, if available. All data registered on the certificate is owned by the patient and is only shared with other verifying parties with the patient's consent.

The system has the potential to replace the handwritten self-declaration health forms that are being used widely at venues and airports, and paper-based diagnostic test results issued by a hospital or testing site, says Chloe Chan, Programme Director at Immunodex. "Currently, there is no

way to present this information in a way where we can absolutely trust its authenticity," she says. "This is where blockchain comes in. It is a way to ensure that information is unaltered from its original state and issued by trusted parties to begin with, such as an approved testing site or hospital."

Sustainability is another area where blockchain is being used, and one that is likely to grow as part of a growing focus in environmental, social and governance (ESG) reporting. In late September, the World Economic Forum released a new reporting framework for ESG metrics and disclosures that all companies can use to report their non-financial disclosures and their contributions to the sustainable development goals. The measures, organized around the pillars of principles of governance, planet, people and prosperity, were developed by the World Economic Forum, Bank of America and the Big Four. The move aims to encourage about 130 major international companies to adopt the standards for their 2021 accounts.

KPMG's Stuckert says blockchain can help with this kind of reporting. "One of the classic problems is when we want to ensure that companies in a supply chain, say for garment manufacturing or production of industrial goods, are treating workers and the environment well, we have to go on the word of suppliers," he says. "Maybe we can hire a firm to go and audit that supplier once a quarter or once a year, or maybe they have some certifications, but it's very difficult to prove that it's always the case, that they're always giving workers good conditions. This is an area that we in KPMG are working on."

In practical terms, blockchain can be used to keep track of temperature levels in garment factories located in hot countries, such as Bangladesh and Indonesia, where air conditioning is needed, says Benjamin Usinger, Co-Lead

**"In one case, we took the advantages of blockchain to resolve contract disputes for an oil and gas client with their joint-venture partners," he says. "More than 2,000 working hours on audit were saved."**



for KPMG's Blockchain and Crypto Advisory Service in Hong Kong. "For example, what happens, unfortunately, is that air conditioners are only turned on when an audit is happening or someone from the producer side comes in," he explains. To counter that, small temperature sensors can be installed to monitor temperature levels constantly. "With a blockchain as the underlying data record, we can track and have a perfect audit trail that those conditions have been met throughout the year, and the ESG auditors can focus on more quality interaction with the workers."

### Blockchain and audit

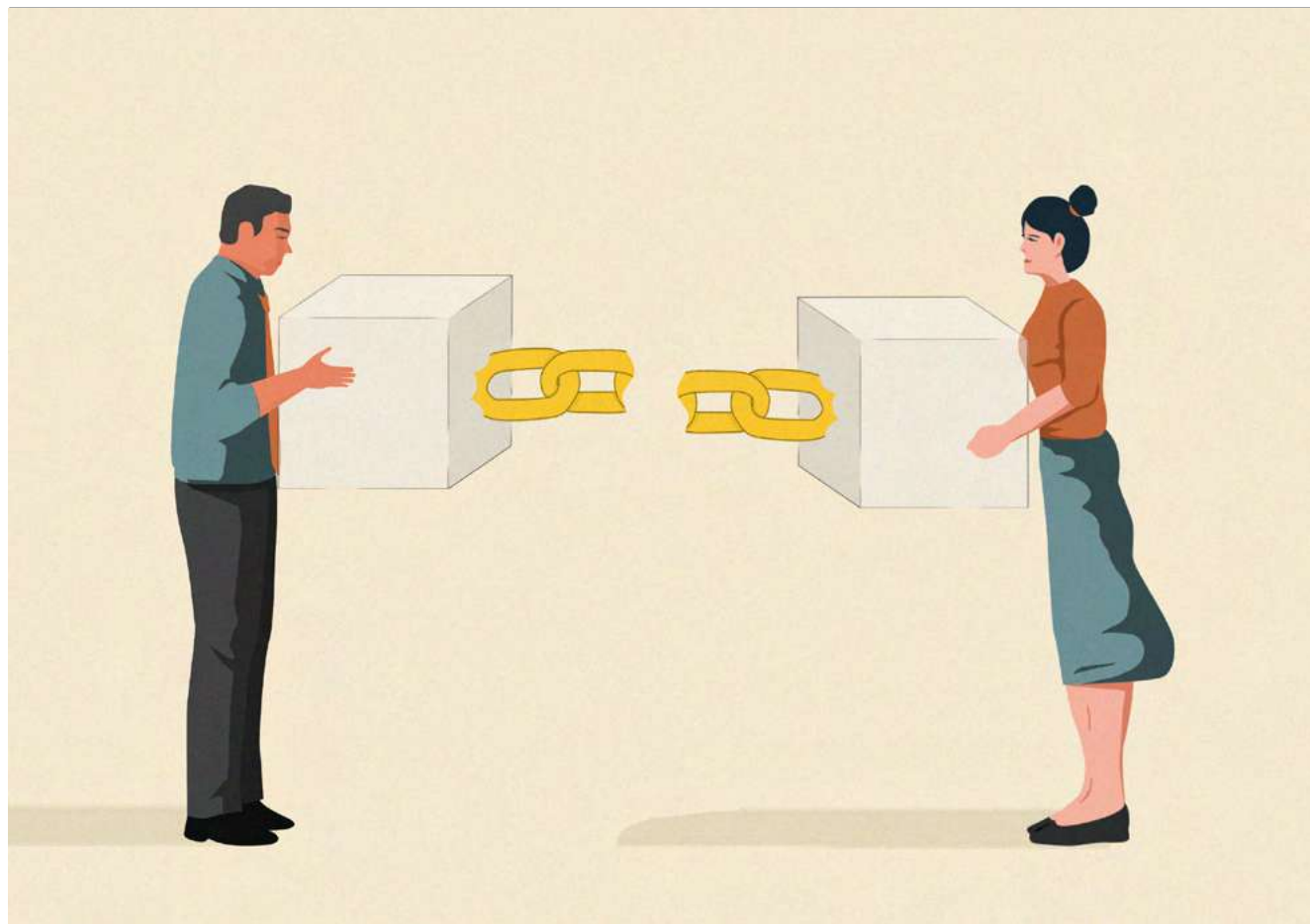
A few years ago, predictions were rife about the sweeping changes that blockchain would bring to the profession, particularly in audit, but so far changes have been modest. Is the speed of technology really outpacing changes being made in

auditing standards? "Businesses are still in the early stages of technology adoption – for example, invoices still need to be issued, except that the details may be uploaded to a distributed ledger rather than sending the physical invoice via mail or email," says William Gee, Partner, Digitalization, PwC China and Hong Kong and a member of the Hong Kong Institute of CPAs. "That being said, existing auditing standards and guidelines have not been updated to address how digital documents should be audited and retained. As the information is on an immutable chain, technically the auditor no longer needs to take a copy as audit evidence. The advance in technology and the update of auditing standards and guidelines are not in sync, and thus we are unlikely to feel the full impact on audits until such time as the profession re-examines the core principles and standards."

More needs to be done to update

auditing standards and two key aspects need to be considered, Gee says. "The first is the need to review existing standards for the audit of financial reports, as some of these may not necessarily apply in circumstances where emerging technologies are used. An example could include determining whether data on a blockchain is inherently reliable for audit purposes, or if the use of a public blockchain constitutes reliance on a "third party service organization" – my view is that this is not the case. The second is in relation to the other assurance engagements – for example, Hong Kong Standard on Assurance Engagements (HKSAE) 3000 – where one or more sets of "criteria" should be developed to cater for the use of emerging technology such as blockchain."

Where it has had an impact is in pushing practitioners to upskill its practitioners to meet the demands of blockchain as well as other



technologies, such as the Internet of Things, AI and robotics, in preparation for the potential for role changes in the profession. “Accountants’ traditional role as trusted advisors could be eroded as new industries and new business orders emerge,” Gee says. Until now, accountants have provided trust by issuing reports, such as on a set of financial statements. Now, though, increasing use of new technology is leading to new areas where trust and assurance may be needed, such as the “smart contracts” used in some blockchain platforms to automate one or more processes. “As of today, none of the organizations offering “smart contract audits” are professional accounting firms,” says Gee. “There are two reasons for this: the lack of a suitable set of criteria that is required under HKSAE 3000, and its global equivalent, and the lack of the necessary technical capability to undertake such a review or audit.”

The changes taking place

are happening “progressively” and the amount of time saved by eliminating intercompany transaction documentation and reconciliations are notable, says EY’s Ng. The technology is proving effective, but adoption is not happening quickly. “The progress of change is not as fast as what we expect, as it needs a major portion of business on trade networks to adopt blockchain to make the shift worthwhile,” adds Ng.

### Barriers to blockchain

Other hindrances are also slowing the pace of adoption. As with other technological advances, disruption to current business processes is a major barrier to full implementation of blockchain, say Ng and Gee. “The challenge to any technology adoption is the integration with business operations, but for blockchain adoption, there is an added dimension: the ability and willingness to redefine the industry,” says Gee. “As of

today, few adoption efforts are demonstrating this aspect, with the exception of DeFi or decentralized finance, being a completely new domain, and consequently, we are yet to see the full disruptive impacts of the blockchain technology.”

Echoing Gee, Ng foresees changes to traditional roles in the profession. “Current industry leaders could see their dominant positions challenged,” he says. “As with any new system of automation, some business services, jobs and career paths could also become obsolete, while new ones could be created.”

Blockchain’s widespread adoption could cause disruption to regulation by necessitating important amendments to finance and trading regulations. While regulators are rising to the new challenges of the digital age in some areas – for example, the European Union’s General Data Protection Regulation is a wide ranging regulation that came into force in 2018 to protect data and

**“The challenge to any technology adoption is the integration with business operations, but for blockchain adoption, there is an added dimension: the ability and willingness to redefine the industry.”**



privacy – blockchain poses more challenges, Ng says. “Financial service providers also need to work with regulators and central banks to ensure the innovation and regulation works in harmony with existing legal and regulatory frameworks, not least because blockchain, like the Internet, transcends regulatory jurisdictions and national borders,” Ng says.

Security and privacy protection are other sources of concern. Major hacks of large organizations have already lead to huge amounts of personal, financial and health data being leaked or stolen, creating widespread public concern. Deloitte’s report, *Blockchain 2020: From promise to reality*, says that blockchains are subject to the same risks of hacking that have plagued legacy systems, because “attacks can emanate from anywhere at key access points to the blockchain system.”

PwC’s Gee says two major scenarios will test blockchain’s resilience and the potential for its future adoption: “Legal enforceability – whether transactions conducted on a blockchain network are enforceable – in the event of a dispute, and whether it is acceptable for auditors to place reliance on public blockchain platforms without performing any audit procedures on such platforms.”

## Future potential

In banking processes, each financial institution currently maintains its own ledgers to record their own view of agreements and positions with respect to its customers and counterparts, explains Immunodex’s Chan. Each counterpart, in turn, maintains their own ledgers with their views. This duplication can lead to inconsistencies, leading to costly matching, reconciliation and fixing of errors by and among the various parties to a transaction, as well as being a source of risk.

Blockchain technology offers to the opportunity to replace this

system with an authoritative record system that is shared securely between firms. “The vision is to transform the economics of financial firms, particularly but not exclusively in post-trade services, by implementing a new shared platform for the recording of financial events and processing of business logic: one where a single global logical ledger is authoritative for all agreements between firms recorded on it,” says Chan.

Broader signs of adoption of blockchain are appearing on the horizon. Ng at EY says many companies in Mainland China, particularly Internet companies, are already adopting blockchain-based supply chain finance to solve financing issues. “Blockchain ensures the credibility, traceability and trustworthiness of information from small- and medium-sized suppliers or distributors, in exchange for them to get financing and easier access to capital,” he says. “Once they have a more efficient financial ecosystem, companies can get access to the proprietary data from these small- and medium-sized suppliers, and benefit from tighter control over their entire supply chain.”

Ng gives an example of a telecommunications equipment company that sources chips, power supply, displays and cases from suppliers. “Chip suppliers will draw capital or loans from a bank based on the telco equipment company’s purchase order as collateral and use it to fund materials, labour and lab facility needed to design and manufacture the chips,” he says. “Blockchain can facilitate the bank to access the validated, controlled and full credibility history (in the form of a blockchain distributed ledger) of chip suppliers from its telco equipment and other customers. Hence, this establishes trust on business performance of the chip suppliers to provide higher credit line and better credit terms. With blockchain, this can all be done electronically in minutes or

hours instead of having suppliers, customers and bank exchange certified documents in days or weeks.”

Trade finance is one of the areas that is starting to be explored, and some results are impressive, says KPMG’s Stuckert. “Now, we’re starting to settle into that period where cases that were developing over the last three to five years are starting to gain real traction and have an impact on businesses. In trade finance, most if not all of the banks are working on platforms here. One bank was able to create a trade finance platform using blockchain technology underneath. The blockchain technology facilitated the transfer of what was formerly paper documents and reduced the processing time from up to a month down to a few hours or less.”

Experts see blockchain’s potential for greater and deeper changes. “In the era of globalization being challenged and unilateralism rising, blockchain can help build a better future by being the cornerstone of “coopetition” – cooperative competition – in a multilateral world,” says EY’s Ng. “Blockchain’s distributed ledger can become a distributed policy to help establish trust among “coopetitive” nations, corporations and individuals. Blockchain’s smart contract can assure transparency and social responsibility of trade.”

It’s future impact could transform financial services, says Gee. He says its power lies in the way it combines technological features to solve business challenges, as shown in the conception of Bitcoin. “Blockchain is native to all things digital, and can therefore be deployed hand-in-hand with other existing or emerging technologies to create real impact (and disruption) to current business orders. Then there is the financial aspect of blockchain application: distributed finance; digital assets, and so on, which is likely to create significant and lasting impact to the entire financial services sector as we know today.”



According to Deloitte’s report, *Blockchain 2020: From promise to reality*, which polled about 1,500 senior executives and practitioners in 14 countries in the first quarter of the year, 55 percent of respondents said blockchain was one of their top five strategic priorities for the next two years. “Leaders no longer consider the technology groundbreaking and merely promising, they now see it as integral to organizational innovation,” says the report. More than 85 percent of respondents saw a strong business case for adopting blockchain technology, though 54 percent also said “blockchain is overhyped.”



# SECOND OPINIONS: WHAT'S THE BEST WAY TO KEEP GEN Z EMPLOYEES ENGAGED?

**“Despite Gen Z’s tech-savviness, they also crave human interaction, openness and collaboration.”**



**JACKY LAI**  
ASSURANCE PARTNER, EY  
AND AN INSTITUTE MEMBER

The next decade will be shaped by the maturation of the largest generational cohort in history – Gen Z. This cohort, born from the mid-1990s onwards, now makes up 30 percent of the global population, or around two billion people.

Gen Z’s fundamental commonality lies in how they thrive in the digital age. Compared with their predecessors, this generation will likely bring very different assumptions and expectations related to society. Therefore, companies and business leaders are now facing the challenge to engage, collaborate and retain these post-millennial employees.

To unlock Gen Z’s full potential, we must understand the environment that nurtured them and how they are distinct from the previous generations. Different from millennials who were brought up by protective and helicopter parents, Gen Z grew up adopting a more coach-like mindset. They are often the first adopters of new technology and are setting new rules for new innovations. For example, they rely heavily on social media to stay in touch, build connections and find opportunities. Here are three ways we can better engage with Gen Z:

1. As employers, companies need to recognize that Gen Z is used to instant access and are motivated by efficiency. Thus, companies need to make better use of tools that are simple and easily accessible. They also need to motivate Gen Z with tasks that are more intuitive and less process-heavy. Despite Gen Z’s tech-savviness, they also crave human interaction, openness and collaboration. While companies advance technologies to enable a more virtual workforce, managers have to take into account Gen Z’s desire to build “real” relationships with the people they work with.
2. Transparency and trust are key. Transparency is the first step in establishing strong bonds with Gen Z. Being transparent about motivation and organizational purpose will help companies gain trust from Gen Z and provide them with a platform to remain authentic, connected and fulfilled.
3. Diversity and inclusion come in many forms. Gen Z reflects the change and diversity that exist in our society today. Companies have to be at the forefront to understand what drives and motivates each individual, while creating an environment that embraces collaboration and inclusiveness. Companies that recruit without segmentation, or continue to adopt the one-size-fits-all approach instead of individualization, will fail to attract or retain talent who are most likely to become the leaders of tomorrow.



**AMANDA WU**  
ASSOCIATE DIRECTOR,  
MICHAEL PAGE HONG KONG

Millennials, or “Gen Y,” still sound like terms representing a new generation to me. But in fact, they are already moving up the career ladder as middle-level management in a company. Now, we have “Gen Z” coming into the workforce. These individuals are very much blessed to have grown up with 21st century infrastructure in place, constant advancements in technology and information accessible at their fingertips. But when it comes to a career, what do Gen Z employees look for? What motivates them? How can we keep them engaged?

Tech companies like Google, Netflix and Facebook, have developed the ideal office to be in for this generation. They provide an office environment that is spacious, resourceful, fun and most importantly – a schedule that is flexible. Flexibility, in particular, is one of the most important attractions for the young generation when they are looking for a job, and could be as, if not, more important than how much they earn. The COVID-19 pandemic created a new normal and has proven that employees can perform their regular job duties remotely or at home. Having flexibility in terms of work location and work hours, or even a flexible “unlimited” annual leave plan to ensure a better work-life balance, is something that will attract young employees.

Diversity and inclusion has been a big topic in recent years, as being righteous and fair is a value that younger employees uphold. Gen Z is looking for a platform where people are being treated equally. Management can only keep them engaged if they can create a work environment with a high level of transparency and equality where everyone has an equal chance to contribute and shine. Having young employees work with people from different backgrounds, ethnicities and orientations exposes them to a more diverse environment and creates a space for everyone to gather different ideas and generate new strategies. Therefore, it’s important for management to create an open and safe environment where people can express their thoughts and ideas freely.

Lastly, identifying what your Gen Z employees enjoy doing in their free time might also help to engage them better, as encouraging them to do something they truly enjoy at work can foster happiness. Creating a fun environment, identifying their strengths and interests, recognizing good work are all ways to keep your young employees engaged!

**“Flexibility, in particular, is one of the most important attractions for the young generation when they are looking for a job.”**



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

Retention of talent is especially difficult nowadays. Companies that are vying to engage their employees through various ways now need to engage Gen Z – a promising part of any organization’s future.

Just because Gen Z may have less experience doesn’t mean they are any less

valuable to the team. In fact, they might have a new perspective to bring to the table. At ThinkCol, we treat Gen Z like any other employee. Even an intern is given the chance to drive a project if their skill set fits the project we are doing. By knowing that their input is crucial to the success of the project, they take ownership and build a sense of belonging to the organization.

I have been warned that Gen Z is emotionally vulnerable as many of them grew up in an environment where praises are valued more than constructive criticism. Having hired quite a few Gen Z employees and given that most of my team is pretty young, I have found that Gen Z is very capable and always eager to learn, especially when they receive constant feedback. As our organization is quite linear, all of my employees know that they can come to me for feedback, even if it’s not for a final product. I’d rather know that they are on the right track and that our expectations are aligned.

Employees who have a mutual feeling of respect and trust feel that they are valued in the company. We try to build informal channels to get to know each other outside of the context of work, such as through regular team events and having lunch or dinner together. I also have regular one-to-one lunch sessions with each staff member to understand their aspirations, see how the company and their goals intersect, and how we can empower them to do even better. Ultimately, as a company, we want to foster sense of pride in their work and a sense of positivity.

Everyone wants to work with a team that is driven, communicative and reliable. The reality is that certain things take time, whether it’s building trust, working out the right team dynamic – especially when there is a new employee on board – or understanding each and every team member’s strengths and weaknesses. Have your team’s back so that they have yours. As the well-known proverb goes, “if you want to go far, go together.”

**“Just because Gen Z may have less experience doesn’t mean they are any less valuable to the team. In fact, they might have a new perspective to bring to the table.”**



## LEADERSHIP PROFILE

Curtis Ng



# MOVING ON UP



---

Curtis Ng, Regional Tax Partner-in-Charge, Northern Region, at KPMG China, spends a lot of time encouraging the next generation of tax professionals to take a broader perspective and be future-ready. He talks to **Nicky Burridge** from his Beijing office about his long tax career and the resilience of the Mainland China market

---

Photography by Stefen Chow

**R**elocating to Beijing in the early stages of a global pandemic would be seen as a challenge by many, but Curtis Ng was undaunted. “When I first arrived, there were no people on the streets. I remember going to the centre of Beijing and all the shops were closed,” says Ng, Regional Tax Partner-in-Charge, Northern Region, at KPMG China. He was only approached about taking on the role the week before Chinese New Year. Two weeks later, he was in Beijing.

He explains that moving to the city was a big decision, as he had always worked in Hong Kong and, while he was excited about the possibility of relocating, he did not want to disrupt his three children in the middle of the school term. “Luckily, I had the support of my wife and, within 24 hours, we had agreed that I would go,” he says, adding that they decided his wife and two sons, aged seven and 13, would join him in August, when his daughter, 18, headed to the United Kingdom for university.

Unsurprisingly, many people considered it to be a bad time to relocate, but not Ng. “I always take a very positive view. If I had come to Beijing during a normal business period, I may not have had the luxury of being in the office without any interruptions. Because I was in the office by myself, I was able to really focus on what changes to make to the practice. It was good timing from that perspective,” he says.

With his wife and children still in Hong Kong, he was also free from distractions when he went home in the evening. “It made the transition much easier as I could catch up quickly. I could do in two months what would normally take me six months,” he says.



### A lot to learn

Ng started working at KPMG 25 years ago, joining the firm after he graduated from the Chinese University of Hong Kong with a bachelor's degree, majoring in economics. He admits that at the time, he knew very little about the accounting profession. When offered a career path in either tax or auditing, he decided to do tax despite knowing next to nothing about it.

He set about obtaining his professional qualification, which under the old system meant taking 14 different exam papers, although Ng was exempted from one of these. "It was a relatively long process, but I got there within three years," he remembers. Even once he had qualified, there was still a lot he had to learn. "I not only had to know the tax legislation, but I also had to look at court case judgments in Hong Kong and other jurisdictions. It was tough but I enjoyed it."

Ng worked his way up through the ranks of KPMG, becoming a partner within 11 years. Before moving to Beijing, Ng was regional tax partner-in-charge of Hong Kong, managing the firm's tax practice in the region, as well as continuing with client work and participating in various professional bodies, including being deputy chairman of the Institute's Taxation Faculty Executive Committee. In fact, he says one of his few regrets of taking up the Beijing post was that he was not able to become chairman of the committee this year.

### Responding to the next generation

One of the changes Ng introduced during his time as partner-in-charge in Hong Kong was setting up the Broader Perspective Programme for new joiners to the tax practice. He explains that the tax department had grown considerably since he first joined it, and there were now many different areas in which graduates could specialize, such as corporate tax, transfer pricing, tax disputes and merger and acquisition tax. The

programme enables graduates to spend their first three years at the firm rotating between different teams in the tax department to gain experience of the different areas before making a decision on which area to specialize in.

"It is a matching process. On the one hand, the different teams can choose who is a good fit for them. At the same time, it gives young people the chance to choose which specialized area they would like to focus on."

Another change introduced by Ng was creating an outsourcing centre for the tax department, not only to reduce costs but also to enable tax practitioners to focus on the more interesting aspects of their roles. "The younger generation has different expectations. They want to have job satisfaction and they believe they have the ability to do more complicated or higher value work," he explains. "As a result, we tried to move the routine work away from them to the outsourcing centre, enabling them to focus on technical skills and have more opportunities to work with clients."

While Ng initially had to reassure colleagues that setting up the outsourcing centre did not mean jobs were being taken away from Hong Kong, he says the move has been successful and led to an increase in retention rates and engagement among younger people.

**"Tax is only one of the factors clients will ask you about. They will also have questions from a business angle. When we give advice, we have to consider it from a much wider perspective than just tax."**





Curtis Ng joined KPMG 25 years ago after he graduated from the Chinese University of Hong Kong with a bachelor's degree, majoring in economics. He moved to Beijing earlier this year.



### Embracing change

Ng thinks being a tax practitioner has changed significantly since he first started his career, but that does not mean things are now easier for younger members of the profession.

He points out that while practitioners no longer have to wade through 40-page court judgments in order to come up with their own interpretation of a ruling – as they can simply look it up online – they still need to ensure they fully understand it. “I always encourage the younger generation to still spend some time doing their homework to make sure they really know what they are doing,” he says.

He also encourages them to develop a wider business knowledge. “Tax is only one of the factors clients will ask you about. They will also have questions from a business angle. When we give advice, we have to consider it from a much wider perspective than just tax.”

Soft skills, such as being a good communicator and listener, are also increasingly important. “Because of the more complex business environment, you have to listen carefully to understand what the real issue is for a client and what impact it could have on their operations. When you give advice, it will not just be written. The client

will also want you to explain why you have come to this conclusion.”

He adds that in the current tax environment, in which new laws and guidance are frequently issued and interpretations change, it is not always possible to be completely certain. “It is very important for the tax professional to explain clearly to the client what the possible outcomes and risks are, and how to mitigate those risks.”

He also advises young people to “think big” and come up with new ideas. “You may be wrong most of the time, but without thinking, you will not find a better way of serving your clients.” At the same

time, he tells them to be bold and embrace change, seeing it as an opportunity, rather than a challenge. “Don’t be afraid of change, take it as a positive. If you always think it will affect you negatively, you will go nowhere. Instead, see it as an opportunity,” he says.

He adds that there are always opportunities for young people who proactively look for them.

## A resilient economy

Ng thinks Mainland China is one of these opportunities. Despite the short-term disruption caused by the pandemic, he expects the Mainland’s economy to remain resilient over the medium to long-term. He points out that in most places in the Mainland, it is now “business as usual,” while high-end malls in locations such as Shanghai are actually benefitting from people being unable to travel abroad, as more money is being spent at home. “Consumers in China are still spending. There is still a very strong engine behind China’s economy. There will always be ups and downs and challenges, but over time, the growth will still be there,” he says.

Even so, he does expect the pandemic to leave lasting changes on the way the economy operates. Firstly, he expects many things that were previously conducted face-to-face, from business meetings to education, to continue to be conducted online, even once travel returns to normal, as it is more efficient. He also expects online shopping and food delivery to continue to grow. “I believe this will be unstoppable – not only in China, but globally,” he says.

Ng does not expect the pandemic to have a significant impact on tax policy, pointing out that most government measures to support the economy take the form of cash handouts, rather than tax measures.

In Mainland China, he

**“In Hong Kong, we have had various changes to tax law to focus on various focused sectors, whether these are user-friendly is still questionable. I believe we have to take a good look at it.”**

highlights how open-minded the State Taxation Administration is, and its willingness to listen to professional and industry views on policy in order to promote a good environment for business. “There are still various challenges, but I can see the improvement and development of the economy.”

Ng believes tax policy should focus on medium and long-term issues, rather than short-term ones, stressing that giving businesses tax certainty is important for medium and long-term growth. He adds that while tax can be used to drive policy changes, such as the introduction of the research and development tax concession in Hong Kong to encourage innovation, incentives are only effective if businesses actually use them.

As a result, he says it is important that governments have a review mechanism to check that their tax policies are working as they intended, and to make changes if they are not. “In Hong Kong, we have had various changes to tax law to focus on various focused sectors, whether these are user-friendly is still questionable. I believe we have to take a good look at it,” he says.

Globally, Ng believes international cooperation in areas such as tax avoidance, including base erosion and profit shifting (BEPS) 2.0, will have a

bigger impact on the tax profession. “If you look at BEPS 2.0, it could potentially have a financial impact on Hong Kong if it leads to less investment. The government has to consider the best way for Hong Kong to go forward.”

Hong Kong introduced a number of preferential tax regimes in the past to attract foreign investments. Taxpayers who qualify for the preferential tax regimes would typically enjoy lower tax rates. Yet, there is a minimum tax requirement under the BEPS 2.0 proposal and the tax rates under the preferential tax regimes would likely be below the minimum. The Organization for Economic Cooperation and Development had issued a consultation paper in October laying out the blueprint of the BEPS 2.0 proposal and the details are yet to be finalized. Nonetheless, it is likely that the proposal would make preferential tax regimes less effective in attracting foreign investments.

## Learning from golf

Ng says the most memorable thing about his career has been all the people he has met through his work, not only in the tax profession, but also in the firm and among his clients. “It is because I meet all of these people that I find myself having the chance to learn many new things. I like to learn, and I think it has enabled me to become a much better person, not only from a professional point of view but also as a human being,” he says.

When he is not working, Ng likes to spend time with his family and play golf. “Golf is a good sport, but it is also a good way to learn from others and improve yourself.”

He points out that golf made him realize that one bad shot does not matter, and if he continues to play, he can hit better shots and still get a good result.



In October, the Organization for Economic Cooperation and Development had issued a consultation paper laying out the blueprint of the base erosion and profit shifting 2.0 proposal. It is likely that the proposal would make Hong Kong’s preferential tax regimes less effective in attracting foreign investments.





Before moving to Beijing, Ng was regional tax partner-in-charge of Hong Kong, managing the firm's tax practice in the region. He was also deputy chairman of the Institute's Taxation Faculty Executive Committee.



The Clinical Holistic Psychologist and Performance Coach at Balance Health on how to get a good night's rest every night



## How to get better sleep

**W**e've all heard the saying "I'll sleep when I'm dead!" Society's pressures and demands continue to make us believe that we need to work harder and longer hours to succeed. Yet, research indicates that good sleep is the only way our bodies can function optimally to support our path to success. Good sleep is also important for a long life. Sleep is the number one tool for good health, a better mood, and elevated mental productivity. Feeling energized, happy and motivated will also lead you to choose habits and behaviours that foster good health and promote well-being. According to the Centres for Disease Control and Prevention in the United States, 35 percent of adults are getting less than the recommended amount of seven hours of sleep, while 20 percent of teenagers are getting less than five hours of sleep. However, the quality of sleep is even more important than the duration of it, as sleep deprivation may result in a lack of concentration and can even lead to fatal accidents.

Sleep is a restorative activity our body uses to process and compartmentalize all the information of the day. It stores the important information in memory and discards unnecessary "noise." Apart from processing our experiences and memories, the glial cells in our brain also get some "pruning," similar to how dead leaves must be pruned in order for a tree to grow branches and keep bearing fruit. Physiologically, this is when our body's inner janitors and quality controllers get busy to work. Our metabolic waste gets flushed out, and our brain and spinal cord get a cleaning by flushing through new cerebrospinal fluid. Sleep also resets and balances our hormone levels and repairs any internal damage from the day at a cellular level.

### What are our sleep stages, and why are they important?

We go through four to six cycles of sleep per night. Each cycle consists of four stages. The first two stages lead us into the most important third stage, known as "deep sleep" where delta waves in the brain are identifiable. Here is where we do most of the cellular repair and growth to restore our systems back to health. It also boosts your immune system. The last stage consists of rapid eye movement sleep where we do most of the cognitive and memory reconciliation, and brain activity picks up as we dream. Our sleep hygiene dictates how much deep sleep we get throughout our cycles, and thus it is important to take care of our sleep routine.

### How do we improve our sleep hygiene for better sleep?

Sleep hygiene consists of adopting an evening routine. This enables us to set our brain waves to a state of rest, and what we focus on can sometimes be a topic of focus while we sleep. This means that what we do right before our head hits the pillow affects the dreams and deepness of our sleep.

Here are some tips for what a healthy evening routine should look like:

1. Setting a consistent bed time (our circadian rhythms work on a regular cycle).
2. Creating a sleep-conducive environment. This can include listening to music, dimming the lights an hour before bed and using essential oils to relax. Avoiding alcohol, caffeine and the use of smartphones and computers allows the brain to release the neurotransmitters conducive to sleep.
3. Doing what makes us relax. This can include meditating or journaling, for example. Take a moment to write down three things you are grateful for having or had experienced during that day. This shifts your thoughts into a state of gratitude and calms the mind as you bring awareness to the positive aspects, or the little celebrations, of your day.
4. Taking 10 to 30 minutes to meditate before sleeping helps to ground and calm you mentally and physiologically. Following a guided yoga nidra meditation allows you to relax the entire body, and redirects the busy mind to an awareness of relaxing each part of your limbs. You can also do some easy stretches. Better sleep is reported after doing some restorative yoga poses.
5. This can be followed by some breathwork. Deep breathing is the gateway to controlling your emotions and physiology. By doing some deep breathing, we bring a coherence to our heart rate and activate the relaxation response in our nervous system. I recommend Dr Andrew Weil's 4-7-8 breathing exercise, which consists of a four-count inhale through the nose, a seven-count hold, and an eight-count slow exhale through the mouth. If your mind is still racing, humming out noise is one of the best ways to bring ease to a restless brain.
6. Finally, get a dose of sunlight as soon as you wake up! This triggers a neural circuit that controls the timing of the hormones cortisol and melatonin, which affect sleep and set your circadian clock to prepare for better sleep.

**"Sleep is the number one tool for good health, a better mood, and elevated mental productivity."**

# Learn about the “new normal” of financial reporting at the Annual Accounting Update 2020

The Institute is holding the Annual Accounting Update 2020 as a live webinar next month to discuss key financial reporting issues experienced this year and how companies can prepare for the long road ahead



Ernest Lee is Technical Partner at Deloitte China, and a Fellow of the Hong Kong Institute of CPAs. He has over 27 years' experience in auditing and providing technical advice on accounting and auditing related matters in a variety of industries across Asia-Pacific. He is the Chairman of the Institute's Financial Reporting Standards Committee, and a member or former member of various advisory panels of the Institute. He is a member of the Financial Reporting Review Panel of the Financial Reporting Council and also serves as an Advisor to the Master of Accounting programme of Cambridge Judge Business School, University of Cambridge.

In a year, the world has drastically changed. The COVID-19 pandemic has caused incomprehensible disruption to countless organizations around the world. Lockdowns and travel restrictions, social distancing measures, increased demand for personal protective equipment, government financial support measures, and other factors have all affected the operations of businesses. Many of the “certainties” that were previously relied upon have turned out to be less sure bets. Although the “new normal” appears to be very abnormal, standard setters continue to work on projects to support the adoption of international standards, and ensure their effectiveness.

COVID-19 has demonstrated the importance of clear and thorough communication with stakeholders – particularly around financial matters. Financial reporting standards are drafted with the goal of helping companies to inform their stakeholders about their operations, and the need for authoritative standards for companies to apply to their reporting has never been clearer.

Standard setters around the world – including the Hong Kong Institute of CPAs – have produced guidance and support to help preparers and practitioners to apply financial reporting standards. The Institute has issued educational guidance on COVID-19-related financial reporting issues in March and June of this year covering matters affecting interim and annual financial statements, including events after the end of the reporting period, going concern, disclosures about key judgements and estimates and revenue recognition. As a preparer/practitioner, have you consulted the guidance from the Institute or others before beginning your reporting exercises?

Preparers and practitioners must also ensure they are aware of any issues around the applications of standards. The Institute engaged in continued dialogue with accounting experts and regulators to identify if there are any application issues on recently introduced

standards. Two recently issued standards, Hong Kong Financial Reporting Standard (HKFRS) 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*, changed how these two important topics are accounted for, which may have caused some application issues to arise. Do you know what some of the common misconceptions are?

Although the disruption from pandemic continues, standard setters are still involved in projects to update and replace standards. These projects are vital for ensuring that standards continue to meet the needs of various stakeholders. The Institute is researching topics including goodwill and impairment, and business combinations under common control, in preparation for contributing Hong Kong views to any updates to international standards. Are you ready for the future of financial reporting?

## About the conference

The *Annual Accounting Update 2020: The “New Normal” Financial Reporting* will take place on Saturday 28 November as a live webinar. Featuring four presentations and a question and answer session, the conference will help to answer some of the questions raised above.

The conference will begin with an overview of the Institute's major standard setting projects. Afterwards, there will be a presentation on some of the key financial reporting issues for 2020 period ends preparers and practitioners should watch out for. The third presentation will cover some common misconceptions and application issues with HKFRS 15 and HKFRS 16. Finally, amendments to Hong Kong Accounting Standard 1 *Presentation of Financial Statements* and HKFRS 3 *Business Combinations* will be discussed.

Viewers of the conference will learn more about the Institute's activities and also receive advice on the key considerations for undertaking financial reporting during this “new normal.”

## THE BEST CORPORATE GOVERNANCE AWARDS AT 20:

# SETTING BOLD GOALS

In the third of a series commemorating the Best Corporate Governance Awards' 20th anniversary, [Nicky Burridge](#) finds out where sustainability sits in different organizations – winners of the Sustainability and Social Responsibility Reporting Awards – and how they are working to keep initiatives effective and deliver a sustainable future

**F**or sustainability initiatives to have maximum impact they need to be embedded into an organization's corporate strategy. Sustainability goals should not only be aligned with a business' purpose, but they should also reflect the needs of stakeholders. At the same time, the scope of sustainability should not just cover environment factors, such as an organization's emissions, use of resources, and impact on the environment, but also encompass social factors, including how well it looks after its staff, its supply chain management, product responsibility and investment in the communities in which it operates.

The Drainage Services Department (DSD) aims to support the sustainable development of Hong Kong through providing world-class wastewater and stormwater drainage systems. Eddie Pak, Assistant Director, Electrical and Mechanical, at DSD, explains that it achieves this goal through creating what it describes as blue-green infrastructure, with blue referring to rivers and water bodies, and green referring to landscape greening.

The organization's aim is for Hong Kong to function like a sponge, with rainwater collected, stored, and purified, before being either used as needed or discharged into the sea. "DSD has incorporated sustainable water resources management concepts into our newly constructed facilities, including rainwater harvesting systems, underground stormwater storage systems, rain gardens and porous pavements," Pak says. These innovations enable more rainwater to be collected and stored for use as needed, relieving pressure on Hong Kong's other water resources.

At the same time, DSD tries to revitalize rivers and other water bodies, and "green" sewage treatment facilities, to not only promote biodiversity, but also create space that can be enjoyed by the community. "We also strive to promote water-friendly activities so that the public can enjoy the river facilities and experience the value of multi-functionality of the water bodies so as to treasure the water bodies and jointly create a more liveable environment," he says.

Its sustainability initiatives do not end there, with the organization also promoting the use of renewable energy, taking steps to reduce its energy consumption, focusing on the wellbeing of its staff and introducing the New Engineering Contract, a more collaborative model that focuses on joint management and risk-sharing with its contractors, to help establish amicable working relationships, while also minimizing the risk of project delays.

DSD drew up its current sustainability vision in 2007, when it adopted a more proactive approach to supporting Hong Kong's sustainable development due to the increased challenges created by climate change. "In the face of the challenges brought by climate change and diminishing natural resources, sustainable infrastructure is crucial for Hong Kong to achieve sustainable development," Pak says. "More than just boosting economic growth, creating more jobs and improving productivity, sustainable infrastructure also enhances people's quality of life by reducing carbon emission and pollution, improving resilience to climate change and disaster, protecting our vital natural resources and environment and promoting financial stability."





From top left, clockwise: Tori Cowley, Group Chief Communications Officer, at Hong Kong Exchanges and Clearing Limited; Simeon Cheng, Group Director – Sustainability and Corporate Communications at Vitasoy; Dr Eva Chan, Founding Chairman and Fellow Member of Hong Kong Investor Relations Association and Eddie Pak, Assistant Director, Electrical and Mechanical, at the Drainage Services Department

DSD has established a sustainability management structure to continuously monitor and improve its sustainability performance, including a Green Management Committee and Energy and Emission Management Team which set objectives and targets to benchmark its environmental performance. It is also focused on improving its sustainability reporting. It has published sustainability reports since 2012/13, and ensures they meet the most up-to-date Sustainability Reporting Standards issued by the Global Reporting Initiative.

It also commissions an independent consultant to conduct annual stakeholder engagement exercises to make sure its reports address their concerns, while

its reports are verified by an independent assurance agency to ensure their accuracy, reliability and credibility.

Pak credits DSD's sustainability practices for boosting staff morale and increasing employee loyalty and productivity by making them proud to work for the organization. The policies have also increased the organization's financial performance and productivity. For example, he says using a new engineering contract for the Happy Valley Underground Stormwater Storage Scheme led to the project being completed 14-months early saving around HK\$110 million.

DSD is delighted to have received a special mention in the Best Corporate Governance Awards (BCGA), notes Pak. "It

is an important recognition of DSD's effort in raising governance standards and encouraging continuous improvement in our governance and sustainability reporting."

### Engaging with consumers

Beverage company Vitasoy sees sustainability as being integral to its purpose as a company. The organization was founded 80 years ago with the aim of helping to combat malnutrition through providing nutrient-rich plant-based drinks.

Simeon Cheng, Group Director – Sustainability and Corporate Communications at Vitasoy, says: "We started with a very socially responsible act, and we have carried this purpose forward to today. We believe that having a firm commitment to deliver on this purpose is key to being successful."

The group formalized its sustainability framework in 2015, taking a two-pronged approach of making the right product, and making the product in the right way.

The first part of this strategy has seen it rollout healthier drinks that are lower in sugar and fat, and contain more nutrients. The second part sees it strive to make its products in an environmentally-friendly way.

Getting buy-in from consumers is particularly important to Vitasoy. To this end, the company has put a lot of effort into encouraging consumers and other stakeholders to recycle its cartons, actively engaging with schools, and placing recycling bins in housing estates, shopping malls and convenience stores.

Cheng credits the group's sustainability initiatives, including its push to make its products healthier, for driving innovation and helping it to expand into new markets. It has also enabled Vitasoy to gain the trust of both consumers and investors, who Cheng says are increasingly putting more weight on environmental, social and governance (ESG) factors when

**"To issue a completely clean report card is unbelievable, and could easily be perceived as 'green washing.'"**



Eddie Pak,  
Assistant Director,  
Electrical and  
Mechanical, at the  
Drainage Services  
Department



making investment decisions. “When investors come to see us, they ask to spend time with our chief executive officer and financial people, and then they request an equal amount of time with me. I end up answering an equal amount of questions, if not more,” he says.

The group uses external ESG ratings, such as the Hang Seng Sustainability Index and Dow Jones Sustainability Index, to benchmark itself against international best practices and identify any gaps it needs to address.

It is also working to improve the quality of its ESG reporting. To make its sustainability report more focused, it has moved information that is important but does not change year-on-year to its sustainability website, with the report covering the performance of its sustainability programmes during the past year.

In addition, the group not only publishes positive results, but also reports on areas where it has missed its sustainability targets. “To issue a completely clean report card is unbelievable, and could easily be perceived as ‘green washing.’

Investors understand that we are setting ambitious targets not just ones we know we can meet,” Cheng says. Explaining why Vitasoy has missed a target and what steps the company is taking to ensure it meets it in future also helps to build trust, he adds.

To companies looking to introduce sustainability practices, Cheng recommends getting a materiality assessment done to understand which areas are most relevant to their business. He also suggests starting as soon as possible, pointing out that it is much easier to introduce sustainability initiatives when a company is smaller than when it has expanded.

Cheng describes Vitasoy as being absolutely thrilled to have won a BCGA award. “To get an award from a reputable professional organization like Hong Kong Institute of CPAs is a very strong endorsement that we are on the right track,” he says.

### Sustainable markets

Stock exchanges are natural advocates of sustainability because of the role they play in promoting

market stability, according to Tori Cowley, Group Chief Communications Officer, at Hong Kong Exchanges and Clearing Limited (HKEX). “Sustainability and sustainable practices are richly embedded in stock exchanges because they cannot put their own performance ahead of the sustainability and functioning of the markets and the people who rely on them,” she says.

HKEX is no different. Cowley points out it wears the “tri hat” of being a market regulator in Hong Kong, an operator of the market, and a public company. “As a market regulator and operator, we have a mandate to ensure the sustainable development of fair and orderly financial markets, and as a listed entity, there is an obligation for us to lead by example. Our sustainability practices are the DNA of our business. They are part of who we are.”

HKEX has been promoting best practice in corporate governance in Hong Kong for more than 20 years. It produced its first corporate social reporting (CSR) filing as a public



company in 2004 and its first CSR report in 2008. “We were quite pioneering in Asia,” Cowley says. Its sustainability practices focus on the areas of markets, people and operations, with the underlying aims of building resilience, driving innovation, attracting talent and connecting stakeholders.

As an organization, it recently launched its own foundation to support community projects that address various social and environmental challenges. It also has a volunteer scheme for staff, promotes recycling and recently set up a COVID-19 relief programme.

On the markets side, it focuses on promoting good corporate governance, ESG, sustainable finance and innovation. To encourage best practice among listed companies, HKEX has adopted a “comply or explain” approach to corporate governance. “You don’t just tick boxes. If you don’t fulfil something you have to explain why. It makes businesses think about all elements of sustainability,” Cowley explains.

HKEX has seen a number of benefits to having good sustainability practices. Internally,

Cowley says it helps with risk management and better decision making, as well as employee engagement and retention.

Externally, its practices promote a better understanding among investors and other stakeholders about what HKEX does, which is reflected in its brand value and corporate valuation.

The organization reviews its sustainability programme each year as part of its annual review cycle to ensure it is putting its resources to the best use and staying ahead of trends. To this end, it recently announced the creation of a new Sustainable and Green Exchange (STAGE), which will act as a platform for data and information on sustainable and green finance investments in the region – the first of its kind in Asia. Through the platform, HKEX aims to help issuers raise awareness of their sustainable and green financial products, and encourage investors, asset managers and advisors to play an active role in enhancing Hong Kong’s green finance ecosystem, to further reinforce the sustainability of its financial markets.

Cowley advises companies

wanting to introduce sustainability practices to talk to their stakeholders to help identify which issues are most important to their business. She also urges them to be brave and start straightaway, setting ambitious goals and seeing sustainability as a journey. Finally, she says they should commit to producing informative annual reports to give stakeholders enough information to form a proper opinion on what they are doing in the sustainability arena.

Cowley is delighted that HKEX’s efforts in sustainability have been recognized with a BCGA award. “It is always nice to receive awards, but particularly so in this area. We want Hong Kong to be a global champion of sustainability,” she says.

### Integrated initiatives

As a judge of the awards, one of the key factors Dr Eva Chan, Founding Chairman and Fellow Member of Hong Kong Investor Relations Association, looks for when evaluating companies’ sustainability initiatives is whether the initiatives are fully integrated into the organization’s corporate strategy.

She explains that if sustainability is not fully integrated in this way,

**“You don’t just tick boxes. If you don’t fulfil something you have to explain why. It makes businesses think about all elements of sustainability.”**



Tori Cowley,  
Group Chief  
Communications  
Officer, at Hong  
Kong Exchanges  
and Clearing  
Limited



Dr Eva Chan,  
Founding Chairman  
and Fellow Member  
of Hong Kong  
Investor Relations  
Association

there is a danger that it is just something the company is doing outside of its main business and not something that is central to its operations.

She adds that it is also important that sustainability initiatives have the full support of board of directors and the management. “If the management is committed and really sees sustainability as an important issue for the long-term growth of the company, they will allocate more resources to it.”

Chan says she has seen a significant change in companies’ attitude towards sustainability in recent years, which she attributes in part to the stock exchange’s requirement for listed companies to produce an ESG report. She explains that this requirement has helped to highlight the importance of sustainability to senior management, with many companies going beyond the minimum requirements set out by HKEX. “We are seeing lots of improvements in the quality of reports. Many companies are not just following the guidelines of the HKEX but are also making voluntary disclosures,” she says.

Chan expects the quality of ESG reporting to further increase when new “comply or explain” disclosure rules on climate change and social issues become mandatory for listed companies from 2021. “It will make companies really have to think about why they may not be complying and what they could do in future in order to comply,” she says.

Over the longer term, Chan thinks having the commitment of the board of directors and senior management is also an important factor in improving sustainability reporting. She suggests that training should be provided for senior management to help them understand the importance of sustainability, so that they genuinely incorporate it into their business, rather than just producing an ESG report for compliance reasons.

One area is which Chan would like to see an improvement in sustainability reporting is for companies to not only highlighting the positive aspects of their performance, but also the negative ones, such as where they have missed targets. “Most listed companies only want to present good things and

not things that are unfavourable. I think the new “comply or explain” regulations will go some way to addressing this issue,” she says. Chan adds that the new rules should also help to focus the attention of board directors on ESG issues. “They need to understand why ESG is so important and not just do a report for compliance reasons,” she says.

Chan points out that investors are also increasingly focusing on sustainability issues, which is helping to drive positive change. “Before they make an investment, investors ask a lot of questions about how the company is integrating ESG into its business model. There are also a lot of new funds that only invest in companies with good ESG ratings. It gives an incentive to listed companies to do better in this area,” she says.

With investors, consumers and other stakeholders placing increased emphasis on sustainability, organizations should ensure ESG is at the heart of their operations.

*Look out for the fourth part of the BCGA at 20 series in the December 2020 issue of A Plus.*



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

When Michael Teh became Financial Controller at Algorand Foundation, a blockchain company, he didn't expect his role to evolve so rapidly. He tells [Jeremy Chan](#) how he fell into the world of blockchain, and how the job requires him to be an effective leader, a visionary, and most importantly, a jack-of-all-trades

Photography by Calvin Sit

# BUILDING WITH BLOCKCHAIN

**B**lockchain was never something Michael Teh imagined he would ever get into. But it was a term he kept on hearing about, so Teh, being the curious person he is, wanted to see what the fuss was all about. "I started reading about it in 2017, and by that time, it already quite a hot topic," he remembers. "I understood the basics, but it reached a point where I became very confused about how it really worked. I almost gave up learning about it."

Luckily, he didn't, and his fascination led him to do more research in his spare time. After a number of years working at a Big Four firm and various tech companies, an opportunity presented itself at an up-and-coming blockchain company. He jumped at it, and took on the role of Financial Controller (FC) at Algorand Foundation, in 2019. He thought he knew enough about blockchain, but he was caught in a stream of technical jargon to wrap his head around, all from the get-go. He also found himself running both the finance function of the company, and in some ways, the company itself. "In Hong Kong, we're a new start-up, so I find myself doing a bit of everything," adds Teh, who is a member of the Hong Kong Institute of CPAs.







## ACCOUNTANT PLUS

Michael Teh

Algorand is an open-source decentralized blockchain platform that allows the public to create projects and applications within its blockchain. Non-profit organization Algorand Foundation provides assistance to the Algorand blockchain network, which it governs through monitoring the use and distribution of its native tokens and engaging with developers who want to build on its blockchain. “Our mission is to build a trusted, public and permissionless blockchain infrastructure for a borderless economy,” says Teh.

Teh feels humbled to work in an industry as burgeoning as blockchain. Indeed, blockchain start-ups accounted for nearly 40 percent of 57 fintech companies that established operations in 2019 in Hong Kong, compared to only 28 percent in 2018, according to a report from Hong Kong’s Financial Services and the Treasury Bureau. Many entrepreneurs are drawn to the city’s status as a fintech hub for its free flow of capital, reliable legal system and thriving financial services market, according to InvestHK, a Hong Kong government body responsible for foreign direct investment.

The coronavirus pandemic, which has disrupted lives and the global economy, has generated growth in the fintech market, as social distancing measures force companies and consumers to do more business online. Teh expects the industry to continue flourishing with time. “Business leaders are becoming more familiar with blockchain technology,” he explains. “There’s now a shift in conversation. Previously, they’d ask ‘what is blockchain?’ but now, they are asking ‘how can blockchain help our business?’ or ‘how can we implement it into our business model?’”

### Ensuring supply, meeting demand

Algorand has its own native cryptocurrency known as ALGO



Michael Teh heads Algorand Foundation's finance department, and is in charge of financial reporting, budgeting and even takes on administrative roles.

tokens, which are used to boost public participation, contribute to the stability of the Algorand blockchain and support the Algorand community.

Algorand Foundation has already formed partnerships with companies for them to utilize its blockchain. For example, it has partnered with an Australian tech company that, through Algorand's blockchain, will be able to buy and sell gold. Another collaboration sees an investment

company using the blockchain to record the ownership of real estate assets and proof of loan transactions.

In April, Algorand Foundation announced the launch of its ALGO Grants Programme, where 250 million ALGO tokens will be allocated in the form of grants to developers across four categories: innovative research, development tools and infrastructure for the Algorand blockchain, use cases of decentralized applications to



be built on top of the blockchain, and education and community initiatives. “This programme encourages individuals to build on our blockchain,” explains Teh. He says Algorand Foundation’s two primary goals are ensuring fairness in the distribution of its native ALGO tokens, and engaging with the community. “We maintain independence in how we govern the use of the tokens, as we want them to promote the mass adoption of our blockchain,” he says. “Algorand is an open-source blockchain. So if any developer is interested, they can simply start coding on it.”

Since the announcement, the company has received more than 50 proposals from developers requesting to code on its blockchain. Teh, along with the other members of the research team, is in charge of deciding which proposals to accept and how many tokens will be required to help them to achieve their proposed applications. “We decide who to grant the tokens to, and how many of the 250 million tokens we can afford to grant this year or over the next five years, for example,”

he says. “Once our research team approves a proposal, we work closely with these developers to help build what they have proposed. We don’t just disappear.”

Teh adds that developers who receive ALGO are able to use them to run and test their applications on Algorand’s blockchain. “Our aim is to encourage people to adopt our blockchain, so when we grant them tokens, we need to make sure they are of value.”

### A key link

Teh heads the finance department, and also takes on administrative duties. “I would say about a quarter of my time is spent on finance-related tasks such as financial reporting, budgeting and looking at balance sheets and income statements,” he says. “The majority of my time goes to ad hoc roles such as helping out with human resources (HR), administrative and legal tasks. We don’t have an HR manager, so I’m also in charge of payroll and sometimes recruitment.”

Teh knew the FC role would call for expertise beyond accounting.

“People, especially in management, will always expect you to take on roles beyond accounting or finance, so being familiar with different areas gives them a higher level of confidence when assigning tasks, especially ones outside the finance function,” he says.

One of the most challenging aspects of the role, Teh admits, is attaining a solid understanding of blockchain technology and cryptocurrency. “This isn’t a traditional industry,” he says. “When I find myself unsure of something, it’s hard to find help. I can’t ask my peers, ex-colleagues or even my mentors. There are a lot of technical terms to learn, and many of them, frankly, sound completely alien to people new to this area.” To address this, Teh teaches himself. He reads about blockchain and makes a conscious effort to stay updated. “There are constant developments in this area,” he says. “Every morning, I read through updates on blockchain and cryptocurrency. I zone into high profile news and make sure I understand everything. This all

**“This isn’t a traditional industry. When I find myself unsure of something, it’s hard to find help. I can’t ask my peers, ex-colleagues or even my mentors.”**

## Blockchain basics

Michael Teh knows first-hand how the intricacies and even the basics of blockchain can be a challenge for some people to grasp. But one way he explains the technology to others is by illustrating its role in a simple financial transaction. “When you transfer money to someone, you need to go through a centralized authority such as a bank. They keep your ledger and verify that you have that amount of money to transfer. So all your data is stored in a centralized body,” Teh explains. “But with blockchain, when people perform transactions with each other, that information is stored in a ‘block.’” Each block is an intangible digital storage unit, and a single block can store thousands of transaction details such as the amount, date, and time of transfer. A blockchain itself is an ever-growing digital ledger of transactions that are cryptographically linked or “chained” together. The transactions are duplicated and distributed across an entire network of computer systems on the blockchain.

Blockchain’s high level of security is attributed to blocks being immutable – information stored within a block cannot be changed once it is written. If one attempts to modify the data in one block, it would require that individual to change the data of all the other blocks preceding it, making the task near-impossible due to the large number of blocks. Each block’s transaction data creates a hash, or an algorithm-generated code made of jumbled

numbers and letters similar to a password, to keep it secure. This allows blockchain users to distinguish one block from another. “This feature is what makes blockchain secure and difficult to manipulate,” adds Teh.

This level of security presents a multitude of ways for blockchain to be used – ways that are still being explored today. For example, blockchain can be used by healthcare professionals to securely store patients’ medical records and share medical data between health organizations – this was adopted by Taipei Medical University in 2018. Suppliers in supply chains can record the origin of materials they have purchased using blockchain – a method already used by companies such as retail giant Walmart, shipping company Maersk and package delivery companies UPS and FedEx, to move goods.

According to LinkedIn’s *Future of Skills 2019* study, expertise in blockchain is in high demand, especially in the Asia-Pacific region. The report found blockchain to be the fastest growing skill in Singapore and among the top three in Mainland China, Japan, Taiwan, South Korea, Hong Kong, and Vietnam. Professionals like Teh hope to make their mark in the field, while they can. “I truly believe in blockchain,” he says. “There’s potential for blockchain to be part of our daily lives in the future – we would probably use it without even noticing it. Nowadays when most people interact with apps on their smartphones, they probably don’t always realize they’re using the Internet. The same could be said for blockchain in the future.”



happens before I even touch my emails.”

Being as familiar as possible to the field has helped Teh to work better with tech and research teams in the company. “It was a challenge to translate accounting terms such as accounting standard requirements into a language that the tech guys could understand,” he says. “Now I’m able to communicate more effectively with them and explain these requirements, such as how we record token sales. They might think revenue is recognized immediately upon the sale of a token, but it isn’t necessarily that straightforward.” Though International Financial Reporting Standards (IFRS) and Hong Kong Financial Reporting Standards currently do not have guidelines that explicitly discuss crypto-asset transactions, the IFRS Interpretations Committee published an agenda decision in June 2019 on applying IFRS standards to cryptocurrencies. The IFRS Interpretations Committee concluded that International Accounting Standard (IAS) 2 *Inventories* applies to cryptocurrencies when they are held for sale in the ordinary course of business. If IAS 2 is not applicable, an entity applies IAS 38 *Intangible Assets* to holdings of cryptocurrencies.

Teh also manages the company’s legal matters by allocating time to look at contracts. “I need to look at every potential financial liability, for example, if the relationship with a counterparty turns sour or if there’s a clause in a contract which might lead to liabilities. This is my main focus when I review contracts at Algorand Foundation.” Teh credits his experience in his previous roles with equipping him with the added knowledge. “I used to study a lot of legal contracts, and whenever I had questions I would speak with the relevant external legal counsel. After all these years, I started to build a sense of familiarity with standard legal terms such as warranties or limitations of liabilities.”

## A prime example

Teh graduated from the Chinese University of Hong Kong and began his career at KPMG in 2007, where he built a solid foundation in financial reporting and learned how to lead a team, manage pressure and communicate effectively. It wasn’t easy, as he remembers, and the steep learning curve meant having to learn fast. “When I started off as an auditor, I didn’t have weeks or months to get used to working with a client before the engagement. I would get a call from my manager and have to be at a new client’s office within a few hours’ notice,” he recalls. “I needed to understand their business, their business model, and most importantly, whether everything made sense in a very short period of time.”

Having to manage multiple engagements when he became an audit manager taught him how to carefully manage his time in meeting deadlines. With his team often caught under pressure, Teh says he took charge and led by example. “One very important skill I learned during those years was persistence,” he adds. “When faced with meeting difficult requirements or deadlines, you can’t give up – in a way, your team’s persistence depends on you. If you persist, that motivates others too.” He says this skill ultimately helped him to take on the role of a manager.

After six years, he decided to bring his expertise to work in business, and took on the role of finance manager at technology manufacturer World Wide Touch Technology (Holdings) Limited in 2013. The company manufactures products such as wireless charging devices, biometric devices and capacitive touch screen controllers. The role saw Teh running the entire finance department. “I did the financial reporting, auditing, budgeting, and often had to work closely with lawyers and regulators from the Securities and Futures

Commission,” he says. Looking back, Teh says that taking charge of the entire department gave him the confidence to do the same at Algorand Foundation.

He worked a year before joining TCL Communications Holdings Limited, a Chinese multinational electronics company as an FC, where he stayed for five years. He was responsible for overseeing the global financial management department of the mobile division. The company sells mobile devices such as smartphones, tablets and smart watches. As Teh remembers, he joined the company during a rough time. “The company had just been restructured, so employee morale was quite low,” he says, adding that the finance team was, as a result, put in charge of overseeing all shipments of products and company orders. “The finance team had never been in charge of something like this before, so there were doubts whether this would work. Even I had my doubts.”

Teh immediately took control and led the team. “I demonstrated to my team how we were going to introduce our new global policies,” he says. He put together new policies and procedures to aid with product shipments, and then communicated those developments with various country managers across the world. With better procedures put in place and operations running smoothly, morale picked up as other departments took note. The experience taught him the importance of leading in the face of uncertainty. “I first had to believe in myself. I convinced myself that the task at hand would be feasible. I made sure the team’s goals were aligned and that we were all moving in the same direction.”

## A kick out of life

Teh attributes his success to a combination of perseverance and having the right attitude. “I don’t

**“When faced with meeting difficult requirements or deadlines, you can’t give up – in a way, your team’s persistence depends on you.”**



Teh graduated from the Chinese University of Hong Kong where he majored in Business Administration. He spent six years at KPMG and a number of years of other tech companies before working at Algorand Foundation.

believe that failure is the opposite of success. Instead, it's a part of success," Teh says. "By failing, you simply learn what to avoid in the future. Fear of failure might stop you from trying or embracing something bigger in life."

The fear of making mistakes, he adds, may bleed into other facets of work, such as having the courage to ask questions. "For example, during internal company meetings it's always good to clarify any doubts instead of remaining silent over fear of asking the wrong question," he explains. "There's always a chance that the whole room of participants has the same doubts and questions but no one's willing to take the initiative to raise their hand and speak up."

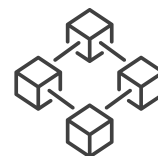
He also advises professionals to remain focused on their own

goals and to avoid comparing themselves to others. "Compare yourself today with the person you were yesterday," he urges. "When you find yourself thinking about why you aren't earning as much or receiving the same awards as someone else, you bring yourself into an endless negative thinking loop. Instead, ask yourself what you can do better in the future."

The Institute's Qualification Programme (QP), he adds, is a highly comprehensive and practical programme. "The training one receives from the QP will equip that individual with the knowledge to be a business decision maker," he says. "Even when working in the commercial field, for example, we need to apply multiple facets of knowledge together, such as from financial accounting, management

accounting, tax and business law, to form a holistic view when making a business decision."

Teh is thrilled to be at the forefront of blockchain at Algorand Foundation, and while he occasionally finds himself working late, he has recently learned to strike a better balance between work and play. When he isn't working, he is a family man who enjoys spending time with his two boys, who are six and two. "Having children forced me to maintain a work-life balance," he laughs. He is also a keen football player. Though he doesn't play football as often as before, his ideal weekend involves afternoons spent kicking, passing and scoring with the boys. "My older one is learning how to kick, and I can't wait to teach the younger one how to play as soon as he grows up."



Blockchain start-ups accounted for nearly 40 percent of 57 fintech companies that established operations in 2019, compared to only 28 percent in 2018, according to a report from Hong Kong's Financial Services and the Treasury Bureau. Read more about the business of blockchain on page 8.

The President and Chief Executive Officer of IMA® (Institute of Management Accountants) on how businesses play a pivotal role in the ethics learning process



## Global Ethics Day: Ethics and remote learning in the pandemic

It's simply a business reality in the 21st century. The individual behaviour of employees, from top management to front-line workers, can make or break an organization's reputation. That's not withstanding its significant impact on share value or how it impedes an organization's ability to attract and retain clients, investors, employees and customers.

Globalization can also increase the potential ramifications of behavioural conflicts. An organization operating in different countries may find the values and ethical standards of other cultures clash with its own, thus creating the need for every organization to develop a code of ethics and corporate conduct to adhere to compliance requirements.

Organizational behaviour needs to be defined and deployed in a way that drives the individual behaviour of employees in a manner consistent with defined expectations of the wider organization. Many individuals at the centre of corporate scandals in the late 1990s and early 2000s believed they were innocent of any wrongdoing, including Kenneth Lay of Enron and Conrad Black of Hollinger. The problem is that these individuals did not define their behaviour by what most of society would see as "reasonable," but rather they followed their own code – in some cases, limiting the definition of ethical behaviour to simply compliance with the law and nothing more.

But ethics is not just about abiding by the law. Individuals and organizations can act legally and still be acting unethically. Ethical behaviour is driven by compliance with a set of values that acts as the touchstone for situational decisions where rules may not exist to cover every alternative. More succinctly, ethics are about the integrity of the decision-making process used to resolve any number of issues.

So how do you infuse ethical behaviour into an organization? It starts with education. Undergraduate and graduate business programmes must recognize the importance of working ethical behaviour and decision-making in the professional world into their curricula.

There's also a role for professional associations. Constant changes in the workplace necessitate continuous education and training, which professional associations can offer throughout one's career.

Businesses themselves also play a pivotal role in the ethics learning process. With most businesses now operating remotely as a result of the pandemic, many are using the opportunity to create new means of ethical training. Companies have increasingly turned to virtual courses on ethics during the pandemic to develop ethical behaviour in the workplace. And many will continue to do so post-pandemic, given the easy accessibility of remote learning and its ability to help employees at all levels learn more about ethical behaviour.

This point needs to be underscored. Ethics are ethics, as IMA's Committee on Ethics member Dave Eichelberger, longtime accounting professor and formerly lecturer at the University of Virginia's McIntire School of Commerce, says. "The environment of being in a pandemic should have no effect on one's ethics. A person either has them or doesn't. Ethics in a pandemic should continue to define one's self and his or her approach to everything."

Corporate ethics are the amplification of individual behaviour. Organizations that succeed in a broad-based deployment of a code of ethics will create a base for enhanced risk assessment, greater transparency for those responsible for organizational governance, and an increased probability that commitments made in words are truly being fulfilled in practice. As a result, chief executive officers and chief financial officers who are required to sign commitments of compliance will do so with a greater degree of knowledge and certainty that their words and the actions of their organization are aligned.

*This article originally appeared on the IFAC Knowledge Gateway. Copyright © 2020 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Contact permissions@ifac.org for permission to reproduce, store, or transmit this document.*

**"Organizational behaviour needs to be defined and deployed in a way that drives the individual behaviour of employees in a manner consistent with defined expectations of the wider organization."**



# Responsibility of CPAs who prepare corporate financial statements

## Guidance for CPAs who serve as directors or senior financial executives

Sections 379 and 380 of the Companies Ordinance (Cap. 622) require a Hong Kong-incorporated company to prepare financial statements that give a true and fair view of its financial affairs. Financial statements are a key channel for a company to communicate its performance, financial position and prospects. Users of them draw on the information to make important decisions. For instance, investors and creditors rely on information in the financial statements to evaluate the profitability of their investments and the repayment ability of the company. Similarly, financial statements provide a basis for a company's management to develop business plans and make strategic choices.

### Preparers of a company's financial statements and their responsibilities

Financial statements prepared under the Companies Ordinance must comply with applicable financial reporting standards. The practical work falls on the company's accounting team headed by the chief financial officer (CFO), financial controller (FC) or other similarly titled senior management positions.

Ultimately, the board of directors is collectively responsible for the integrity of the company's financial statements. The directors are charged with approving the financial statements prepared by the accounting team, presenting them for audit, and laying them before the annual general meeting of the company. They are expected to understand and assess the company's accounting process and internal controls, review the financial statements, and enquire into and resolve issues that may arise.

In the case of listed companies, there is commonly a segregation of roles within the board. Executive directors make most of the key management decisions and are seen as running the company's business day to day. Non-executive directors serve in a more advisory capacity and are less involved in the daily operations of the company. Independent non-executive directors (INEDs) oversee company management at a high level and often chair or serve as

members of the audit committee, which independently reviews the effectiveness of the financial reporting process and integrity of the financial statements.

The listing rules of the Hong Kong stock exchange contain detailed provisions on the duties of directors in their different roles and the work of the audit committee. The rules require the board of directors and the audit committee of a listed company to have at least one INED with professional accounting qualifications or relevant accounting expertise in order to assist the board on accounting matters.

The following provide additional sources of reference on the duties of directors and audit committee:

- *A Guide on Directors' Duties* published by the Companies Registry.
- *Guidelines for Directors and Guide for Independent Non-executive Directors* published by the Hong Kong Institute of Directors.
- *A Guide for Effective Audit Committees* published by the Institute.

The fundamental principles set out in the *Code of Ethics for Professional Accountants* describe how CPAs must act competently and with due care when discharging their responsibilities. For CPAs who are directors of a company or in senior management positions such as CFOs or FCs, these responsibilities include the company's financial reporting matters.

In cases of financial reporting irregularities, the Institute will enquire of CPAs who are directors or in senior management positions and take regulatory actions against the responsible individuals as appropriate.

### Regulatory actions taken by the Institute for irregularities in financial reporting

The responsibility of company management to prevent financial statement irregularities is separate from the responsibility of the auditor, whose duty is to express an opinion on the financial statements. Irregularities in financial reporting indicate a possible

failure on the part of the directors and senior management to act diligently when preparing and approving the financial statements.

In recent years, the Institute has taken regulatory actions against CPAs who were directors or senior management personnel as a result of irregularities found in companies' audited financial statements.

In one case, a CPA served as executive director and the CFO supervising a listed company's accounting team. The group's audited financial statements contained material errors in accounting for certain business acquisitions and financial instruments. The Institute found the CPA had failed to act with professional competence and due care in preparing the financial statements, and was therefore in breach of the relevant fundamental principle in the code. The CPA was publicly reprimanded.

In another case, a CPA was the audit committee chair of a listed company. He failed to independently assess whether the accounting treatment of a material receipt from a construction contract complied with relevant accounting standards, relying instead on the representations of the company's management and auditor. The Institute found the CPA had breached the fundamental principle of professional competence and due care in the code. He was privately reprimanded by way of a disapproval letter.

In conclusion, CPAs serving as directors, audit committee members, or heads of financial functions are bound by the fundamental principles of the code and the specific provisions that apply to professional accountants in business. They should discharge their responsibilities with due regard to those requirements and act in the utmost professional manner to ensure the integrity of the company's financial reporting process and the financial statements prepared from it.

A

*This article is contributed by the Institute's Compliance Department*

# Views exchanged during the 2020 annual meeting with the IRD

A look at the matters discussed at the Institute's Taxation Faculty's annual meeting with the Inland Revenue Department

The Hong Kong Institute of CPAs' Taxation Faculty's annual meeting with the Inland Revenue Department (IRD) was held on 15 May. The discussions covered a wide range of tax topics and this article summarizes the views exchanged on the key questions. The full minutes can be found in Tax Bulletin 31 on the Institute's website.

## Corporate treasury centres

### Question:

Under the current regime, qualifying corporate treasury centres (CTC) can enjoy 50 percent of the profits tax rate for income from qualifying treasury activities. Would an intra-group finance lease business be considered as a "qualifying corporate treasury activity" under the preferential tax regime?

### Answer:

As the provision of finance leases for the purchase of plant and machinery is not an activity or a transaction specified in the definition of any one of the three types of activities mentioned in section 14C(1) of the Inland Revenue Ordinance (IRO) – the legislation for the CTC tax regime – a group finance lease business would not qualify for the CTC tax regime.

## Tax deduction for lease payments

### Question:

Based on our recent discussion with the IRD, the IRD would allow tax deduction on rental payment of a lease term under Hong Kong Financial Reporting Standard (HKFRS) 16 *Leases* based on the amounts charged to the profit and loss account. Is claiming tax deduction based on cash outflow/contractual commitment an acceptable alternative to the IRD?

### Answer:

- Tax deduction of expenses is governed by sections 16 and 17 of the IRO. HKFRS 16 should not have any effect on the total amount of cash flows reported. Therefore, adoption of HKFRS 16 would not affect the operation of sections 16 and 17 of the IRO. It is a matter of timing difference between the amount charged to the profit and loss account and contractual commitment.
- In the example given, the deductible expenses would be the amounts charged to the profit and loss account in the respective years.
- Tax adjustment on the opening balance of retained earnings on first adoption of HKFRS 16 should be done in the year of first adoption.
- If the taxpayer opted for early adoption of HKFRS 16 and claimed tax deduction on the actual cash outflow basis, it is not necessary to re-open the prior year assessments, but provide a reconciliation schedule together with the current year tax return.

### Note:

Subsequent to the annual meeting, the IRD issued official guidelines on the profits tax treatment of leases where HKFRS 16 applies and confirmed that they also allow deductions based on contractual payments as long as such basis is consistently applied.

## Greater Bay Area tax subsidy

### Question:

The nine Mainland cities of the Greater Bay Area currently provide tax subsidies to qualified foreign high-end talents and talents in short who work in these cities. These subsidies are currently

non-taxable items in the hands of the recipients for Mainland China individual income tax purposes. Are these subsidies taxable for Hong Kong salaries tax?

### Answer:

The subsidies, whether or not in the nature of income from employment, should be wholly attributable to the taxpayers' services in the Mainland. Therefore, it is likely that the tax subsidies would not fall within the charge to salaries tax under section 8(1A)(a) of the IRO.

## Tax treatment of housing benefits provided by a third party

### Question:

If a non-Hong Kong employer assigns its foreign employee to work in an office of an unrelated third party client in Hong Kong, the client would provide rent-free accommodation to the foreign employee during the assignment period. Will the rent-free accommodation be deemed as income (i.e. rental value) for salaries tax purpose?

### Answer:

- The arrangement has to be examined in detail to find out if the non-Hong Kong employer provides rent-free accommodation to its employee through the unrelated client.
- If the answer to the above question is yes, then the rental value of such accommodation has to be subject to salaries tax under sections 9(1)(b) and 9(2) of the IRO.

## Royalty payments to overseas non-resident

### Question:

Where a Hong Kong taxpayer paid

royalties to an overseas related party, are these transactions required to comply with the arm's length principle? Or can these transactions be regarded as specified domestic transactions? Consider the two cases detailed in section 21A of the IRO. In the first case 100 percent of the royalty income of the overseas related party are deemed as taxable receipt where the intellectual property (IP) was once owned by a Hong Kong taxpayer. In the second case, 30 percent of the royalty income of the overseas related party are deemed as taxable receipt as the IP had never been owned by a Hong Kong taxpayer.

**Answer:**

- The overseas recipient that fell within the deeming provision for royalties of section 15(1) was not regarded as having carried on a business in Hong Kong for the purpose of the transfer pricing provision in section 50AAJ(3). Therefore the domestic nature condition was not met and it is not necessary to further consider whether the no actual tax difference condition was met in both scenarios.
- The transfer pricing provision in section 50AAF is applicable to both cases and income or loss in relation to the royalty transaction should be computed on arm's length basis.
- The Hong Kong associate royalty payer is also required to include the transaction in its local file under the transfer pricing documentation provision section 58C(2).

### Double tax relief for withholding tax on royalty income

**Question:**

Suppose a Hong Kong licensor enters into an annual licensing agreement with an

overseas licensee with royalties for 10 years. The licensor recognizes all royalties in year one according to HKFRS 15 *Revenue from Contracts with Customers*. Currently, tax credit can only be claimed before the end of six years after the end of the relevant year of assessment provided that withholding tax has been paid overseas. How can the licensor claim double tax relief for years seven to 10 in Hong Kong?

**Answer:**

Where a claim for tax credit could not be made within the timeframe specified in the legislation, the taxpayer might present a case for mutual agreement procedures (MAP) under the relevant comprehensive double taxation agreement (CDTA). Any MAP solution reached should be given effect despite any provision in the IRO.

### Refunds to non-residents

**Question:**

Where a non-resident person was assessed for certain receipts (e.g. royalties) in the name of the payer in Hong Kong and paid excessive tax, refund cheques of "Non-Resident Profits Tax Returns" filings would normally be issued under the name of "HK Co for non-resident Co" which could not be banked. The cumbersome administrative procedures of requesting the reissuance of a cheque to a designated payee create hardship to the non-resident person in getting the refund. Could the IRD simplify the process for reissuance of refund check in the name of the non-resident?

**Answer:**

- To simplify the refund process, the IRD plans to upload a template letter of indemnity onto its website. Upon receipt of the refund notice from the

IRD, either the payer in Hong Kong or the non-resident person could download the template for completion.

- The duly completed letter of indemnity, the refund cheque, together with a proper written request for amendment of payee's name should be sent to the IRD for processing.

### Certificate of Residence for offshore economic substance law purpose

**Question:**

Under the economic substance (ES) laws of offshore jurisdictions, entities that are tax residents in other jurisdictions are not subject to their ES requirements. A Certificate of Residence (CoR) would be a strong proof to these jurisdictions in accepting a taxpayer's tax residence in Hong Kong. However, under the current IRD's practice, CoR applications for purposes other than claiming tax benefits under tax treaties would not be entertained. Would the IRD consider issuing a special class of CoR or other documentation proof for serving the offshore ES law purpose or other non-treaty purpose?

**Answer:**

- It would be against international practice for the Hong Kong competent authority to issue a CoR, in the absence of a CDTA, to offshore entities for the purpose of exempting them from obligations regarding substantial activities requirements.
- Therefore, the IRD has no plan to issue a special class of CoR or other documentation proof for serving the offshore ES law purpose or other non-treaty purpose.
- Taxpayers may request the IRD to





issue a letter to confirm the factual tax information of the taxpayers, e.g. confirmation of tax payment. However, whether the information on such document would be regarded as relevant remained a matter for the foreign jurisdictions to determine.

## Completion of Supplementary Form S2 of the Profits Tax Return

### Question:

The IRD's guidelines on the completion of Supplementary Form S2 – transfer pricing do not contain any definition of “transactions.” Should transactions which would not result in any impact to the income statement, e.g. interest-free loans, be reported?

### Answer:

- The term “transaction” was defined in the transfer pricing provision, section 50AAI(1), to include any operation, scheme, arrangement, understanding and mutual practice (whether express or implied, and whether or not enforceable or intended to be enforceable by legal proceedings).
- Paragraphs 43 to 46 of Departmental Interpretation and Practice Note 59 explained with examples the terms “transaction” and “a series of transactions.”
- Transactions that fall within the definitions need to be reported even if there are no transfer pricing adjustments and no changes in the intercompany balances during the year.

## E-filing of tax returns

The IRD is developing three

interconnected portals, namely Business Portal, Individual Portal and Tax Representative Portal. These are planned to be rolled out in 2025. During the meeting, questions were raised about the portals.

### Question:

What is the timetable for extending the e-filing system for Tax Return – Individuals (BIR60), so that more individuals in Hong Kong can file electronically, including those with income exemption and double tax relief claims? Is there any plan to allow tax representatives to e-file their clients' BIR60?

### Answer:

In designing and developing the Tax Representative Portal, the IRD will consider enabling tax representatives to file BIR60 for their clients.

### Question:

The IRD advised in the 2019 annual meeting that it would consult the stakeholders in the development of the Business Portal and Tax Representative Portal for profits tax. What is the current status?

### Answer:

- The Business Portal would facilitate submission of tax returns by businesses together with accounting and financial data.
- The Tax Representative Portal would enable tax representatives to conduct e-transactions on behalf of their clients, both individuals and businesses.
- In the interim, the existing eTax portal would be enhanced to cater for the submission of financial statements

and tax computations in the form of data files. It is expected that the enhanced eTax portal would be able to accept e-filing of profits tax return (BIR51 or BIR52) for a taxpayer by a service provider, subject to the relevant legislative amendments.

To conclude, the answers provided by the IRD during the meeting serve as good guidance on the tax issues that taxpayers are facing. The 2021 annual meeting with the IRD will be held in mid-2021. If you would like to contribute questions to the meeting, please send them to [apd@hkcipa.org.hk](mailto:apd@hkcipa.org.hk) before the end of January 2021.



The article is contributed by **Sarah Chan**, Tax Partner, Deloitte China, **Doris Chik**, Tax Director, Deloitte China and **Eric Chiang**, Deputy Director, Advocacy and Practice Development, Hong Kong Institute of CPAs

# The interaction of the accounting standards with the tax laws – HKFRS 15 and HKFRS 16

A look at tax principles for determining whether and when accounting profits or losses are taxable or deductible

The Inland Revenue Department (IRD) has recently updated Departmental Interpretation and Practice Note No. 1 (revised DIPN 1) which deals with the valuation of stock-in-trade and the taxation of long-term construction contracts, property development and property investment.

At the outset, revised DIPN 1 indicates that where the accounts of a person are drawn up in accordance with the ordinary principles of commercial accounting and are in conformity with the Inland Revenue Ordinance (IRO), no further tax adjustments are required or permitted. Revised DIPN 1 cites *CIR v. Secan Ltd & Another* (2000) 3 Hong Kong Court of Final Appeal Reports (HKCFAR) 411 in support of this position.

However, the accounting profits or losses would nonetheless need to be disregarded for tax purposes under the two cardinal tax principles established in *Nice Cheer Investment v. CIR* (2013) 16 HKCFAR 813: (i) "profits" connotes realized but not unrealized profits; and (ii) neither profits nor losses can be anticipated.

## HKFRS 15

### Recognition of revenue

Before Hong Kong Financial Reporting Standard (HKFRS) 15 *Revenue from Contracts with Customers* became effective on 1 January 2018, revenue recognition of long-term construction contracts, including contracts for the pre-sale of units of property development projects, was governed by several accounting standards and interpretations.

Some taxpayers have expressed the view that the variable consideration of a customer contract, recognized as revenue

in the accounts under HKFRS 15, may represent unrealized profits. As a result, such consideration should not, based on the principles established in the *Nice Cheer* case, be taxable until the amount is contractually due.

Under HKFRS 15, a person has to recognize variable consideration as revenue when performance obligations are satisfied, and it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur as a result of a change in the estimate of the variable consideration.

Revised DIPN 1 notes that while an element of estimation may be involved when an amount of variable consideration under a customer contract is recognized as revenue, the amount so recognized would nonetheless be taxable, realized profits or losses.

The IRD has also previously indicated that unlike notional year-end revaluation gains in respect of listed securities held for trading purposes, such as in the *Nice Cheer* case, variable consideration recognized as revenue under HKFRS 15 stems from the performance of a customer contract which is an actual business transaction. As such, any amount so recognized cannot generally be regarded as being unrealized profits.

### Imputed interest

Under HKFRS 15, a contract is considered to contain a significant financing component if the timing of payments agreed to by an entity and its customer under a contract (either explicitly or implicitly) provides a significant benefit as regards the financing of the transfer of the goods or services to the entity or the customer.

Where a significant financing

component is involved, an entity is required to present the effect of financing (either interest income or expense) separately from the customer contract revenue, and thereby account for the effects of the time value of money.

Revised DIPN 1 states that such imputed interest would be disregarded for tax purposes. This is because the legal form of a transaction generally takes precedence over its economic substance for tax purposes, i.e. an entity receiving advance or deferred payments from a customer has no legal obligations or rights to pay or receive interest to or from the customer.

As such, tax adjustments will need to be made in tax computations to exclude such notional interest income or expense recognized under HKFRS 15.

Taxpayers who wish to better understand how such tax adjustments are to be made can refer to examples 3 and 4 of revised DIPN 1.

### Transitional adjustments

In the year a new accounting standard such as HKFRS 15 is first adopted, entities are generally required to account for the transitional adjustments under either of the following two methods:

- (a) Full retrospective method: retrospectively to each prior reporting period presented in accordance with Hong Kong Accounting Standard (HKAS) 8 *Accounting Policies, Changes in Accounting Estimates and Errors*; or
- (b) Modified retrospective method: retrospectively with the cumulative effect of initially applying the relevant accounting standard at the date of initial application.

Regardless of the method adopted,

revised DIPN 1 indicates that any upward or downward transitional adjustments which are revenue in nature would be taxable or deductible in the year of assessment for which the accounting standard or policy is first adopted. This would be the case notwithstanding that the adjustments are not reflected in the profit and loss account but in the opening balance of the retained earnings for the year concerned. Revised DIPN 1 cites *Pearce v. Woodall-Duckham* [1978] 51 TC 271 in support of such a tax treatment.

## HKFRS 16

The IRD has also recently published guidance titled *Profits Tax Treatment of Leases Where HKFRS 16 Applies* on HKFRS 16 *Leases*.

### Depreciation for ROU asset and imputed interest on leased liability

Under HKFRS 16, the balance sheet of a lessee of an operating lease would recognize a right-of-use (ROU) asset representing their right to use the underlying leased asset and a lease liability representing the present value of the future lease payments that the lessee is obliged to pay.

Depreciation charges for the ROU asset and the imputed interest on the lease liability would be reflected as an expense in the profit and loss account of the lessee of an operating lease. In other words, the accounting treatment reflects the economic substance of the transaction as being the lessee acquiring a ROU asset for use over the term of the lease.

Notwithstanding the aforesaid accounting treatment of an acquisition of asset, the guidance indicates that where the lease concerned is in legal

form an operating lease, the combined depreciation charges for the ROU asset and imputed interest charged to the profit and loss account represents rentals for the recurrent use of the asset. As such, the two amounts as recognized in the accounts on an accrual basis are both revenue in nature and are tax deductible. This would be the case regardless of whether the two amounts represent lease payments that contractually fall due in the accounting period concerned.

In straightforward cases, the total amount of the depreciation of the ROU asset and the imputed interest on the related lease liability as recognized in the accounts will equal the total amount of the contractual lease payments over the term of a lease. However, the two total amounts may not be equal in one particular accounting period.

Given the matter is essentially only a timing issue, the guidance indicates that, where no element of tax avoidance is involved, the IRD would also accept taxpayers instead claiming tax deductions consistently based on the lease payments that contractually fall due in the years of assessment concerned.

### Impairment loss of a ROU asset

HKFRS 16 requires a lessee to apply HKAS 36 *Impairment of Assets* to determine whether a ROU asset in respect of an operating lease is impaired and to account for any impairment loss identified.

Where an impairment indicator is present, e.g. business operations are significantly curtailed or disrupted due to the coronavirus pandemic, an entity needs to estimate the recoverable amount of its ROU asset. This would involve the entity estimating the net cash flows expected to be generated from the use of

the ROU asset over its remaining useful life. Impairment losses arise where the carrying amount of the ROU asset exceeds its recoverable amount.

The guidance apparently presumes that such an impairment loss would only represent anticipated losses in most cases and, as such, would not be tax deductible based on the principles established in the *Nice Cheer* case.

However, such an impairment loss would also reduce the carrying value of the ROU asset, the depreciation of which would have otherwise represented part of the total rental expense charged to the profit and loss account and be deductible for tax purpose.

In other words, the depreciation charges in respect of the ROU asset, after its carrying value is reduced by the impairment loss, together with the imputed interest in respect of the related lease liability, would now only represent part of the total rental expense actually incurred. Such part of the depreciation charges on ROU asset and the imputed interest on the related lease liability combined would be tax deductible.

As such, the guidance indicates that the IRD would allow the impairment loss to be spread over the remaining term of the lease on a straight-line basis for tax deduction. Similarly, if the impairment loss is subsequently reversed, the reversal would likewise be spread over the then remaining term of the lease on a straight-line basis for tax assessment.

The combined effect of allowing (i) the tax spreading of an impairment loss and any subsequent reversal in the aforesaid manner; and (ii) the tax deduction of the depreciation charges in respect of the remaining carrying value of the ROU asset and the imputed interest on the related





lease liability, would then approximate the total rental expense actually incurred for each of the years of assessment concerned.

#### **Fair value changes in respect of sub-leasing an operating lease valued as an investment property**

Under HKFRS 16, if an operating lease is sub-leased by an entity to another party (i.e. the entity becomes an intermediate lessor), the entity is required to account for the head lease and the sub-lease as two separate contracts.

Where the entity classifies the sub-lease as an operating lease, the entity would retain the lease liability and the ROU asset pertaining to the head lease. If the ROU asset in respect of the head lease meets the definition of an investment property, the entity can apply the fair value model to the ROU asset in accordance with HKAS 40 *Investment Property*, i.e. the ROU asset would be valued based on its market value at each year-end, with any change in value being charged to the profit and loss account. As such, unlike the cost model, there would be no depreciation charges in respect of the ROU asset.

The guidance indicates that such fair value changes in respect of the head lease would not however be taxable or deductible. This is because such gains or losses would not, based on the principles established in the *Nice Cheer* case, represent realized profits or losses.

Nonetheless, in order to approximate the rental expense actually incurred that would otherwise have been reflected through depreciation charges in respect of the ROU asset, the guidance indicates that the amount of the ROU asset as initially recognized would generally be allowed to be spread over on a straight-line basis

over the term of the head lease for tax deduction purposes. Thereby, the ROU asset together with the related imputed interest are both deductible over the term of the lease.

Or alternatively, the claims for tax deduction can be made consistently based on the amounts of lease payments that contractually fall due in the years of assessment concerned.

For a fuller understanding of the tax adjustments required, taxpayers can refer to example 3 of the guidance which illustrates with numerical figures of the accounting entries involved in such a case.

#### **Commentary**

We welcome the IRD's explanation of the interaction of the relevant accounting standards with the tax laws, duly supported by extensive case-law authorities.

Revised DIPN 1 and the guidance indicate that while it is matter of law whether a profit constitutes profits falling within the scope of charge under the IRO, the timing of when such a profit arises is more a matter of fact. In the latter respect, the evidence of accounts prepared under generally accepted accounting principles (GAAP) such as those applicable to the recognition of variable consideration as revenue under HKFRS 15 would be persuasive.

Similarly, the evidence of accounts prepared under GAAPs such as those under HKFRS 16 would also be persuasive for determining the timing when an expense is incurred for tax purposes.

Nonetheless, while an impairment loss in respect of an operating lease similar to the one discussed above would generally represent anticipated losses which may not be ascertainable with sufficient

accuracy, and hence not be deductible under the principles established in the *Nice Cheer* case, there could be exceptions. For instance, in the United Kingdom case *Herbert Smith v. Honour* 72 TC 130, the provision for losses in respect of vacated office premises that were sub-let for the entire remaining term of the leases at a rent substantially below the rent payable by the taxpayer, was held to be deductible.

The above indicates that whether and how tax adjustments are made can be complicated in certain circumstances. Taxpayers should seek professional advice where necessary.



This article is contributed by **Jo An Yee**, International Tax and Transaction Services Partner, **Sharon To**, Director, **Winnie Kwan**, Senior Manager, of Ernst & Young Tax Services Ltd.

# TECHNICAL NEWS

## The latest standards and technical developments

### Members' handbook

Update no. 246 relates to the issuance of Hong Kong Standard on Related Services 4400 (Revised) *Agreed-Upon Procedures Engagements*. The standard has been revised to respond to the growing demand for agreed-upon procedures engagements relating to both financial and non-financial subject matters.

### Financial reporting

#### IASB investor perspective article

Issue 21 of the International Accounting Standards Board (IASB) *Investor Update* is now available and highlights:

- *COVID-19-Related-Rent Concessions* – Amendment to International Financial Reporting Standard (IFRS) 16 *Leases* issued in May that provides an optional relief for rent concessions arising as a direct consequence of COVID-19; and
- The IFRS Interpretations Committee's tentative agenda decision on presentation of reverse factoring arrangements and their related cash flows.

#### IASB September update

The *September Update* newsletter, highlighting the tentative decisions reached at the IASB's monthly meeting, is now available.

#### IASB's second webinar on Discussion Paper *Business Combinations – Disclosures, Goodwill and Impairment*

The second live webinar by the staff of the IASB on Discussion Paper DP/2020/1 *Business Combinations – Disclosures, Goodwill and Impairment* took place on 21 October. This webinar covered the IASB's views on improving disclosures about acquisitions. Members can submit their comments on the paper by 14 November.

#### September IFRS for SMEs update

The *September IFRS for SMEs Update*

newsletter, providing a summary of news, events, and other information about the *IFRS for SMEs* standard and related small- and medium-sized entity activities, is now available.

#### September IFRS Interpretations Committee update

The *September IFRS Interpretations Committee Update* newsletter, summarizing the decisions reached by the interpretations committee at its September meeting, is now available.

#### October IFRS Interpretations Committee podcast

The October IFRS Interpretations Committee podcast, highlighting key activities undertaken by the Interpretations Committee to support the consistent application of IFRSs, is now available.

### Auditing and assurance

#### Invitation 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.

#### Institute's submission

The Institute has submitted comments on the IAASB's *Proposed ISA 600 (Revised) Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*.

#### Institute's Auditing and Assurance Standards Committee meeting minutes

Minutes of the 384th meeting is now available.

#### IAASB's virtual roundtable

An archive of the IAASB's virtual

roundtable – *Fraud in the Digital Age*, is now available.

#### IAASB September virtual meeting

The meeting summary and audio of the IAASB September virtual meeting is now available.

#### Non-authoritative support material for using automated tools and techniques when performing audit procedures

The IAASB Technology Working Group's new publication assists auditors in understanding whether a procedure involving automated tools and techniques may be both a risk assessment procedure and a further audit procedure.

#### IAASB auditor reporting post-implementation review

The IAASB is carrying out a post-implementation review on the Auditor Reporting Standards issued in 2015 and has extended the closing date for interested stakeholders to complete an online survey on their experiences and provide feedback to 23 November.

#### IAASB Staff Audit Practice Alert on climate-related risks

The IAASB Staff Audit Practice Alert on climate-related risks assists auditors in understanding what already exists in the International Standards on Auditing and how it relates to auditors' considerations of climate-related risks in an audit of financial statements.

#### Considerations regarding the use of specialists in the COVID-19 environment

Staff of the American Institute of Certified Public Accountants, the International Ethics Standards Board for Accountants (IESBA) and the IAASB jointly releases a publication to assist professional accountants to determine the need to use the services of a specialist to assist in performing specific tasks and other

professional activities in the COVID-19 environment.

## Ethics

### IESBA September-October virtual meeting

The meeting summary and audio of the IESBA September-October virtual meeting is now available.

### IFAC Exploring the IESBA Code 10: Inducements

Pressures that threaten compliance with the fundamental principles (FPs) in the *International Code of Ethics for Professional Accountants (Including International Independence Standards)* are often due to an intimidation threat. This 10th instalment of *Exploring the IESBA Code* explores pressure that might result in a breach of the FPs and how to deal with it.

## Sustainability

### Consultation Paper on Sustainability Reporting

The IFRS Foundation issued a *Consultation Paper on Sustainability Reporting* on 30 September. The Institute is seeking comments on this consultation paper by 30 November.

IFRS Foundation Trustee Teresa Ko discusses the consultation paper in a recent article published by the IFRS Foundation.

## Extended external reporting

### Reporting of sustainable value creation

The World Economic Forum publication provides a core set of common metrics and disclosures on non-financial factors to help companies to align their mainstream reporting on performance against environmental, social and governance indicators and track their contributions towards the Sustainable Development Goals on a consistent basis.

## Corporate finance

### Institute's submissions

The Institute issued a submission in response to the Stock Exchange of Hong Kong's (HKEX) consultation paper on *Proposals to Introduce a Paperless Listing and Subscription Regime, Online Display of Documents and Reduction of the Types of Documents on Display*. In the submission, the Institute's Corporate Finance Advisory Panel (CFAP) indicated its general support for moving towards to a paperless regime, while suggesting refinements to certain specific proposals.

The Institute also issued a submission in response to the consultation paper issued by the HKEX on *Review of Listing Rules Relating to Disciplinary Powers and Sanctions*.

The CFAP, in principle, supports the introduction of more effective and graduated disciplinary and sanctioning powers by the HKEX. However, the CFAP has concerns about the implications of some of the proposals to lower or remove thresholds for taking disciplinary action, and also about the extent to which the "Relevant Parties" subject to disciplinary actions and sanctions will be expanded to professional advisors, under a form of "secondary liability."

### Invitation to comment

The Securities and Futures Commission (SFC) launched a consultation on proposals to amend its anti-money laundering and counter-financing of terrorism guidelines. The deadline for submission to the SFC is 18 December. Please refer to the press release for details.

## Taxation

### Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- DIPN 1 (Revised).

- Profits tax treatment of leases where HKFRS 16 applies.
- Notify IRD promptly of change of address.
- Country-by-Country Return XML Schema (version 2.0) and user guide.
- Financial Account Information Return XML Schema and user guide.
- Hong Kong-Georgia comprehensive avoidance of double taxation agreement.
- Stamp Duty statistics.

## Legislation and other initiatives

### AML notices

The updated list of terrorists and terrorist associates designated by the United Nations Security Council (UNSC) was gazetted on 9 October pursuant to the United Nations (Anti-Terrorism Measures) Ordinance (Cap. 575). See the related UNSC press release.

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.



Please refer to the full versions of Technical News on the Institute's website:  
[www.hkicpa.org.hk](http://www.hkicpa.org.hk)





From left: Tony  
Wan, Allan Lam  
and Kinki Siu

# CALLING THE SHOTS



Imagine a game where changing your aim by a few millimetres could be the difference between winning and losing. That's snooker. Three CPA snooker players tell [Jeremy Chan](#) what's most nerve-wracking about the sport, and why it is a combination of precision, strategy, and consistent practice and improve

**Photography by Anthony Tung**

**W**hen Allen Lam tagged along with his secondary school friends to a snooker room one afternoon, he had no idea how much he would enjoy the game that day – and still love playing it decades later. “I still remember how we all decided to go right after the school’s swimming gala. I was only a form three secondary school student,” says Lam, Assistant Director of Finance at the The American Club Hong Kong, a member of the Hong Kong Institute of CPAs and Deputy Convenor of the Institute’s Snooker Interest Group (SnIG). Lam – who knew nothing about the sport when he stepped into the smoky, bustling venue full of much older-looking snooker players – was simply bent on pocketing as many billiard balls as possible. “I loved the loud clack of the billiard balls hitting each other.”

Lam was around 15 when he tried his luck at snooker. The tricky game, which dates back to the 19th century as a popular pastime among British Army officers in India, is a cue sport for two players, who compete with each other to score as many points as possible by pocketing or potting billiard balls in a certain order. There are 21 balls to pocket: 15 red balls worth 1 point each and six different coloured balls – yellow, green, brown, blue, pink and black – worth from two to seven points respectively. The player who scores the most points wins the game or “frame.”

## WORK AND LIFE

### CPA snooker players

#### A platform to play

Fascinated with his newly discovered hobby, Lam was determined to improve. He spent the next few years playing rounds after school with the same group of friends. Snooker, as he witnessed, was a big deal in Hong Kong in the 1980s. “It was kind of the golden era and common to see a lot of Hongkongers playing snooker after work. Steve Davis and Stephen Hendry were also really up-and-coming players in the snooker world,” adds Lam, referring to two professional players from the United Kingdom whose careers kicked off at the time.

After coming out to work, Lam still made time to hone his snooker skills twice a week with his friends and colleagues who shared the same passion for the game. After hearing about a friendly snooker match organized by the Institute at the South China Athletic Association

in 2011, he immediately joined, and was pleased to meet Institute members who loved the sport just like him. One of them was Tony Wan, Director of Assurance and Business Advisory at Ascenda Cachet CPA, and Convenor of the SnIG. As Wan remembers, both him and Lam were so surprised at the turnout and enthusiasm during the friendly games that they decided to gather other players and set up the SnIG. The group was formally established by the Institute as an interest group in 2013.

The group began organizing regular friendly games called the Snooker League. It also hired an experienced coach to provide beginner to advanced training courses. Its members represent the Institute in snooker tournaments organized by the Recreation and Sports Club for Hong Kong Professional Bodies (RSCP). The SnIG, which has more than 210 members today, has taken part in

the RSCP tournaments each year since 2012.

“Of course, the tournament couldn’t go ahead this year due to COVID-19 – so I’m glad we were the champions in 2019,” notes Wan. It was their first victory since 2015, and one they had trained hard for. “Last year, we were tied with the Hong Kong Institute of Surveyors up until the final round,” adds Lam. “They’re all very strong players and have been champions for many years already.” The precise nature of snooker, Lam says, means that momentary lapses in focus – especially during lengthy tournaments – can lead to a missed shot and present an opportunity for opponents to

**“I loved the loud clack of the billiard balls hitting each other.”**

Allen Lam is Assistant Director of Finance at The American Club Hong Kong, and Deputy Convenor of the Institute’s Snooker Interest Group.





Tony Wan is Director of Assurance and Business Advisory at Ascenda Cachet CPA, and Convenor of the SnIG.



make a comeback. “We stayed focused and luckily, we finished as champions. It was a very intense competition.”

### Cueing control

Wan, who has been Convenor of the SnIG since its formal establishment in 2013, is pleased at how the interest group has fostered the interest of existing members and helped to train newcomers from the ground up. “Our objective has always been to promote snooker among other CPA players and create a platform for everyone at the Institute to play,” Wan says. “I’ve always been interested in snooker, so I love being able to help.”

Wan himself was introduced to the sport when he was only a 10-year-old boy. “My father got me into the sport,” he says. “It was a very challenging game to take on at that age.” By practicing with every weekend at their favourite snooker

### “If you control the cue ball well, you’ll be able to keep potting ball after ball.”

venue, Wan mastered the rules and snooker basics such as having the right cue stick grip, using the right stance to aim, and controlling the cue ball.

He was grateful to receive formal training for the first time through the SnIG. “The coaching I received has been very helpful and important to me as a snooker player,” he says. “I realized my technique wasn’t good enough, and I was able to improve on my game through our coach.”

Indeed, the main challenge Wan still faces as a snooker player is cue ball control, or knowing how to shoot the cue ball and planning where it will stop. Planning one step ahead, he says, helps with the

subsequent shot. “If you control the cue ball well, you’ll be able to keep potting ball after ball.” Lam adds that this requires snooker players to gauge how much or little strength to exert in each shot. “Some shots need to be made very gently just so the cue ball stops in a certain position after the hit,” he says. “But if you need to hit the side of the snooker table during a shot and want the ball to return, you’ll need to use more power. You need to play with consistency.”

Controlling the cue ball is fundamental to the game, as it requires players to “snooker” their opponents, such as by trapping the cue ball behind other coloured balls. “You need to know how to snooker your opponent and also know how to get out of a snooker,” explains Lam. “For example, if my opponent has snookered me, I might need to shoot towards the sides of the snooker table to get out. This is a skill that develops with time.”

**WORK AND LIFE**  
CPA snooker players



Kinki Siu, Vice  
President, Sales  
Management  
and Strategic  
Planning at DBS  
Bank (Hong Kong)  
Limited and a  
member of SnIG.

## A sport for all

As Convenor, Wan finds it encouraging to see more female faces at the SnIG's events. Despite being perceived as a male-dominated sport helmed by stars such as U.K.-born Ronnie O'Sullivan and Mark Selby, and Hong Kong's own Marco Fu, younger female players such as Hong Kong-born Ng On-ye have put female snooker players in the limelight. Ng famously ended English snooker player Reanne Evans' 10-year winning streak at the World Women's Snooker Championship in 2015, and then went on to win the tournament three times over a four-year period from 2015 to 2018. She then became world number one until 2019.

Institute member Kinki Siu, who only began playing snooker after joining the SnIG in early 2019, sees Ng as a source of constant inspiration to better her play. "As a female player myself, I'm really proud of her achievements and also how she represents Hong Kong," says Siu, Vice President, Sales Management and Strategic Planning at DBS Bank (Hong Kong) Limited and a member of SnIG. "She started playing at the age of 13 and has already won many competitions."

Though Siu is new to snooker, she was first introduced to another cue sport as a child. "When I was a kid, I used to play *hong lock kei*, or Chinese snooker," she says, referring to a version of snooker played on a smaller, squared table, and using flat pucks instead of billiard balls. "I'd

**"If the contact point of the cue stick on the cue ball differs by even a tiny bit, the ball won't go where you want it to"**

play *hong lock kei* at government recreational centres with my friends. There were both *hong lock kei* and snooker tables, and of course, all the taller kids would play snooker instead," remembers Siu. "I would always look over to the snooker table and see how much fun they were having. Unfortunately, I wasn't tall enough to play."

While handling the cue stick felt natural at first, handling billiard balls proved to be the first challenge for Siu. "When I played snooker for the first time, it was about understanding how the billiard balls would move after each hit," she says. "If the contact point of the cue stick on the cue ball differs by even a tiny bit, the ball won't go where you want it to."

Since joining the SnIG, she regularly attended its two-hour training sessions held every Sunday until the coronavirus pandemic put them on hold. She hopes to make up for lost practice time as snooker rooms resume operations.

One venue Siu is particularly happy to see open again is her apartment's clubhouse, which has its own snooker table. "At the clubhouse I could practice playing on a snooker table and try to pocket as many balls as possible – even if it means playing by myself," she says. "I would practice shooting the cue ball in a straight line or knowing how to use the sides of the table to my advantage." Though playing alone isn't as enjoyable as duelling with an opponent, Siu says that practicing alone has been an effective way for her to improve and maintain consistency at her own pace. "Every time I learn a new skill from the SnIG training courses, all I think about is practicing it on the clubhouse snooker table."

Though Siu's friends were initially surprised at her decision to start playing snooker, she encourages more women to have a go. "When I told my female

friends that I was learning how to play snooker, they all said: 'but you're a woman – why are you playing snooker?' So I told them: 'it's a very interesting sport and a common misconception is that it's a male-dominated game.'" With over 70 members of the SnIG female players, Siu hopes to see that number grow over time. Male players can play a supportive role, she adds. "There are many couples who joined the interest group together."

Siu looks forward to improving her play, and entering a major competition such as the RSCP tournament. "I hope to keep practicing so I can build my confidence in pocketing snooker balls," she says. "And if there's an opportunity, I'd like to participate in a competition. My coach also told me that playing in a competition is completely different from playing with friends. There's so much more pressure – you'll never get this feeling when playing with friends." Siu is most grateful for the opportunity to play and improve as part of the SnIG. "I would like to say thank you to both Tony and Allen for building SnIG from the ground up, and for promoting snooker to Institute members," she adds.

Wan hopes to organize a future event to attract more women to the game and emphasize that anyone can play snooker, regardless of gender or age. "We're actually considering organizing a snooker competition just for women next year," he says.

Lam also looks forward to seeing the SnIG grow and practicing as much as he can – especially while snooker venues are open. "I'd like to score higher breaks. That's my short-term goal," he says, referring to the most number of points in a row he's scored without missing a shot. "The long-term goal is to promote the sport within the CPA community."



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





## YOUNG MEMBER OF THE MONTH

Lawrence Leung

---

# LAWRENCE LEUNG

Director of Corporate Internal  
Audit at adidas AG





As Director, Corporate Internal Audit at adidas AG, Lawrence Leung is responsible for setting up internal controls and advising stakeholders on the next steps. Since moving to Germany in 2017, he has adapted well to the role, and tells *A Plus* what is most enjoyable about living and working there

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

I'm one of the Directors of Corporate Internal Audit at adidas AG based in Germany. In my role, I advise management on implementing and sustaining sound governance and internal controls to address risks within the company. This is done through internal audits. I often lead teams that work on complex and high-risk topics. It's been three years since I took on this role, and I am happy about the experiences I've had and the people I've met. I moved to Nuremberg, Germany in 2017 when this opportunity came up. It was not an easy decision back then, especially having worked in Hong Kong for almost 10 years. adidas' "creating the new" initiative sums up my favourite thing about living and working in Germany. It's a space where I get to experience new things, and an opportunity to work with a diverse and international team. My team of 25 alone has people from 13 different countries and each person has worked in different places – that's truly international! I've learned a lot from the people around me who think differently, and in the process, I improve.

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

Every project is unique, and each one offers many opportunities to learn and experience new things. More importantly, I work with different team members and business counterparts every time. These new experiences are the most rewarding part of being an internal auditor. Think about this scenario: I sit in a room with different business counterparts who are experienced in what they do. They show me how processes work, what issues they face, and how they manage them. I learn all of this while doing my job. Eventually, I understand new topics quickly and it's an essential requirement in my role. On the other hand, this scenario presents an equal challenge. I need to learn quick enough to advise these stakeholders and provide additional insights. Sometimes, that means doing things differently. For example, some of our stores had to be temporarily closed due to the COVID-19 outbreak, but that boosted e-commerce. To support business priorities, I brought my internal audit and finance skills to the e-commerce teams and analysed weekly sales and costs trends in an environment where consumer behaviours change. These analyses helped me guide business owners in adjusting their marketing investment decisions.

**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?**

I'd like to continue working in internal audit. I'd also like to go into business management and take on more advisory roles with adidas. This would be my long-term goal. I hope to continue working here in Germany for the next two or three years, and maybe moving on to another location after that for work. It's hard to say where next, given the current situation around the world, but I'm open to moving around.

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

The biggest challenge is building trust while giving stakeholders the best advice. Internal auditors are there to advise on risk and internal controls, but sometimes, stakeholders may have different views or priorities. Therefore, it's important to bring enough facts and reasoning to the table and communicate them in a considerate manner. Listening – truly listening – has helped me understand different perspectives in difficult conversations. To be an effective advisor, you need people to trust you.

**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 multifaceted programme that challenges students to approach business issues in different ways. In university, I learned the fundamental concepts of commerce and accounting. The QP takes it to another level. I was challenged to approach practical and complex business issues from beyond an accounting perspective. This is an important skill to have when you advise business leaders and has been a foundation throughout my career. At the end of the day, the QP, and thereafter the CPA qualification, is a recognition of my professional knowledge, ethics, and commitment to continuous development.



# SPOTLIGHT ON WEEKEND GETAWAYS

Institute members share their favourite places to experience Hong Kong's more natural side

## Tiu Tang Lung

"If you're looking for a real hike, I recommend trying out Tiu Tang Lung. Take minibus number 20R from Tai Po Market station and alight at Wu Kau Tang Village – the starting point of the hike. Then, start hiking up towards Tiu Tang Lung. With its peak at 416 metres, it's the highest mountain in the Northeast New Territories and offers stunning 360 degree views of Shenzhen in the north, Yan Chau Tong Marine Park in the east, Ma On Shan in the south and Tai Po and Fanling in the west. The trail also passes Sam A Tsuen Village which, if you happen to be tired, has a café that sells hot food and cold water!" says Liu.

- Gordon Liu, retired



View of Yan Chau Tong Marine Park

## Hoi Ha Wan Marine Park

"I recommend visiting Hoi Ha Wan Marine Park in Sai Kung. It's a marine park known for its precious marine ecosystem, which is home to more than 60 coral and 120 fish species, and mangrove trees. You can even take a glass-bottomed boat trip there to appreciate the beauty of the underwater world," says Lee.

- Allan Lee, Head, Family Governance Centre, Legacy Academy

Hoi Ha Wan



## Mui Tsz Lam

"Visit Mui Tsz Lam, a 400-year-old Hakka village located in the northeast New Territories that has been abandoned for over 30 years. There are beautiful wall paintings to see that were painted around the village as part of a revitalization project last year," says Liu.

- Gordon Liu, retired



Mui Tsz Lam



# EYES & EARS

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



## What I'm listening to

- Adam Wong, Senior  
Audit Manager at EY

I recommend *Major in Minor* by Hong Kong composer Terence Lam. The album's musical arrangement, which often goes from genres such as indie to pop, makes it unique, full of surprises and very enjoyable to listen to. His songs usually talk about the different stages of a romantic relationship and how love could be defined. The main message of this album is that the most beautiful moment of a romantic relationship is when you simply appreciate spending an ordinary day with your lover.

## What I'm reading



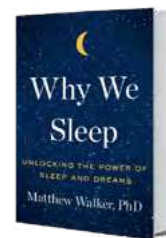
I recommend *The Happiness Advantage* by Shawn Achor. As a personal consultant, reading books on happiness and doing research on positivity are part of my daily routine. Of the seven core principles of positive psychology discussed, I am particular impressed with the fifth principle – The Zorro Circle – which talks about focusing on small and manageable goals to regain control of our daily life and work. This begins with self-awareness – the way we think, react and feel about things around us. As always, small wins can add up to major achievements.

- Harry Wong, Certified Master  
Training of Neuro-Linguistic  
Programming at Dr. Happy



I recommend *The Film Makers* by a Hong Kong iconic photographer Lo Yuk Ying. This book, which was released in July, is a collection of around 100 pictures of movie stars and crew members in the golden age of Hong Kong's film industry. You'll see the most candid photos of stars such as Jackie Chan, George Lam Chi-cheung, Eric Tsang and Brigitte Lin Ching-hsia captured on and off set. In a way, Lo's pictures capture the very essence of humanity, all in a single moment. It's powerful! If you like photography, this is a "must-read" book.

- Maria Lam, Director, A-Star  
Consulting Services Limited



High quality sleep is essential for refreshing our spirit. *Why We Sleep: Unlocking the Power of Sleep and Dreams* by Matthew Walker describes why we need to sleep and most importantly, how to sleep well. It discusses the problems that arise from sleep deprivation. In the last two parts of the book, it addresses sleep disorders, dreams and sleeping pills. You'll get to learn helpful tips – for example, the ideal room temperature for a good night's sleep is around 18 degrees celsius. (*Read "How to get better sleep" on p. 22*)

- Simon Lee, Senior Lecturer at  
Chinese University of Hong Kong

# Ten things we learn about accounting from the movies

Hong Kong's humorist on what we can all learn about accountants from Hollywood



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*

recall some lazy columnist once writing a yawningly predictable article about the contrast between the boring lives of real accountants and the wildly dramatic one portrayed in the 2016 hit thriller *The Accountant*.

Wait. That may have been me.

Well, to redeem myself, let me deliver a surprising truth: accountants are actually surprisingly popular movie characters.

Of course, crime busters of one sort or another – superheroes, private investigators, police detectives and lawyers – are number one. But beancounters are not far off.

I found out about this from a scholar at Hong Kong Polytechnic University's Master of Science degree in entertainment. "You need archetypes in storytelling – and accountants are the ultimate manifestation of humanity's left brain: steady, rational, numerical," he told me. "They appear in lots of popular entertainment properties for this reason."

He and his fellows quickly identified at least 20 hit movies featuring accountants.

Taking the list away, I could see that movies teach the world 10 interesting lessons about accountants.

1) Accountants are counting machines.

Example: In *Stranger Than Fiction*, you can tell that Will Ferrell is playing an accountant, because he counts everything all the time, including the number of strokes he uses to brush his teeth and the number of steps from his apartment to his bus stop.

(Not that the character is stereotyped or anything.)

2) Accountants are short and wimpy.

In *Central Intelligence*, Kevin Hart is a nervous accountant who gets mixed up with his opposite, a big brave espionage agent played by Dwayne Johnson. Yes, *The Rock* is supplied by Hollywood as the very opposite of what an accountant should look like.

3) Accountants are unable to find love by themselves.

In *Hitch*, for example, Kevin James plays an accountant who struggles to romance his rich and beautiful client because he is too shy. (Surely that

should be considered "too ethical"?)

4) Accountants are victims.

In the classic ghost stories of Qing dynasty Chinese writer Pu Songling, the main character was a student – but in the hit Cantonese movie *A Chinese Ghost Story*, he is some sort of mild-mannered government auditor collecting back taxes before the ghosts come for him.

5) Accountants help the bad guys.

There were loads of movies in this category, with perhaps the best example being Joe Pesci's money-laundering accountant in the *Lethal Weapon* movie series.

6) Accountants are nerds.

Going back to stereotypes, consider the short guy with the glasses in the team of *Ghostbusters*. The character, played by Rick Moranis, was an accountant.

BUT on the positive side...

7) Accountants are super-capable.

In *The Shawshank Redemption*, the accountant not only reorganizes the prison in which he is locked, but works out how to escape AND take revenge. Take that!

8) Accountants bring stability.

In *The Royal Tenenbaums*, the crazy family is ultimately kept in check by Danny Glover, playing a calm father-figure accountant.

9) Accountants are heroes.

In *The Untouchables*, which is based on a true story, cops try numerous ways to catch gangster Al Capone and fail – but then they consult a tax accountant who draws up a plan which enables them to finally jail the bad guy.

10) Accountants are normal, likeable, funny human beings.

I only found one example of this.

In *The Producers*, an accountant named Leo Bloom gets caught up in a fraudulent scheme. But he is portrayed as a good-hearted character who agrees for the sake of friendship, and moviegoers can't help but feel good towards him – even as he gets deeper and deeper into trouble.

Still, one way or another, the movie industry likes to use accountants as archetypal figures in what usually end up as morality tales.

The good accountant, Leo Bloom, ends up in jail. Everything's a warning.





# Fly high with the **Financial Controllership Programme**

Prepare to take off with the FCP

A 16-day tailor-made, practical programme designed by the Hong Kong Institute of CPAs to help aspiring and existing financial controllers acquire core technical knowledge and develop the competencies needed to become a finance leader and add value to your company.

Expert course directors and facilitators will teach you using real world examples: management competency development, accounting for performance and decision making, strategic finance, risk management and corporate governance, and business ethics.

“  
The FCP was a  
valuable opportunity  
for me to learn from  
the experts and all the  
speakers.”

“  
The FCP is the one and  
only choice for you to  
develop financial  
controllership in a short  
time.”

“  
I would say it's  
one of the most valuable  
courses I have ever  
attended in my life.”

Please check the website for more details about the 2020 programme.



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



[www.hkicpa.org.hk/fcp](http://www.hkicpa.org.hk/fcp)





## YOUR PARTNER TO ASCENT!

Let us take care of the details,  
so that you can focus on  
your core competencies.

At Ascent Partners, we provide  
corporate valuation and advisory services to  
business partners like you.

With our people-centric approach,  
we can be your trustworthy partner.

CORPORATE ADVISORY  
TECHNOLOGY ADVISORY  
VALUATION SERVICE

[www.ascent-partners.com](http://www.ascent-partners.com)  
[contact@ascent-partners.com](mailto:contact@ascent-partners.com)