DRIVING BUSINESS SUCCESS
Issue 11 Volume 16 November 2020

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ESG REPORTING: STAYING AN OPEN BOOK

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

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> "Even while facing the disruption of the past year, our young members look forward to their careers as leaders of our community and as successful accountants in a wide range of specializations."

Dear members,

In view of the pandemic, the Institute had planned to change the Annual Dinner to a sit-down Annual Cocktail with a much smaller group, less formalities and shorter programme. However, the recent spread of the fourth wave of COVID-19 has made holding such an event untenable. To ensure the health and safety of our guests, members and colleagues, as well as to manage the Institute's reputational risk, the Annual Cocktail had to be cancelled. Instead, some celebratory videos will be released in December to showcase our achievements this year.

It is disappointing to face this fourth wave – particularly at a time of year when families and friends coming together for celebrations is the usual fare. Nonetheless, we must do all we can to maintain social distance, minimize interactions, and stay safe.

Preparations to hold the Qualification Programme module examinations in late December continue. We are closely monitoring the situation in view of the new COVID-19 outbreak. The health of all those involved is of the utmost priority, and I am very pleased with the efforts the Institute's management have put in to ensure safety. The Final Examination was successfully held in November, and I thank the Institute's members and staff for their hard work. Qualifying new members is a major responsibility of the Institute and it is important we do this safely.

Thanks to all the members who attended the two virtual Members' Forums on 12 and 13 November. During the forums, the Chief Executive and Registrar and I discussed the latest developments of the Institute and answered questions from members. A recording of the presentations will soon be available for members who were unable to watch the live event. Please consider watching the presentation to learn more about our activities and how we will implement the *Strategic Plan 2020-2022*.

The Young Members Conference, held in mid-November, was an exciting morning event. While virtual, the passion and energy of the speakers was real. I am glad to see that even while facing the disruption of the past year, our young members look forward to their careers as leaders of our community and as successful accountants in a wide range of specializations.

I attended the Institute's virtual 2020 SMP Symposium on 27 November. During my presentation, I discussed how the International Federation of Accountants' Small and Medium Practices Advisory Group, of which I am a member, is helping small- and medium-sized practices (SMPs). Other speakers at the symposium discussed topics including the development of the Institute and our strategic plan, anti-money laundering, new financial reporting and auditing standards and taxation. This year has been a challenging one for accountants around the world, and it is important that the Institute supports all its members during the difficult time. Supporting our SMPs' development is also vital for the long-term sustainability of the profession, and is something the Institute cares deeply about.

I was a judge of the HKICPA Business Case Competition 2020 in Hong Kong on 28 November. The event was virtual, with teams delivering their presentations and question and answer sessions remotely, and it was exciting to see the enthusiasm and dedication towards the event. Again, this is another example of how it is possible to successfully hold face-to-face events, virtually.

I was invited by the Hong Kong Trade Development Council to represent the Hong Kong accounting profession at the high profile 23rd Beijing-Hong Kong Economic Cooperation Symposium on 19 November. As is increasingly the way, the symposium was a combined physical and virtual event, held in Beijing and Hong Kong simultaneously and joined together virtually. The Mayor of Beijing and the Chief Executive of Hong Kong officiated the opening ceremony. I spoke about the Institute's longstanding relations with Beijing, made suggestions on how to enhance economic cooperation and to collaborate on the future of our profession between Beijing and Hong Kong.

The Independent Working Group for President and Vice-Presidents Election reported its proposed one member, one vote election framework at the October Council Meeting and also prepared a draft public consultation paper for the November meeting as planned. Council is now considering these, with the objective of holding the consultation in the first quarter of 2021.

Finally, I urge members to vote in the Council election and, in view of the pandemic, to watch the annual general meeting (AGM) online on 10 December. Voting closes at 5:30 p.m. on 7 December, and you can vote either electronically or physically. You can register to watch the AGM and submit proxies on the agenda items by 8 December. Further information about voting and the AGM is available in the Members' area of the Institute's website.

Johnson Kong
President

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WORK-LIFE BALANCE

DRIVING BUSINESS SUCCESS

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

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The digital version is distributed to all 46,441 members, 18,080 students of the Institute and 2,358 business stakeholders every month.

Council election and annual general meeting

Institute members are encouraged to exercise their right by selecting seven candidates to join the Council. Votes can be casted either by e-voting or ballot paper, but not both, by 5:30 p.m. on 7 December.

The Institute's 48th annual general meeting (AGM) will take place on 10 December. This year, special arrangements with pre-registration and live streaming of the event have been made given the COVID-19 pandemic, and to ensure the safety of attendants. Visit the Institute's website for more details on registration, submission of questions prior to the AGM, and the proxy form. The deadline for in-person attendance registration is 3 December, and the deadline for live webcast registration and submitting questions is 8 December.

Membership renewal

Members are required to file their annual return with continuing professional development (CPD) declaration by 15 December to renew their membership. This year, the Council has granted one-off concessions, including waiving the capital levy. Members who joined the Institute before 1 December 2017 are required to complete 120 hours of CPD in the three years ending 30 November 2020, of which 60 hours must be verifiable. Members having difficulties in achieving the CPD requirements for their 2021 membership renewal may apply for an extension to make up for the shortfall in CPD hours.

Mentorship Programme now open for applicants

The Institute's 2021-22 Mentorship Programme is now accepting applications from aspiring members who are interested in developing their careers as mentees, and experienced members looking to inspire future CPAs as mentors.

Members with less than seven years of post-qualification experience may apply to become a mentee, while those with seven or more years, a mentor. Mentees' applications are accepted on a first-come-first-served basis, subject to a successful matching process. Mentors will be awarded up to five non-verifiable CPD hours on guiding a mentee during the one-year mentorship process and up to three verifiable CPD hours for attending mentorship related briefings.

Those interested should complete the online application on *www.hkicpa.org.hk/mentorship* by 15 January 2021. Visit the dedicated Mentorship Programme webpage on the Institute's website to learn more about the programme and how it has benefitted both mentees and mentors.

Compliance department operations report now available

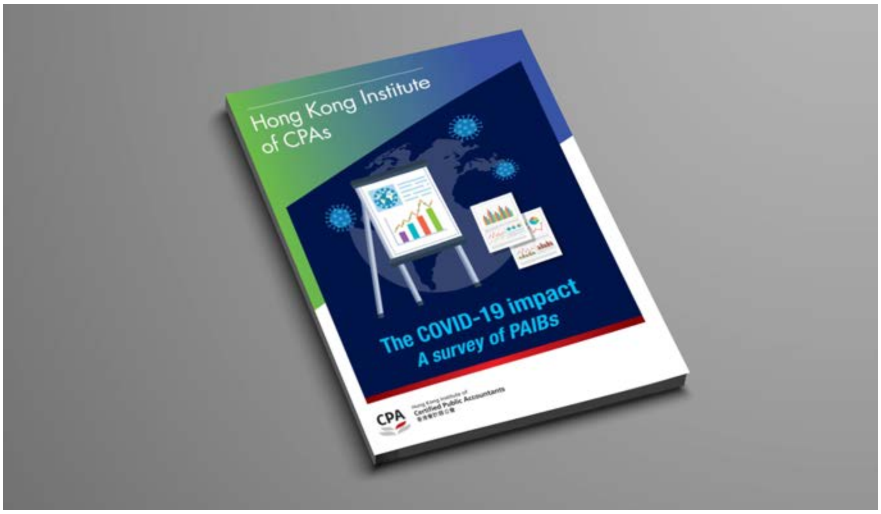
The Institute's Compliance Department has published its 2020 Operations Report, which outlines the department's key activities for the 18 months ended 30 June 2020. The report also features the process reviews of the department's operations carried out by the Regulatory Oversight Board. The report is available on the Institute's website.

Financial tips from CPAs

In the Institute's new video series, young members of the Institute share financial tips. The first episode offers three simple tips to curb overspending habits. Watch now and share its smart spending tips with your family and friends.

COVID-19 PAIB survey report

The Institute conducted a survey of professional accountants in business members, about the impact of the COVID-19 pandemic on their organizations, operations and business strategies. It is available to read on the Institute's website. Read more about the key highlights of the report on page 27.



Resolutions by Agreement

Lam Albert Man Sum, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in the requirement R113.1 of the Code of Ethics for Professional Accountants.

Lam issued an accountant's report for a solicitors' firm under the Accountant's Report Rules (Cap. 159A). In conducting the reporting engagement, Lam failed to comply with the Institute's Practice Note (PN) 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules*. The deficiencies related to lack of procedures for accepting and planning the engagement, agreeing the terms of the engagement in the form of an engagement letter, and lack of tests or procedures to evaluate if the solicitors' firm had complied with the requirements under the Solicitors' Accounts Rules (Cap. 159F).

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:
1. Lam acknowledges the facts of the case and his non-compliance with professional standards;
2. Lam be reprimanded; and
3. Lam pays an administrative penalty of HK$40,000 and costs of the Institute of HK$15,000.

Lui Tin Nang, CPA (practising)

Complaint: Failure or neglect to observe, maintain or otherwise apply the fundamental principle of Professional Competence and Due Care in sections 110.1 A1(c) and R113.1 under Chapter A of the Code of Ethics for Professional Accountants.

Lui issued an accountant's report for a solicitor's firm under the Accountant's Report Rules (Cap. 159A). In conducting the reporting engagement, he failed to comply with the rules and the Institute's PN 840 (Revised) *Reporting on Solicitors' Accounts under the Solicitors' Accounts Rules and the Accountant's Report Rules*. Lui did not adequately inquire into the reasons for certain long outstanding client account balances and unpresented cheques made out to clients. He also failed to resolve an inconsistency in the results of client account circularization. Lastly, he failed to document a number of procedures he carried out in support of the accountant's statement in the accountant's report.

Regulatory action: In lieu of further proceedings, the Council concluded the following action should resolve the complaint:
1. Lui acknowledges the facts of the case and his non-compliance with professional standards;
2. Lui be reprimanded; and
3. Lui pays an administrative penalty of HK$25,000 and costs of the Institute of HK$15,000.

Wong Ka Chung, CPA (practising) and Pondus (CPA) Limited

Complaint: Failure or neglect to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 230 *Audit Documentation*, HKSA 500 *Audit Evidence* and HKSA 520 *Analytical Procedures*.

Pondus was the auditor of a private company and issued an unmodified auditor's opinion on each of the company's financial statements for the years ended 31 March 2016 to 2019. Wong was the engagement director and signed the auditor's reports on behalf of Pondus.

In the performance of the audits, the respondents failed to prepare adequate documentation and perform adequate procedures on the company's bank accounts, membership fee income, ongoing litigations and certain expense items.

Regulatory action: In lieu of further proceedings, the Council concluded the following should resolve the complaint:
1. The respondents acknowledge the facts of the case and their non-compliance with professional standards;
2. They be reprimanded; and
3. Each of the respondents pays an administrative penalty of HK$30,000, and they jointly pay the Institute's costs of HK$15,000.

Disciplinary finding

Wong Man Ki, CPA (practising)

Complaint: Failure or neglect, without reasonable excuse, to comply with a direction issued by the Practice Review Committee (PRC) under section 32F(2)(b) of the Professional Accountants Ordinance.

Wong had been practising in her own name on a part-time basis and was subject to a practice review. The practice reviewer made numerous attempts to obtain information from Wong for the purpose of the review. However, Wong refused to provide the information requested.

Subsequently, the PRC issued a direction under section 32F(2)(b) of the ordinance to Wong requiring her to cooperate with the Institute to facilitate a practice review and provide certain information for the review. Wong did not comply with the direction.

Decisions and reasons: Wong was reprimanded, her practising certificate was cancelled and her name was removed from the register of CPAs for three years with effect from 28 October 2020. In addition, Wong was ordered to pay a penalty of HK$30,000 and costs of the disciplinary proceedings of HK$55,105. When making its decision, the Disciplinary Committee took into consideration the particulars of the breaches committed in this case and Wong's conduct throughout the proceedings.

Details of the Resolutions by Agreement and disciplinary finding are available at the Institute's website.

IIRC AND SASB ANNOUNCE MERGER IN 2021

The International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB) announced on 25 November plans to merge to create the Value Reporting Foundation next year. The unified group will provide investors and corporations a comprehensive corporate reporting framework with standards aimed at improving environmental, social and governance reporting and global sustainability performance. The IIRC and SASB, along with other standard setters, have come under increasing calls from financial regulators to combine existing standards and frameworks to simplify the corporate reporting landscape. The Value Reporting Foundation will maintain the IIRC's Integrated Reporting Framework. "The framework and the SASB standards are complementary. Integrated reporting describes all relevant value creation topics and the approach to integrating them in corporate thought and reporting," said Barry Melancon, Chair of the IIRC Board.

SINGAPORE CLAMPS DOWN ON MONEY LAUNDERING

The Monetary Authority of Singapore (MAS) will crackdown on financial institutions that lack rigorous systems and processes to combat money laundering and terrorism financing to secure its status as a regional financial hub. In a report issued on 4 November, the regulator said it will clamp down on disclosure breaches, the misselling of financial products and money laundering. It will also seek to increase its focus on senior management accountability for breaches. The MAS imposed US$6.4 million in civil penalties and US$2.5 billion for money laundering-related control breaches in the 18 months to June 2020, according to another report. "Investigations and enforcement against financial misconduct will only become more challenging as technology rapidly evolves, financial products grow in complexity and cases become increasingly multi-jurisdictional in nature," said Peggy Pao, Executive Director of Enforcement at the MAS.

HONG KONG EXCHANGES AND CLEARING ANNOUNCES HK$3.34 BILLION PROFIT IN THE THIRD QUARTER

The record-breaking profit, compared with HK$2.2 billion in the same period a year ago, came amid rising market turnover, increased stock connect revenue and a wave of Mainland Chinese companies listed in the United States seeking listing in Hong Kong as political tensions rise between the U.S. and Mainland China. The record number also exceeded analyst's forecasts of HK$3.23 billion and its previous quarterly record profit of HK$2.97 billion in the April to June period. Nongfu Spring's initial public offering in September is one of the largest in Hong Kong this year. The bottled water giant's shares soared as much as 85 percent on its debut after the company's HK$8.3 billion IPO attracted a record level of retail orders.

SONY UNDER PRESSURE OVER JAPAN'S ENERGY POLICY

Sony has warned the Japanese government it may have to move its manufacturing operations out of the country unless rules on renewable energy are relaxed. The warning, which came from Sony Chief Executive Officer Kenichiro Yoshida, highlights the pressures Japanese businesses are facing to eliminate the carbon footprint of their manufacturing facilities. It comes as tech giants such as Apple and Facebook seek to shift their global supply chains to 100 percent renewable energy, a target that Sony is trying to meet, reported the *Financial Times*. Sony produces image sensors used in Apple's iPhones, which requires highly stable energy sources, making the shift to green energy challenging. Sony pledged to have its global operations running on green energy by 2040, but is being called on by Apple, its manufacturing partner, to bring the target forward to 2030.

KPMG PLEDGES TO GO CARBON NEUTRAL BY 2030

KPMG announced plans to become a net-zero carbon neutral organization by 2030. The announcement, made on 9 November, will see the firm commit to a series of actions, including all firms within its network switching to 100 percent renewable energy by 2030. KPMG will track its progress by measuring and reporting data to the Carbon Disclosure Project and the Science Based Targets initiative. The new plans build upon the firm's Impact programme, which launched earlier this year. The programme supports KPMG's clients in addressing challenges facing the planet using the United Nation's Sustainable Development Goals. "With this new set of global commitments across KPMG, I am confident that we are making the right decisions today to make a difference tomorrow," Bill Thomas, Chief Executive Officer of KPMG International, said in a statement.

BANKS TO LOSE OUT ON ALMOST US$400 MILLION FROM SUSPENDED ANT GROUP LISTING

The last-minute suspension of Ant Group's initial public offering (IPO) is likely to cause investment banks to lose out on nearly US$400 million in collective fees. The two dozen banks include joint sponsors of the IPO Citigroup, JPMorgan Chase, Morgan Stanley and CICC. The banks were expected to share 1 percent of the underwriting commission on the listing, which was forecast to raise as much as US$39.67 billion. Ant Group's debut, which would have been the world's largest listing ever, was called off 48 hours before it was scheduled to go live on 5 November. The dual listing, on the Hong Kong and Shanghai exchanges, was suspended a day after Beijing announced draft regulations that observers said would force the payments company to rethink its business model, especially its lending business, which drove about 40 percent of the company's revenue in the first half of the year.

EY FACES £1 BILLION LAWSUIT FOR FLAWED NMC HEALTH AUDIT

The administrators of NMC Health are preparing to sue EY for more than £1 billion over claims that the firm was remiss when it signed off the group's accounts during a multibillion-dollar fraud. NMC Health, a United Arab Emirates-based healthcare group that was listed on the FTSE 100 and has operations spanning from Abu Dhabi to London, went into administration this year after more than £4 billion was found to be missing from its balance sheet. The firm, which has audited NMC's accounts since the healthcare group's 2012 listing in London, has had its audits questioned, and eyebrows have been raised as the healthcare group's board consists of former EY partners. Turnaround company Alvarez & Marsal hired law firm Quinn Emanuel to make a claim against EY. "The investigation is complex given the well organized and long term nature of the fraud," said Alvarez & Marsal in a progress report to creditors.

IASB APPOINTS NEW CHAIR

The International Accounting Standards Board (IASB) has appointed Dr Andreas Barckow to serve as Chair, effective July 2021. Barckow, who has served as President of the Accounting Standards Committee of Germany since 2015, will succeed Hans Hoogervorst, who will complete his second five-year term in June 2021. Barckow has also been an active participant in numerous advisory bodies to the International Financial Reporting Standards (IFRS) Foundation and the IASB, where he is a member of both the IASB's Accounting Standards Advisory Forum and the IFRS Advisory Council. "His skills and experience will be invaluable to the IASB as it begins the next stage in its evolution as a global accounting standard-setter," said Erkki Liikanen, Chair of the IFRS Foundation Trustees.

U.S. REGULATOR PUSHES TO DELIST CHINESE COMPANIES

The Securities and Exchange Commission (SEC) is pressing ahead to introduce a regulation that could delist Chinese companies from stock exchanges in the United States for not complying with U.S. auditing rules. The move could fuel tensions between U.S. and Mainland China as the Trump administration comes to a close. The regulation, according to *Bloomberg*, stems from China's refusal to allow inspectors from the Public Company Accounting Oversight Board to review audits of Alibaba Group Holding, Baidu and other Chinese companies trading on U.S. markets. The delisting of coffeehouse chain Luckin Coffee in June, which was found to have fabricated US$310 million in sales, has added urgency to the planned move. If passed, the rules will come into effect in January 2022, according the a report issued by the President's Working Group on Financial Markets, a group that includes SEC Chairman Jay Clayton and Treasury Secretary Steven Mnuchin.

CHINESE PROPERTY MANAGEMENT COMPANY LAUNCHES HONG KONG IPO

China Resources Mixc Lifestyle has launched an initial public offering in Hong Kong that could raise more than HK$12 billion, the latest in a list of Chinese companies hoping to raise capital on the city's bourse. The company, a property management division of Mainland Chinese developer China Resources Land, says it will use the proceeds for strategic investments and acquisitions to expand its property management and commercial business. It was ranked fifth-largest by revenue among property management companies in Mainland China last year. The company is offering 550 million shares at a maximum price of HK$22.30 each, according to the company's prospectus issued on 25 November. It will also offer an over-allotment option of 82.5 million shares to meet excess demand. The share offering is expected to end on 1 December and start trading on 9 December.

MANAGERS OF HONG KONG-LISTED COMPANY ARRESTED OVER FALSE ACCOUNTING SCHEME

Two sets of raids related to accounting fraud were carried out in Hong Kong in the space of one week in November. In the first raid, an ex-chairman and four former senior executives of two listed companies were among eight people arrested in connection with an HK$8.5 billion false accounting case. The second involved former managers of a commodity trading company listed in Hong Kong who were among seven people arrested on suspicion of conspiring to provide false accounting involving a sum of HK$11.88 billion. Detectives from the Commercial Crime Bureau and the Securities and Futures Commission raided the company's offices and those of its business partners on 24 November. The suspects are suspected of fabricating multiple false trades to inflate revenue during the financial years of 2016 and 2017.

SPECIAL REPORT: ADDING SUSTAINABLE VALUE

Environmental, social and governance reporting is no longer something businesses can turn a blind eye to. Disclosures are key to attracting investors, while also serve as an impetus for companies to improve their operations, and benefit society and the environment. Jeremy Chan speaks to professionals who are driving these changes across organizations, and finds out how they lend their expertise and knowledge to help companies traverse the complex and evolving landscape

Illustrations by Gianfranco Bonadies

There is more to environmental, social and governance (ESG) reporting than some companies are aware of. For some, it refers to another mandatory report to issue every year about their contribution to the environment and society. But for others, it's a valuable attribute to not only integrate into the organization, but a way to run a sustainable and successful business. But when it comes to making those landmark changes, many organizations don't know where to begin.

Some companies form sustainability teams to do all the work, and though these individuals may have the relevant knowledge in ESG and sustainable business practices, they may lack the financial knowledge to meaningfully connect those practices to the company's finances and operations to effectively initiate change.

This is where accountants who specialize in ESG can come in. They have the financial know-how, business acumen and knowledge in sustainability reporting frameworks and best practices to help companies get a head start in meeting and even going beyond their sustainability goals. They can help companies set the right ESG targets, advise on what reporting frameworks to use for preparing ESG reports, provide independent assurance of such reports and provide ongoing advisory to bring businesses towards their vision.

This special report speaks to experts within the ESG specialization – preparers of ESG reports and assurance providers – to find out how they work with businesses, how their role is key to companies issuing an accurate ESG report, the growing need for better ESG reporting and assurance in Hong Kong, and how professionals can equip themselves with the necessary skills to succeed in the field.

WHAT IS ESG?

Within the last five years, ESG has seen considerable growth in Asia, especially in Hong Kong, as companies understand that their success is not only contingent upon their financial performance but also their relationship with society and the planet. Investors are also expressing more interest in socially-responsible companies, and using their ESG reporting in their investment decision-making.

A 2019 study conducted by corporate and investment bank Natixis, *Looking for the Best of Both Worlds*, found that seven in 10 investors believe it is important to make a positive social impact through their investments. It also found that more than half of investors surveyed would avoid investments that conflict with their personal values. Growing concerns about climate change risk have bolstered responsible investment, with socially conscious investments increasing globally by 34 percent to US$40.5 trillion in 2020, up by 27.5 percent compared to 2019.

Data from the United States Global Change Research Programme indicates that global surface temperatures have risen by 0.9 degrees Celsius within the last 100 years, while the United Nations Intergovernmental Panel on Climate Change warned back in 2018 that the planet only has a decade to prevent the worst impact of climate change.

The Paris Agreement, an agreement signed in December 2015, aims to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius. All of this has piled pressure on companies to do their part and focus on ESG reporting.

An ESG report is an assessment issued by companies every year detailing their ESG performance. In general, the environmental aspect of ESG looks at a company's energy emissions, waste management systems or resource consumption, for example. The social facet examines how a company manages its relationships with employers, suppliers, customers and the community, while the element of governance deals with a company's leadership, executive pay, audits, internal controls and shareholder rights.

There is no one-way-fits-all approach to reporting ESG. It is up to companies to review their operations and industry to decide which of the many reporting frameworks available to use in disclosing their ESG performance.

SETTING THE RIGHT TARGETS

Helping a company to put together their first-ever ESG report was no small task for Kitty Fung when she was chief financial officer of Vitasoy. It was 2016 and the Hong Kong Stock Exchange (HKEX) had just issued new ESG reporting guidelines, along with a reporting framework for listed companies to make ESG disclosures. "I had to do it from scratch. All listed companies had to, especially after the requirements were announced," says Fung, now the CFO of the West Kowloon Cultural District Authority, and a member of the Hong Kong Institute of CPAs. Working with a consultant, she familiarized herself with the framework issued by the Global Reporting Initiative (GRI) – her previous company's reporting framework of choice – and began leading her team. "We employed an ESG consultant to guide us with the ESG reporting and in understanding GRI requirements," she says. "When it comes to ESG reporting, one needs to set targets first. The right key performance indicators (KPIs) help to present our actuals against targets and detail what we have done to save energy."

By setting precise, feasible and meaningful sustainability goals that articulate the company's vision and strategy, organizations are able to work towards a goal, while garnering more interest and trust from existing and potential customers, investors and stakeholders.

Fung made sure KPIs were put in place to track all three aspects of ESG. As a beverage company, KPIs to measure Vitasoy's carbon footprint were especially important, she notes. "Vitasoy is a manufacturer and bottler, so we began tracking how we recycled plastic bottles, conserved water and reduced energy usage, to name a few, and set goals for each," she says. KPIs were also set to measure hours of staff training, staff composition, board diversity and the company's corporate social responsibility, such as how it helped the community and underprivileged through volunteer work and donations. "We wanted to ensure that we have a safe working environment and diversity in our workforce. So in deciding what KPIs to track, I had to make sure they were meaningful and relevant to the company," adds Fung. "My role was to initiate these changes and bring the board to a consensus. We all went through the parameters to measure and track, and determined that they were vital to the strategy of the company."

Eddie Ng, Partner, Business

"We began tracking how we recycled plastic bottles, conserved water and reduced energy usage, to name a few, and set goals for each."

Reporting and Sustainability, KPMG China and an Institute member, says KPIs provide companies with direction. "It's very important for companies to set a vision. A vision is like the goal – where the company wants to go," she says. "KPIs measure how a company is performing against the journey to achieving the vision, whether the strategy works and whether they need to adjust their strategy."

ESG goals vary from company to company. Many of these goals require time and effort to reach, prompting companies to set goals years or even decades into the future. For example, Unilever and Apple both pledged to reach net-zero carbon emissions in their manufacturing of goods by 2030. United Kingdom-headquartered groceries and merchandise retailer Tesco committed to using 100 percent renewable electricity within the next decade.

Companies that aren't sure what KPIs to set could conduct materiality assessments. "This process helps to identify which ESG issues are most important to the company," says Herbert Yung, Director, Risk and ESG Advisory at Deloitte and an Institute member. This is first achieved by gathering insights, usually through surveys, from within and outside the company. "Companies need to engage with stakeholders to understand their expectations, concerns and collect their opinions," he says. Once a company receives feedback, Yung adds, they will have a better understanding of which ESG factors are most important and relevant to the company, and the areas in which resources must be allocated and prioritized. Companies will also have a clearer idea of what will eventually be reported.

Another way for companies to set KPIs, Ng adds, is to look at their competitors within the industry. "Companies can look at other industry players' KPIs as benchmarks to help them set their own KPIs and compare their performance with their peers. However, the KPIs others use may not be entirely suitable as they may be pursuing different business directions. What is more important is for a company to determine its vision and set benchmarks to measure its relevant performance," she says.

As Gigi Lee, a former senior manager of sustainability at a listed property developer and an Institute member, notes, it's important for companies to understand which KPIs to set – and to set them with purpose. "Property developers would set energy reduction targets as buildings consume a lot of electricity during their operations. In contrast, companies operating, say, e-commerce platforms would better focus more cybersecurity and data privacy," says Lee. Following materiality assessments, Lee's previous company set a group-wide energy and carbon target. "We set these goals for 2030," she says. "So, this required us to translate these long-term targets into annual targets." In doing so, her company brought in a consultant to put forth recommendations. Lee says the next step involved using those recommendations to garner supporting from management and also different departments within the company.

The right internal controls must be put in place to track KPIs, says Brian Ho, Partner, Climate Change and Sustainability Services, EY and a member of the Institute's Sustainability Committee. "ESG is a cross-departmental issue. You can't rely on only one department," he says. If a company wants to set up reduction targets for their greenhouse gas emissions, which often come from different sources, each department must be trained on how to track and monitor performance, he says. "Stakeholders require or expect management targets for these KPIs, so the roles and responsibilities of those managing them is essential."

Ng says that companies should

set realistic KPIs, as setting the bar too low might bring more harm than good. "One way that companies 'greenwash' their reports is by setting KPIs that are easy to achieve to show that they are 'achieving' something to boost their image. This isn't meaningful in any way," she says. Greenwashing refers to the practice of companies marketing themselves or their products as more environmentally friendly than in reality. "So I always encourage companies to be honest with themselves, not only for the sake of meeting disclosure requirements, but do it properly and meaningfully to understand how their company is performing."

ESG-related tasks and ESG reporting is usually taken on by a company secretary, investor relations or even a sustainability department. However, as Yung notes, the finance department now plays a role in helping companies with their ESG-related tasks. "Setting KPIs involves a lot of data collection and analysis," he says. "Accountants can help companies develop accounting policies for KPIs, such as setting a proper formula for a company's energy intensity or staff turnover rate. We could also help determine with the board whether the correct internal controls are put in place to measure all this data."

Yung, who helps clients to set ESG goals and develop their ESG strategies, notes that some companies may at first opt to only disclose KPIs that look the best on paper. "We see this quite a bit, so it's our job to advise them on this," he says. "I tell them: 'ultimately, the level of your company's ESG performance isn't quite as important as the level of your transparency. It's always better to disclose bad news first, before the media or a non-governmental organization publicly criticizes you for non-disclosure.'" This, he adds, is even more important when it concerns listed companies, as a tarnished company image could deteriorate the trust of investors and stakeholders. To prevent this, clear lines of communications must be in place, notes Yung. "A more robust reporting system and regular communication needs to be established between a company's operations and management regarding ESG issues. This will help management to be aware of red flags and issues that the company as a whole needs to respond to and report," he says. "Incorporating ESG into a company's risk management system will ensure that all risks, processes and controls will be properly monitored at corporate level."

MORE MEANINGFUL REPORTS

On 18 December 2019, the HKEX announced enhanced ESG reporting requirements, which apply to financial years commencing on or after 1 July 2020. They require a company's board to disclose its oversight of ESG issues, its ESG management approach and strategy, and how it reviews progress on ESG related issues. The board must have a formal ESG governance structure, sufficient knowledge and expertise in ESG, internal risk management processes that connect to ESG risk management, an overall ESG strategy with clear goals and targets. The new requirements also have a shortened reporting deadline of five months for the end of listed companies' financial years.

The revised requirements are a step in the right direction, notes Sammie Leung, Climate & Sustainability Leader PwC Mainland China and Hong Kong. "The revision of the ESG disclosures have made waves in the market and led to many positive changes in the last couples of months," she says. "Many C-suites have taken the changes seriously and the board of directors are now more aware of their expected responsibilities in ESG and climate-related topics. A number of my clients have renewed their governance structure, redefined their mandates of ESG, risks, corporate governance and added clarity to how each person would play a role in supporting the board of directors to oversee ESG matters for the listed company."

Before the HKEX updated its ESG reporting requirements, companies had been following its "comply or explain" requirements, which made it compulsory for listed companies to disclose their ESG policies and plans, and if not, explain why they are not able to.

Prior to the release of the HKEX's ESG Reporting Guide, most listed companies in Hong Kong chose to disclose their ESG policies using the GRI reporting framework. As of February this year, 75 percent of the world's largest 250 corporations use GRI Standards to report on their sustainability performance. While it is the most widely used reporting framework globally, there are other frameworks companies can use to disclose ESG-related information (see sidebar on page 13). Organizations also have the choice of disclosing using reporting frameworks by the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) and the Carbon Disclosure Project (CDP) and the International Integrated Reporting Council (IIRC).

But the long list of reporting frameworks initially dissuaded companies, Leung notes, prompting the HKEX to release its ESG Reporting Guide in 2015. "In a way, the HKEX did the homework for companies to make everything more digestible and easy to understand," she says. "By understanding the needs of international investors, looking through international

"In a way, the HKEX did the homework for companies to make everything more digestible and easy to understand."

frameworks and many market consultations over several years, they came up with a shorter list for Hong Kong-listed companies."

Though the list of ESG reporting requirements is shorter than that for other stock exchanges, Yung believes it was a step in the right direction for the progression of ESG in Hong Kong. "ESG is still relatively new in Hong Kong," Yung says. He notes that following the launch of the HKEX's reporting guide in 2015, the number of ESG reports and the quality of those reports increased in Hong Kong. "There were more strategic and action plans put in place, and companies also became more transparent about their ESG disclosures." The obligatory nature of the ESG reporting requirements stipulated by the HKEX also served as a wake up call for company management. "More company board members started taking it more seriously – it wasn't something they would do just for public relations purposes anymore," he says.

THE ROLE OF ACCOUNTANTS

Accountants play a key role in helping companies with their ESG reporting and can help a company improve its ESG performance in the long run. From the start, they can advise companies that aren't familiar with the HKEX's ESG Reporting Guide, what materiality assessments to conduct, what specific KPIs and goals to get and how to bring businesses closer towards those goals. Accountants can also advise the board on mitigating any ESG-related risks before they happen.

"To be honest, many companies are still in the starting stage in terms of their ESG journey," notes Ng at KPMG. "They don't expect to tackle something sophisticated at the beginning and don't know what they need." As some companies may already have dedicated departments to work on ESG matters and reporting, they may require only consulting at the beginning. Other companies may need advisory for their ESG report annually.

Accountants like Ng help as consultants getting businesses up to speed. "First, we need to speak with companies to understand their expectations and vision – what they want to achieve," she says. For the first few years, she adds, businesses simply want to meet the HKEX's ESG requirements, though other more competitive companies may aim higher to attain better score from rating agencies.

Ng says it's crucial for consultants to speak with management, key

A multitude of frameworks

The multiple non-financial reporting frameworks that are currently available can make it challenging for companies to decide which one to use for disclosing their environmental, social and governance performance. As no two companies are the same, it is crucial for organizations to choose a framework that reflects their industry, accurately discloses the nature of their operations and also meets the requirements of regulators, investors, stakeholders and customers.

The **Global Reporting Initiative (GRI) Standards** is the most widely used ESG framework globally – it is used by more than 5,000 organizations worldwide. The first version of what was then the GRI Guidelines was published in 2000, providing the first global framework for sustainability reporting. It discloses a range of impacts, including climate change, human rights, governance and social well-being. It is used by companies in almost every sector and is favoured for its broader scope and specific disclosure guidelines.

The **Task Force on Climate-related Financial Disclosures (TCFD)** was established by the Financial Stability Board in December 2015 to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders and insurance underwriters about their climate-related financial risks. The framework primarily focuses on a company's impact on climate change and discloses how organizations identify, assess, and manage their climate-related risks. Over 1,500 organizations disclose using TCFD recommendations.

The **Carbon Disclosures Project (CDP)** has a global disclosure system for measuring and managing environmental impacts and the world's largest database of primary corporate climate change information. Its disclosures cover climate change, supply chains, water usage and forestry management.

The **Sustainability Accounting Standards Board (SASB)** was founded in 2011. In November 2018, it published 77 industry-specific reporting standards for companies to disclose material environmental risks. To date, over 100 companies disclose their ESG performance using SASB guidelines across industries such as consumer goods, finance, food and beverage, healthcare and infrastructure. SASB guidelines are mainly used by companies to communicate with their investors.

The **International Integrated Reporting Council (IIRC)** first released its Integrated Reporting <IR> Framework in 2013. Integrated reporting focuses on the value companies can create beyond its financials – something critical to long-term success. This includes building strong relationships with stakeholders, building a loyal customer base, developing intellectual capital and managing environmental risks. Instead of a detailed disclosure and measurement standard, it is a principles-based framework enabling companies to set out their own report instead of adopting a checklist approach.

On 25 November, SASB and the IIRC announced that they would merge to become the Value Reporting Foundation in mid-2021 in a move to push for the harmonization of existing ESG reporting frameworks.

An increasing number of observers are calling out for an alignment of the slew of frameworks to move away from the current fragmented approach. Recent developments signify a strong drive towards achieving this. For example in September, the International Federation of Accountants published Enhancing Corporate Reporting: The Way Forward, a roadmap for the creation of an international sustainability standards board alongside the International Accounting Standards Board.

A day in the life

Communication skills are vital, as an average day for a professional working in ESG can involve meetings and training session with different individuals across a wide variety of topics. "A typical day sees me communicating and engaging with different stakeholders all the way from the board level to the operations level to raise their awareness and garner support on ESG topics," says Gigi Lee, a former senior manager of sustainability at a listed property developer and an Institute member. "We're also busy collecting and analysing data for ESG reporting purposes, especially during ESG rating season and reporting season."

For Herbert Yung, Director, Risk and ESG Advisory at Deloitte and an Institute member, the enthusiasm that surrounds ESG sees his schedule filled with meetings, presentations and also interviews. "Because ESG is such a new and hot topic, I'm invited to speak at seminars and to write pieces on ESG for newspapers and publications," he says. "My day isn't only spent at the office or at the client's site. I could be in meetings with standard setting bodies and stakeholders for the purpose of sharing insights on ESG and to speak about its potential and value to the market. So I'd say we aren't only serving our clients, but the wider community on the subject matter of ESG."

The role may also involve training other staff members, says Eddie Ng, Partner, Partner, Business Reporting and Sustainability, KPMG China and an Institute member. "In addition to ESG engagements, I provide technical support to our ESG staff and our auditors," she says. "So a regular day consists of training or coaching different teams on various topics. In the morning, I might meet with one engagement team to discuss stock exchange requirements and later I'll have to discuss with another team about financial statement audits."

Working in ESG is rewarding, and those in the field are grateful for the opportunity to not only lend their experience to making a difference, especially if they are passionate about the environment. "By working in ESG, I enjoy seeing our initiatives benefitting the company, local community and the planet," Lee says. "It's even more rewarding to see changes in people's mindsets and behaviour when we promote different ESG initiatives among employees. Every small step taken by everyone contributes to a bigger goal."

Kitty Fung, Chief Financial Officer at the West Kowloon Cultural District Authority and an Institute member, says it is most satisfying to play a key role in bringing an ESG report together. "Putting together an ESG report is a daunting task – there are a lot of numbers to track and analyses to be done," Fung says. "But when you look at the report and know that your company is doing good for the environment and community, it's rewarding. It feels great to know you were part of this change." Sammie Leung, Climate & Sustainability Leader at PwC Mainland China & Hong Kong, and an Institute member, agrees. "An ESG report isn't just some data in a report. It shows a company goals in reducing their greenhouse gas emissions. That, to me, is pretty cool."

Yung says it's fulfilling to provide advice to management on the ESG performance. "Through my work, I'm able to influence the actions of management and that could influence the hundreds or thousands of employees of that company," he explains. "This enables them to become more environmentally and socially friendly, and this, in turn, makes the world a better place and could improve the lives of even more people. It's very meaningful to me."

stakeholders or those already tasked with sustainability initiatives or reporting within the company, as well as analyse existing reports, in order to identify any gaps the organization may have in terms of their ESG performance. "Depending on how many gaps we identify, we might suggest or provide a timeline for the company, like a three-year-plan, for example," she says. The company, she adds, must be made aware of the HKEX's "comply or explain" requirements.

Therefore, Ng says it's important for management to be as transparent as possible with consultants who come in and also manage the expectations of other employees before consultants come in. "ESG matters are wide-ranging and don't require just one department. When we require information, we need to speak with different departments within the company. Some departments might not have a clue what ESG is and why we might ask for so many details," she says. "We need to get everybody's buy-in. When we walk in, we let other departments know why and how ESG is relevant to them and their responsibilities. To further encourage that, management must manage the expectations of all departments before we walk in."

Luna Fong, Head of Investor Relations at Link REIT and an Institute member, says accountants have an important role to play in dealing with investors. "ESG isn't just a hot topic – it's raising more concerns across the investment community," Fong says. "As accountants, we have the ability to communicate the numbers and the value of ESG to investors. It's important that they see this connection."

In getting this message across, she has been helping her company, a real estate investment trust company, report its sustainability practices through integrated reports using the IIRC's Integrated Reporting (<IR>) Framework. "I've been working with the sustainability team to build our integrated reports since 2015. We're one of the first companies to issue integrated reports in Hong Kong," she adds. After educating investors on the importance and value that an integrated report brings, Fong's first challenge was deciding which of the <IR> Framework's six capitals would apply to her company. The capitals identified by the IIRC include financial, manufactured, intellectual, human, social and relationship, and natural capital, which together represent stores of value that are the basis of an organization's value creation. "The challenge was bridging the gap between integrated reporting, our organization and what stakeholders value," explains Fong. "By looking at these six capitals, I developed the integrated reporting and value creation model to make sure the capitals meet KPIs that help our investors measure value."

In addition to climate risks, investors are also looking at how a company structures its management, adds Fong. "There's a misconception that ESG is simply about how many trees you can plant. It's not just about that," Fong says. "It has to be a top-down approach, and that starts with good governance. Good governance helps companies grow."

THE SKILLS NEEDED

As the adoption of ESG picks up in Hong Kong, accountants will be increasingly relied on to help companies with their ESG reporting and to better integrate ESG into their business strategies. "Accountants should know how to connect the dots between financial and non-financial information," says Lee. "This would help them to provide better advisory during the preparation of an ESG report in order to link a company's ESG performance with its financial performance." She adds that accountants can also build a business case to garner support from senior management to invest in ESG issues. "Some people still think ESG is merely an expenditure and only benefits the environment, while in fact, it saves on cost and helps a company's brand and reputation. Reducing energy consumption equates to cost savings and this would benefit both the company and environment," she says.

Yung at Deloitte agrees, noting how knowledge in ESG will help accountants to add value to businesses. "ESG will become more integrated with a company's business and financial performance," he says. "Knowledge in ESG can help accountants to better evaluate a company's performance from beyond only a financial perspective. We would be able to identify trends, reduce risks and also seize opportunities in ESG and apply this knowledge in producing annual reports and helping to make business decisions. It also helps us to advise companies on the consequences of not doing well in this area, and how that could affect their reputation. Accountants must know how to articulate this to companies."

This will require accountants to equip themselves with the relevant knowledge and know-how in order to provide advice. "We need to be very familiar with the ESG taxonomy – carbon emissions, climate change, diversity and inclusion and responsible investing, to name a few. These terms aren't common in the accounting world yet – but they will be."

This also means that the accountants will be required to be familiar with the HKEX guidelines. "A firm understanding of the HKEX's ESG requirements is essential," notes Lee. "Though there are still gaps in the HKEX's requirements compared to international ones, it'll still take a few years for companies in Hong Kong to familiarize themselves with them."

Beyond knowledge in ESG is the need for strong communication and people skills. "We need to know how to translate this information so company can understand the implications of ESG and the impact on business strategy and operations," says Ng at KPMG. "In terms of a financial statement audit, the key contact is a finance individual. But since the scope of ESG is so wide, we definitely need accountants who have great interpersonal skills in order to communicate with a wide range of people within a company who may or may not have knowledge in finance." Lee agrees: "When we talk about ESG integration, all departments within a company are involved as they all have a role to play. Therefore, accountants must know how to communicate ESG information with anybody."

By knowing how to communicate ESG issue in layman terms, accountants will be able to help all departments to understand how and why ESG is important to the company. "You have to know how to get people's buy-in, especially for something as new as ESG."

> **"From an investor's perspective, if companies seek assurance, there's much more value in their reports."**

RESTING ASSURED

Ho at EY notes that despite ESG assurance still in its infancy, there is indeed growing sentiment among both companies and investors that it is becoming more important. "From an investor's perspective, if companies seek assurance, there's much more value in their reports. It also provides the board of directors with more confidence in their ESG data," he says. "Because it's only a 'recommended' requirement by the HKEX, most companies don't deem it to be a mandatory. But companies that have had that ESG reports assured by a third party assurer have higher ratings. So from a capital market perspective, I believe that assurance is something very desirable and will likely become mandatory in the future."

Leung at PwC agrees: "Investors as well as rating agencies are all looking for more reliable data," she says. "But the HKEX knows that it's still too soon to require all listed companies to have their ESG reports audited. It will create pushback."

Since ESG assurance isn't compulsory, it is usually used by larger companies, according to Yung at Deloitte. "Companies seeking independent assurance already have rather mature ESG reporting practices," he says. "They have good systems in place and are more confident when it comes to letting accountants review their data."

Companies may also engage third-party accountants to help improve their internal controls or data quality collection processes prior to having assurance. In attaining credibility, companies might request accountants to look into certain KPIs to make sure

"We can't simply accept everything the company says. We have to also seek external information."

they have been reported correctly, adds Yung. "They might select a few KPIs they believe to be high-risk to ensure they have been presented accurately – this could be carbon emissions, energy and water usage or even their injury rate, for example," he says.

Assurers then have to gain a full understanding of how KPIs were collected, calculated, consolidated and reported. This takes place through interviews with staff members, where accountants identify the company's internal control procedures to ensure data had been accurately tracked during the reporting process and whether there were any gaps in policies. This may also require the collection of data samples to perform substantive testing. "We obtain breakdowns of their KPIs, for example, a company's electricity consumption," says Yung. "Say a company has 10 different offices in different locations and each office has monthly electricity bills. Among the pool of bills, we'll conduct sample tests by picking a few of them to inspect whether they match with their internal records. This lets us know whether their data is presented in a valid manner. It's similar to a vouching exercise."

Because there are similarities between auditing a company's ESG report and auditing its financial statements, Ng at KPMG says accountants are well-suited to provide expert ESG assurance. "The Institute has auditing and assurance standards, which we follow," says Ng. "In a financial statement audit, we use a risk-based approach to identify key areas and then ask for supporting information from a company such as how they came up with certain figures. We can't simply accept everything the company says. We have to also seek external information." Members may refer to the Institute's non-authoritative guidance Technical Bulletin AATB 5 *Environmental, Social and Governance (ESG) Assurance Reporting* recently released as an Exposure Draft, which should be finalized in December, and International Standard of Assurance Engagements ISAE 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information, International Framework for Assurance Engagements and Related Conforming Amendments* issued by the International Auditing and Assurance Standards Board in 2013. Both can assist practitioners in performing assurance engagements on ESG information.

Similarly, when Ng reviews ESG reports, she says the role requires an analytical and questioning mind. "During a sustainability assurance engagement, we look at the company's ESG report and identify information we consider to have a high risk of misstatement," she says. "We need to make sure they are telling us the whole truth as well. If necessary, we ask them to explain how they came up with some figures and provide supporting evidence. We can verify their energy usage through invoices."

Assurers should be able to identify when a company is deliberately concealing information and encourage them to report their KPIs transparently. "Companies that refuse to disclose important KPIs such as their turnover or rate of injury may indicate that they aren't doing quite as well," adds Yung. This is through benchmarking, he adds, which makes it easier for assurers to compare ESG reports within the industry and identify companies with the most and least comprehensive disclosures.

Yung says the notion of independence is vital in providing ESG assurance. "We must follow the Code of Ethics for Professional Accountants set by the Institute," he says. "We need to avoid coming into a conflict of interest. For example, we can't help a company with its ESG report and offer our opinion on their ESG report the same year. Accountants must keep this in mind."

Assurers report their findings in an assurance report based on the results of the procedure. "Our findings are usually documented in a company's ESG report. This way, investors and the general public will be able to see our opinion," Yung highlights. "We need to be able to tell the company what their future might look like."

The market for ESG assurance may be small now but is poised to grow over time, notes Leung at PwC. "Investors, regulators, rating agencies and even bankers all want more detailed assurance. They're part of the picture," she says. The "comply or explain" requirements will push companies to seek help, especially from accountants, who will be highly sought after by more businesses that need guidance. "Companies need to disclose their estimates and calculations to provide transparency to readers, which will actually increase the demand for accountants who do ESG assurance and reporting as they have the qualities and skills to bridge this gap. Right now, there's a shortage of accountants who have these skills."

SECOND OPINIONS: HOW CAN WHISTLE-BLOWING POLICIES AND PROCEDURES IN COMPANIES IMPROVE?

SELENE HO
DEPUTY DIRECTOR, STANDARD SETTING
HONG KONG INSTITUTE OF CPAS
AND AN INSTITUTE MEMBER

When providing a service to a client or working for an employer, a professional accountant may come across an act or suspected act of non-compliance with laws and regulations (NOCLAR) committed or about to be committed by the client or employer. Professional accountants therefore have an ethical responsibility not to turn a blind eye on such matters but – before revisions effective in July 2017 – were bound by the duty of confidentiality under the Institute's *Code of Ethics for Professional Accountants*. The revised provisions in the code remove the duty of confidentiality for the specific purpose of reporting acts or suspected acts of NOCLAR. The provisions also provide a framework to guide professional accountants on deciding how best to act in the public interest when they become aware of suspected or actual NOCLAR.

Members of the Institute are expected to comply with the code. Prevention of NOCLAR is not solely the responsibility of professional accountants. All stakeholders in the financial reporting ecosystem – especially management and those charged with governance – have an important role to play in preventing and bringing to light potential acts of NOCLAR.

One of the desired outcomes of the provisions in the code is to stimulate professional accountants to take a proactive role in responding to NOCLAR. Professional accountants are often best placed to initiate the development of a sound whistle-blowing policy in their workplace. A good policy should make employees feel safe to report misconduct confidentially and state that there will be no retaliation against employees who blow the whistle in good faith.

Currently, there is no comprehensive law in Hong Kong requiring companies to implement a whistle-blowing policy and procedures. It is a best practice component to any compliance programme and an essential tool to combat internal misconduct and to ensure compliance with laws and regulations. Having a whistle-blowing channel available to all employees and third parties is vital because it is often the employees, vendors and business partners who would be aware of any misconduct happening on the ground. Obtaining whistle-blower information at the earliest opportunity enables companies to act promptly to investigate and remediate issues.

There is no one-size-fits-all whistle-blowing policy. The NOCLAR provisions in the code and the guidance in ICAC's Anti-Corruption Programme provide useful guidance on what whistle-blowing policy should include. Guidance is also available on The Anti-Corruption Knowledge Hub, which is operated by Transparency International.

"Professional accountants are often best placed to initiate the development of a sound whistle-blowing policy in their workplace."

KENNY FOK
ASSISTANT DIRECTOR,
CORRUPTION PREVENTION DEPARTMENT
INDEPENDENT COMMISSION AGAINST CORRUPTION

We all agree that whistle-blowing is a very essential tool in a company and an effective whistle-blowing policy can facilitate its internal personnel (e.g. employees) and relevant stakeholders (e.g. business counterparts, suppliers) to come forward and raise concerns in confidence. This enables companies or corporations to detect and remedy wrongdoings, including corruption, at an early stage before serious damage is caused.

Some findings from the *ICAC Annual Survey 2019* may shed light on individuals' reluctance to make a report, for example, their considerations on "whether the reporting would generate any outcome", "worry about lack of evidence", "whether the issue was too small to warrant any follow up" and "troublesome." These suggest that an individual's willingness to report wrongdoings would depend on his or her belief on whether the reports will be taken seriously, professionally and in strict confidence; the scope of wrongdoings that warrants reporting is clear; convenient reporting channels and protection from retaliation are available, vindicating our belief that these should form part of the core elements of effective whistle-blowing policies and procedures.

"An individual's willingness to report wrongdoings would depend on his or her belief on whether the reports will be taken seriously, professionally and in strict confidence."

From the corruption prevention perspective, effective whistle-blowing policies and procedures should cover a corporate policy statement committing to high probity standards and pledge to handle the reports fairly and in strict confidence; scope of the concerns requiring reporting; clear description of the responsibilities of the handling personnel; provision of reporting channels; assurance of protection to bona-fide whistle-blowers against retaliation; pledge on timely handling of reports; conduct of internal enquiries with extra care to avoid jeopardizing subsequent investigation by relevant law enforcement agencies; effective communication and periodic review of the policies and procedures to ensure their continuous effectiveness.

ICAC advocates the importance of having in place an effective whistle-blowing mechanism especially for reporting corruption in companies and corporations. The Corruption Prevention Advisory Service of the Corruption Prevention Department will continue collaborating with relevant stakeholders, including professional bodies, to assist companies in establishing or strengthening their corporate policy and procedures on reporting corruption.

RICKY CHENG
DIRECTOR, HEAD OF RISK ADVISORY
BDO
AND AN INSTITUTE MEMBER

Establishing a formal whistle-blowing framework within an organization can help to strengthen corporate governance and act as a useful anti-fraud control tool.

"Organizations must alert their employees on how the mechanism works through disseminating clear policies and procedures, and arranging regular training."

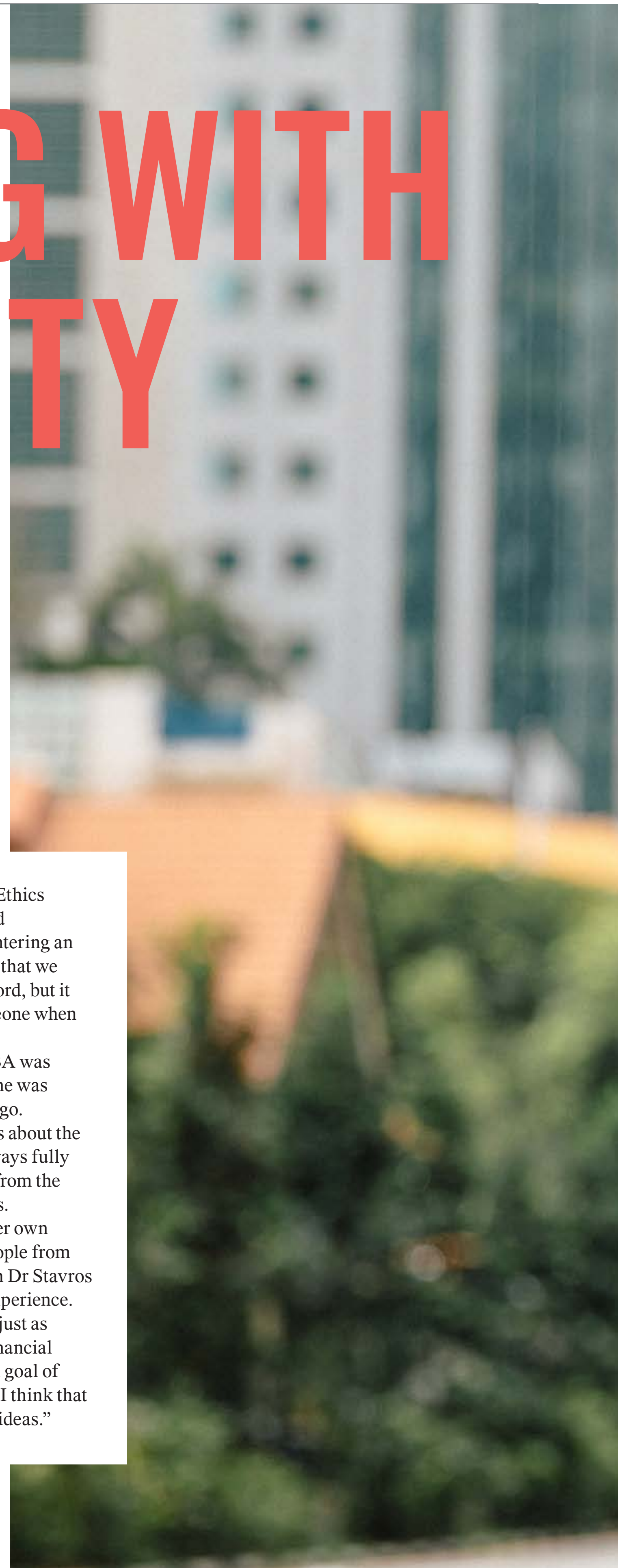
In order to have an effective whistle-blowing mechanism in place, an organization needs to deliver a strong anti-corruption message from the top, build a corporate culture of zero tolerance to fraudulent activities and hold fraudsters accountable for the legal consequences of their wrongdoings.

Organizations must alert their employees on how the mechanism works through disseminating clear policies and procedures, and arranging regular training, so that they know how to escalate the relevant unpleasant events to the appropriate level of management or those charged with governance with confidence. Besides, organizations should also extend their whistle-blowing policy to their stakeholders such as suppliers and customers as they are vital sources of information on organizational malpractices. This can be done through posting the organization's whistle-blowing policy on its website or communication correspondence via email.

An organization should specify where or to whom a complaint should be raised, such as to an appointed ethics officer or audit committee (in case of a public company), hotline, and provide contact details. Depending on the nature or the seriousness of the concerns reported, the audit committee may recommend to the board to conduct a separate investigation by independent consultants to determine if fraudulent activities exist.

Some of the key elements of a whistle-blowing policy may include, but not limited to:

- Handling and dealing with the concerns of the whistle-blower seriously and appropriately.
- Maintaining the confidentiality of the whistle-blower's identity. He or she will not be punished even though the concerns reported based on reasonable suspicion turns out to be untrue.
- Discouraging any malicious and unfounded grievances made by stakeholders who may be subject to legal or disciplinary consequences.
- Precise and concise details of the concern being reported.



LEADING WITH INTEGRITY

Caroline Lee, based in Singapore, has been appointed Deputy Chair of the International Ethics Standards Board for Accountants for 2021. She tells Nicky Burridge what she is most looking forward to about the role and the current ethical issues she would like to help accountants navigate

Photography by Juliana Tan

Caroline Lee, incoming Deputy Chair of the International Ethics Standards Board for Accountants (IESBA), has first-hand experience of how hard it can be to speak up when encountering an ethical challenge at work. "I think it is a very Asian thing that we don't want to rock the boat and cause disharmony or discord, but it is important to have the courage to speak up and tell someone when something isn't right, even though it is difficult," she says.

Having the opportunity to bring an Asian perspective to the IESBA was one of the main factors that motivated Lee to sit on the board when she was first nominated by her firm, KPMG in Singapore, nearly five years ago. "Although the IESBA is an international board, I felt that discussions about the International Code of Ethics for Professional Accountants didn't always fully consider nuances about the Asian experience or unique perspective from the East, so I wanted to bring that Asian voice to the board," she explains.

She adds that she has also benefited from being able to broaden her own outlook and perspective through working with a diverse group of people from different backgrounds at the IESBA, including the board's Chairman Dr Stavros Thomadakis. "The two of us have very different backgrounds and experience. He is very respectful of my views and perspectives as a practitioner, just as I am equally respectful of his views given his past experience as a financial economics professor and regulator," she says. "We have the common goal of developing international ethical standards in the public interest, and I think that encourages us to be thoughtful, strategic and to be innovative in our ideas."

Encouraging adoption of the code

When Lee takes up the post of Deputy Chair of the IESBA at the beginning of 2021, her new role will require more interaction with the Consultative Advisory Group, the Public Interest Oversight Board, the Forum of Firms and other stakeholder groups, as well as greater connectivity and coordination with the International Auditing and Assurance Standards Board (IAASB).

One aspect of the position she is particularly looking forward to is working to expand the influence of IESBA's code and encourage greater adoption. "The board developed the code of ethics to provide professional accountants a strong foundation of ethical principles, values and standards to under pin trust in the global accounting profession," she says. "This trust is exceptionally important in this disruptive, dynamic, uncertain world that we are currently in and from that perspective it is important that the code is accepted on a global basis."

While the code in its revised and restructured form has been adopted in almost 100 countries and jurisdictions, and is used by most major accounting firms in performing transnational audits, Lee would like to see it adopted more widely not only by other jurisdictions, she also thinks other professionals, such as directors and business advisors, should adopt it. She explains that one of the biggest challenges professional accountants currently face in their work is that not everyone in the financial ecosystem has the same high ethical standards that they do. "If you have a situation where the professional accountant is the only person in an organization or financial ecosystem who feels they have to be the ethical party, it is easy for them to be influenced by group think and want to conform with the behaviour of the larger group," she says. To this end, Lee would like the IESBA to engage more with different stakeholders in a bid to encourage professional accountants and other financial professionals to adopt and accept the code.

A large part of Lee's work on the board will be continuing to promote the IESBA's Strategy and Workplan for 2019 to 2023. The plan has three main themes, namely advancing the code's relevance and impact, and ensuring it remains fit for purpose in the changing environment; deepening and expanding the code's influence; and expanding the IESBA's perspectives through outreach and engaging with a wider group of stakeholders.

Lee adds that, after issuing a revised and restructured code, which came into force in 2019, the IESBA is now working on various projects including non-assurance services, fees, and a project to review the definition of public interest entities and listed entities. "These are huge projects that impact the international independence standards and are important to strengthening public trust in the auditing profession. Auditor independence is key to that public trust, and a perception of a lack of independence is best addressed through clear requirements and transparency of disclosure," she says.

While the IESBA hopes to approve its final pronouncements on the first two topics at its December meeting, an exposure draft on the definition of public interest entities and listed entities is anticipated in early 2021. Another project on tax planning and related services is still at the information gathering stage, as in-person meetings with various stakeholders have been impacted by COVID-19.

A changing environment

Lee thinks the code is particularly relevant in the current environment, as the COVID-19 pandemic has heightened the need for professional accountants to have strong ethical values. "When you have times of crisis and companies are not performing well financially, professional accountants might come under increased pressure, so their ethical values must come to the forefront."

She explains that the code aims to equip accountants with the direction needed to deal with tough situations through specifying a principles-based conceptual framework approach that all accountants are to apply to comply with the five fundamental principles they need to follow, namely integrity, objectivity, professional competency and due care, confidentiality, and professional behaviour. "They are broad enough fundamental principles that are easy to follow," she says. At the same time, she points out that organizations also have a strong role to play in building a culture that incorporates the same principles and values.

To help professional accountants through the current volatile environment, the IESBA has created a COVID-19 page on its website, bringing together resources and a series of "questions and answers" to remind accountants what is expected of them under the code and to help them navigate ethics and independence issues that might arise during the pandemic. The IESBA has also working with national standard setters, including the Hong Kong Institute of CPAs, to develop non-authoritative material on specific topics to help accountants during this period.

COVID-19 is not the only challenge professional accountants face, with Lee pointing out that the increased use of disruptive technology is also making the accountants' work and the services they provide increasingly complex. The IESBA has formed a Technology Working Group to consider the ethics implications of technological advances in areas

"When you have times of crisis and companies are not performing well financially, professional accountants might come under increased pressure, so their ethical values must come to the forefront."

Caroline Lee has more than 30 years of experience in the public accounting profession and is a partner at KPMG and Asia-Pacific Head of Quality and Risk Management.

Lee has been a board member of the IESBA since January 2017 and of its Planning Committee since January 2019, and has played an instrumental role on its projects to revise the fee-related provisions.

such as artificial intelligence, robotic process automation, big data and data analytics for people in accounting, assurance and finance functions.

Lee explains that the working group found and reported in a 2019 publication that as the code is principles-based, rather than being rules-based, it already provides high-level guidance for most of the ethical issues relating to technology that professional accountants might encounter. Even so, it still identified areas in which the code could be enhanced and developed specific recommendations, including in relation to strengthening the provisions for auditor independence where firms sold or licensed technology to audit clients, providing examples of the additional technical and enabling skills professional accountants needed in the digital age, and stressing the importance of accountability and transparency. The progress on the various recommendations are being actively monitored and, in some cases, progressed by an IESBA Technology Task Force which recently issued two surveys to inform its work.

The IESBA also plans to gather additional information on blockchain, cybersecurity, the Internet of Things and data governance, to understand better what impact these areas could have on professional accountants' ethical behaviour. Lee suggests that in order for accountants to keep pace with technology, they need to develop additional skills in this area to gain a greater understanding of how the technology works. "Technology is great in helping

"It was more important to me that my work was of value and made a contribution, and that I acted with integrity."

us with our work but as accountants, we need to understand the algorithm on which the technology is built, otherwise it is difficult to know if the solution is doing what it is supposed to be doing." She adds that even when technology is being used, professional accountants should still remember that their responsibility to act in the public interest remains the same.

A background in audit

Lee started her career at KPMG in Singapore more than 30 years ago, joining the firm after graduating from the National University of Singapore with a Bachelor of Accountancy. She decided to go into audit as this area interested her and she enjoyed working with different clients who operated in very different industries. "Every day you see something new, something different," she says.

For Lee the most memorable moment of her career was when she was made a partner 16 years ago. "Subconsciously, I might have aspired to be a partner, but on a conscious level, it was more important to me that my work was of value and made a contribution, and that I acted with integrity," she says. "But being recognized and admitted as a partner, notwithstanding the fact that I was in a non-client-facing role that wasn't revenue generating, was one of the highlights of my career."

She became involved in ethics and issues relating to independence following the Enron scandal in 2001, which led to significant rule changes governing accountants' independence. She credits her experience in this area with helping her with the work she does at the IESBA.

Lee says ethical issues have always resonated with her because of the importance she places on acting with integrity in both her professional and personal life. Five years ago, she took up the role of KPMG's regional head of Quality and Risk Management in the Asia-Pacific region, having previously led the Risk Management and Ethics and Independence teams in Singapore. "My current role gives me the opportunity to see more than just Singapore, and to interact with colleagues from across the region. This has really helped me bring perspectives from Asia to the board in the work I do in the IESBA."

She adds that having to guide leaders in KPMG's APAC firms to make the right decisions can sometimes be difficult, but she has a good relationship with her colleagues, and they understand that she is coming from a position of integrity.

Lee says the biggest challenge she faces in her work life is fitting everything in, as the IESBA makes a lot of demands on her time and she has to juggle it with her role at KPMG. This challenge is made worse by the fact that the IESBA board members all come from different time zones, so virtual meetings are often scheduled late at night for Lee in Asia in order to coincide with working hours in Europe, Africa and the United States. "It can be challenging at times, but it is worth every minute because it is very fulfilling," she says.

Lee jokes that when she is not working at KPMG, she spends most of her spare time working for the IESBA, although she adds that one of the few benefits of the COVID-19 pandemic is that she no longer has to travel. "I used to have to travel for my regional role and for IESBA meetings four times a year, three of which would be in New York, with the fourth tending to be in North America or Europe. Now I get the chance to be here in Singapore with my family which is a positive. Spending time with family is really precious."

Lee encourages both professional accountants and those in related professions to volunteer to do work with the IESBA. "The international standard-setting model is undergoing a transition, so we will be coming out with new skills matrix for board members. If anyone has skillsets that match these requirements, it would be a good opportunity for them to join and contribute. I think it is a wonderful opportunity to be involved with an international standard setting body," she says.

The IESBA has formed a Technology Working Group to consider the ethics implications of technological advances in areas such as artificial intelligence, robotic process automation, big data and data analytics for people in accounting, assurance and finance functions. More details on their technology project can be found on *www.ethicsboard.org.*

Key findings from the Institute's latest survey, *The COVID-19 Impact: A survey of PAIBs*

The impact of COVID-19 on Hong Kong businesses

COVID-19 has had significant impacts on businesses and society. Social distancing measures, restrictions on travel and group gatherings are but a few of the ways we have all been affected. But the world is adapting to these challenges, and businesses are adjusting their operations. With recent news reports containing good news about the effectiveness of vaccines developed in response to the virus, hope for a better 2021 without the pandemic is beginning to take root.

Ahead of the PAIB Virtual Conference 2020, the Institute carried out a survey of its professional accountants in business (PAIB) members in August, to find out how the pandemic was affecting their organizations and operations. Over 1,300 PAIBs completed the survey, with 85 percent of respondents from the corporate sector, and 15 percent in the non-profit sector for organizations including not-for-profit organizations, government, regulators and academia. Sixty-six percent of respondents were senior to middle management, with 21 percent executive-level and 13 percent junior. Meanwhile, 41 percent of respondents worked in the financial services sector.

Impact on operations

COVID-19 has seen lockdowns, mandatory closures of businesses, and volatility in financial markets. Slightly over half of respondents indicated that their organizations had faced difficulties due to this market volatility, which affected the corporate sector more than the non-profit sector.

The COVID-19 pandemic has also had negative impacts on the day-to-day operations of businesses. Over half of respondents reported very negative or negative impacts on revenue, customer demand, customer behaviour, business operations, supply chains, and employee engagement. However, fewer respondents reported an impact on their reporting and business development activities, such as new product releases and merger and acquisition activity.

Respondents also reported difficulties in their communications and people engagement, with over 40 percent reporting challenges. These were more difficult for those in the non-profit sector, at over 50 percent.

The pandemic has also required financial projections and budgets to be more dynamic. Of the respondents, 63 percent reported that their organizations had adjusted their financial forecasts for 2020, and just 12 percent reported they had not. Robust forecasting is important for the management of a company to understand the situation an organization faces, and determine the most appropriate responses.

Policies implemented by organizations

Across many areas, respondents reported that their organizations had developed or were considering developing new policies to cope with the disruption. Policies supporting flexible working, including working from home, were the most common. Work-from-home policies were established by over half of respondents' organizations, while 45 percent said their organizations had developed flexible working hours policies and 20 percent had them prior to the pandemic.

Regarding business policies, while many respondents from larger listed companies reported that their organizations had business policies already in place to handle a crisis, respondents from non-listed or privately held companies said their organizations had developed or were developing plans after the pandemic hit. Respondents at non-listed or privately held companies also indicated at double the rate of other respondents that that they did not have any such policies to cope with the pandemic. The survey suggested that data management policies were increasing as a consequence of the pandemic.

Preparing for the future

How quickly the world can recover from the pandemic will be instrumental in minimizing its long-term damage. For organizations to rebuild and recover, it is crucial for them to have the right business strategy. Overall, it appears from the survey that many organizations were taking a wait-and-see approach to adjusting their strategies. Half of the respondents were uncertain as to whether their strategy had changed, while a quarter said it had changed. The three most common changes reported were changing business plans, implementing new company policies (including work-from-home policies) and more use of digital services.

Preparing for the future requires organizations to invest in technology. Of the respondents, 43 percent indicated that their organization would invest more in technology. Harnessing the right technology is vital for organizations. Tools such as cloud computing can help PAIBs to discover trends in their data and make actionable recommendations based on up-to-date information, and can help organizations to better prepare for the future.

Read more about how PAIBs and their organizations have reacted to the pandemic in the Institute's latest survey, *The COVID-19 Impact: A survey of PAIBs*, available on the Institute's website.

"Over half of respondents reported very negative or negative impacts on revenue, customer demand, customer behaviour, business operations, supply chains, and employee engagement."

A NEW PURPOSE

With the accounting profession playing a key role in enhancing non-financial reporting to meet the demands of stakeholders, accounting students are currently not only learning about sustainability and corporate social responsibility, but also finding these topics engaging and purposeful. Dr Artie Ng is a CPA guiding them through it. The Deputy Director of School of Professional Education and Executive Development of The Hong Kong Polytechnic University tells Jemelyn Yadao his views on ESG reporting and how he ended up inspiring future accountants

Photography by Calvin Sit

While companies and regulators started paying attention to the importance of non-financial reporting around a decade ago, the academic world had already been exploring the topic for many years before that. According to Dr Artie Ng, Deputy Director of School of Professional Education and Executive Development of The Hong Kong Polytechnic University (PolyU SPEED), the origins of environmental, social and governance (ESG) reporting go back to one man – Robert Gray.

The late professor Gray was the Founder of the Centre for Social and Environmental Accounting Research (CSEAR) at the University of St Andrews in Scotland, an international network of academic researchers in the field of social and environmental accounting, and co-author of *Accounting for the Environment* (1993). "I met him at St Andrews nine years ago, and we built a connection and started collaborating via CSEAR," says Ng, a Hong Kong Institute of CPAs member. "At the time, people started thinking about corporate social responsibility (CSR) and he was the pioneer who spoke about environmental accounting more than 20 years ago, arguing that companies should be more responsible because the environment is connected to the operations of companies, like oil and gas companies. Unfortunately, he passed away this year. It was a huge loss."

Ng and Gray are similar not only in terms of their career trajectory – both worked in an accounting firm before pursuing academic jobs – but also in their deep interest in ESG reporting and sustainability. "More recently, in the last five or six years, ESG reporting has been driven by institutional investors. In Europe and the United States, there is talk about ESG risk, and there is a lot of research proving that if companies don't care about the environment and society, it would have a negative effect on their value. So people no longer care about it only for ethical reasons but also for practical reasons," Ng explains.

Ng coordinates the CSEAR North Asia Office, set up by PolyU SPEED in 2019. Earlier this year, it worked with BDO on a research report, *ESG Disclosures in Asia Pacific*, which looked into the 2018 disclosures of 500 Hong Kong-listed companies, focusing on ESG reporting quality, compliance and the breadth and depth of the information. "We found that a lot of companies are, yes, ticking a box. The better ones are the

Dr Artie Ng joined PolyU SPEED in 2008. He oversees quality assurance of a portfolio of articulation degree programmes across various disciplines offered by the school.

larger companies as there are more resources, more institutional stakeholders so they are more driven to produce quality reports. The ones with global operations also do a better job and have more disclosures, which makes sense because this is a global trend. Whereas the other mid-cap or smaller-sized companies need to catch up," says Ng.

To do that, Ng believes that companies need to allocate more resources to enhance data capturing capability or processes. "They have to have the data available, like the emission figures. I think a lot of smaller companies have tried to do that but they haven't allocated the resources as much as the large-caps. However, they could start with small-wins through embedding in their business activities that would improve environmental sustainability, such as through operating a greener office with energy savings, reduce and reuse measures, etc." Stronger commitment from corporate leadership and complementary culture is also critical, he adds. "We find that if you have senior management or governance that is really committed to ESG performance, they tend to have better disclosures, that's natural, versus those who think this is just a compliance exercise."

Enhancing ESG competency

Ng believes in the importance of developing ESG competence among the next generation of accountants. "If accountants want to be relevant, we need to incorporate these kinds of topics more formally into the curriculum, into the training of the future generation of accountants," he says. "It has to be an interdisciplinary approach. You can no longer have a rigid framework about the concept of accounting and finance. Financial management is ultimately about managing both financial and economic resources for the good, not only maximizing profit. For instance, commitments that enhance social and environmental sustainability of the community would be remembered by the broader stakeholders, including the customers and investors. We have to strike a balance between finance and ESG, and think more long-term beyond short-term gain. CPAs, when well equipped with such pertinent knowledge, would likely to be an ideal internal advisor on optimizing the allocation of resources among the competing interests."

"It has to be an interdisciplinary approach. You can no longer have a rigid framework about the concept of accounting and finance."

This need for accountants to have interdisciplinary skills, driven by an ever-changing business environment, will attract more students to study accounting, believes Ng. "Young people today have the perception that working for a big accounting firm means intensive work and long hours and they will question, what is the purpose? With ESG and sustainability reporting, the answer is, it's beyond just profit reporting, it's about a more sustainable world and society."

PolyU SPEED's accounting degree programme consists of a compulsory year-four subject called corporate social responsibility. "We continue to update the content. More recently, we incorporated topics like ESG issues and sustainability issues."

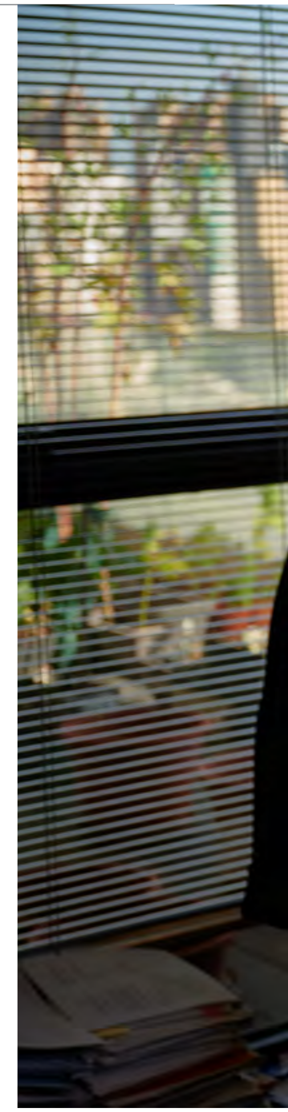
In the final year, students have to complete a research project, or Capstone project, on contemporary issues that are pertinent to the accounting profession, including ESG and sustainability. Ng is a supervisor for this project. "Conducting research on real-life cases through reviewing annual reports of listed companies is one of the approaches adopted for these final-year projects," says Ng. "If their topic is related to ESG or sustainability, we encourage them to look at the annual reports of three or four companies in the same industry, not only in Hong Kong, but in China or the U.S., and compare how they report on CSR and sustainability issues, find out which is a better guide, and how Hong Kong can do better in the future. We find it very useful because students open up their minds about the world when making these comparisons."

He notes that more than half of the students would choose to focus on a topic related to CSR and sustainability. "I ask them, 'why did you choose that topic?' They say they think the environment is important, they care about environmental sustainability and how a company can be more responsible for benefit of society."

A crowded space

Ng, like most people in the field, sees the multitude of global non-financial reporting frameworks that are currently available as adding confusion to the work of those preparing ESG reports or providing assurance on those reports. He would like to see an alignment of the different frameworks. "It's still evolving. I think ultimately there should be one global framework with certain principles to follow, but there should also be flexibility according to a company's industry, in my opinion. It is encouraging to note that IFRS Foundation has recently started a consultation on

On 30 September, the IFRS Foundation published a consultation paper on sustainability reporting, proposing to create a Sustainability Standards Board under the governance structure of the IFRS Foundation to develop global sustainability standards. Read more about environmental, social and governance reporting and assurance on page 8.



a global approach to sustainability reporting."

In the meantime, according to Ng's observation, most listed companies in Hong Kong are adopting certain standards, such as the Global Reporting Initiative standards, in their reporting approach, while at the same complying with the Hong Kong Stock Exchange's (HKEX) ESG Reporting Guide, first released in 2015. "I'm a member of the Institute's Sustainability Committee, and we have looked into all these different standards. I think the HKEX's ESG guide is a good example of how a regulator can integrate the more globally accepted standards into a guideline for listed companies in Hong Kong to apply. I think this is a very good approach," Ng says. He also highlights why he feels it is important for him to serve on the committee. "I'm happy to be able to contribute from a more academic perspective and because I think it's important for the next generation of accountants and this generation to update themselves about ESG and sustainability issues," he says.

Ng notes that while it's good to see growing enthusiasm around the importance of ESG among professional accountants, establishing solid ESG disclosure practices takes time. "Its early days. Accountants working in listed companies are looking into how to do the reporting when they are asked by the chief financial officer to produce an ESG report. What should be the approach? Where should they start? I think education and training is really important," he says.

"I think ultimately there should be one global framework with certain principles to follow, but there should also be flexibility according to a company's industry."

The best approach, he believes, is for companies to have the internal capability to implement good disclosure practices and review ESG-related data on a quarterly basis. "Whether it's about the energy saving practices of the past three months, or how much paper was used. Is the green policy effective? So I think internally, they have to have a system to report and monitor, then they have the data captured in the process. By year-end, they will have all the historical information on what they have done ready for auditors."

A major change

As well as being Deputy Director, Ng is also Programme Director of the SPEED's articulation degree programmes, including accounting and engineering, overseeing quality assurance (QA) to make sure those programmes follow the QA framework of PolyU. "Through seeking input from the industry on a regular basis as well as being an active researcher, we make sure the programmes are relevant to the profession and society, and that we enhance the employability of our students," he says.

His responsibilities also include promoting research activities as Chairman of SPEED Research Committee. "We are now eligible to apply for research funding from the Research Grants Council of the University Grants Committee, so I facilitate the application process to encourage colleagues to apply for funding." In October, PolyU SPEED was awarded about HK$3 million for the establishment of its third research centre – Research Centre for Green Energy, Transport and Building. "I'm one of the members of that application. It was quite a competitive process."

Ng says that his previous experience as a consultant at Coopers & Lybrand (now PwC) comes in handy today as a member of the management team. "I still remember the partner telling me that one of the most important skills a consultant should have is listening, not just talking," he says. "In this type of institution, it's good to be a good communicator and someone who can interact effectively with both academic colleagues and students. It's also important to listen to students' feedback and concerns, and find ways to address them in a timely manner."

After Coopers & Lybrand, he worked as an analyst in the power sector on direct investment and project finance for a few years before deciding to go back to school, this time as an educator. "I was always interested in pursuing an academic career. I think it's about the pursuit of new knowledge and the transfer of knowledge to the next generation that attracts me," he says.

Ng took a job as a part-time MBA tutor at the Open University Hong Kong and switched to full-time teaching when he joined PolyU SPEED in 2008. But his first foray into teaching took place much earlier. "I was a statistics tutor when I was an undergraduate student at California State University. Hong Kong had very good mathematics education during my time, so I did pretty well in my statistics course in the U.S. The tutorial centre was hiring so I thought I could make some money. So it all started back there." He was also a computer lab tutor when he later studied for his MBA at the University of Toronto.

One of his undergraduate university professors had a huge influence on the way he views the world and his subsequent decision to go into teaching. "When I was

Prior to developing his career in business education, Dr Ng worked at Coopers & Lybrand (now PwC) and in project finance within the power sector.

studying international business at California State University, my professor was an economist, Professor Alan Rufus Waters – I still remember his name. He worked for Asian Development Bank and shared a lot of stories about the U.S.-Japan trade war that was going on at the time and international developments, which was eye-opening for a young guy from Hong Kong. I enjoyed getting a different perspective and learning how to be more pragmatic about issues," he says.

Those lessons prepared him for an academic career, he adds. "To do research you have to be a critical thinker about certain issues, and as a lecturer, you have to make theories practical for business students and make them think more dynamically about societal issues."

Collaborating for good

Ng doesn't teach as much as he used to these days as he has more of an administrative role, but he still keeps himself updated on the latest business and accounting developments. "We have to continuously keep ourselves updated to make sure students get, if not the latest knowledge, the most relevant knowledge, especially in business education, so it keeps us very busy."

When he does find the time, Ng likes to exercise and go to the gym. What he enjoys the most, however, is writing research papers in collaboration with other academics about topics such as sustainability accounting and green finance. "It's good to work with other colleagues within our school because sustainability is an interdisciplinary field," he says. "Also, I'm not an expert in everything but if I work with an expert in China then we can explore some China-related issues then discover something interesting as a result."

Indeed, collaborating and meeting up with academics around the world is a highlight of his job for him. "We meet up during the annual CSEAR conferences at St Andrews, but these days we interact through webinars," he says, as he flicks through his copy of *Accounting for the Environment*, and stops at a page displaying a handwritten message from his friend, professor Gray. "I consider them as my community, it's not really work."

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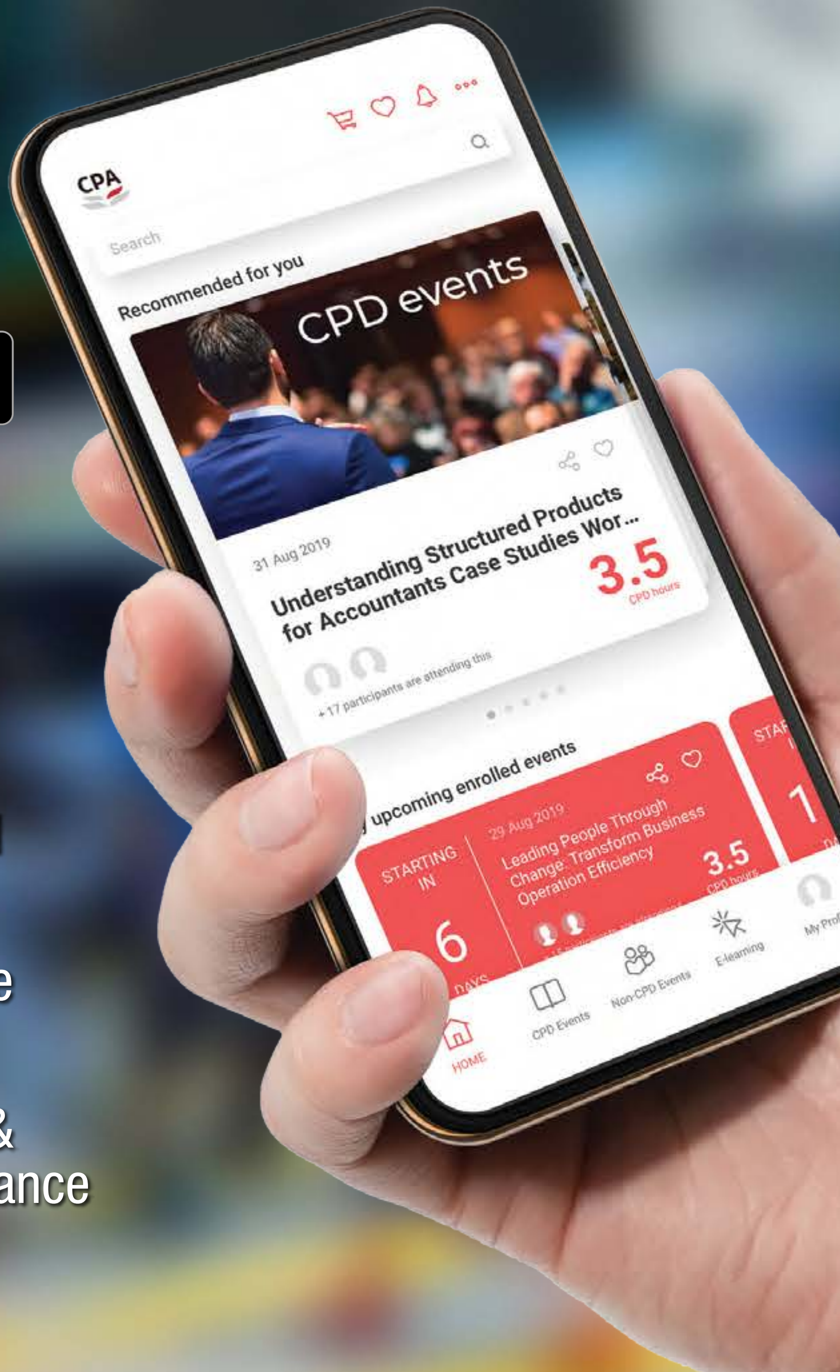

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by Darryl Parrant and Pearl Yung

Parrant, Career Business Leader, Hong Kong and Yung, Senior Consultant, Employee Experience and Employee Value Proposition, Hong Kong at Mercer, on building thoughtful strategies for a successful blended workplace

How to transition to a hybrid work environment

While the COVID-19 pandemic may have forced companies into the largest work-from-home experiment in history, employers across the globe are now turning what they reckoned was a temporary measure into permanent reality. A silver lining amid the crisis – the pandemic has proven that flexible working works.

More than 90 percent of employers say productivity has been the same or better as employees have worked remotely, according to Mercer's Global COVID-19 surveys. In Asia-Pacific, more than half of the employers expect more than a quarter of their workforce to continue working remotely – a huge contrast to pre-pandemic where less than a quarter of employers had a quarter of their workforce working remotely.

It's opened their eyes to new possibilities – increased employee engagement, access to expanded talent pools and greater workforce diversity. However, as employers seek to build an inclusive and robust flexible strategy for the future, they'll need to address three critical questions.

What flexibility is possible?

For some organizations, the pandemic will have revealed which jobs are flexible. And for others, it has become clear that many jobs can flex. Companies are offering staff permanent work-from-home arrangements. For example HSBC in Hong Kong has allowed staff to work four days a week from home, while Twitter has told staff they can carry on with remote working indefinitely.

Flexing at scale requires an examination of the work and its capacity to flex on five dimensions: where, when, how, what, and who. You can assess any role's "flexibility quotient" against these dimensions.

What flexibility is desirable?

Employers and employees need to come up with a shared understanding of what types of flexibility are desirable (employee preferences) and achievable (business imperatives and the demands of each role). Using human-led design to approach flexibility is critical as, ultimately, people need to buy into the change and see their organization offer work models that are desirable for them.

Leaning into only one model of flexibility – such as a purely remote working model – may alienate current and prospective employees who crave a return to the office, face added burdens of care responsibilities or ineffective workspaces at home. Likewise, other dimensions of flexibility, such as the ability to start later or job-share may be desired and achievable for non-office based jobs.

With five generations now in the workforce, employers might be surprised to learn what employees want. Employees are a great source of ideas on how to work differently. Utilizing surveys, preference games, persona workshops and/or focus groups can allow different employee segments to offer insights. These insights, in turn, can help shape a strategy that works for the whole workforce. Employers who allow employees to personalize their own employee experience – by "tapping in" to flexible alternatives made available to their role – will gain a competitive advantage in the quest for top talent.

How should I sustain flexibility?

Simply putting a flexible working policy in place and announcing the change via email is not sufficient. Employers need to assess their readiness for supporting long-term flexibility at scale. This requires a focus on three key tenets of success:

Foundational enablers that establish the building blocks in the areas of culture and collaboration, legal and regulatory, leadership and management, change management and communication. What will leaders and managers need to operate in a flexible working environment? How can you build a culture of trust and support managers to support flexible working?

People programmes that evolve for a new way of working in the areas of learning and advancement, compensation and benefits. How do you ensure fully remote workers are not disadvantaged for promotion compared to in-office workers? What is required to support a remote workforce's well-being? What mechanisms will you need to identify and promote top talent that work more flexibly?

Infrastructure that provides resources to drive successful execution such as physical location and digitalization. How will you change the utilization of real estate space to support the new model? What technologies will support virtual collaboration?

Where to start

The transition to a blended work environment starts with understanding where you are today and developing a clear vision of flexible working that aligns with your business objectives and workforce needs. How you bring your vision to life is equally critical. Employers need to translate that vision into actual employee experiences that are meaningful and valuable or it may bring more harm than help. Finally, companies need to consider how to make their flexibility strategy sustainable for the long term.

There is no doubt the pandemic has challenged and changed the world of work, but with the right vision, thoughtful strategies and a holistic approach, the hybrid workplace will emerge as a change for the better in the post-pandemic world.

Making financial decisions in real life: deviating from financial theories

Finance practitioners and investors and have to make financial decisions that may involve their own, their clients' or their companies' money, on a day-to-day basis. M.K. Lai's e-Series on behavioural finance will help CPAs to understand how people's behavioural aspects may compromise the quality of their financial decisions

M.K. Lai is the Principal Consultant of Executive Training and Management Consultancy Company Limited. He has been offering quality training and consulting services to a wide variety of financial institutions, academic organizations and professional bodies for more than 20 years. He obtained a doctorate degree in finance from the London Business School. He is a CFA Charterholder. He has also published four professional books, a number of study manuals for professional bodies' examinations.

Many accountants learn financial theories at some point in their career. However, most of them may not be aware that there are a number of implicit assumptions behind these theories. For example, they may not know that rational human beings – those who receive information and are able to interpret it without bias – are only concerned about the investment characteristics of risk and return, and are likely risk-averse.

Judging from the personal experience of an accountant, however, these assumptions are unrealistic and invalid when real-life financial decisions are involved. In reality, human beings are often irrational and sometimes impulsive. Impulsive shoppers, for instance, don't intend on buying anything upon entering a department store, but will always end up purchasing something before leaving.

Different people may also receive different sets of information, which is known as information asymmetry. For example, corporate directors and managers know more about the quality of their own companies than outside investors. Obviously, people can only make financial decisions based on the information they receive.

Human beings may not have the ability to fully assimilate and interpret the information they obtain, and they are susceptible to a number of behavioural biases when making financial decisions. For example, one's source of income may affect risk attitude. If one earns their income through hard work, that individual might be more conservative when it comes to making investment decisions.

People not only care about the risk and return of an investment, but can also be affected by their religious beliefs, environmental, social and governance issues and social responsibilities. That is why Islamic bonds, green funds and socially responsible funds exist in financial markets.

Human beings can also be both risk-seeking and risk-averse at the same time, which might explain why they buy lottery tickets on the one hand and purchase insurance policies on the other.

Behavioural finance is a budding field that seeks to explain how people actually make financial decisions from a psychological perspective and other behavioural disciplines. My courses try to provide a systematic way for accountants to understand the complexity and subtleties in how people make real-life financial decisions.

About the courses

In the e-Series course "Investment Biases that Every Accountant Should Know," participants learn about the investment biases that are most likely exhibited by Hong Kong investors. Furthermore, they learn how to apply behavioural finance concepts in different finance areas including investment, wealth management, and corporate finance.

In the e-Series course "Personal Risk Profiling that Every Accountant Should Know," the focus is on the application of behavioural finance in personal risk profiling, which is a very important step in wealth management. The objective of personal risk profiling is to determine the risk tolerance of a client. In practice, it is achieved through a risk profile questionnaire and structured interviews. Behavioural finance can help us to understand the different dimensions of risk profiling in a more enlightened manner.

Behavioural corporate finance is a field that explores the behavioural aspects that compromise corporate directors and managers from making optimal corporate financial decisions, such as financing, investments, mergers and acquisitions, payout policies, working capital management and financial risk management.

The central theme of these courses is to help participants understand that when people make financial decisions, they are susceptible to many behavioural factors and hidden agendas, which are otherwise not discussed in financial theories. Accountants must broaden their horizons and open up their minds to these subtleties if they want to understand how corporate managers and investors make financial decisions in the real world. Above all, it is an important way for accountants to add value to and improve the quality of their financial decisions with respect to their employers or their own investments.

Members can enrol in both e-Series courses on the Institute's website.

An overview of the OECD's Base Erosion and Profit Shifting 2.0 Pillar One blueprint

OECD releases BEPS 2.0 Pillar One blueprint on the allocation of taxation rights between jurisdictions and invites public comments

Background

On 12 October 2020, the Organization for Economic Cooperation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting released two detailed "blueprints" in relation to its ongoing work to address the tax challenges arising from the digitalization of the economy. The OECD welcomes comments on the proposals by 14 December 2020, and will hold a virtual public consultation meeting in mid-January 2021.

This article considers the Pillar One blueprint, proposals which address the allocation of taxing rights between jurisdictions and considers various proposals for new profit allocation and nexus rules. The blueprint contains three elements:

(a) New taxing rights for market jurisdictions over a share of the (deemed) residual profits of a multinational enterprises group (MNE) or segment of such a group (Amount A)
(b) A fixed return for certain baseline marketing and distribution activities taking place physically in a market jurisdiction (Amount B)
(c) Processes to improve tax certainty through effective dispute prevention and resolution mechanisms

Looking ahead, the blueprint references the need for the framework to focus on the remaining political and technical issues, including issues related to scope, quantum, the choice between mandatory and safe harbour implementation, the new tax certainty procedures with respect to Amount A, and enhanced tax certainty procedures for issues beyond Amount A.

Amount A

Scope

Regarding the scope of Amount A, two types of tests would apply, namely, the activity and threshold tests.

The activity tests are designed to capture those MNEs that participate in a sustained and significant manner in the economic life of a market jurisdiction, without necessarily having a commensurate level of taxable presence in that market under existing nexus rules. This covers MNEs in either or both of the following categories: automated digital services (ADS) and consumer-facing businesses (CFB).

ADS are generally defined as services that are both automated (i.e., the provision of the service to a particular user requires minimal human involvement) and digital (i.e. provided over the Internet or an electronic network). It was noted in the blueprint that ADS could be provided remotely and to markets where the MNE has little or no infrastructure to a large number of customers (or users).

The definition of ADS is comprised of positive and negative lists of activities and a general definition. The positive list includes online advertising services, sale or other alienation of user data, online search engines, social media platforms, online intermediation platforms, digital content services, online gaming, standardized online teaching services and cloud computing services.

An activity on the negative ADS list is not an ADS activity. The negative list includes customized professional services, customized online teaching services, online sales of goods and services other than ADS, revenue from the sale of a physical goods irrespective of network connectivity, and services providing access to the Internet or other electronic networks.

If an activity is not on either list, the general definition applies. The general definition is included as a supplement to the two lists to account for the rapidly changing nature of digitalized business models.

CFB are businesses that generate revenue from the sale of goods and services of a type commonly sold to consumers, including those selling indirectly through intermediaries and by way of franchising or licensing. To be considered a CFB, the MNE should be: (i) the owner of the consumer product/service and holder of the rights to the connected intangible property (including franchisers and licensers); or (ii) the "retailer" or other contractual counterparty of the consumer.

The following activities are specifically excluded from Amount A: certain natural resources; certain financial services; construction, sale and leasing of residential property; and international airline and shipping businesses. For activities that may be both ADS and CFB, the ADS definition applies.

The threshold tests for Amount A are divided into (i) a global revenue test and (ii) a de minimis foreign in-scope revenue test.

The €750 million threshold that is used for country-by-country reporting purposes would be used under the global revenue test. Under the de minimis foreign in-scope revenue test, revenue from the in-scope activities (i.e. from ADS or CFB) should be determined first. Then, one should check if this revenue is related to "foreign" activities. The blueprint uses a threshold of €250 million in an example illustrating this test.

In order to deliver a solution in 2020 in accordance with the original G20 mandate, some jurisdictions advocated for a phased implementation with ADS coming first.

As an alternative to an activities-based test for scope, the United States has proposed implementing the new taxing right on a "safe harbour" basis, which would enable an MNE to elect on a global basis to be subject to Pillar One. Many jurisdictions have expressed scepticism about such an approach.

Nexus

The blueprint sets out different nexus

rules for ADS and CFB. For ADS, nexus would be established by exceeding a market revenue threshold. Because through the provision of ADS, MNEs can participate in the economic life of market jurisdictions without a physical presence, a revenue threshold is the only test to establish nexus for ADS.

For CFB, the nexus standard requires a significant and sustained engagement in the market jurisdiction beyond mere sales. The "plus factor" is a subsidiary or permanent establishment (PE) that carries out activities in the market jurisdiction that are connected to in-scope sales. This plus factor would entail a physical presence test with relevant sales-related activities.

Further work on the nexus requirements will relate to the decision whether to apply a temporal requirement to avoid the effects of isolated or one-off transactions and consideration of the possible use of a lower nexus standard for smaller developing countries and higher thresholds for large markets.

Revenue sourcing

The sourcing principles differ between ADS and CFB – and these broad categories are further subdivided based on business model. Each type of activity has its own set of sourcing rules, supported by a range of specific indicators. The blueprint also provides guidelines on documentation requirements, including the MNE's internal control framework.

Tax base determinations

MNEs are permitted to rely on the Generally Accepted Accounting Principles (GAAP) used by the ultimate parent entity (UPE) in preparing consolidated financial accounts, provided this standard produces equivalent or comparable outcomes to International Financial Reporting Standards (IFRS). Profit before tax from the consolidated profit and loss statement prepared based on IFRS should in general be used as the starting point for the calculation.

To account for losses, the Amount A tax base rules will apply consistently at the level of the group or segment irrespective of whether the outcome is a profit or loss. Any losses arising from a taxable period will be preserved and can be carried forward to subsequent years through an "earn-out" mechanism. Losses from one segment will not be available to offset losses in another segment.

Profit allocation

The Amount A formula is comprised of three distinct components rather than based on the arm's length principle:

Step 1: A "profitability threshold" to isolate residual profits potentially subject to reallocation.

Step 2: A "reallocation percentage" that defines the share of residual profits (actual profits minus the profitability threshold), or allocable tax base, that is allocated to market jurisdictions.

Step 3: Use of an allocation key to allocate the allocable tax base among the eligible market jurisdictions.

The allocation key (step 3) defines the mechanism for allocating the Amount A profit to eligible market jurisdictions (i.e. jurisdictions with Amount A nexus). The allocation is based on in-scope revenues and could be implemented through either a profit-based or profit margin approach.

The issue of double counting

Amount A is an overlay to the existing income tax system, and interaction with that system could lead to duplicative taxation. Specifically, if the existing system already allocates residual profits to market jurisdictions, such profits may be taxed twice through regular transfer pricing rules and again through Amount A. Accordingly, a "marketing and distribution profits safe harbour" is included in the blueprint as an option.

The safe harbour attempts to address situations to which the Pillar One rules were not intended to apply. This would be particularly relevant for decentralized businesses that realize residual profits in a large number of entities and jurisdictions. The title of the safe harbour suggests that this issue of existing in market residual profits is only relevant for CFB. However, it is not clear why the same should not apply to ADS business models where in market residual profits are realized and taxed.

Amount B

Amount B is intended to standardize the remuneration of related party distributors that perform "baseline marketing and distribution activities" in a manner that is aligned with the arm's length principle. These rules are intended to simplify the administration of transfer pricing rules and reduce compliance costs, while also enhancing tax certainty and reducing controversy. Amount B will apply to entities or PEs with existing nexus, and as such is not related to the new nexus rules of Amount A. Importantly, the scope limitations of Amount A relating to the activity tests and threshold tests are not applicable to Amount B.

The controlled transactions in scope of Amount B could consist of (i) the purchase of products from related parties for resale to unrelated customers predominantly, and the associate performance of baseline distribution activities; and (ii) the performance of baseline marketing and distribution activities in the state of residence, transacting or dealing with a foreign associated enterprise.

Amount B would apply to distribution activities that according to the accurate delineation of the transaction would be characterized as a routine distributor. Marketing and distribution activities will be identified as in- or out-of-scope activities by reference to defined "positive lists" and "negative lists" of qualitative factors. These lists include examples of functions, assets and risks that would be (positive list) and would not be (negative list) expected of a distribution entity with baseline activities. Certain quantitative factors would also be used to further support the identification of in-scope activities. The current intention is for Amount B to apply to a relatively narrow scope of entities that would generally be characterized as a routine distributor in relation to a controlled transaction, excluding commissionaires and sales agents. However, some inclusive framework members want to explore the feasibility of broadening the scope.

The quantum of Amount B and thereby the remuneration for the baseline marketing and distribution activities will be determined using the transactional net margin method. A rebuttable presumption may be introduced for cases where evidence is provided that another transfer pricing method is the most appropriate method to use.

Amount B would be implemented through domestic law or regulations. The blueprint indicates that existing treaties can resolve disputes over Amount B. Where there is no treaty in place, a new treaty-based dispute resolution mechanism may be required.

Tax certainty and dispute resolution

Regarding Amount A, a mandatory binding dispute prevention process that aims to address in advance potential issues regarding Amount A was proposed – such as the correct delineation of business lines and calculation of profits, the existence of nexus, or the identification of paying entities. The process would be based on an MNE's self-assessment that would be reviewed by a representative review panel in the first instance and, if no agreement can be reached at that stage, by a determination panel in the second instance. The agreement reached in this process would be binding on all relevant tax administrations and on the MNE.

The tax certainty approach beyond Amount A includes a number of steps, including dispute prevention, use of the existing mutual agreement procedure (MAP), as well as a new mandatory binding dispute resolution mechanism. For developing countries, elective binding dispute resolution is contemplated.

Finally, the inclusive framework is exploring a mandatory binding dispute resolution for MAP cases that remain unresolved after an agreed period. The inclusive framework would agree on the defined period after which the dispute resolution mechanism would be triggered and the mutual agreement would be submitted to a panel of experts (a determination panel) who would reach a decision.

Implementation and administration

The blueprint indicates that the implementation framework for Pillar One is yet to be developed. This will require action across three different aspects: domestic law, public international law and guidance to supplement these two elements.

On the key question of removal of unilateral measures, it is expected that any consensus agreement will require a commitment for such removal. However, no implementation guidance on this has been developed yet.

Conclusions

The proposals under Pillar One represent a substantial change to the tax architecture and go well beyond digital businesses or digital business models. These proposals could lead to significant changes to the overall international tax rules under which businesses operate. It is important for businesses to follow these developments closely in the coming months and to consider engaging with the OECD and policymakers at both national and multilateral levels on the business implications of these proposals. Businesses also should evaluate the potential impact of these proposed changes.

If no agreement can be reached by mid-2021, it is expected that many countries will introduce digital services taxes. Moreover, countries could introduce other elements of the Pillar One architecture through their domestic legislation, such as for example a variation of Amount B. If there is no coordinated global agreement, this would be expected to lead to a rise in double taxation and controversy.

A

This article is a summary of an EY Global Tax Alert, released on 19 October 2020

An overview of the OECD's Base Erosion and Profit Shifting 2.0 Pillar Two blueprint

OECD releases BEPS 2.0 Pillar Two blueprint on the implementation of the global minimum level of tax and invites public comments

On 12 October 2020, the Organization for Economic Cooperation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting released two detailed "blueprints" in relation to its ongoing work to address the tax challenges arising from the digitalization of the economy. The OECD welcomes comments on the proposals by 14 December 2020, and will hold a virtual public consultation meeting in mid-January 2021.

This article considers the Pillar Two blueprint, proposing a set of interlocking international tax rules designed to ensure that large multinational businesses pay a minimum level of tax on all profits in all jurisdictions, and focuses on Hong Kong implications and policy responses to the blueprint. The blueprint includes the following key elements:

- **The Global Anti-Base Erosion income inclusion rule and the undertaxed payments rule**: Connected rules that are intended to ensure large multinational groups pay tax at a minimum level in each jurisdiction in which they operate. These share common rules for scope, and for calculating effective tax rates (ETRs) and top-up amounts. Both rules only apply to multinational groups with consolidated global revenues of at least €750 million.
  - The principal rule is the income inclusion rule (IIR), which would trigger additional "top-up tax" payable in a group's parent company jurisdiction where the profits of group companies in any one jurisdiction are taxed at an ETR below a minimum. A switch-over rule would apply similarly to ensure branches are within scope.
  - An undertaxed payments rule (UTPR) acts as a backstop for low-taxed group companies not controlled by a parent company subject to the IIR.
- **The subject to tax rule (STTR)**: A separate rule that applies before the IIR and UTPR. Paying (source) jurisdictions would be able to charge a top-up tax in respect of specific types of intragroup payments made to other group companies, where the recipient jurisdiction has a nominal tax rate less than a minimum tax rate. The rule would be applied on a payment-by-payment basis, but could be calculated and administered by way of an annual return.

Implications of the GloBE rules for Hong Kong taxpayers

Groups with jurisdictional ETRs below the minimum

The Global Anti-Base Erosion (GloBE) rules would only apply where jurisdictional ETR falls below a certain minimum ETR at which point the IIR or UTPR would apply. Consensus has not been reached on the minimum ETR. However, examples in the blueprint use various tax rates between 10 percent and 12.5 percent. While these rates are lower than Hong Kong's headline tax rate of 16.5 percent, the presence of offshore claims or exempt capital disposals and other adjustments may decrease a group's ETR below the minimum.

Groups below the minimum ETR may be subject to top-up tax and may not be able to benefit from certain favourable aspects of Hong Kong's tax system such as exemptions, reliefs and incentives.

Inbound versus Hong Kong headquartered groups

Under the proposed rules, there would be a difference between groups that are inbound into Hong Kong and those that are headquartered in Hong Kong. Generally, where a group that is headquartered outside Hong Kong has implemented an IIR, the Hong Kong based operation would be subject to an IIR, such that top-up tax may be collected in respect of Hong Kong entities.

However, absent a change in domestic law, the Hong Kong operation of a Hong Kong headquartered group would not be subject to the IIR of any jurisdiction, while the part of the group that operates outside Hong Kong may be subject to top-up tax from another jurisdiction's IIR. In this instance, UTPR may be applied elsewhere in the group in respect of certain intragroup payments, and top-up tax may be paid in respect of the Hong Kong headquartered operation by those jurisdictions that have an ETR above the GloBE minimum and are therefore eligible to collect top-up tax under the UTPR.

As a result of limitations on the tax that can be collected under the UTPR, where intragroup payments are relatively low, groups may pay less tax overall through the application of the UTPR as compared to the IIR.

U.S. headquartered groups

While consensus has not been reached on treating the United States Global Intangible Low-Taxed Income (GILTI) regime as a valid IIR for the purposes of the GloBE rules, the blueprint specifically addresses the need to consider this issue further and outlines the rationale for treating GILTI as an IIR. If GILTI were to be treated as an IIR, this would effectively create a new category of taxpayers under GloBE – those with an ultimate, or in certain cases, intermediate, U.S. headquarters. While GILTI has certain similarities to the IIR proposed under GloBE, it also has significant differences, which may complicate jurisdictions' policy responses to GloBE.

Funds

The Pillar Two blueprint specifically excludes investment funds on broad policy grounds. The exclusion applies where the ultimate parent entity of a group that would be subject to GloBE qualifies as an investment fund. Currently, investment funds owned by a group that undertakes a non-investment management business are not covered by the exclusion, however the consultation document will explore further whether this is necessary, and how the exclusion could be broadened to cover these scenarios.

There is significant overlap between the investment funds exclusion under the blueprint and the unified fund exemption under Hong Kong tax law. While each fund and its subsidiary entities would need to be considered on a case-by-case basis, a significant population of funds that are incorporated, established, or administered in or from Hong Kong should be excluded from these rules. Importantly, offshore funds that are exempt under section 20AC of the Inland Revenue Ordinance, and do not qualify under the unified funds exemption, may not fall within the Pillar Two blueprint exemption based on the current definition of "investment fund."

Banks, broker dealers, and other share traders

Dividends received, and share trading gains and losses in respect of portfolio shareholdings would be included in the GloBE tax base of the recipient, whereas amounts in respect of non-portfolio shareholdings would not. The treatment of covered taxes would follow the inclusion or exclusion of income in order to provide symmetry. The conditions or thresholds to be met for a shareholding to be considered a portfolio holding are to be determined. However, portfolio shareholdings typically are shareholdings of a relatively low percentage, often less than 10 percent of the total ordinary shares issued.

Hong Kong does not tax dividends, or share trading gains in respect of transactions executed on an exchange outside of Hong Kong. Accordingly, groups engaged in share trading are likely to have relatively low ETRs, particularly where share trading represents one of their main activities and therefore may be significantly affected by GloBE.

Helpfully, covered taxes would be taken into account, and it appears that taxes in excess of the minimum ETR may be blended with those below the minimum ETR in order to reduce the top-up tax that an entity may be required to pay. Anti-avoidance rules would be introduced to prevent the intentional shifting of withholding tax to a jurisdiction in order to increase its ETR and thus reduce the amount of top-up tax payable. However, the focus of these rules is likely to be passive income and therefore commercial trading portfolio aggregation may be acceptable.

Life insurance companies

Several considerations are unique to insurance companies. Firstly, life insurance companies, particularly those taxed under the 5 percent net premium basis, are taxed in a manner that is entirely disconnected from the accounts. Applying the IIR or UTPR based on a minimum ETR in this instance could effectively change the basis of taxation for these insurance companies, and would likely lead to a significant increase in taxation. This will be further complicated by the implementation of International Financial Reporting Standard 17 *Insurance Contracts.*

The Pillar Two blueprint provides an exclusion for investment returns of life insurance policyholders where the policyholder is beneficially entitled to the investment return. However, for most investment-linked products written by life insurance companies in Hong Kong, the life insurer remains beneficially entitled to this income until it is paid to a policyholder. Accordingly, this exclusion would need to be broadened significantly in order to be useful.

Implications of the STTR for Hong Kong

The STTR would operate differently to the GloBE rules and reference a nominal minimum tax rate instead of a minimum ETR. The focus of the STTR is not on considering the jurisdictional ETR of the recipient, but on whether an individual payment would be subject to a minimum rate of tax under the tax law of the relevant jurisdiction.

Where a payment is not subject to a minimum nominal tax rate and a jurisdiction has ceded its taxing rights through a treaty, top-up tax may be applied in order to increase the applicable tax rate up to the minimum. The minimum nominal tax rate is yet to be determined, although it is likely to be below the minimum ETR used for the purposes of GloBE in order to reduce instances of over-taxation.

The STTR would apply before the GloBE rules and would be limited to certain payments between related parties.

The STTR could have significant implications for Hong Kong and due to its application to payments, could apply even where a group has a high jurisdictional ETR for purposes of the GloBE. Offshore claims and the use of incentives applying to related party payments such as the corporate treasury centre may be particularly affected.

Hong Kong policy response to Pillar Two

Groups with a Hong Kong jurisdictional ETR lower than the minimum are likely to be subject to top-up tax in respect of their Hong Kong operations, representing an overall increase in taxation for the group.

This is problematic for Hong Kong as its attractiveness may be eroded by the additional tax burden, particularly as the additional revenue would not be collected in Hong Kong, but by another jurisdiction. This additional tax burden may be interpreted as penalizing groups for operating in Hong Kong. Some may question the fairness of such a rule as limiting the fiscal policy options available to Hong Kong, which is a highly developed and fiscally responsible economy operating a low, yet robust, tax regime.

Given that top-up tax in respect of Hong Kong based operations likely would be collected by the tax authorities of other jurisdictions, Hong Kong may wish to consider introducing rules that would ensure that any such top-up tax must be paid in Hong Kong. Such rules could be tailored to align with the GloBE and STTR rules precisely so as to minimize the impact to groups that would not be affected by those rules. This should allow the jurisdictional ETR of the relevant multinational group to be raised to the minimum ETR through the payment of tax within Hong Kong. The additional revenue could then be used to further incentivize investment into Hong Kong.

As discussed above, Hong Kong headquartered groups would be affected differently than inbound multinationals. They could be subject to the UTPR, but should not be subject to the IIR of another jurisdiction. Accordingly, they may prefer not to pay a minimum tax in Hong Kong that is modelled on the GloBE and STTR. Consideration should be given to the policy approach towards these groups and whether differing rules are desirable in the context of fairness, harmful tax practices, revenue collection, and the general attractiveness of Hong Kong.

Overall, Hong Kong's ability to pursue certain fiscal policy aims may be curtailed by Pillar Two and Hong Kong will need to be mindful of the implications of Pillar Two when making policy decisions. Beyond attempting to retain and improve existing fiscal policy measures, it may be necessary to adopt a more nuanced policy approach in the future, recognizing the importance of a group's position under Pillar Two, and in particular its marginal tax rate, when making investment or rationalization decisions.

The article is contributed by ***Jonathan Culver****, Tax Partner, Deloitte China*

TECHNICAL NEWS

The latest standards and technical developments

Members' handbook

- Update no. 247 relates to the publication of *Amendments to Hong Kong Financial Reporting Standard (HKFRS)* 17 *Insurance Contracts*.
- Update no. 248 relates to the publication of Hong Kong Interpretation 5 (2020) *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*
- Update no. 249 relates to the publication of *Interest Rate Benchmark Reform – Phase 2*, which amends Hong Kong Accounting Standard (HKAS) 39 *Financial Instruments: Recognition and Measurement*, HKFRS 4 *Insurance Contracts*, HKFRS 7 *Financial Instruments: Disclosures*, HKFRS 9 *Financial Instruments* and HKFRS 16 *Leases*.
- Update no. 250 relates to the withdrawal of standards and interpretations which have been superseded by the issuance of new standards.

Financial reporting

Webinars on COVID-19 related financial reporting issues for 2020 reporting periods

The Institute is holding a series of webinars to highlight key financial reporting implications of COVID-19:

- 11 December. Expected credit losses accounting considerations under HKFRS 9 *Financial Instruments*
- 14 December. Application issues of HKFRS 16 *Leases* and recent amendments to HKFRS 16
- 16 December. COVID-19 related and common practical issues

IFRS Interpretations Committee's third *Compilation of Agenda Decisions*

The IFRS Interpretations Committee has published its third biannual *Compilation of Agenda Decisions*, which brings together agenda decisions from April to September 2020. The committee publishes agenda decisions when, following consultation, it decides further standard-setting is not required to deal with a question raised. For example, if existing requirements are adequate to answer the question.

Recording of the IASB research forum

A recording is now available for the 2020 IASB Research Forum held by the IASB and the Accounting and Business Research discussing some of the latest accounting research relevant to the IASB's work. Topics included the accounting for intangible assets, the impact of International Financial Reporting Standard (IFRS) 11 *Joint Arrangements* on the comparability of accounting information, and capital transition arrangements adoption and its effect on bank systematic risk under IFRS 9 *Financial Instruments.*

IASB October 2020 podcast and update

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

Auditing and assurance

Invitation to comment

The Institute is seeking comments on:

- Exposure Draft Technical Bulletin AATB 5 *Environmental, Social and Governance (ESG) Assurance Reporting* by 2 December.
- The International Auditing and Assurance Standard Board IAASB Discussion Paper *Fraud and Going Concern in an Audit of Financial Statements: Exploring the Differences Between Public Perceptions About the Role of the Auditor and the Auditor's responsibilities in a Financial Statement Audit* by 11 December.

IAASB's implementation plans for the quality management standards

The IAASB has developed implementation plans for the new quality management standards which explain implementation materials stakeholders can anticipate, topics covered, and expected timing.

IAASB issues communique on plans to address complexity, understandability, scalability, proportionally

The communique details the IAASB's efforts to balance the needs of all its stakeholders by developing a separate standard focused on less complex entities while simultaneously addressing complexity, understandability, scalability and proportionality in the International Standards on Auditing more broadly.

The role of auditors in company-prepared cybersecurity information

A publication by the Center for Audit Quality discusses the role auditors play in cybersecurity as it relates to the audit of the financial statements and how the auditor's role in cybersecurity could evolve beyond the financial statements to better meet the evolving needs of investors, senior management, boards of directors, and other pertinent stakeholders.

Auditing of revenue recognition

An article by Journal of Accountancy discusses tips for successful auditing of revenue recognition.

Ethics

ACCA white paper on ethics in a COVID-19 world

The Association of Chartered Certified Accountants (ACCA) has launched its white paper *Ethics in a COVID-19 World* exploring the role of ethics against the backdrop of the pandemic. It also highlights a number of examples in which the pandemic has increased the risk of ethical compromise.

CIMA new online ethics tool

The Chartered Institute of Management Accountants (CIMA) has launched a new online ethics decision tool designed to help accounting professionals make ethically sound decisions in tough situations.

Sustainability

Emergence of integrated reporting assurance

An article by the Chartered Accountants Australia and New Zealand discusses the emergence of integrated reporting assurance.

Corporate finance

Invitation to comment
The Securities and Futures Commission (SFC) has launched a consultation on the proposed requirements for fund managers to take climate-related risks into consideration in their investment and risk management processes, and make appropriate disclosures, to meet investors' growing demands for climate risk information and to combat "greenwashing." The deadline for submission to the SFC is 15 January 2021. Please refer to the press release for details.

Consultation conclusions on corporate WVR beneficiaries
On 30 October, the Stock Exchange of Hong Kong Limited (HKEX) issued consultation conclusions on its proposals to extend the current weighted voting rights (WVR) regime. See the press release.

After considering the feedback from respondents, for the time being, HKEX has decided not to implement the new proposals to permit primary listing of companies with corporate WVR structures, while secondary listings of such companies may be allowed, subject to specific conditions. HKEX explained that they will give more time for the market to develop a better understanding of Hong Kong's approach towards regulating listed companies with WVR structures and their controllers, and for regulators to ensure that the existing Chapter 8A regime operates as intended, which will help to inform any future amendments.

The Institute issued a response to the original consultation paper in May.

Corporate governance

Best Corporate Governance Awards
The 20th anniversary Best Corporate Governance Awards are nearing their final stages. The shortlisted listed companies and public sector organizations in the various corporate governance categories and the sustainability and social responsibility reporting section of the Awards have been referred to the judges for final determinations.

The results will be announced at the beginning of December.

Insolvency

Proposals for Corporate Rescue Bill
The government has issued a policy paper to the Legislative Council Panel on Financial Affairs, which proposes to introduce a long-awaited bill on corporate rescue into the Legislative Council in early 2021.

Taxation

Liaison meeting with the State Taxation Administration
The Taxation Faculty's China Tax Subcommittee recently held its annual liaison meeting with the State Taxation Administration, to discuss topical cross-border and Mainland China tax issues. The meeting notes are now available in both traditional and simplified Chinese.

Announcements by the Inland Revenue Department
Members may wish to be aware of the following matters:
- Orders on Comprehensive Avoidance of Double Taxation Agreements with Serbia and Georgia to be gazetted
- Legislative Council question on regulation of online fundraising activities
- Legislative Council question on provision of further assistance for people in need
- Legislative Council question on Innovation and Technology Fund
- Stamp Duty statistics

Legislation and other initiatives

Invitation by FSTB to comment on enhancing AML/CTF regulation in Hong Kong
The Financial Services and the Treasury Bureau (FSTB) has launched a consultation on legislative proposals to enhance anti- money laundering and counter-terrorist financing (AML/CTF) regulation in Hong Kong. The deadline for submission of responses to FSTB is 31 January 2021. Please refer to the press release for details.

FATF's publication on high-risk and other monitored jurisdictions and counter proliferation financing
The Financial Action Task Force (FATF) held its plenary in October, publishing three statements that may be of interest to members.
- The FATF decided to pause the review process for the list of high-risk jurisdictions subject to a call for action. Reference should continue to be made to the previously issued list adopted in February.
- The FATF gave the option for jurisdictions under increased monitoring to not report at the meeting given their focus on addressing the impact of the COVID- 19 pandemic. Nonetheless, seven jurisdictions chose to report.
- Finally, the FATF issued a public statement on counter proliferation financing, strengthening the global response to Weapons of Mass Destruction (WMD) proliferation financing. The FATF will also develop guidance to assist countries and the private sector in assessing and mitigating the proliferation financing risk.

AML notices
The list of individuals and entities under the United Nations Sanctions (Democratic Republic of the Congo) Regulation 2019 (Cap. 537CJ) was updated on 3 November. See the related United Nations Security Council 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.

Members may wish to be aware of the following case, involving serious deficiencies in AML controls, with the largest fines imposed by the SFC in its history: SFC reprimands and fines Goldman Sachs (Asia) LLC US$350 million for serious regulatory failures over 1Malaysia Development Berhad's bond offerings.

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

Team 0066 in training.

GOING THE DISTANCE

Oxfam Trailwalker 2020 has been postponed to January. Yet a group of Institute members taking part in the event continue to persevere as a team and as individuals to meet personal goals. Louise Tam talks to them about their journeys as dedicated trail walkers

Photography by Anthony Tung

When the social unrest that gripped Hong Kong last year led to the iconic Oxfam Trailwalker to be cancelled over safety concerns for the thousands of runners taking part, few would have believed the event would again be disrupted in 2020 – this time for an entirely different, yet arguably far bigger, reason. But that is exactly what happened.

The 100-kilometre race, which was founded in 1981 as a training exercise for the Queen's Gurkha Signals, when Hong Kong was still a British colony, and later opened to the public as a charity fundraiser, was due to take place in the gloriously autumnal month of November. But along came an unprecedented global pandemic, and the race found itself postponed to the frostier dates of 29-31 January 2021.

For one group of Hong Kong Institute of CPAs members taking part in the event, that delay has only given them longer to train, more time to finesse their team work, and a bigger build up of excitement. Luke Ma, Jeremy Chiu, Francis Yuen and Pearl Chau

Luke Ma, Partner at a Big Four firm, is the team leader.

are the members of team number 0066, and will be one of the 1,000 teams of four runners who will take part in the gruelling event, which is as much a test of the mind as of the body.

Within 48 hours, the quartet will aim to complete the MacLehose Trail, which is named after Sir Murray MacLehose, the longest-serving governor of Hong Kong, and a keen hiker himself who founded the city's protected and much used country parks. It begins in Pak Tam Chung, in Sai Kung Country Park, in the east of the territory, and ends at Tai Tong Holiday Camp, in Tai Lam Country Park, Yuen Long, in the far west, having snaked across mountains, old wartime pathways and reservoirs in the New Territories.

> "You need to look after your teammates and support each other to make sure everyone finishes the race altogether without leaving anyone behind."

Ma, Partner at a Big Four firm and leader of the team, was meant to be on the team last year, and has been on the sidelines before, having helped out in previous events at supply stations handing out refreshments to the Institute's Trailwalker teams since 2011. But that's not to say he is a novice – he has run 16 marathons already, all in the past six years, in locations including London, Chicago, New York, Tokyo and, of course, Hong Kong.

This event should be easy for Ma but he says there are key differences. "A marathon takes several hours, definitely not more than six or seven hours," he says, adding that the challenge is solo. "The easiest way to complete a marathon is to listen to your body, keep yourself hydrated and to keep running. It is rather straightforward."

Trailwalker, however, is a team sport, and will involve syncing his own timing and fitness with that of his teammates. "You need to look after your teammates and support each other to make sure everyone finishes the race altogether without leaving anyone behind," he says. Luckily, Ma is in good hands with his teammates, who have all taken part in the Trailwalker on multiple occasions before.

Jeremy Chiu, retired, has taken part in the Oxfam Trailwalker for the past decade.

Francis Yuen is the Chief Financial Officer of the Hong Kong branch of a Taiwanese bank.

Pit stop ready

Chiu is one of the most experienced members on the team, having taken part in the Trailwalker for the past 10 years. After he retired at the age of 60, he continued to participate in the event, saying it keeps him healthy. His two young sons are also involved in the sport of trail walking, and he says his wife would like to be, but a health condition holds her back.

Chiu says that the key to success in the event is training and preparation. Along the route are supply stations where the team will have friends and family on hand to give them supplies, such as snacks, water and a chair to rest on. That allows him to travel light. The event typically takes more than 24 hours, and to get through the trickier night sections requires full concentration and sometimes a 30-minute power nap at the rest stop. "But if there's no one there to support you, then you have to carry more," he says, stressing that getting these pit stops organized is imperative.

Experience has taught Chiu that Tai Mo Shan is the most gruelling part of the walk, and the section he will train hardest for. At 957 metres above sea level, the mountain is Hong Kong's highest peak, affording amazing views of the city on a clear day – and in January is likely to be chilly. It comes towards the end of the race. "This is very tough," he says. But once walkers are over the peak, they know they are on the home run, and that, says Chiu, is a wonderful feeling.

The great outdoors

Their third team member Yuen, is the Chief Financial Officer of the Hong Kong branch of a Taiwanese bank. Despite his busy schedule, he, like the others, still finds time to run twice a week, Wednesday and Saturday, and says that exercise provides much needed mental and physical balance to his life. Yuen loves to run by Kai Tak, the old Hong Kong airport, which is now a cruise terminal and is being redeveloped. There is a 12-km trail around this area that serves as his Trailwalker training ground.

Yuen remembers Tai Mo Shan well from the uncharacteristically cold 2016 race, when his raincoat had ice on it as he descended the steep peak in rainy weather. Personally, he is most looking forward to section three of the MacLehose Trail. It is a 10-km stretch and ranked as one of the hardest parts of the trail as it snakes through Sai Kung Country Park. Yuen says the view of Hong Kong looks beautiful in the distance from the hills, especially when training on it at night.

Pearl Chau is Planning & Insights Executive at a trading company.

"When you complete the trail with your team, your support team is at the very end and when the last team member has run across the finish line – that is a happy moment. We can feel the atmosphere."

His second favourite part, of course, is the journey's end. "When you complete the trail with your team, your support team is at the very end and when the last team member has run across the finish line – that is a happy moment. We can feel the atmosphere," he smiles.

Yuen is well aware there is a chance this year that the event could be further delayed by the pandemic, but thinks even if it is officially called off there are other ways to put their training to good use. Earlier this year, for example, he participated in a virtual London Marathon when that event was cancelled.

Keeping pace

Chau met her teammates through the Institute's Athletics Interest Group. The interest group encourages its members to take part in several group training sessions and then groups members together based on ability level and approach for the race.

Chau, who works as a Planning & Insights Executive at a trading company, says that when she first started taking part in the 100-km Trailwalker, her friends thought she was crazy. But as a keen athlete, she says preparing for the event allows her to keep focused on staying healthy. "It keeps me happy and feeling refreshed too," she says. She hikes every week, both with her teammates and sometimes alone. That, she says, provides a good work-life balance. "Even though you have long working hours, you still need to prioritize your time for exercise," she says.

"We have to practise together so that we can get used to the pacing of other teammates."

The biggest challenge for her of the race will not only be completing 100 km in under their target of 28 hours, but adjusting to the pace of the other participants. At times, when someone wants to run, others might want to walk or rest. "We have to practise together so that we can get used to the pacing of other teammates," she says. "It takes a lot of time to work on that."

Chau adds that good teams learn how to help each other with setbacks during a race, such as back aches, as well as leg and foot pains, and spot when a fellow teammate is tired or sleepy to offer help, perhaps by carrying their backpacks or holding their hand during a difficult section.

As the race day edges closer, there is one thing on all of their minds, which none of the more experienced team members have precedent for: the pandemic. Much of their outdoor practice for part of this year had to be done wearing a mask. With the trail heaving with thousands of runners, some are wondering if they need to wear a mask throughout the entire 100-km distance. "That is the million dollar question," says Ma, adding that wearing a mask could keep him from reaching his goal. "The Trailwalker will consume a lot of energy, and we all want to finish the 100 km with a good time."

Yuen admits that getting thousands of people together "in a cookie jar" situation at the start line is not the best idea. "So, I still have some hesitation," he says. Perhaps the best solution is to wear a mask at the beginning, then take it off as the teams naturally separate. Or the organizer might plan to dissipate that cookie jar situation.

For now, all four athletes are just focusing on what is in their control: getting fit for the race and improving their teamwork. "No matter how it works out, we still continue to train to prepare for the future," says Yuen, with a dedication to trailwalking that Lord MacLehose himself would have surely admired.

The MacLehose Trail, which is named after Sir Murray MacLehose, begins in Pak Tam Chung, in Sai Kung Country Park, in the east of the city, and ends at Tai Tong Holiday Camp, in Tai Lam Country Park, Yuen Long, in the far west.

BASY LI

Audit Manager
at Mazars CPA Ltd.

Basy Li, Audit Manager at Mazars CPA Ltd., has gone from a junior auditor to managing different people within each audit engagement. She tells *A Plus* how she juggles the needs of both her team and clients, and why a career in audit is anything but dull

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

As an Audit Manager at Mazars CPA Ltd., I'm responsible for ensuring the smooth completion of all audit engagements. Our clients are private entities, listed companies and initial public offering (IPO) applicants across various sectors in the Asia-Pacific region. Of these clients, I audit mainly listing applicants. During engagements, I need to be a coordinator and manage my team, our clients, lawyers and also the IPO sponsors. I help to resolve any issues and lead the team to finish the job. The job is going well. The wide range of exposure has provided me with opportunities to develop myself as an independent and experienced professional. Though it has been difficult, I've learned to appreciate each challenge.

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

The most challenging aspect is coordination. I have to manage many different individuals, so time management is crucial. I prioritize my tasks on a daily basis to ensure that I don't miss anything, especially tasks requested by those who rely on my work. Through continuous communication, I've built better relationships with my team and clients, and also expanded my social and business network. What's most rewarding is enhancing my knowledge through working with different people. It's rewarding to be able to build friendships with everyone through working on different projects together.

What inspired you to become an accountant?

When I was a secondary school student, I began taking an interest in maths and always strived for the best result. My interest in accounting also flourished in secondary school, as I began to understand its practical use in the business world through lectures from both my teacher and guest speakers – many of whom were successful business people. I admired their confidence and ambition, and aspired to become one of them someday. While pursuing my business degree in accounting in university, I met my mentor, who also reassured my decision of choosing accounting as a career path.

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 see myself growing even more at Mazars, where I've worked since I graduated. I've quickly gained experience by handling different types of audit engagements and by working with clients from various industries across multiple countries. This experience has broadened my horizons and developed my maturity. Before COVID-19 hit, I audited clients in different countries and travelled to places I never visited before, such as Malaysia. The people there were very friendly and the food was delicious. I enjoy working with clients from various cultures, speaking with them and understanding more about their practices and backgrounds.

What are the biggest lessons you have learned so far from work experience or managers?

I still remember crying tears of joy after my first audit engagement with a listing applicant saw them successfully list on the Hong Kong stock exchange a few years ago. Throughout the entire engagement, I wasn't just coordinating my own audit team, but also the client and various professional parties. Under the tight schedule and heavy workload, there was a lot of pressure to make sure everything was done and prepared in a timely manner. I realized that my job was much more than about auditing numbers, but also about communicating with people around me and knowing how to work as a team. Together, we shared, discussed and solved issues. We learned from each other and strived for excellence, which led us to success.

Which of the continuing professional development (CPD) courses did you find most helpful in your day-to-day work or in getting you to the next stage of your career?

I found a CPD course on International Financial Reporting Standard (IFRS) 15 *Revenue from Contracts with Customers* to be the most useful. Having a good understanding of this standard has greatly assisted me in properly conducting audits. It gave me the confidence and knowledge to discuss how our clients' accounting treatment was impacted. For example, under IFRS, one critical point for revenue recognition is the identification of performance obligations within the contract. Performance obligations can be satisfied in different actions performed and there can be more than one performance obligation. Since our clients' business varies, a deep understanding of how to define each performance obligation is very important.

SPOTLIGHT ON STAYCATIONS

Institute members share their favourite hotels to spend a night and unwind

The Peninsula

"If you want the best of the best and a taste of history, consider spending a night at The Peninsula. The staycation package I reserved included a room with harbour view, breakfast, lunch and a three-course dinner. The room was spacious, elegant and some facilities could even be controlled via a handheld panel. Due to restaurant restrictions, the hotel arranged room service for both lunch and dinner, which was delicious. I thoroughly enjoyed it with the stunning harbour view in the comfort of the room. Don't forget to read the in-room booklet – it talks about the history and the development of The Peninsula when it was first built," says Wong.

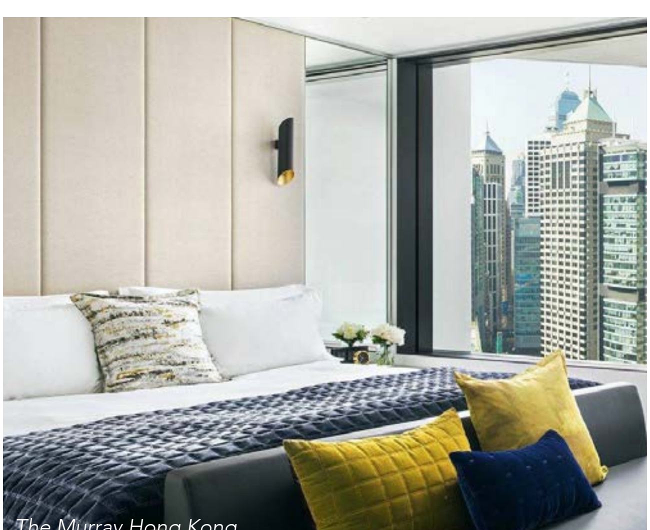
- Jeanie Wong, Senior Financial Planning Consultant at Manulife

The Peninsula

The Murray Hong Kong

"If you are after a luxurious staycation in Hong Kong, The Murray Hong Kong is an excuse to splurge. This beautifully designed hotel offers a world-class high tea experience, gorgeous massage and spa services together with stunning views of the city from most rooms. I am sure you will have a relaxing time during your stay at The Murray," says Lo.

- Derek Lo, Senior Consultant, Deloitte China



The Murray Hong Kong

Hong Kong Disneyland Hotel

"For a fun-filled and magical staycation, I recommend staying at Hong Kong Disneyland Hotel. A 10-minute walk from Hong Kong Disneyland and located right at the edge of Lantau Island, having your staycation at this hotel is the perfect way to combine an exciting weekend at Hong Kong Disneyland and five-star comfort. The rooms are clean, spacious and some have balconies, offering pristine views of the sea. There are also indoor and outdoor swimming pools. Foodies can feast at any of the four restaurants, which offer international cuisine. One even offers encounters with Disney characters. Definitely fun for the whole family!" says Wong.

- Janet Wong, Senior Analyst, Internal Audit, Estée Lauder

Hong Kong Disneyland Hotel

EYES & EARS

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

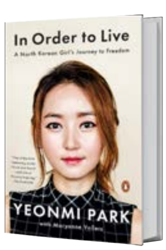
Naomi Scott

What I'm listening to

- Natalie Tam, Manager in Assets and Liability Management Committee Support at Fubon Bank (Hong Kong).

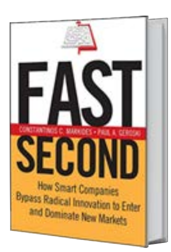
"One of my favourite songs is *Speechless* from the Disney movie *Aladdin*, sung by Naomi Scott. This song always reminds me that, no matter how weak and insignificant we think we are, we should never suffer in silence. We should be confident, believe in ourselves and believe that we are capable and powerful to fight for our dignity," says Tam.

What I'm reading



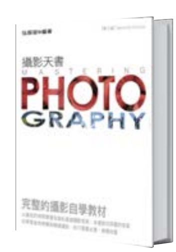
I recommend *In Order to Live: A North Korean Girl's Journey to Freedom* by Yeonmi Park. Park tells her thrilling story of how, as a North Korean girl, she escaped to South Korea to seek freedom for herself and her family. It's a touching book and one which would make readers rethink the meaning of their lives. You'll learn the importance of standing up for other people and staying true to yourself, especially during tough times.

- Allen Lam, Assistant Director of Finance at The American Club Hong Kong



Fast Second is an inspiring book written by Constantinos Markides and Paul Geroski. Markides himself was my strategy professor when I was on exchange at London Business School. "People are often asked to be innovative and to think out of the box, however... where is the box?" he once said. This book showcases how radical innovation can create new-to-the-world markets. It also presents a provocative set of ideas – ones who act first do not necessarily have an edge, instead quick second players are the ones who truly dominate new markets.

- Kinki Siu, Vice President, Sales Management and Strategic Planning at DBS Bank (Hong Kong) Limited



I recommend *Mastering Photography* (攝影天書). The book covers 14 core principles of photography for photographers of different levels. This books covers basic photography equipment as well as theory such as setting your aperture, shutter speed and white balance, digital camera control, picture composition, lighting and even how to use of Adobe Photoshop to edit and retouch photos. The book uses comprehensive and rich illustrations and simple explanations to make it easy for beginners to learn quickly.

- Tony Wan, Director of Assurance and Business Advisory at Ascenda Cachet CPA

The strange life of the TV accountant

Hong Kong's humorist on why accountants still need to know how to count

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*

There they are! You see them on the corner of the stage, giving the cameras a wave before the final results are announced. Presenting: The TV accountants.

Whether it's the Oscars or a beauty competition, a weird tradition has grown up to have qualified accountants tallying up the votes – as if people need years of specialist training to count a few pieces of paper.

There may be 900 million eligible voters in India's general election, but TV shows are not in the same league. Beauty contests can have as few as five judges.

Oscars are chosen by just 7,000 people. So why do you need PwC, one of the biggest accounting firms in the world?

Because it's not really about counting votes. It's about the organizers showing that the outcome can be trusted because, look, there are accountants doing the counting, and everyone knows accountants are not error-prone humans.

And, of course, it's good publicity for the accounting firm – as long as they get it right, as a pair of PwC accountants famously failed to do at the Oscars in 2017 (*La La Land* was incorrectly named the night's best-picture winner after presenters were given the wrong envelope to open. The correct winner was actually *Moonlight*).

To fix that, PwC these days sends a group of no less than 21 staff members to Hollywood to oversee the counting of those 7,000 votes. Members of the team are required to memorize the entire list of winners between the final count and the announcements. This is so that if they hear the wrong name being read out, they can immediately leap on stage, grab the mic and correct it.

So there you have it: you sign up to do a bit of gentle auditing, and you literally end up fighting Vin Diesel on stage in front of 23 million viewers.

The second biggest awards ceremony for global coverage is also from the United States: the American music industry's Grammy Awards. The number of votes is about double that of the Oscars, but the accountants in charge, which have been Deloitte for some time, are hardly stretched, since the votes are sent in five weeks before the awards night.

But the process is murkier. The public votes go to a secret committee. Members each fill out a ballot, which they don't show each other, but hand to the accountant.

Even committee members don't know who's getting the votes: only the accountant does. This, again, shows that accountants are associated with trust. If I were the accountant, I would be so tempted to write in the name of my nephew who has a few nice-ish self-recorded tracks on YouTube. He's more in need of a career boost than Taylor Swift.

Why don't they get accountants to take over really big tallying operations like public elections? Look how long the U.S. election count took. Accountants could easily set up computers to do the whole thing.

The issue, again, is trust. People who click on a screen – and are later told a result – have a low level of trust. The slow, traditional system (people write on a piece of paper and then watch people on TV counting the sheets of paper) feels less suspicious. Unless your candidate loses.

A third way is one pushed recently by accountants and chief financial officers: adapt the blockchain system that is all the rage now.

Blockchain is a shared electronic network jointly controlled by all members, and thus, cheat-proof. I can't see any downsides to the idea – except for the fact that someone is going to have to teach the average voter how blockchain works. This may be beyond normal human capability.

So at the moment, we are stuck with traditional vote-counting like in the recent U.S. election. But we can be grateful for small mercies. Like the fact that the U.S. election hustings may have a lot of TV events at which candidates are judged, but there's no swimsuit section. Thank God.

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