



**DRIVING BUSINESS SUCCESS**

*Issue 5 Volume 17 May 2021*

**PLUS:**

## **PROFILE**

Terence Chow, Chief Executive Officer,  
Asia, RBC Wealth Management

## **ACCOUNTANT PLUS**

Gilbert Chan CPA,  
Managing Director and Co-founder  
at Giraffe Capital Limited

## **SECOND OPINIONS**

How can audit data analytics generate  
value for organizations?



# **LISTING SUCCESS**



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

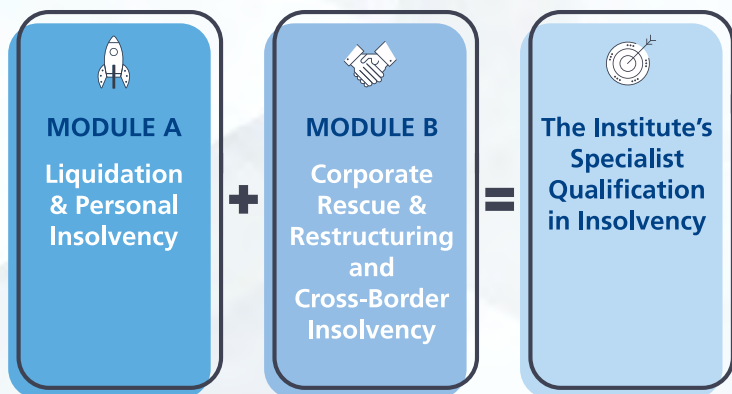
Special report: How CPAs specializing in IPOs  
ensure that going public is about company  
transformation, not just raising capital

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The next cohort starts in July 2021, and welcomes registration by Institute members and non-members.



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[sq.insolvency@hkicpa.org.hk](mailto:sq.insolvency@hkicpa.org.hk)

**“The Institute has long advocated audit quality, and for an independent regulator of the auditors of listed entities to oversee their performance. I strongly believe that this MoU will contribute to the sustainable development of the Hong Kong audit profession.”**



Dear members,

The Financial Reporting Council (FRC) has been the independent regulator of the auditors of public interest entities since 1 October 2019. A good relationship between the Institute and the FRC is important for ensuring both bodies work together effectively to enhance audit quality in Hong Kong. This month, the Institute and the FRC signed a new Memorandum of Understanding (MoU) to enhance our efficient and effective cooperation and coordination.

The Institute has long advocated audit quality, and for an independent regulator of the auditors of listed entities to oversee their performance. I strongly believe that this MoU will contribute to the sustainable development of the Hong Kong audit profession.

It is important for us to demonstrate to the government that our two bodies can work together closely and coordinate our activities, so that we are both effectively carrying out the roles entrusted to us.

The agreement also helps us to serve other stakeholders in our society, including the accounting profession generally, investors in our listed companies, and the general public.

By working together the Institute and the FRC can ensure that Hong Kong's capital markets remain highly regarded, which will support the long-

term development of Hong Kong and its continuing prosperity – serving the interests of all our important stakeholders.

The CPA Virtual Run 2021 finished early in the month, and the winners have been announced and published on the run's webpage. Congratulations to all the winners! I look forward to celebrating their success at a socially distanced prize presentation ceremony in June.

I'm pleased that the competition inspired over 300 of our fellow members to take part by running with family, friends and by themselves. It's important to stay fit and healthy, and I hope the run has inspired you to improve your own fitness. I know many people who say that running helps them to de-stress, and consider new solutions to problems. As a professional accountant, there's always some matter that needs considering from a new angle. Maybe the solution will come to you when you lace up your running shoes and hit the road?

Thanks to all the sponsors for supporting the event. Their sponsorship helped the Institute to put together the well-stocked finisher pack. If you took part in the race, make sure you collect your finisher pack from the Institute by the end of June.

While the number of local cases of

transmission of COVID-19 has been low recently, the threat of outbreaks still remains. While life is gradually returning to normal, full-scale community events, and less-restricted travel across the border to the Mainland and internationally, can only take place once the community is protected. The delay of the implementation in the travel bubble with Singapore proves this.

The government's COVID-19 Vaccination Programme offers the best chance for returning to a normality. Organizations across Hong Kong are offering various schemes and incentives to their staff to promote getting vaccinated including on-site vaccinations, annual leave, lucky draws and bonuses.

Maintaining a safe and healthy environment at work is always a top priority for the Institute. This is why the Leadership Team has agreed a new policy this month of offering Institute staff vaccination leave to be used the day, or the day following, they receive a COVID-19 vaccination. We hope that Institute staff will play their part in keeping the community safe.

I urge you to consider how you can promote the vaccination programme in your own organizations and within your families. We will only end this pandemic by taking care of ourselves and protecting society.

**Raymond Cheng** FCPA (practising)  
President



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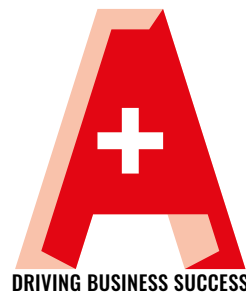
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DRIVING BUSINESS SUCCESS

### About our name

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



Hong Kong Institute of  
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President Raymond Cheng

Vice Presidents Rosalind Lee  
Ken Li

Chief Executive and Registrar Margaret W. S. Chan

Director of Corporate Communications Dr Wendy Lam

Editorial Manager Paul Smith

Editorial Coordinator Maggie Tam

### Office Address

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

### Member and Student Services Counter

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



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

Copy Editor Jemelyn Yadao

Junior Copy Editor Jeremy Chan

Contributors Nicky Burrridge, Erin Hale

Art Director Ann Lee

### Registered Office

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

### Advertising enquiries

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

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18-593 students of the Institute and 2,358 business  
stakeholders every month.



# NEWS

Institute news    Business news

## FRC signs MoU with the Institute



to garner the views of members and Qualification Programme students about the GBA, and the opportunities they think are in the Mainland cities of the GBA for Hong Kong CPAs. The committee will use the survey results to inform and evolve the Institute's GBA strategy and initiatives. Findings will also be published in a public report. The survey is open until 8 June. To take part in the survey, which should take less than seven minutes to complete,

The Financial Reporting Council (FRC) and the Institute signed a Memorandum of Understanding (MoU) on 6 May to enhance efficient and effective cooperation and coordination between the two organizations. The move reflects how the FRC and the Institute will work even more closely together as part of the new independent auditor regulatory regime for listed entities in Hong Kong.

Under the MoU, the FRC and the Institute agree to refer cases to each other, and to share information to assist each other in the timely exercise of their respective functions. It was signed by Marek Grabowski, Chief Executive Officer of the FRC and Margaret W.S. Chan, Chief Executive and Registrar of the Institute in the presence of Sam Hui, Deputy Secretary for Financial Services and the Treasury (Financial Services), Dr Kelvin Wong, Chairman of the FRC, Raymond Cheng, Institute President and senior management from both parties.

### Call for new QP workshop facilitators

The Institute is recruiting workshop facilitators for the new Qualification Programme (QP) who will have a key role to play in unlocking the potential of the next generation of accountants. The facilitators are required to have a minimum of four years' membership with the Institute; hold or recently held a responsible position in a professional, business, government or academic organization; have a working knowledge and demonstrated technical competence in the module subject matter; and good command of spoken English. The closing date for applications is 15 June. More details can be found on the Institute's website. For enquiries, email [workshopadmin@hkcipa.org.hk](mailto:workshopadmin@hkcipa.org.hk).

### Institute releases Hong Kong CPAs and the GBA survey

The Institute's Greater Bay Area (GBA) Committee has prepared a short survey

members and students should have received the survey invitation email. All responses will be anonymous.

### Standard Setting Department launches new webpage

The Institute's Standard Setting Department has launched its "What's new" webpage, providing members a one-stop shop for its latest publications, webcasts, and comment letters. Members can also follow the department on LinkedIn for the latest updates on standard setting.

### CPA Virtual Run 2021 results announced

The final results of the CPA Virtual Run 2021 are out now. They can be found on the "CPA Virtual Run 2021" section of the Institute's website. Almost 330 members enrolled in the event. Congratulations to all the awardees and thank you all the runners, sponsors, supporting organizations and helpers for making this event a success.

## Resolutions by agreement

### Chan Tak Shing CPA

**Complaint:** Failure or neglect to observe, maintain or otherwise apply section 800.3 under Chapter C of the Code of Ethics for Professional Accountants.

Chan does not hold a practising certificate. Accordingly, Chan is not allowed to carry on a business, trade or profession in a name that includes the initials "CPA" or the characters "會計師." Chan registered an unincorporated entity under the Business Registration Ordinance that he wholly owned, in a name that included those initials and characters, contrary to the requirements in the professional standard.

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

1. Chan acknowledge the facts of the case and the areas of non-compliance with a professional standard;
2. Chan be reprimanded; and
3. Chan pay an administrative penalty of HK\$10,000 and costs of the Institute of HK\$15,000.

### Yu Chi Fat CPA (practising)

**Complaint:** Failure or neglect to observe, maintain or otherwise apply the Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*; HKSA 500 *Audit Evidence* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements*.

Yu was the engagement partner in an audit conducted by HLB Hodgson Impey Cheng, a firm now deregistered, on the consolidated financial statements of See Corporation Limited (now known as Emperor Culture Group Limited), a Hong Kong listed company, and its subsidiaries (collectively, group) for the year ended 30 June 2012. HLB expressed an unmodified auditor's opinion on the financial statements.

The Institute received a referral from the Financial Reporting Council about deficiencies in the audit. The financial statements included the group's investment in a private group that was classified as an interest in an associate, and stated that the accounting policy for the investment was to incorporate the results and assets and liabilities of the associate using the equity method of accounting under Hong Kong Accounting Standard 28 *Investments in Associates*. This stated accounting policy was inconsistent with the group's accounting practice of stating the investment at fair value.

Yu failed to carry out audit procedures to resolve the inconsistency between the group's accounting practice adopted for the interest in associate and relevant accounting policy disclosed in the financial statements.

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

1. Yu acknowledges the facts of the case and the areas of non-compliance with professional standards;
2. Yu be reprimanded; and

3. Yu pays the costs of the Institute and the Financial Reporting Council totalling HK\$39,132.

## Disciplinary findings

### Yu Kung Shing CPA (practising)

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

Yu is the sole proprietor of K S Yu & Co. He is responsible for the practice's quality control system and the quality of its audit engagements. The first practice review conducted on the practice identified significant deficiencies in its system of quality control and in a number of its audit engagements. In addition, Yu was found to have provided untrue answers in the self-assessment questionnaire, made false representations to the practice reviewer and retrospectively created documents in an attempt to support his false representations.

**Decisions and reasons:** The Disciplinary Committee reprimanded Yu and ordered the cancellation of his practising certificate, with no issuance of a practising certificate to him for 24 months, with effect from 12 May 2021. In addition, Yu was ordered to pay costs of the disciplinary proceedings of HK\$55,331.50. When making its decision, the committee took into consideration the particulars of the breaches committed in this case, Yu's early admission of the complaint and his pleas of mitigation.

### Yu Kung Shing CPA (practising) and K S Yu & Co.

**Complaint:** Failure or neglect to observe, maintain or otherwise apply HKSA 500 *Audit Evidence* and HKSA 230 *Audit Documentation*.

Yu is the sole proprietor of the practice that was the auditor of a private company limited by guarantee. Yu issued unmodified audit opinion on the financial statements of the company for each of the four financial years ended 31 December 2013 to 2016. In carrying out the audits, the respondents failed to design and perform audit procedures to obtain sufficient appropriate evidence and prepare sufficient audit documentation to support their assessment of the existence and recoverability of the amounts due from executive committee members of the company. Furthermore, the respondents failed to prepare sufficient audit documentation to support their audit conclusions on salary expenses.

**Decisions and reasons:** The Disciplinary Committee reprimanded the respondents and ordered them to pay a penalty of HK\$50,000 and costs of disciplinary proceedings of HK\$72,892.50.

Details of the resolutions by agreement and disciplinary findings are available at the Institute's website.



## U.K. FRC FINE FOR CHALLENGER FIRM CASTS DOUBT ON SMALL FIRMS AMID BIG FOUR BREAK-UP

The Financial Reporting Council in the United Kingdom has fined Haysmacintyre, a challenger firm, £125,000 (HK\$1.37 million) for its faulty audit of engine parts maker Associated British Engineering (ABE). The watchdog also fined the head of the firm's audit and assurance department David Cox £17,500 (HK\$192,000). Cox led the audit of ABE. The penalty spotlights concerns regarding the ability of small firms to audit listed companies and comes amid the U.K. government's consultations to propose breaking the dominance of the Big Four by giving small firms a share of the market for auditing FTSE companies.

## HONG KONG'S CORPORATE GOVERNANCE STILL NEEDS WORK, ACCORDING TO NEW REPORT

A new report issued by the Asian Corporate Governance Association (ACGA) has ranked Hong Kong joint second in Asia in its 2020 corporate governance market ranking, citing whistleblowing and anti-corruption enforcement as factors that could be improved. The city's ranking, which is tied with Singapore, puts it behind Australia. The report, titled *Future Promise: Aligning governance and ESG in Asia*, identified a greater need for board diversity in Hong Kong, independent boards and a quality of governance reporting, but commended the city's efforts in responsible investment and stewardship, and the Financial Reporting Council becoming the independent audit oversight board.

## SEC GREEN LIGHTS NASDAQ PROPOSAL TO ALLOW DIRECT LISTINGS

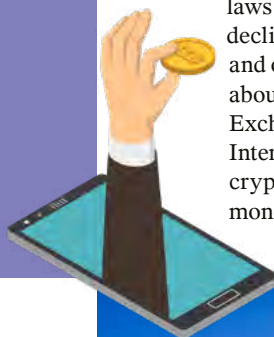
The U.S. Securities and Exchange Commission (SEC) has accepted a proposal by Nasdaq to allow companies to raise capital through direct listings. A direct listing is when employees and investors sell their existing stocks to the public. The SEC said Nasdaq's proposed rule change was consistent with the watchdog's rules and regulations and that it would provide investors with another option besides a traditional initial public offering (IPO), according to a filing dated 19 May. The move is a breakthrough for the exchange operator, which had been pushing for an alternative for companies to raise money.

## HKEX NEW HKEX CEO STARTS JOB

Nicolas Aguzin, the new Chief Executive Officer of the Hong Kong Exchanges and Clearing Limited, began his role on 24 May, and on his second day, gave a speech on bolstering the bourse's position as a strong link between global and Chinese capital markets. "Hong Kong has a key role to play as China continues opening up its market," Aguzin said at the annual LME Asia Metals Seminar organized by London Metal Exchange (LME), an HKEX unit. Aguzin, an Argentinian and former investment banker at JPMorgan Chase, succeeds Charles Li and is the first non-Chinese person to helm the exchange since it was established in 2000. HKEX shares surged 5.4 percent to HK\$474.60 the same day, the highest in four months.

## AICPA AND CIMA RELEASE UPDATED AUDIT RISK GUIDANCE FOR CRYPTOCURRENCY

The American Institute of CPAs and the Chartered Institute of Management Accountants issued a joint guidance on auditing and accounting digital assets such as cryptocurrency on 25 May. Originally released in 2019, the guide *Accounting for and Auditing of Digital Assets*, includes new authoritative guidance on audit risk assessment, processes and controls, laws and regulations. The guide comes after a global decline in the value of cryptocurrencies this month and ongoing concerns from digital asset investors about increased regulation from the Securities and Exchange Commission and requirements from the Internal Revenue Service to improve reporting of cryptocurrency transactions to stem tax evasion and money laundering in the United States.







## U.S. TURNS UP HEAT ON CHINESE COMPANIES REFUSING TO DISCLOSE AUDITS

The U.S. Public Company Accounting Oversight Board (PCAOB) has issued a draft rule to expedite the implementation of a law that would force Chinese companies listed on U.S. stock exchanges to delist in three years if they refuse to share their audit papers for review. The rule change would provide a framework to identify whether local authorities held back on its probes of foreign accounting firms that audit U.S. listed companies. “The rule addresses situations where overseas authorities have denied the PCAOB the access it needs to conduct its mandated oversight activities,” said PCAOB Chairman William Duhnke III. The rule is the result of U.S. officials demanding more transparency from listed Chinese companies and follows Luckin Coffee’s accounting fraud, which led to its delisting in June 2020.

## HONG KONG INSOLVENCY PROCEEDINGS TO BE RECOGNIZED IN MAINLAND CHINA

Hong Kong and Chinese courts will recognize insolvency, bankruptcy and restructuring orders under each other’s laws following a new arrangement announced this month. Under the agreement, liquidators from Hong Kong may apply to Mainland courts for recognition of insolvency proceedings in Hong Kong, while bankruptcy administrators from the Mainland can apply to the Hong Kong High Court for recognition of bankruptcy proceedings in the Mainland. China’s Supreme People’s Court has designated Shanghai, Xiamen and Shenzhen as pilot cities for the scheme, which could be expanded to more Chinese cities in future. Lawyers believe the agreement will boost Hong Kong’s reputation as a platform for investing in Chinese companies, the *Financial Times* reported.

## OATLY SHARES START TRADING ON NASDAQ

Shares of Oatly, the Swedish oat drink company, began trading following its public market debut on 20 May. The company, which priced its IPO in the United States at US\$17 per share a day earlier, saw its opening trade climb to US\$22.12 and its shares up 30 percent above its IPO price, giving it a market value of US\$13.1 billion. Oatly, which produces milk substitutes made from oats, has seen rapid growth in recent years largely fuelled by health-conscious millennial and Gen Z customers concerned about the environmental impact of purchasing and consuming animal-based products.

## JD.COM’S LOGISTICS UNIT GOES PUBLIC IN HONG KONG

Shares of JD Logistics, the logistics arm of Chinese tech giant JD.com, rose by 14 percent when its listing debuted on 28 May. The company raised US\$3.2 billion from the listing, giving it a stock market value of US\$36 billion. Shares of the company opened at HK\$46.05, the lower end of its expected range, compared to the HK\$40.36 price in its IPO. The listing is the second largest listing in Hong Kong so far this year, according to *Reuters*, and the third to raise more than US\$1 billion. “We are going to use the funds raised from the IPO to further improve our networks, including in the lower-tier and suburban areas in China, and the infrastructure of the overseas markets,” said Yu Rui, JD Logistics Chief Executive Officer, on the day of the listing.



## JOE BIDEN ORDERS U.S. BANKS AND COMPANIES TO DISCLOSE CLIMATE RISKS

U.S. President Joe Biden signed an executive order on 20 May to force a range of U.S. banks and companies to disclose the risks they face from climate change. The order aims to bring the U.S. up to speed with a growing list of countries prioritizing the issue of climate change for financial regulators and central banks, and to strengthen the U.S. financial system against climate-related risks. The order will see U.S. Secretary of the Treasury Janet Yellen working with members of the Financial Stability Oversight Council to disclose how they plan to “reduce risks to financial stability.” The move comes four years after former U.S. president Donald Trump pulled out of the Paris Climate Accord.

# SPECIAL REPORT: MAKING THE JOURNEY A SUCCESS



The path to a prosperous initial public offering (IPO) is no regular journey – it is pockmarked with challenges, and if executed incorrectly, could spell financial ruin for even the most promising company. But behind every successful listing is a hardworking team made up of seasoned professionals and accountants who take full control of the entire situation and ensure every detail is fully acknowledged and addressed pre- and post-IPO. Nicky Burridge speaks to CPAs who specialize in IPOs about how they lend their expertise in the world of listings, and how going public in a capital market as deep as Hong Kong's now demands a diverse and highly sought-after skill set

#### Illustrations by Gianfranco Bonadies

**H**ong Kong is home to one of the most buoyant initial public offering (IPO) markets in the world. A total of HK\$398 billion was raised through listings on the Hong Kong Stock Exchange (HKEX) in 2020, despite the economic turbulence caused by the COVID-19 pandemic. Its combination of deep capital markets, an extensive global investor base and strong regulatory standards has seen Hong Kong ranked as the world's top IPO destination for seven of the past 12 years.

The city also plays a key role as a gateway between Mainland China and the rest of the world through Stock Connect. The initiative, which gives investors in Hong Kong and Mainland China the opportunity to trade securities listed on each other's exchanges, further increases the appeal of Hong Kong as an IPO destination. "Hong Kong plays a crucial role as the global connector between Mainland China and the rest of the world. With solid fundamentals, the Hong Kong market has shown its resilience in times of global uncertainty," says Ivanka Huang CPA, Senior Manager, Capital Markets Group at KPMG China.

Jacky Lai CPA (practising), Partner, Assurance at EY, points out that Hong Kong's high regulatory standards, which offer strong investor protection, have also attracted and

retained a diversified investor base for both IPOs and secondary fundraising. "Hong Kong is a unique market with an array of Chinese companies and overseas listed companies," he says.

HKEX regularly reviews its listing rules to ensure it remains competitive. In 2018, it made it easier for pre-revenue biotech companies and new economy companies to list. Since then, 128 new economy companies have listed, collectively raising HK\$554 billion, including big names such as Alibaba and JD.com, and JD.com's logistics arm JD Logistics, which went public on 28 May. "The new listing regime has added to the diversity of companies that can list, increasing the demand for Hong Kong's capital markets, creating more opportunities for the city's financial industry, as well as those who offer professional services to listing applicants," says Huang. Hong Kong's status as a leading IPO market is attracting more CPAs to specialize in this area. Lai says: "A strong IPO market creates lots of career opportunities for CPAs: from the finance team built up in the pre-IPO stage, to the post-IPO stage with increased corporate governance and compliance needs, as well as the increased demand for consultancy services and auditing services. The stressful but fruitful IPO experience equips CPAs with various skills they need for their further career development."



**“For a private company, going public represents an uplift in the company’s corporate image and corporate governance measures.”**

## A TRANSFORMATION OPPORTUNITY

While raising funds is the primary reason companies embark on an IPO, the process also provides a range of secondary benefits. Lai explains: “The IPO process involves the complete transformation of the people, processes and culture of a company from a private enterprise to a public one. IPO candidates that are used to having a culture focused purely on financial success and growth will realize they need to formulate a more comprehensive long-term business strategy, giving a really clear roadmap for the company that can be communicated to the stakeholders.” Huang agrees, pointing out that through completing a holistic review of the company as part of the IPO process, the management will often gain a better understanding about its business and culture. She adds that another benefit

is that listed companies can typically raise further finance more easily, while they tend to enjoy better terms for bank financing.

Archie Fong CPA, General Manager at Yue Xiu Capital Limited, and a member of the Institute’s Corporate Finance Advisory Panel, points out that companies often need to restructure ahead of a listing. This refines their business operations and forces them to pay more attention to corporate governance issues, which will ultimately benefit their business over the long term. “For a private company, going public represents an uplift in the company’s corporate image and corporate governance measures,” he says. Fong adds that once an IPO is completed, a company is also more likely to be able to introduce strategic investors or partners to help it further develop its

business.

Kin Yung CPA, Associate Director at CCB International Capital Limited (CCBI), and a member of the Institute’s Corporate Finance Advisory Panel, adds that not only do companies enjoy an enhanced reputation through listing, but for those in certain sectors, it can also create opportunities to expand into new markets, as both investors and consumers are more familiar with their brand. He gives the example of Mainland restaurant chain Haidilao, which after raising more than HK\$7.5 billion on the HKEX in 2018, went on to open a number of outlets in Hong Kong. Yung points out that an IPO can also help companies attract and retain high quality talent, as once they are listed, they can offer staff share options schemes.

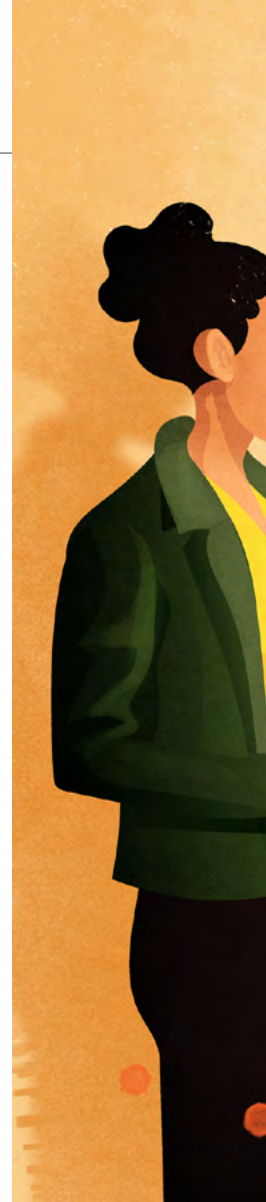
## THE IPO JOURNEY

A typical IPO can be divided into three stages. The first is the preparation stage, which involves pre-IPO planning, conducting due diligence and preparing the prospectus and the related listing application documents. Next is the submission stage, during which the candidate submits the listing application pack to HKEX and the Securities and Futures Commission (SFC), and answers any queries they

raise. The final part of the process is the post-hearing stage, during which the company must complete its prospectus, carry out roadshows and investor presentations, build a book of investors and price its shares.

Fong points out that accountants may be involved in the IPO process in a number of different capacities, including as a chief financial officer of the company listing, its sponsor, a reporting accountant working

on the IPO, and an internal control consultant or tax advisor. Yung adds that accountants acting as the reporting accountant will not only prepare the accounts report for the company, but will also assist with its feasibility study, and assess whether it can meet the profit test. In addition, they will also prepare a reliable and verifiable profit and working capital forecast memorandum.





## PRE-PLANNING CONSIDERATIONS

The pre-planning phase is key to assessing whether a company is ready for an IPO, and should generally be started 12 to 24 months before its target listing date. Fong says: “Every IPO candidate has a different history, structure, business model and financial background, so every part of the pre-IPO process is unique and equally challenging. But this makes helping an IPO candidate to list exciting and rewarding.” Lai of EY explains that, unlike exchanges in some markets such as the United States, HKEX has a sponsor regime for IPOs, meaning applicants need to use a licensed investment bank to assist them with their listing application.

As a result, the company will need to

appoint a sponsor, as well as a reporting accountant and legal advisor. Companies generally create a project management office to oversee the IPO process and set the listing timetable, as well as to gather relevant documents and resources.

In order to list on the Main Board, companies must meet one of two tests: a profit test or a market capitalization/revenue/cashflow test. To demonstrate that they meet one of these tests, companies must submit their accounts for the past three years for assessment. Huang of KPMG says: “Companies should perform a holistic review to assess whether the business will meet the listing requirements and the readiness of its financial reporting systems, internal

controls and corporate governance. They should also consider whether the group structuring is tax efficient as part of their reorganization planning.”

She points out that audit firms can play a key role in this part of the process by identifying any potential issues ahead of the listing through reviewing the company’s existing accounting policies and the quality of its accounting records. “They can also review and advise on the accounting implications of different group restructuring options and provide a review of the key internal control procedures in relation to the financial reporting process, making recommendations to help the company identify and close any gaps,” Huang says.





## A DAUNTING EXERCISE

A key part of the pre-IPO process is having due diligence carried out on the company by the sponsor, reporting accountant and lawyer. Lai of EY describes this as being “an incredibly daunting exercise” for many companies. “They spend months compiling the documents in the data room and answering in-depth questions from the sponsor, accountants and lawyers. Before the due diligence begins, we need to hold in-depth discussions with both the sponsor and the company to understand their business better and ensure the restructuring won’t trigger any accounting problems or non-compliance with the listing rules.” Lai says many accounting

issues can arise at this point, such as around the collectability of receivables and the value of intangible assets. He adds that issues can also occur with variable interest entities in Mainland China that may have been conducting restricted business, and they may have used structured entities for this arrangement. “The role of a CPA is very critical, and they have to be involved at the very beginning of an IPO,” he says.

Lai adds that sometimes non-financial issues can arise during the due diligence process that the reporting accountant has to deal with. He remembers being involved in the IPO of a state-owned

enterprise in the Mainland around 10 years ago, which, alongside its core business, included schools and hospitals. Some of these entities were not suitable to be included in the listing and needed to be spun off. Lai was told the employees had a strong attachment to many parts of the group and would protest if they were not included in the listed entity, but in the end they were excluded, as their non-profit making objectives made them unsuitable for a listed company.

The due diligence process includes company site visits, as well as pre-site document reviews and post-site document cross-checking. Yung of CCBI says: “Due diligence



## **“The role of a CPA is very critical, and they have to be involved at the very beginning of an IPO.”**

is undertaken by sponsors to establish the completeness and accuracy of the information contained in the listing documents. As a result on-site due diligence is always an important step to sponsors.”

But COVID-19-related travel restrictions, which have been in effect since early 2020, have created new challenges, as CPAs cannot always be physically present at the site to conduct this work. “Last year, I worked on the listing for China Bohai Bank. I left the clients’ office before Chinese New Year last year and I didn’t imagine I wouldn’t go back to it again. After Chinese New Year, when China was closed, all the meetings changed from being face-to-face to teleconference. We didn’t meet the client again before the listing in July,” Yung says. “Previously, I couldn’t have imagined doing an IPO without meeting the client but that is how we do many deals nowadays.”

Fong of Yue Xiu says a common challenge in the pre-IPO stage is coordinating the different professional parties involved in the process, as many tasks are interlinked and if one is not completed on time, it can impact the whole process. “The IPO timetable is usually very tight. As a coordinator, we need to push all the parties to meet deadlines.” Huang of KPMG adds that it is particularly important that companies with a complex structure ensure they leave enough time for restructuring.

While the pre-preparation process typically takes many months, it is sometimes carried out on a much tighter timetable. Fong remembers being involved in the IPO of Dah Chong Hong Holdings Limited, a spin off of CITIC Pacific Limited, in 2007. The conglomerate was active in a number of different areas, including motor vehicle sales and services, the sale of food and consumer products, and logistics services. Despite the complexity of the group, the IPO was done at an accelerated pace to take advantage of strong investor sentiment at the time, and took just four months from preparation to completion.

“Under such a tight timeline, we had to do everything correctly the first time. We had to do on-site due diligence inspections, third-party interviews, review huge documents and work with the auditors to ensure all the figures stated in the prospectus were correct.” To meet the deadline, Fong says he worked 18 to 20 hour days, seven days a week, and was constantly communicating with the other parties involved to analyse documents, solve issues and keep everything moving. “I remember staying at the printing company for more than 40 hours non-stop to edit and verify all the listing application documents and the prospectus,” he says. His hard work paid off and the company successfully listed on 17 October 2007, 13 days before the Hang Seng Index reached a new peak of 31,638.

## **A DAY IN THE LIFE**

Given the tight deadlines they work under, professionals involved in the initial public offering (IPO) process have packed schedules. Archie Fong CPA, General Manager at Yue Xiu Capital Limited, and a member of the Institute’s Corporate Finance Advisory Panel, says his day typically starts at 5:30 a.m. when he checks his work correspondence, such as emails, and WhatsApp and WeChat messages. He then reads the news to stay on top of any financial or economic developments that may impact his clients. He arrives at his office at 9 a.m. and spends most of the day reading execution-related documents, due diligence reports and other reports relating to any ongoing IPO, as well as holding face-to-face and online meetings, both internally and externally, looking at different issues that have arisen and putting forward proposals on how to tackle them. Outside of office hours, he attends business dinners and events, often with clients. “At the end of the day, I hold an internal call to discuss the to-do list for the next day,” Fong says.

Like Fong, Jacky Lai CPA (practising), Partner, Assurance at EY, also starts his day by catching up on the news, paying particular attention to regulatory developments and trends in other markets, such as the United States and Mainland China. Once in the office, he spends much of his time talking to different professional parties, including sponsors and lawyers, to see if there are any new business opportunities, as well as liaising with clients and answering any questions they may have. He adds that he is sometimes involved in giving feedback to Hong Kong Stock Exchange (HKEX) about the type of companies that want to list in Hong Kong and the challenges they encounter.

Ivanka Huang CPA, Senior Manager, Capital Markets Group at KPMG China, describes a typical day as having to deal with ad hoc and urgent issues that arise during the IPO process. “There are many calls and meetings with different parties participating in the project, as we work together to deal with issues and respond to any comments from the regulators. There are certain key milestones, such as the Form A1 Listing Application Form submission, and the prospectus finalization.”

Kin Yung CPA, Associate Director at CCB International Capital Limited, and a member of the Institute’s Corporate Finance Advisory Panel, points out that a signing principal may cover four to six deals at the same time. As a result, his day is divided between projects at different stages of the IPO process. For deals at an early stage, he spends his time reviewing the work plan, timetable and the scope of work being carried out by different parties. For projects at the middle stage, his time is taken up with reviewing the drafting of the prospectus, holding internal control discussions and looking at the draft reports issued by other parties. Once deals have reached the review stage, he is on standby to answer any queries raised by the regulator. “If we receive an enquiry from HKEX, we will arrange for all parties to have a discussion call immediately and review the proposed response,” he says. In addition, he also has to find time for pitching calls and meetings with potential IPO clients.



## ADVICE FOR COMPANIES SEEKING TO LIST

Maintaining good communication is key for companies working with accountants and other professionals during the initial public offering (IPO) process. Kin Yung CPA, Associate Director at CCB International Capital Limited, and a member of the Institute's Corporate Finance Advisory Panel, says: "Communication is very important as the client needs to prepare a lot of the underlying documents for the professional parties. If they fully understand the other party's request, it can save a lot of time."

Ivanka Huang CPA, Senior Manager, Capital Markets Group at KPMG China agrees, pointing out that the timetable for an IPO is usually very tight. "Regular and prompt communication among professional parties and with management is key to making sure the timetable stays on track," she says.

Archie Fong CPA, General Manager at Yue Xiu Capital Limited, and a member of

the Institute's Corporate Finance Advisory Panel, points out that it is also important that management builds up a good relationship with the other professional parties involved in the IPO. "Every single document needs to be scrutinized by the professional parties in detail. Therefore, it is important for the management of an IPO candidate to build up mutual trust with the professional parties and provide all the documents, contracts and accounts at an early stage of the pre-IPO process," he says.

Jacky Lai CPA (practising), Partner, Assurance at EY, suggests companies should focus on allocating a data room, so that they can quickly provide the documents needed by the other professional parties to verify their company's history, business strategy and financial performance for the due diligence process. "The success of the IPO depends to a large extent on the seamless cooperation among the company

and professional parties. It is therefore important that at the commencement of the IPO process, companies are already staffed with suitably qualified and experienced personnel who can work hand-in-hand with the professional parties."

He adds that the company's directors must understand that they take ultimate responsibility for the contents of the listing document, and there must not be any material omissions that render them misleading. "Details of any non-compliance incidents must be communicated at an early stage. No professional advisors like surprises that can cause problems to the IPO project," he says. Lai also suggests that company executives learn how to handle the media and conduct investor relations sessions during the IPO process, including becoming familiar with the information they can provide to these groups without breaching the listing regulations.

## TELLING THE STORY

A crucial part of preparing a company for an IPO is creating its equity story for investors and other stakeholders. Lai of EY explains: “Investors won’t be interested in the story if they find it difficult to understand. The company’s business model and equity story must be supported by historical financial information demonstrating the trends underpinning it and the management’s business plan.”

Yung of CCBI points out that CPAs have a key role to play in this area, as their training enables them to understand the financial performance of a company and demonstrate its financial capabilities and strengths.

“It is like preparing a CV for the client. You have to extract the most interesting and attractive points of the company to demonstrate to the investors,” he says. It is important that the prospectus gives investors a clear understanding of the company’s business model to enable them to make an informed investment decision. The financial information in the prospectus is also audited by a CPA to ensure its accuracy. Fong of Yue Xiu points out that getting the prospectus right can help to attract more investors. “We see oversubscriptions for IPO candidates that have a sound business model and attractive business

outlook,” he says.

Fong adds that the experience CPAs have from serving numerous clients across different industries enables them to understand the business model of a company quickly and present financial information and a business description in the prospectus with reference to competitors in the same industry. “CPAs are important to present financial and accounting figures in a meaningful manner, so having an accounting background and good industry knowledge is definitely a plus to prepare the prospectus,” he says.

## SOUND GOVERNANCE STRUCTURES

Putting good corporate governance structures in place is also an important part of the IPO process. Once a company is listed, it must comply with the relevant regulations, such as the Corporate Governance Code and the Model Code for Securities Transactions by Directors of Listed Issuers in HKEX’s listing rules. Huang of KPMG says: “After listing, good corporate governance is crucial for a company to meet stakeholders’ interests, so when a company goes public, it often needs to address its internal process and organization structure in order to meet the more stringent regulatory requirements and higher expectations from shareholders.”

Given accountants’ central role in preparing corporate reports, Huang adds that the profession has much to offer in terms of building trust in environmental, social and governance (ESG) disclosures. “Audit firms are the professionals of choice in assuring ESG information, as they have the expertise in measurement, controls, assurance and reporting. They can help companies integrate financial and ESG information in reporting, and provide independent assurance for companies’ internal and external reporting systems to strengthen the credibility of the ESG information,” she says. “New metrics and measurements of progress that factor in ESG measures such as natural, social and human capital will be required

for the effective management of a companies’ resources consumption and value creation. Accountants will need to develop methodologies to address these factors.”

Lai thinks CPAs can play an instrumental role at all stages of corporate governance from informing decision-making with timely and accurate financial information and assessing investment scenarios, to designing effective internal controls, measuring performance, reporting and providing assurance. “The shareholder-centric governance model needs a CPA as a key change maker and entail a broader perspective on value creation, and fully integrating ESG factors with financial performance. CPAs can further leverage their expertise on how to help companies make the right changes to reduce their environmental footprint and costs. CPAs can help businesses to report on their performance in an integrated way using the International Integrated Reporting Council’s International Integrated Reporting Framework. This will help to measure transformative progress and share experience on issues that are of public interest,” he says. Huang adds: “During the IPO, audit firms can provide an IPO readiness assessment to evaluate the internal controls on corporate governance and the compliance gaps and needs, advice on the board/committee requirements and

composition and assist in establishing an audit committee and better corporate governance.

After the IPO, audit firms can provide companies with updates on the latest developments and changes in corporate governance requirements and other applicable regulatory matters. They can also act as corporate governance consultant to perform incremental compliance and transparency enhancements.”

Fong points out that good corporate governance also encourages transparency, and helps to protect shareholders’ rights through setting up various systems to manage risks and promote internal controls, making it an important consideration for investors. Lai agrees: “Based on our experience, corporate governance is one of the most important factors considered by institutional investors.” He adds that as institutional investors drive the share price up, corporate governance is an important consideration. As a result, he suggests companies put good practices in place early, especially in terms of recruiting qualified independent non-executive directors, improving internal controls and forming a qualified audit committee. The Institute’s Best Corporate Governance Awards act as a good reference point for companies, with the winners showcasing what good corporate governance looks like.



## ANSWERING QUESTIONS

Once a company has submitted its documents to HKEX and the SFC, it needs to answer questions from the regulators to prove that it is suitable for listing. Huang of KPMG points out that the main reason HKEX rejected listing applications in recent years is questions concerning suitability, with 17 applicants rejected on these grounds in 2019. “If the exchange has reason to believe that the listing applicant is listing for a purpose other than the

development of its underlying business or assets, or there is a likelihood of it becoming a shell company, it will pay greater attention to the applicant’s commercial rationale for the listing, its proposed use of the IPO proceeds and whether there is a genuine need for the funds,” she says.

CPAs can play a key role at this stage in helping to answer questions from the regulator.

The submission stage typically

lasts only one to two months, and deadlines are tight for submitting any additional information requested, with the regulators sometimes requiring a response on the same day. In the meantime, companies also need to prepare investor presentations and determine the pricing of their shares, before embarking on roadshows and pricing their share offers once they have received approval from the regulator.

## AN ONGOING ROLE

Fong of Yue Xiu points out that once an IPO is completed, listed companies still need to monitor how the proceeds are used, to ensure they are applied in accordance with what was said in the prospectus. They also need to ensure ongoing compliance with requirements in the Listing Rules, including the timely disclosure of financial information, such as annual and interim results, holding annual and extraordinary general meetings and providing relevant information on acquisitions and disposals. CPAs, Fong adds, are involved in a number of ways post-IPO. For example, a CFO could identify potential connected transactions which may require additional disclosures. “An internal consultant could provide

recommendations to companies for improvements in internal control processes, while an auditor could provide the company with updates on accounting standards that may impact its financial reporting,” he says.

Lai of EY points out that many regulatory breaches involve compliance with post-listing transaction rules, especially connected transaction rules. “Once market trading begins, the real work of being a public company starts. With the listing out of the way, it might be tempting to relax, but from our experience if the company wants to excel in the market, it needs to keep moving forward at a consistent pace. Chief executive officers and CFOs must deliver on the promises made by their company

at the time of the IPO, so they have to meet and beat financial projections.” He adds that communication to ensure an orderly market in the company’s shares is also key. “CFOs and auditors play an important role in detecting potential surprises relating to financial information at an early stage and promptly escalating them to the board to deliberate on an appropriate action plan to avoid upsetting the market and the regulators,” he says.

Huang adds that there is also a global trend for sustainable development, with listed companies needing to publish an ESG report and incorporate ESG factors into their business strategy, creating another area with which CPAs can help them.

## A RANGE OF SKILLS

CPAs need a range of hard and soft skills if they want to advise on IPOs. Fong says they must be good at interpreting numbers and have the ability to use the financial figures to tell a story. “They also need to have a strong business sense, knowledge of the overall IPO workflow and the ability to write a prospectus,” he says.

In terms of soft skills, he suggests CPAs working in the area should be sceptical, curious and have good communication and project management skills. “It is important to read IPO market news and newly-issued prospectuses regularly. It is also crucial that they familiarize themselves with

the listing rules, guidance letters and practice notes published by HKEX in relation to IPOs,” he adds.

Yung of CCBI agrees that CPAs need good communication skills to not only communicate with the client, but also cooperate with other professional parties. He adds that his firm typically recruits CPAs who have between three and five years’ experience working at one of the Big Four firms, particularly those with an audit background, to work as analysts or associates.

Lai thinks the hard skills CPAs need to work on IPOs go beyond just having the fundamental accounting skills. “They need a sound understanding

of capital market dynamics, funding options and listing regulations. An IPO is often a grueling process involving many parties, so CPAs are often under pressure to produce up-to-date financial information. Good communication and interpersonal skills are definitely important soft skills.” He adds that CPAs who want to work in this area also need to have a good level of emotional intelligence and the ability to think out of the box. “I think the best way to acquire these skills is to roll up your sleeves and get your hands in the game. You can also supplement it with the relevant continuing professional development training,” he says.



## BRIGHT PROSPECTS

Looking ahead, Huang expects Hong Kong's IPO market to continue to enjoy strong momentum, creating significant opportunities for CPAs who specialize in this area. Lai agrees: "I think CPAs specializing in IPOs have a bright future in Hong Kong. Capital market developments go hand-in-hand with economic growth. Hong Kong is an international financial centre, and the stock market is one of the pillars for Hong Kong's economy."

Meanwhile, HKEX is continuing to update its rules with the recent announcement that the profit requirements for Main Board listings

will increase by 60 percent from 1 January 2022, rising from HK\$20 million to HK\$35 million in the most recent financial year, and from HK\$30 million to HK\$45 million in aggregate for the two preceding financial years, during a three-year track record period, with an aggregate profit requirement of HK\$80 million. The increase, which could exclude some potential IPO candidates from listing, creates new challenges for CPAs working in this area.

But Huang points out that while the IPO process may be challenging, there is a huge sense of accomplishment

when it is completed. Yung agrees, saying the most rewarding aspect of the process is seeing the client continue to grow after listing, with this improvement reflected in its share price. Lai says: "An IPO is a life-changing journey for a private company. It is particularly rewarding to see the positive transformation of the company and its people in terms of corporate governance and social responsibility. The complexity of running an IPO project and the associated time pressure can lead to a lot of stress, so witnessing all our hard work come to fruition is immensely satisfying."



Read more about IPOs in this month's Accountant Plus on Gilbert Chan CPA, Managing Director and Co-founder of Giraffe Capital Limited, and a member of the Institute's Corporate Finance Advisory Panel, on page 28.



# SECOND OPINIONS: HOW CAN AUDIT DATA ANALYTICS GENERATE VALUE FOR ORGANIZATIONS?

**“Thanks to the growing usage of cloud software, more and more companies, not only large corporations but also small and medium ones, have started automating their accounting process.”**



LARRY CHENG CPA (PRACTISING)  
MANAGING DIRECTOR, WISE DILIGENT CPA CO. LTD,  
INSTITUTE COUNCIL MEMBER AND  
CHAIRMAN, DIGITALIZATION COMMITTEE

Very often when we talk about the audit evolution, the term audit data analytics (ADA) comes up. Large international audit firms have been using ADA for years, but it is still not popular among small and medium practices (SMPs).

Thanks to the growing usage of cloud software, more and more companies, not only large corporations but also small and medium ones, have started automating their accounting process. The traditional ways of performing audits through face-to-face meetings with clients may not work anymore because they may no longer be involved in doing the debits and credits. As auditors, we need to know the way to find out stories from data.

ADA can help by analysing complete sets of data, which can help auditors to achieve a 100 percent population testing and detect unusual patterns in transactions. This is helpful due to the trend of regulators being increasingly concerned about how auditors develop their audit approach to address fraud risks. The use of ADA to test journal entries can provide a more objective judgement on the testing of journal entries.

ADA can bring more benefits to SMPs. For example, in substantive audit testing, the use of ADA can let auditors step away from a traditional blind sampling approach and instead focus on just a few anomalous transactions. This can drastically reduce manual workload and allow SMPs to take in more clients without the need to increase their staff numbers. This also makes work more interesting for staff. ADA also helps auditors to analyse the performance of their clients in aspects such as profitability, liquidity, industry peers' comparison or even identifying internal control deficiencies. Presenting these findings to clients is a way to make the audit fees go beyond issuing an unqualified opinion.

Adopting ADA also doesn't necessarily require learning a new programming language. Practitioners might think they need to learn languages such as Python, Alteryx or SQL, but in fact tools as simple as Microsoft Excel can also do ADA. There are also some cloud-based ADA tools in the market with user-friendly interfaces for those who do not have any programming skills. Many of these tools are also not too expensive, particularly when factoring in the cost savings they bring.

A checklist mindset and a "same-as-last-year auditing" approach is a thing of the past. SMPs need to embrace new technology to stay ahead of the audit evolution.





**HELEN LI FCPA**  
PRESIDENT, INSTITUTE OF INTERNAL AUDITORS  
HONG KONG AND GROUP CHIEF AUDITOR,  
BANK OF EAST ASIA LIMITED



**THOMAS E. MCKEE**  
PROFESSOR, MEDICAL UNIVERSITY OF SOUTH  
CAROLINA, AND PROFESSOR, NORWEGIAN  
SCHOOL OF ECONOMICS

Data analytics (DA) has become a necessity rather than an option for auditors as it provides insight based on the analysis of an entire data population instead of a tiny slice from traditional audit samples. For the internal audit (IA) function, with access to many data points in the organization, DA can serve as the thread to connect the dots to present the bigger picture, which enables the discovery of systematic issues and emerging risk trends.

Unstructured data accounts for 80 to 90 percent of the total data being created. DA can also be useful for organizations with unstructured data, such as text and speech. For example, a fintech company used DA and speech recognition to monitor its call centre several years ago. Traditionally, quality control checks only cover about five percent of customer calls handled by operators. Through speech recognition and DA, 100 percent of customer calls are monitored from various perspectives including call content (audio is converted to text), duration and emotion (from voice intonation). This not only provides better assurance and facilitates improved identification, but more importantly, it also helps to drive change in people's behaviour, as operators know they are continually being assessed, instead of only facing a sampled quality assurance check.

IA should critically challenge the status quo including how businesses and operation units use DA in the fast-changing landscape, instead of just adhering to existing procedures. This requires IA to stay on top of the latest developments and deploy ADA in its own audit processes.

With the continuing digital transformation, harnessing data and new technologies are inevitable for all of us. IA functions, no matter large or small, can all embrace ADA. For example, writing simple scripts on customer or transaction databases to identify abnormal patterns can help auditors prioritize focus areas before any deep-dive review to improve audit effectiveness. For further guidance, the Institute of Internal Auditors offers global technology audit guides and thought leadership on using DA.

**“IA should critically challenge the status quo including how businesses and operation units use DA in the fast-changing landscape, instead of just adhering to existing procedures.”**

Whether focusing on internal or external auditors, organizations are demanding more effective and efficient audits as well as better value from the audit assurance process. These audit demands are being met by auditors incorporating high level ADA in the assurance process. The value proposition is being met by lower cost and/or higher effectiveness audits as well as suggestions to management about how to improve continuous monitoring and management of key risks. Examples include recommendations for installing continuous monitoring scripts in the IT system for data breach detection or actions to achieve cost reductions such as adding robotic process automation to accounting systems.

From the auditor perspective, audits are all about strategic risk analysis. Today's highly automated ADA improve these analytics by not only performing automated risk analysis at high levels of data aggregation but also drilling down into the underlying data necessary to detect other risks. They facilitate creating predictive models which anticipate client results. This improved risk analysis results in improved audits and valuable suggestions to the client for process improvement.

Audit effectiveness is improved by the ability to audit 100 percent of populations rather than just a sample of transactions, thus improving assurances. ADA can also be extremely effective in identifying outliers or fraudulent transactions. For example, a cluster analysis of all revenue transactions might spot unusual transactions in an extremely large population (think millions!) where the transaction clusters would otherwise be relatively undetectable.

Audit efficiency is improved by the automation of what previously was time consuming, tedious and repetitive audit testing. Auditors can create computer scripts for an audit which can be reused on subsequent audits. This saves time and money over the long run. For example, a script to download the general ledger from the main computer system and compute a variety of key analytic visualizations. Other scripts can provide real time notifications to the auditors and management about problems which occur.

Perhaps the greatest benefit of ADA is, through enhanced educational coverage, attracting to the audit profession (and retaining) highly creative individuals who seek a stimulating work environment where they can build personal competency through challenging, creative work activities.

**“ADA can also be extremely effective in identifying outliers or fraudulent transactions.”**

# RICH EXPERIENCE

High-net-worth families are not just thinking about new wealth creation but also how their money can help solve some of the world's problems, according to Terence Chow, Chief Executive Officer, Asia, RBC Wealth Management. He tells *A Plus* about his various roles at Royal Bank of Canada, and how the COVID-19 pandemic, coupled with the need to adopt new technologies, has led to lasting changes within the wealth management space

Photography by Calvin Sit

**T**erence Chow, Chief Executive Officer, Asia, RBC Wealth Management, describes coming to work in Hong Kong as feeling like a homecoming. His parents grew up in Hong Kong, and while he had often visited the city for both business and leisure, he had never had the chance to live here.

At the same time, having spent his whole career with Royal Bank of Canada (RBC), he was excited by the opportunity to help grow the business in such a dynamic region. "It felt like coming home for me, and to be able to do it in this role – where I get to lead a business for an organization that helped to raise me and that I feel very passionate about – is great," he says.

Chow arrived in Hong Kong just before the COVID-19 pandemic struck, and he describes being in the city during this period as a great privilege. "Hong Kong has responded extremely well to this health crisis and the city itself has a lot to offer. Whether it is the ability to disappear to some of the outlying islands, or hike and get out into nature, or visit a beach, or explore different neighbourhoods in Kowloon, just exploring the city – and the culture that goes along with it – has been fantastic."

## From capital markets to wealth management

Chow started his career as a senior business analyst at RBC Capital Markets in Canada, after studying economics at the University of Toronto and then obtaining a Master of Business Administration at Ivey Business School, Western University. Over the course of 10 years, he gradually took on more responsibility, focusing on special projects, and developing new solutions and products to fill out RBC's operational capacities. His role took him from Toronto to New York, and also involved visits to Sydney and Hong Kong.





## LEADERSHIP PROFILE

Terence Chow

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He was working in New York when the global financial crisis hit and clearly remembers the weekend Lehman Brothers collapsed. “It was such a turbulent time and there were so many things to be learned, but being able to grow a franchise and business during this period was quite rewarding,” he says.

Chow explains that through prudent risk management, RBC was able to continue to expand its business within capital markets and investment banking, and it became a primary dealer of United States treasuries. “This catapulted us from being a mid-sized boutique investment bank to a top 10 global investment bank,” he says. During the first decade of his career, Chow managed smaller teams working on special projects, such as setting up the infrastructure and reporting systems for RBC to deal in U.S. treasuries, and working as part of a focused project team to restructure the bank’s proprietary trading business. One thing that was absent from his experience was leading day-to-day operations of a larger group. This opportunity arose in 2015, when he moved from RBC Capital Markets to RBC Wealth Management, and he went from managing 15 people to around 600. “That was a transition! It really taught me how to lead a large number of people, how to understand the different moving parts, and learn that my role was not to teach people how to do their jobs – because they are professionals with experience – but to really focus the energy, harness that experience and help guide the team towards a common goal,” he says.

In early 2019, Chow had the opportunity to move to Singapore and become chief operating officer for Asia. Soon afterwards, his predecessor retired, and in November of that year, he was promoted to his current role of CEO, Asia, at RBC Wealth Management.

### A people person

Chow describes his role as having three main elements, one of which involves marketing RBC in the region. He points out that despite being the 10th or 11th largest bank in the world by market capitalization, depending on the day, RBC is still not particularly well known in Asia. “We haven’t done enough work to really amplify our story as a wealth manager. Globally, we have just shy of US\$1 trillion of assets under administration and US\$700 billion of assets under management,” he says. “These are big numbers that Asia may not necessarily be aware of, so part of my job is to tell that story and help this part of the world really understand and appreciate the strength of the RBC brand.”

The second part of his role involves leading his team,

and providing the support and help needed to keep everyone positive and motivated to drive growth. “The past 18 months have been challenging for everyone, so making sure the team is healthy – physically and mentally – has been a key priority,” he says.

The third aspect focuses on clients. “It involves getting to know them and working with them to understand what their priorities and objectives are, and then figuring out how to bring the best of RBC to that experience, so that our clients can realize their hopes and dreams,” he says. It is this aspect of the job that Chow enjoys the most. He describes it as being much more personal than working in the institutional space, as he has the chance to really interact with individuals and families to help them achieve their goals and the legacy they want to leave. “Getting a chance to really be part of that process and earn their trust to help them through their journey is extremely rewarding,” he says.

Having the opportunity to work directly with private clients attracted Chow to move into the wealth management space. And he adds that both the responsibility and reward feel much greater when dealing with people’s personal wealth.

### Asia’s global families

Chow describes RBC’s core client base as Asia’s global families – namely families where the parents or grandparents may be from Hong Kong or somewhere else in Asia – but have a natural nexus to Canada, the U.S. and the United Kingdom. This, Chow explains, is the result of children or grandchildren who have been educated abroad and have put down roots in these countries. “For these families, there are cross-border and cross-jurisdictional complexities for estate planning, tax residency and wealth transfer. As the world continues to become more global, and families are positioned in different parts of the world, the trend will be for banks to step up and help families navigate these

**“It involves getting to know them and working with them to understand what their priorities and objectives are, and then figuring out how to bring the best of RBC to that experience, so that our clients can realize their hopes and dreams.”**



As Chief Executive Officer, Asia, RBC Wealth Management, Terence Chow is responsible for marketing Royal Bank of Canada in the region, leading his team and working with clients to understand their individual needs.

complexities,” Chow says. He adds that the COVID-19 pandemic has caused many of these families to reunite and be more grounded, as they can no longer travel as easily and frequently as they did before. “The situation has led to more open and transparent conversations about wealth and mortality that have previously been a bit taboo, and an active desire to plan more holistically for wealth transfer,” he says.

RBC sees the Greater Bay Area (GBA), with its population of more than 70 million people and schemes such as Wealth Management Connect (see thought leadership on page 27 for more information) that enable Hong Kong-based banks to serve customers in the region, as a significant opportunity. “It really creates more fluidity for families in the GBA to tap into services and banks that are operating out

of Hong Kong, such as ourselves. “Canada, the U.S. and the U.K. are still destinations of choice for education, business expansion and investment. As we are strong in each of these locations, I think we have a very meaningful opportunity to grow our business within the GBA,” Chow says. He adds that Hong Kong is not only a great place to be based in terms of being a gateway to Mainland China, but it is also a gateway to servicing the second and third generation of wealthy families across Asia as well. “As an economic region, the GBA generates around US\$1.7 trillion of gross domestic product – that’s about the same as Canada as an entire country, so the size is enormous. Not to mention the amount of innovation, sustainable technology startups, the building of smart cities, and the opportunities to learn and leverage are endless.”

### Embracing technology

A key focus for RBC is embracing technology to enhance the client experience, particularly as the first generation of wealth creators in Asia are now approaching an age where they are thinking about wealth transfer and succession planning. “The next generation is younger, and they are much more digitally enabled. They are much more fluent in mobile apps, so digital enablement is an obvious place where banks like us have to be spending time, energy and money to invest to upgrade our capabilities,” Chow says. In practice, this means providing clients with apps that enable them to easily access the information they need and to be able to carry out the transactions they want to do.

RBC is also harnessing robotic process automation and optical character recognition to streamline the account opening and onboarding

## LEADERSHIP PROFILE

Terence Chow



Chow, who was raised in Toronto, Canada, arrived in Hong Kong in early 2020. He graduated from the University of Toronto with a degree in economics and has spent his whole career at RBC. He has worked in cities such as Toronto, New York, Sydney, Singapore and Hong Kong.



**“Every client’s story is going to be different. Understanding their finances and their businesses is a critical component, sure, but it’s also about getting to know them as individuals, as families.”**

process. Chow points out that during the pandemic, RBC’s ability to leverage digital channels and move to a work-from-home environment – while still being able to connect with clients and colleagues globally – was extremely important in servicing clients. Going forward, Chow does not expect technology, such as robo-advisors, to ever completely replace people, particularly in the high-net-worth and ultra-high-net-worth space, where clients’ needs tend to be more complex.

Instead, he thinks the winners will be the banks that are quickest to reach the middle space between a fully digital experience with robo-advisors at one end, and the traditional private banking full-service “white glove” model at the other end. “I see it as a race to the middle to become increasingly more digitally enabled, but fundamentally still be a relationship bank. Using tools like artificial intelligence, to comb the world for news and sentiments, and using algorithms to help construct different portfolios, will enable us to deliver the real value-added advice that our clients want,” he says. RBC is not only focusing on technology to enhance the customer experience, Chow adds, but it is also looking at it as part of its investment strategy.

Chow explains that focusing on environmental, social and governance alone no longer gives companies a competitive advantage. Instead, RBC thinks it is the companies that are actively investing in businesses that combine sustainability and technology that will have the edge. It looks at five key areas, namely food tech and agriculture tech, which aim to improve food development from

farm to plate; green tech, which focuses on environmental-friendly technology to improve supply chains or generate clean energy; health tech to solve health problems; and fintech to bring financial services solutions to populations that remain unbanked, and smart cities, that looks to improve the wellbeing of citizens. “Through these five pillars, there are lots of companies that are actively working towards creating services and solutions that will solve problems, and we believe these are the companies that are going to provide very good long-term returns for investors,” he says.

Chow adds that the pandemic has accelerated clients’ interest in sustainability as part of their investment strategy. “COVID has caused clients to be much more introspective and philosophical about life in general. How did this virus come about? Was there something that could have been done to avoid this? Are there other threats that we should be thinking about or risks that need to be mitigated? As wealth transfers to the next generation, our clients are actively thinking about these issues and there’s an increased desire to moving towards wealth stewardship, and how they channel their wealth to causes or investment opportunities that help to solve these problems, rather than just thinking about wealth creation. It is a massive shift in mindset,” he says.

### **A solid foundation**

Chow thinks having an accounting background provides a solid foundation for any career, especially in wealth management. “You understand how companies work and how profit is generated. You

have your finger on the pulse of the numbers, which is a good discipline and structure to have because high-net-worth and ultra-high-net-worth families and their personal wealth can be very similar to that of Fortune 500 companies.” He says having an accounting background also helps with the understanding and insight wealth managers need to help families plan and budget to achieve their objectives. But accounting is more than just understanding the numbers, Chow says: “Accountants are very thoughtful about business in general. They understand the strategic direction of the companies they are auditing or managing finances and they have a front row seat to see how senior management are thinking about various business challenges and opportunities. Furthermore, accountants can be also key decision makers in shaping their respective companies’ futures. These are all great disciplines to have if you want to pursue a career in wealth management – particularly in Asia where clients are also often business owners and entrepreneurs,” he says.

But he adds that accountants interested in working in wealth management will also need to go beyond the technicalities of accounting and be prepared to really get to know their clients, and what motivates them. “Every client’s story is going to be different. Understanding their finances and their businesses is a critical component, sure, but it’s also about getting to know them as individuals, as families. It’s about really building that trust and relationship and to earn the right to be that client’s first choice. It’s personal.”



Royal Bank of Canada is one of the top 11 largest banks in the world by market capitalization. It has nearly US\$1 trillion of assets under administration and US\$700 billion of assets under management.

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**時間:** 下午3點至4點半

John Chan, Financial Services Tax Partner, and Josephine Kwan CPA (practising), Asset & Wealth Management Partner, PwC Hong Kong, on how the Wealth Management Connect will further boost Hong Kong's position as an investment hub



## New routes to access China's capital markets

**T**he pace of reform is accelerating in the opening up of Mainland China's capital markets to international investors. Starting with the Qualified Foreign Institutional Investor (QFII) programme in 2002, this raft of reforms has led to Stock Connect in 2014 and Bond Connect in 2017.

Early this month, we started to see details of the much-anticipated Wealth Management Connect (WMC).

This latest chapter in capital markets reform builds on previous measures and reflects growing confidence on the part of regulators and market participants in managing inbound and outbound flows. It is also highly significant that this is the first reform to be designed specifically around the Greater Bay Area (GBA).

While previous connect schemes linked Hong Kong with Shanghai and Shenzhen (as well as London with Shanghai), WMC brings together the monetary authorities of Hong Kong and Macau with the Shenzhen and Guangzhou bureaus of the principal Mainland regulators such as the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange. This makes it one of the most tangible signs of the GBA's transition into a real, integrated market for both domestic and international investors.

The initial aggregate quotas for WMC are expected to be 150 billion yuan (US\$23.3 billion) for both northbound and southbound legs. By contrast, the Hong Kong-Shanghai Stock Connect has daily quotas of 52 billion yuan (US\$8 billion) (northbound) and 42 billion yuan (US\$6.5 billion) (southbound). The maximum individual investment quota for the new scheme is 1 million yuan, and there are various measures to regulate investor eligibility. The experience of the QFII and RMB QFII programmes and other connect schemes suggests that quotas may grow over time – possibly with daily or monthly quota limits to manage capital flows.

While WMC will certainly boost financial services in the GBA, there is still some work to be done to support the growth of cross-border collaboration. For example, we

have yet to see any discussion on tax, which is a key cost and compliance element, especially in the context of a large cross-border operation. Bringing tax to the table would provide more certainty and encourage businesses to expand their operations in the GBA.

As our colleague Rex Ho CPA, Asset & Wealth Management Tax Leader, PwC Hong Kong, explained in a source article of the March 2021 issue of *A Plus*, the WMC announcement was preceded by another milestone reform: a new carried interest tax concessions law, which was formally enacted in Hong Kong on 7 May. This reform enriches Hong Kong's asset and wealth management ecosystem and makes it even more competitive and attractive.

Together with the launch of Hong Kong domiciled limited partnership funds and the enhancement of the Hong Kong open-ended fund companies regime, Hong Kong is shaping up to become the regional fund domicile of choice. A proposal by a task force led by the Financial Services and the Treasury Bureau is set to introduce a re-domiciliation mechanism for existing offshore funds to re-domicile to Hong Kong in a streamlined and straightforward manner. We anticipate the legislative process will begin in mid-2021.

All these initiatives have contributed to a surge in interest and activity as Mainland China's capital liberalization journey accelerates. With a growing crop of foreign asset and wealth managers keen to capture these opportunities, WMC offers an additional channel for financial services players to participate in the rapid growth of China, while the new fund structures and carried interest tax concession make Hong Kong an attractive base for their China expansion.

As Hong Kong and the rest of the GBA emerges from the shadow of COVID-19, these new initiatives will significantly enrich the asset and wealth management ecosystem of this market of 72 million people, offering them expanded exposure to a wider investment universe and opportunities to diversify their investments. They represent a much-needed shot in the arm for Hong Kong's financial services as it looks to continue to play a pivotal role in China's growth.

**"This latest chapter in capital markets reform builds on previous measures and reflects growing confidence on the part of regulators and market participants in managing inbound and outbound flows."**





# IN IT FOR THE LONG TERM

As Managing Director and Co-founder of Giraffe Capital Limited, Gilbert Chan CPA has been guiding companies through the listing process while solidifying his company's position as a one-stop shop for corporate finance. He tells [Nicky BurrIDGE](#) about the immense business opportunities that come from advising small- and medium-sized companies and how he started his own venture after stints in audit and investment banking

Photography by Leslie Montgomery

**A**fter working for one of Mainland China's leading investment banks in Hong Kong for nine years, Gilbert Chan CPA, Managing Director and Co-founder of Giraffe Capital Limited, and a member of the Institute's Corporate Finance Advisory Panel, was ready to take on a different kind of challenge. Chan had noticed there was a shortage of corporate finance advisors in Hong Kong that focus on advising small and medium enterprises (SMEs) on capital raising. "I observed that there were a lot of small- and mid-cap companies in the market looking for quality corporate financial services but, at the time, there were very few firms providing such services and they could not meet the demand of the market," he remembers. This observation, combined with a desire to have greater control over his career, led to the founding of Giraffe Capital in 2016 with a former classmate from his university days, Johnson Chen CPA. The company's name was inspired by Chan's young son's love of giraffes. "We positioned ourselves as a boutique sponsor firm providing corporate finance services for

SMEs in Hong Kong and China," says Chan.

The company differentiated itself by covering the whole value chain from pre-initial public offering (IPO) services, to IPO execution, to post-IPO business advisory and secondary fundraising. "We observed that companies tended to look for a one-stop solution. If you have assisted a company in the pre-IPO stage, you can also work with them to help grow their business after they are listed, providing services in a holistic way, instead of a piecemeal way as was the case in the past," he says. As such, Giraffe Capital offers pre-IPO consultancy services; it advises companies during the listing process and helps them to gain approval from the Hong Kong Stock Exchange. Once a company is listed, it acts as a compliance advisor helping it to meet all ongoing regulatory requirements. The company also provides business consultancy, and merger and acquisition (M&A) services.

Chan says this approach means it has a number of clients who it has been serving since it was first founded. "We have not only helped them plan for an IPO and get listed, but we continue to explore new business



opportunities with them through our network and knowledge, as well as identify potential M&A targets and create new business opportunities. We don't only want to be involved in the IPO process and then leave. We want to continue to work together," he says. Currently, Chan is involved in a project with one of the company's clients that involves building an international school in Cambodia. "It is an interesting project as I have never imagined that I would get involved in building a school."

Chan describes setting up Giraffe Capital as being the most memorable moment of his career. "I remember when we first started it was just myself, my partner and my secretary. We started everything from scratch," he says. Despite being a new company, Giraffe Capital did not have any problems attracting clients and it received a number of IPO mandates shortly after it set up. "We were lucky to gain trust from various clients at the beginning, and that they passed their IPO mandates to us. We successfully completed all of them on time and built up our track record from there. Today, we are one of the most active boutique firms in Hong Kong engaging in IPOs for SMEs and compliance advisory services," he says. Chan adds that the biggest challenge was finding the right staff. "It was difficult to get people with experience to join our firm. It took time to find the right professionals but we have high quality staff members now."

### A problem solver

Though Chan's day-to-day responsibilities keep him busy, he still puts in the extra effort and hours to build relationships with clients as well as his company. "I do everything – from the overall management of the firm to executing the corporate finance projects we have on hand," he says. "During the day, I run around meeting different clients and other professional parties including accountants and lawyers and discussing potential deals or any issues that have arisen. After dinner, I go back to the office and start reviewing documents, such as prospectuses and corporate finance proposals. I usually leave the office around 11 p.m. or midnight. I work long hours but I love my job and I love corporate finance."

Chan describes himself as a problem-solver. "With corporate finance transactions, there tends to be lots of issues occurring all the time. What we try to do is figure out a way our clients can complete the exercise using our technical knowledge, whether it involves



**"We observed that companies tended to look for a one-stop solution. If you have assisted a company in the pre-IPO stage, you can also work with them to help grow their business after they are listed, providing services in a holistic way, instead of a piecemeal way as was the case in the past."**





As Managing Director and Co-founder of Giraffe Capital Limited, Gilbert Chan CPA leads the growth of the company, which specializes in offering IPO advisory to small- and medium-sized companies in Hong Kong.

corporate finance, accounting or even legal knowledge. It feels good when you are able to develop a way to solve a problem for your client,” he says. “Corporate finance involves meeting the financing needs of a corporate and there are many ways of doing this. Our role is to solve all problems that come up and ensure the transaction can move forward.”

The fact that corporate finance can be a stressful working environment with tight deadlines, Chan says, is the most challenging aspect of his role. “Everything is urgent in our industry, particularly when you are responding to comments and questions from the

regulators. I could receive questions in the morning, and need to submit my response by as early as 3 p.m. It can be quite stressful as there is no margin for error.” He tries to counter this stress by not working at weekends to ensure he has some time to relax and be with his family.

### SME listing challenges

Chan describes the IPO market in Hong Kong as being extremely buoyant due to a combination of factors. Years of quantitative easing by central banks and low interest rates have contributed to higher corporate valuations, encouraging

more companies to list, particularly technology companies. At the same time, changes to listing rules in Hong Kong allowing pre-revenue biotech companies, as well as corporations with weighted voting rights to list, have also led to a boost in biotech IPOs.

Despite this buoyancy, Chan points out that SMEs face various challenges in their IPOs and fundraising activities. Chan adds that the regulator has also raised the standards for SME IPOs, leading to the process taking longer. “In the past, you could do an IPO for an SME in less than six months, but with

the enhanced regulations, the time from submitting an application to listing is up to nine months, which can be a challenge for them as the extended time increases the cost and uncertainty,” he says.

Meanwhile, the Hong Kong Stock Exchange has announced that the profit requirements for Main Board listings will increase by 60 percent from 1 January 2022, rising from HK\$20 million to HK\$35 million in the most recent financial year, and from HK\$30 million to HK\$45 million in aggregate for the two preceding financial years, during a three-year track record period, with an aggregate profit requirement of HK\$80 million. Even so, Chan thinks Hong Kong still provides a good destination for SMEs to raise funds, as its acceptance for SME IPOs is higher and it has greater liquidity compared with other capital markets, such as in Singapore.

To help ensure a smooth listing process, Chan suggests SMEs should talk to advisors and engage professionals early on to prepare the foundation work. “In an IPO, time is your best friend,” he says. “With time you can resolve most problems. So if a company is considering an IPO in Hong Kong, they should start planning early and find a good sponsor and listing team to set up the legal structure and conduct a thorough “body-check” to ensure they can meet every aspect of the requirements.” He adds that companies should also try to consider all of the issues or questions the regulators may raise during the vetting process, with reference to questions asked in recent similar cases or new rules about to launch. “It is similar to

taking exams. You try to predict the areas of concern, which are the questions, with your experience, which is like going through past papers, and prepare well before submitting your listing application, which is a bit like entering the examination hall.”

### A technical bent

Chan has been interested in economics and accounting since he was a secondary school student. This interest inspired him to pursue a business degree at The Chinese University of Hong Kong. “During my first year, I studied business

Chan graduated from The Chinese University of Hong Kong with an accounting degree. He began his career at EY and worked as an investment banker at CCB International Capital Limited before co-founding Giraffe Capital Limited.



## “Instead of executing a project at the bank, I can now flexibly initiate a project myself with my clients at my own practice.”

administration, marketing and management, but I found they were too generic for me. I wanted something more technical,” he says. As a result, in his second and third year, Chan chose to major in accounting. “Accounting is very useful because you deal with figures and numbers every day. I was sensitive to numbers, so I joined a Big Four firm as an auditor immediately after graduating.”

Chan became a Hong Kong CPA after qualifying with the Association of Chartered Certified Accountants during his time at EY.

At EY, Chan worked on the annual audits of a number multinational corporations and listed companies. “After three years, I had the chance to work on IPO projects, which aroused my interest in advising on IPOs and corporate finance,” he remembers. In 2007, he started to think about changing careers. Chinese investment banks had started to set up offices in Hong Kong, and Chan had the opportunity to work as an investment banker at CCB International Capital Limited (CCBI), the investment bank of China Construction Bank Corporation and one of the largest banks in the Mainland.

Chan worked on IPO projects at the bank. He remembers that deals were initially relatively small as CCBI established itself in Hong Kong. “We grew together and after a few years, the deals got bigger and I joined some very big state-owned enterprise IPOs,” he says. But after nine years at the bank, he started to rethink his career again, prompting him to found Giraffe Capital. “I realized that in a large organization, when you are working on an IPO exercise, you are just one person in a working team and the recognition you receive from the client is less than when you work on an IPO for an SME. I also wanted to have more control over what I did,” he remembers. “Instead of executing a project at the bank, I can now flexibly initiate a project myself with my clients at my own practice.”

### Taking everything into account

Chan advises younger Institute members who are interested in transitioning into corporate finance and working on IPOs to familiarize themselves with the business models of companies from Mainland China. “Companies listing in Hong

Kong now are mainly either China-focused or from Mainland China, as many companies from Hong Kong that can meet the listing requirements have already listed,” he explains. Chan adds that understanding how Mainland companies work is not only important for members who want to specialize in IPOs, but also for those who want to go into auditing. “The Chinese market is huge and provides immense opportunities. You have to know it well and build up your own network when you are young. I am working as a team with many Mainland accountants and lawyers whom I have known for many years and grown up together. It takes time to gain trust from each other,” he says.

He adds that having extensive technical accounting knowledge is helpful when working on IPOs in order to complete the due diligence and modelling work. “Training as an accountant or auditor is a very good foundation and provides all the technical knowledge you need for doing an IPO.” He points out that accountants are taught to be sceptical. “Being an auditor, your left hand should not trust your right hand unless proven by objective evidence. This training is extremely useful when you are doing your due diligence work with key customers and suppliers or evaluating a potential deal.” He adds that he once met a client engaging in big data marketing in Mainland China who claimed to have a very profitable business model. “I could tell he was not being honest right from the beginning from his presentation, outlook, knowledge of coding and behaviour. Everything was just too good to be true. I always tell my colleagues to maintain a sceptical mind and to not trust what is said unless it is proven to be true.” Chan says financial analysis, modelling skills and the application of Excel are also essential tools in his work, all of which can be acquired through the process of becoming a CPA.

Chan is a proud father of boy and girl twins, who are seven years old. He enjoys taking them to the beach or farms, or all sorts of outdoor activities like playing basketball and football. “I also love dragon boat racing. I have been paddling for more than eight years. I am happy when I am out on the water and I can escape for a few hours. This is how I strike a work-life balance,” he says.



Giraffe Capital Limited provides corporate finance services for small and medium enterprises in Hong Kong and Mainland China. It offers pre-initial public offering (IPO) services as well as post-IPO business advisory, secondary fundraising, business consultancy, and merger and acquisition services.



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The Senior Learning Development Manager, Association of International Certified Professional Accountants on why it's important to act like you are in a classroom, even when you're not



## How to make the most out of online learning

**T**hanks to the Internet, you can now learn whenever, wherever and however works best for you. Would you say this made your life easier than ever? Or, harder and more challenging?

When you study online, you tend to only interact with your computer, unlike a traditional classroom when you would interact with teachers and fellow students, which may lead to digital fatigue. For example, you may sometimes feel that you are not in the right mood to study and postpone your studies to another time. Digital distractions such as getting a text or an email may also break your concentration, taking much-needed energy away from studies.

Online learning is here to stay, and to reap all the benefits you must be adequately prepared, self-disciplined and driven. Here are my top tips to make the most out of online learning.

### Create your dedicated study space at home

Identify one space where you can sit and study comfortably (certainly, not on your bed!) and peacefully. During your study-session, you should aim to mimic an actual classroom and avoid doing things that you wouldn't usually do if you were in a classroom. You should:

- Get dressed – it will help you feel better physically and mentally;
- Get organized and have all essentials such as stationery, a water bottle, calculator etc. on hand; and
- Log off from all social networks and turn off your phone so that you will not be interrupted or distracted.

### Put together a study plan (and stick to it!)

Online learning needs structure, so having a study plan is critical. At the start of each week, allocate a day and a timeframe in your diary for each of the tasks you need to complete by the end of the week. This is an excellent way to prioritize your study plan and stay on track. Also, it will enable you to remain motivated as you tick tasks off your list and see how much you can actually accomplish. You should:

- Stick to your study plan and stay organized so that you don't fall behind;
- Review your progress at the end of every day and adjust your study plan accordingly for the rest of the week; and

- Ask your family members, friends and colleagues to respect your study time.

### Use the right learning techniques

While listening to or watching an online lecture, take notes as if you were attending a lesson in a classroom. This will help you to keep focused on the lecture, enhance your understanding and improve your memory. Keep listening or watching pre-recorded lectures without pauses so that you keep your momentum and avoid distractions. If needed, you can always go back to it later to clarify some points. You should:

- Read the relevant materials beforehand and do some practice exam questions;
- Ask questions if there is anything you aren't sure about, during or after the lesson; and
- Step away from your laptop every hour or so to keep your mind fresh and body active.

### Be active within your learning community

Connecting with fellow students through additional sessions will enhance your online learning experience and make sure that you don't feel too isolated. You should:

- Plan what you want to cover in the session so that the discussion remains productive;
- Set up study groups with other students to discuss ideas, swap study tips and get help with certain topics; and
- Check for updates on support platforms provided by your learning provider on a daily basis.

### Make sure to have some downtime

Mental and physical wellbeing are very important, especially when you are an online learner and spend the whole day in the same space. You need to make sure that you have a clear cut-off point for studying every day and allow yourself to relax. You should:

- Do something you enjoy in your downtime such as listening to music, reading or catching up on the latest Netflix series;
- Stay active and get out of your home at least once a day for a daily walk, run or cycle; and
- Look after your mental wellbeing by spending time with your family and friends, or integrating mindfulness practices into your daily routine.

Best of luck with your online studies!



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# New e-learning courses tailor-made for SMEs/SMPs

Two e-learning courses provide refreshers on the fundamental requirements in the SME-FRF & SME-FRS, address frequently asked questions, and updates on amendments.



**Anthony Wong CPA**, Associate Director, Standard Setting at the Hong Kong Institute of CPAs, is in charge of the SME-FRF & SME-FRS and HKFRS for Private Entities standards. He led the recent post-implementation reviews of these two standards. He was the speaker for the financial reporting section of the Institute's SMP Symposium from 2018 to 2020. Before joining the Institute, he worked at a Big Four firm for more than 10 years, auditing clients ranging from smaller entrepreneurs and private businesses to large listed companies.

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

Following this, the Institute's Financial Reporting Standards Committee (FRSC) decided that the Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS) should be a predominantly cost-based measurement standard that is straightforward for entities with simple businesses or transactions to apply.

The SME-FRF & SME-FRS were issued in 2005 and have been revised since to cater for changes in the CO. In October 2018, the FRSC commenced a post-implementation review (PIR) of the SME-FRF & SME-FRS, and as a consequence, issued amendments in March 2020 that became effective on 1 January 2021. The amendments include the following:

- (i) Transition exemption;
- (ii) Addition of lessor accounting requirements and a concept of "presentation currency"; and
- (iii) Clarification the disclosure requirements in paragraph 19.16 of the SME-FRF & SME-FRS.

## About the courses

Throughout various interviews and discussions with SMEs and small- and medium-sized practices (SMPs) during the PIR and the Institute's SMP Symposiums over the years, and the handling of day-to-day technical enquiries, I have obtained a detailed understanding of SMEs and SMPs' needs and concerns.

Due to limited resources it can be challenging for SMEs and SMPs to provide their employees, in particular new joiners, with quick and effective training on the SME-FRF & SME-FRS and guidance on frequently encountered problems in practice. These courses aim to provide this training.

The two e-learning courses of one CPD hour each go through the financial reporting

frameworks in Hong Kong, eligibility to use the SME-FRF & SME-FRS and their key features, frequently asked questions from SMEs and SMPs, as well as the recent amendments to the standard. The e-learning courses are:

### The Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard

Many SMEs and SMPs still have questions about the eligibility and accounting requirements of the SME-FRF & SME-FRS. This course explains the reporting exemption requirements (e.g. size tests and shareholders' approval) in the CO, accounting requirements under key sections and transitional arrangements of the standard.

### SMEs/SMPs: You should know...

This course covers frequently asked technical questions including common points of confusion or misunderstanding on certain basic financial reporting requirements in the CO, accounting requirements in the SME-FRF & SME-FRS and also HKFRS for Private Entities. The questions covered include:

- What are the available financial reporting frameworks in Hong Kong?
- Can I use SME-FRF & SME-FRS or HKFRS for Private Entities to prepare the financial statements of my company?
- Do companies that are subsidiaries of a listed company qualify for the reporting exemption?
- Can I apply requirements in HKFRS for financial statements prepared under SME-FRF & SME-FRS or HKFRS for Private Entities?
- Will SME-FRF & SME-FRS or HKFRS for Private Entities adopt HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*?

This e-learning also covers the amendments to the SME-FRF & SME-FRS that became effective on 1 January 2021. In addition, it includes a section to cover the determination of the discount rate of a lease under HKFRS 16 with illustrative examples, presented by Joni Kan CPA, the Institute's subject matter expert on the standard.

I hope that SMEs and SMPs will find these two e-learning courses relevant and useful when dealing with their daily work. The courses are conducted in Cantonese and you can find more enrolment details on the Institute's website.

# Commitment to ensuring audit quality

The Institute's latest Financial Reporting, Auditing and Ethics Alert covers the importance of audit quality and the Institute's commitment to ensuring it

The Hong Kong Institute of CPAs issued its Quality Assurance Department Report 2020 on 21 April 2021. As in previous years the report sets out the most commonly occurring findings identified by the Institute's practice review programme, highlighting audit areas that appear to be most challenging to auditors. The report explains how this has resulted in failures to comply with auditing standards, and suggests how auditors should prepare to address such deficiencies. The report also highlights areas where auditors should pay more attention when conducting audits as a result of increased audit risks or challenges to the effective conduct of audits arising from the consequences of the COVID-19 pandemic. Audit practitioners are strongly recommended to read through the report and consider its findings.

It is a timely opportunity for the Institute's Auditing and Assurance Standards Committee and the Standard Setting Department to provide their own reminders to practitioners of important topical matters: the purpose and value of an audit, the current audit environment and certain key areas that might need extra focus.

This Alert is intended as general information and includes topics that are of interest to both professional accountants in practice and in business. It should not be relied upon as being authoritative or all-inclusive, or a substitute for reading and complying with the standards.

## Purpose and value of audit

When performing an assurance engagement, a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or

evaluation of an underlying subject matter against agreed criteria.

An audit is a form of assurance engagement giving reasonable assurance on the financial statements. It provides reasonable assurance that the financial statements prepared by management give a "true and fair" view of an entity's financial performance and position as well as its cash flows. In an audit, it is not possible to provide absolute assurance due to a number of factors such as:

- the use of selective testing;
- the inherent limitations of internal control;
- the fact that most of the evidence available is persuasive rather than conclusive; and
- the use of professional judgement in gathering and evaluating evidence and forming conclusions based on that evidence.

An audit underpins the trust and obligation of stewardship between the owners and management of the entity. Audited financial statements are also used by other stakeholders such as potential investors and banks. Audits of financial statements play a critical role in enhancing confidence of these users.

Though an audit is mandatory under the Companies Ordinance in Hong Kong, it should not be viewed as a compliance burden. It offers the entity an opportunity to review its operations and consider improvements. For example, the audit involves the external review of an entity's internal control systems by the auditor. Even though no opinion is expressed on the effectiveness of the entity's internal control in the auditor's report, the auditor can share their insights on the internal control systems with those charged with governance and management. Such communications can add value to the

entity and enhance the overall quality of its business processes.

## Audit environment

Auditors need to keep abreast of changes in the economic environment that impact the audited entity's operations and financial reporting. For example, in the current COVID-19 situation, there may be changes in the entity's internal control systems and this may increase the level of risks affecting the business. This also affects the way the audit is conducted. The auditor must consider how external environments impact their audit risk assessments and whether any revision is needed to their planned audit procedures or whether to perform additional procedures in response, as required under Hong Kong Standard on Auditing (HKSA) 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

## Fraud risks

Under s379 of the Companies Ordinance, directors of entities, except those meeting exemptions, are required to prepare financial statements for each financial year that give a true and fair view of the financial position as at the year end date and the financial performance for the year.

As set out in paragraph 4 of HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, "[t]he primary responsibility for the prevention and detection of fraud rests with both those charged with governance and management of the entity. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and



fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.” The paragraph continues that this involves a commitment to creating a culture of honesty and ethical behaviour, which can be reinforced by an active oversight by those charged with governance. Oversight includes considering the potential for override of controls or other inappropriate influence over the financial reporting process, such as efforts by management to manage earnings in order to influence the perceptions of analysts as to the entity’s performance and profitability.

An auditor conducting an audit is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with HKSAs.

Given the continued disruption caused by COVID-19, there is increased inherent risk of fraud in all business sectors. It is critical that management revisit their fraud risk assessments to ensure that they remain fit for purpose.

Likewise for auditors, identifying and assessing risks may be more challenging due to these uncertainties. The auditor’s assessment of the risks of material misstatement, including fraud risks, continues throughout the audit, and may change over time. For example, there may be new risks identified as responses to COVID-19 evolve.

Auditors are reminded to exercise professional scepticism – to have an attitude of a questioning mind and critical assessment – when gathering audit evidence.

## Going concern

As a result of the uncertainty caused by COVID-19, going concern is one of the challenging areas for both management and auditors. It is the responsibility of management to assess whether the going concern basis for accounting is appropriate.

Auditors are required under HKSA 570 (Revised) *Going Concern* to obtain sufficient appropriate audit evidence regarding the appropriateness of management’s use of the going concern basis of accounting in the preparation of financial statements. They must also conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity’s ability to continue as a going concern.

The Quality Assurance Department Report 2020 highlights that due to the impact of COVID-19 and resulting uncertainty in the business and wider economic environments, auditors may need to perform additional procedures to evaluate the appropriateness of management’s assessment of the entity’s ability to continue as a going concern and assess asset impairment. Consideration should be given to the scenarios and assumptions that management used in their assessment and the nature of material uncertainties.

Auditors are also reminded that if based on their judgement, management’s use of the going concern basis of accounting is inappropriate, they should consider the implications on the auditor’s report and/or the audit opinion.

## Conclusion

Although the way that auditors interact with clients may have changed recently, auditing standards have not. Auditors need to maintain their focus on enhancing audit quality that will drive our profession forward.

Auditors must continue to comply with the required standards, which may necessitate different and enhanced considerations given the current circumstances. Auditors may also need to consider developing alternative procedures to gather sufficient appropriate audit evidence to support their audit opinion, or to modify the audit opinion.

The Institute will continue to support the profession through these challenging times. We are aware of the additional pressure COVID-19 has put on our members to try and maintain their working routines and continue to provide quality service to clients. During the past year we have issued guidance on audit related matters, and collated guidance from others on the COVID-19 – CPA Information Centre on the Institute’s website. Members should review these guidance, which they may find helpful.

The Institute expects to see evidence of improvements in overall audit quality in the results of practice reviews in 2021 and subsequent years. Practices are encouraged to take note of the key findings in the Quality Assurance Department Report 2020 and make appropriate changes to enhance effectiveness of their quality control and audit systems to prevent these deficiencies from occurring in their future audits.



*This article is reprinted from the Institute’s Financial Reporting, Auditing and Ethics Alert Issue 38*





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# HKFRS 17 *Insurance Contracts*: Contractual service margin

Introducing the Institute's new guidance on determining coverage units and relative weighting for insurance contracts that provide multiple services

Determining of the amount of contractual service margin (CSM) in Hong Kong Financial Reporting Standard (HKFRS) 17 *Insurance Contracts* to recognize in profit or loss is a topic involving technical complexity and judgement. This is notably pronounced in relation to contracts involving blends of multiple and heterogeneous services.

**Reminder:** Entities should also keep in mind relevant requirements such as Hong Kong Accounting Standard 1 *Presentation of Financial Statements* paragraph 122, which requires disclosures on judgements management has made in the process of applying its accounting policies.

## Background

In May, the Institute published new educational guidance on applying the recognition requirements for the CSM in HKFRS 17 in its place, including determining coverage units and relative weighting for contracts that provide multiple services.

The guidance is designed to provide preparers with a summary of relevant requirements and principles in HKFRS 17. In doing so, it considers two examples intended to be representative of products in the Hong Kong market that help to illustrate common challenges encountered when applying the requirements in question.

The examples in the guidance are simplified fact patterns designed for educational purposes and general reference. The guidance does not prescribe a specific approach to applying the requirements, and those presented are not the only possible approaches.

Visit the HKFRS 17 *Insurance Contracts* webpage for other useful resources. And importantly, remember: **When in doubt, consult!**

## Structure and scope of the guidance

The guidance considers focuses on contracts that provide multiple services, particularly the identification of coverage units and the determination of the relative weighting of the benefits provided.

For the purposes of illustration, the guidance assumes that its examples

are insurance contracts without direct participation features and measured under HKFRS 17's general measurement model. Nevertheless, the CSM recognition principles for insurance contracts with direct participation features are similar, and much of the guidance would be relevant when assessing contracts with direct participation features.

The guidance begins with an explanation of the relevant requirements in HKFRS 17 and discussions on them. It then introduces the fact patterns for two illustrative examples, and provides a number of various potential solutions for each example. In doing so, it illustrates the potential application of those requirements to specific and simplified scenarios.

## Illustrative examples

The below is a brief, high-level overview of the two examples used to illustrate application of the CSM requirements and the types of potential approaches an entity may take. For more information, read the guidance in full.

### Example 1 – multiple insurance services

A medical reimbursement product with multiple insurance services requires policyholders to choose a benefit tier (ward, semi-private or private). The benefits and limits in the schedule are constant each year. An example benefits schedule is provided in the guidance.

The guidance illustrates the following possible CSM determination approaches:

- Approach 1A: Voluntary disaggregation into groups of contracts which consist of homogeneous contracts.
- Approach 1B: Keep insurance contracts in one group, differentiate between different tiers of policyholders.
- Approach 2: Calculate probable maximums of each benefit based on historical claims data.
- Approach 3: Premiums as a proxy for the services provided in the contract.
- Approach 4: Expected cash flows as a proxy for the services provided in the contract.

### Example 2 – blend of investment services and multiple insurance services

An investment-linked product with a blend of investment services and multiple insurance services. The base contract is a regular premium investment-linked product with flexible investment options, as well as protection from death and total permanent disability (TPD) with a fixed sum assured. The fixed sum assured depends on the amount of protection desired by the policyholder, and is paid in addition to the account balance of the contract on death or TPD. A medical reimbursement rider and critical illness rider are attached as optional benefits. The base contract and the riders have the same expected coverage period.

The guidance illustrates the following possible CSM determination approaches:

- Approach 1: Calculate quantity of benefits for the contract using maximum payment of the different contractual features.
- Approach 2: Calculate a constant quantity of benefit for each contract and scale by a factor to reflect different sizes of contracts in the group.
- Approach 3: Separately calculate quantity of benefits for the investment-return service and insurance coverage, using account balance for investment-return service.
- Approach 4: Similar to approach 3 with a weighting of all the insurance contract services in the contract.
- Approach 5: Separately calculate quantity of benefits for the investment-return service and insurance coverage, using a constant measure for investment-return service.

Read the full guidance now for advice on how to determine the CSM for different contracts.



This article is contributed by the Institute's Standard Setting Department. Visit the department's recently launched "What's new" webpage for the latest publications, webcasts, and comment letters and follow it on LinkedIn for upcoming activities.

# TECHNICAL NEWS

## The latest standards and technical developments

### Members' handbook

#### Update no. 259

- Amendments to Hong Kong Accounting Standard (HKAS) 1 *Presentation of Financial Statements* and Hong Kong Financial Reporting Standard (HKFRS) Practice Statement 2 *Making Materiality Judgements* (Disclosure of Accounting Policies).
- Amendments to HKAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (Definition of Accounting Estimates).

#### Update no. 260

- Amendments to Chapter A of the *Code of Ethics for Professional Accountants* to conform with the corresponding revisions to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (Including International Independence Standards)* addressing the objectivity of an engagement quality control reviewer and other appropriate reviewers.
- Issuance of Hong Kong Standard on Quality Management (HKSQM) 1, HKSQM 2 and Hong Kong Standard on Auditing (HKSA) 220 (Revised) to strengthen and modernize an audit firm's approach to quality management through a robust, proactive and effective approach and requires an engagement partner and engagement team to be proactive in managing and achieving quality.

Update no. 261 contains amendments to Statement 1.304 *Arrangements to Cover the Incapacity or Death of a Sole Practitioner* (Revised May 2021).

### Financial reporting

#### Invitation to comment

The Institute is seeking comments on the

International Accounting Standards Board (IASB) Exposure Draft ED/2021/4 *Lack of Exchangeability* by 30 July.

#### Institute educational guidance on contractual service margin under HKFRS 17

The Institute has published educational guidance on the recognition of the contractual service margin (CSM) in profit or loss under HKFRS 17 *Insurance Contracts*. Read a summary of the guidance on page 41. Visit the Institute's insurance project webpage for further resources and updates.

#### Webinar on HKFRS 17 – General insurance

This Institute's webinar on 9 July aims to provide participants with practical knowledge of HKFRS 17 for non-life insurers. It will begin with a refresher of the standard followed by a walkthrough on how to apply it, with illustrative examples of the following areas:

- The eligibility assessment for premium allocation approach.
- Contract boundary.
- Grouping of insurance contracts and level of aggregation.
- Reinsurance contracts.

#### Webinar series covering common application issues

The Institute will hold a series of live webinars in June covering application issues of the following standards. These webinars will cover real-life examples, case studies and include live Q&A sessions:

- The webinar on 11 June will focus on some commonly seen arrangements in business combination transactions and how to apply HKFRS 3 *Business Combinations*, and other relevant standards. It will also illustrate some common application issues of applying the standard through case studies.
- The webinar on 21 June will discuss

common application issues of Accounting Guideline 5 *Merger Accounting for Common Control Combinations* and what constitutes a business combination under common control (BCUCC). The IASB discussion paper on BCUCC will also be covered.

#### Institute submission

The Institute has submitted its comment letter on the IASB's Request for Information Post-implementation Review of International Financial Reporting Standards (IFRS) 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*.

#### Amendments to IAS 12 *Income Taxes (Deferred Tax related to Assets and Liabilities arising from a Single Transaction)*

The IASB has issued targeted amendments to International Accounting Standard (IAS) 12 *Income Taxes* to specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations.

In specified circumstances, companies are exempt from recognizing deferred tax when they recognize assets or liabilities for the first time. The amendments clarify that the exemption does not apply to transactions for which companies recognize both an asset and liability, such as leases and decommissioning obligations.

The amendments to IAS 12 will be effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted.

#### IASB request for fieldwork participants for disclosure requirements project

The IASB is testing how the proposed disclosure requirements in Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach* would apply in practice. The board invites preparers



of financial statements to participate in fieldwork to test the application of the proposed new requirements in IFRS 13 *Fair Value Measurement*, IAS 19 *Employee Benefits*, or both, as well as to summarize and report the results of the fieldwork. The Institute is also seeking comments on the exposure draft by 31 August.

#### **IASB webcast in Putonghua on discussion paper on BCUCC**

The IASB has published a webcast in Putonghua on the IASB Discussion Paper DP/2020/2 *Business Combinations under Common Control*, which explains the IASB's preliminary views on how to reduce diversity in practice and improve the transparency and comparability in reporting BCUCC. Members can submit their comments on the paper to the Institute by 5 July.

#### **Recording of IASB virtual workshop on the post-implementation review of IFRS 10, IFRS 11, and IFRS 12**

A recording is now available of the virtual workshop held by the staff of the IASB in conjunction with the European Accounting Association and the European Financial Reporting Advisory Group on the Request for Information Post-implementation Review of IFRS 10, IFRS 11 and IFRS 12. The review seeks feedback on applying these three standards and on the information provided to users of financial statements.

#### **IASB investor perspective article**

Issue 23 of the IASB *Investor Update* is now available and provides a brief overview of the proposals of the IASB Exposure Draft ED/2021/1 *Regulatory Assets and Regulatory Liabilities*. The update also discusses how investors may find the new information useful in analysing the financial performance of rate-regulated companies. Members can submit their comments on the exposure draft to the Institute by 30 June.

#### **IFRS Interpretations Committee's fourth Compilation of Agenda Decisions**

The IFRS Interpretations Committee has published its fourth biannual *Compilation of Agenda Decisions*, which brings together agenda decisions from October 2020 to March 2021. The committee publishes agenda decisions when, following consultation, it decides further standard-setting is not required to deal with a question raised. Agenda decisions often include information to help entities applying standards.

#### **IFRS Interpretations Committee agenda decision**

The IFRS Interpretations Committee published an agenda decision on IAS 38 *Intangible Assets* covering the configuration or customization costs in a cloud computing arrangement. The committee's website contains all agenda decisions.

#### **April IFRS Interpretations Committee update and podcast**

The April *IFRS Interpretations Committee Update* newsletter, summarizing the decisions reached by the committee and podcast, highlighting its key activities at its April meeting are now available.

#### **March IFRS for SMEs update**

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

### **Auditing and assurance**

#### **Invitation to comment**

The Institute is seeking comments on the International Auditing and Assurance Standards Board (IAASB) Survey Consultation, *the IAASB's Work Plan for 2022-2023* by 5 July.

#### **Workshop for audit managers/seniors in-charge (pilot run)**

Join the Institute's workshop on 18, 21 and 25 June which is tailored for audit managers or seniors in-charge with more than two years of auditing experience. The workshop focuses on advanced auditing topics such as risk assessment procedures, auditing accounting estimates, going concern assessment etc. It also teaches auditing concepts and practical skills, as well as sharing of recent practice experience relevant to participants.

#### **ICAEW audit and assurance spring update**

Join the Institute of Chartered Accountants in England and Wales (ICAEW) virtual CPD 2021 programme on 14 June to gain insights into the required changes for the audit of accounting estimates and practical implementation tips in the 2020/2021 reporting environment.

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

Minutes of the 390th meeting held in March is now available.

#### **The Institute's resource centre on quality management standards**

The new and revised quality management standards will become effective on 15 December 2022. Visit the Institute's resource centre on the new and revised quality management standards for pronouncements, guides and articles relating to quality management for firms and engagements.

#### **IAASB April board meeting**

The audio recording of the IAASB April board meeting is now available.

#### **IAASB revised detailed work plan table for 2020-2021**

The IAASB has published a revised detailed

work plan to account for the continued impact of the COVID-19 pandemic on both board operations and stakeholders' capacity to implement new standards and participate in the IAASB's due process.

### IAASB Public Report

The IAASB Public Report details its progress to support the public interest between July 2019 and December 2020 and how it responded to the global pandemic by issuing guidance and engaging with a broad range of stakeholders in order to sustain trust in audit and assurance.

### New IAASB video on quality management standards

The IAASB has released a new video on quality management standards addressing considerations for firms when preparing to implement the standards, such as what may be retained from current systems, the time and resources needed, the impact on the firm as a whole, and various ways to approach implementation.

### Considerations relating to SPAC initial public offerings and mergers

The Centre for Audit Quality has issued an alert providing an overview of what a special purpose acquisition company (SPAC) is and some key considerations for auditors and audit committees related to the unique risks and challenges of a private company entering the public markets through a merger with a SPAC.

### Artificial intelligence and automation's impact on audit

- A publication prepared by the Chartered Professional Accountants of Canada (CPA Canada) and the American Institute of CPAs explores the benefits of an artificial intelligence (AI) enabled audit and how AI evolves the audit and the role of the auditor.
- A CPA Canada article discusses

opportunities and examples for using automation and analytics at every stage of the auditing process.

### AUASB audit and assurance resources

The following from the Australian Auditing and Assurance Standards Board (AUASB) may be of interest to members:

- AUASB Bulletin *The Consideration of Cyber Security Risks in an Audit of a Financial Report* to assist auditors considering the impact of cyber security on the audit of a financial report.
- AUASB Staff Guide *Prescribing Assurance and Related Services* to assist assurance prescribers in drafting assurance requirements which are clear and effective. The guide addresses a number of matters including determining the appropriate scope of an engagement, the different levels of assurance and the options available to perform engagements.

### Ethics

#### Institute submission

The Institute submitted comments on the IESBA Exposure Draft *Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code*.

#### IESBA's technology initiative update

IESBA released an update on its progress made on technology initiative, next steps and timing. It also recognized the increased burdens stakeholders have shouldered as a result of the pandemic.

#### IESBA revises auditor independence ethics rules

The IESBA has released revisions to the non-assurance services and fee-related provisions of the *International Code of Ethics for Professional Accountants (Including International Independence Standards)*. The revised provisions significantly strengthen the guardrails around auditor independence

in two important areas that have the potential to create incentives influencing auditor behaviour – non-assurance services provided to audit clients and fees.

### Ethical challenges as the pandemic wanes

A working group formed by the IESBA and some national ethics standard setters has published an article looking at the key ethical issues that lie ahead for accountants as the COVID-19 pandemic moves into the next phase.

### Sustainability

#### Proposed amendments to the IFRS Foundation constitution

The IFRS Foundation has published proposed amendments to its constitution to accommodate the potential creation of a new International Sustainability Standards Board within the governance structure of the IFRS Foundation. In addition, the IFRS Foundation Trustees have published a comprehensive feedback statement that summarizes responses received to their consultation on sustainability reporting. The Institute invites comments on the proposals by 2 July.

### Corporate finance

#### Institute submission on SFC consultation on bookbuilding and "sponsor coupling"

The Institute issued a submission in response to the consultation paper issued by the Securities and Futures Commission (SFC) on conduct requirements for equity and debt capital market transactions in Hong Kong.

The Corporate Finance Advisory Panel (CFAP), in principle, supports the underlying aims of the proposals, which appear to be designed to address certain conduct issues identified among intermediaries and to bring more order and improve transparency in

relation to the process of pricing initial public offerings and other equity and debt issues. However, CFAP members have concerns about the practicality of several of the proposals that would require key decisions to be made considerably earlier in the process than at present.

## Insolvency

### HKMA responds to insolvency practitioners' concerns on opening of bank accounts

After discussions between the Hong Kong Monetary Authority (HKMA), the Official Receiver's Office and the Institute's Restructuring and Insolvency Faculty Executive Committee, the HKMA has compiled a list of designated contact points of retail banks for insolvency practitioners to enquire about account-opening related matters with specific banks.

The HKMA has also provided the dedicated email account [accountopening@hkma.gov.hk](mailto:accountopening@hkma.gov.hk) and hotline 2878-1133 to facilitate bank customers to provide feedback regarding opening and maintenance of bank accounts.

## Taxation

### Institute submission on Inland Revenue (Amendment) (Miscellaneous Provisions) Bill 2021

The Inland Revenue (Amendment) (Miscellaneous Provisions) Bill 2021 addresses matters relating to:

- The tax treatment for amalgamation of companies under the court-free procedures as provided for under the Companies Ordinance (Cap. 622);
- The tax treatment for transfer or succession of specified assets under certain circumstances;
- The furnishing of tax returns (in particular, providing a framework for the future extension of electronic filing

(e-filing) of tax returns); and

- The deduction of foreign tax under specified circumstances.

On the issue of more extensive e-filing, while generally supporting the objective, the Institute's submission also expresses concern about some of the specifics of the bill. In particular, the bill provides for taxpayer to engage a "service provider" (SP) to furnish a return on their behalf, under certain circumstances, and introduces penalty provisions applicable to SPs, including for failing to furnish a return, or furnishing a return on behalf of a taxpayer but not in accordance with the instructions given by the taxpayer (and the return is materially incorrect). The Institute's submission suggests, inter alia, that the roles, responsibilities and potential penalties on the different parties who may be involved in furnishing a return should not be prescribed in law until more detailed plans for the e-filing system design has been worked out.

### Announcements by the Inland Revenue Department

Members may wish to be aware of the following matters:

- New real time interactive service – Chatbot "Iris".
- List of Qualifying Debt Instruments (as at 31 March 2021).
- File your Tax Return on time.
- Employer's Return of Remuneration and Pensions.
- IRD issues over 2.6 million tax returns for individuals.
- Interest on Tax Reserve Certificates
- Passage of Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021.
- Passage of tax concessions.
- Legislative question on revenues from stamp duties and land premiums.
- Stamp Duty statistics (March and April 2021).

## Legislation and other initiatives

### Announcements by the government

Members may wish to be aware of the following matters:

- Government announces latest boarding and quarantine arrangements for persons arriving at Hong Kong under "vaccine bubble" concept.
- Government facilitates catering premises to make changes to modes of operation according to needs.
- Government further adjusts boarding and quarantine arrangements for persons arriving at Hong Kong.
- Government relaxes social distancing measures under "vaccine bubble".
- Extension of Return2hk Travel Scheme to Hong Kong residents staying in other Mainland provinces and municipalities (Upon fulfilment of all specified conditions Hong Kong residents could be exempted from the 14-day compulsory quarantine requirement. Visit the scheme's webpage for more information).

### AML notices

The List of individuals and entities published under section 43 of the United Nations Sanctions (Libya) Regulation 2019 (Cap. 537CF) was updated on 30 April. See the relevant 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.



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



## WORK AND LIFE

CPA table tennis players



Joseph Wan FCPA, who is retired, joined the Table Tennis Interest Group in 2019.

Photography by Anthony Tung

# MASTERS OF PADDLES

Institute members tell [Erin Hale](#) about how they have maintained their passion for table tennis through the Hong Kong Institute of CPAs' Table Tennis Interest Group, and why its rapid-fire nature requires both mental and physical endurance

**W**hile training as a chartered accountant in the United Kingdom in the 1970s, Joseph Wan FCPA and a friend from Hong Kong joined a table tennis league to keep up their favourite sport far from home. Although he was a young student, Wan had already clocked in competitive experience from his school years. "I got really addicted to the game as a student and played every day – before and after lessons at school. Though I was very passionate, I did not have the opportunity like today's youngsters who have formal coaches to teach them. I just played with many good players and tried to learn from them," remembers Wan, a retiree, of his time as a Hong Kong student.

When he arrived in the U.K. with a classmate, he recalls: "We joined the club and played at the fourth division out of six, but together the two of us we were able to elevate the club's team to the top of the league – its premier division – in only two years. Normally, it would take them four years to get there. We won every single match when we played in those lower divisions, so it was a quantum leap to the premier division."

After completing his training, Wan faced new responsibilities as he moved back and

forth between the U.K. and Hong Kong. After returning to Hong Kong for good several years ago, Wan decided to pick up his former passion by joining the Hong Kong Institute of CPAs' Table Tennis Interest Group (TTIG) in 2019. "Since I joined the TTIG, I have had the opportunity of representing the Institute at competitions. I always play to the best of my ability," he says.

Wan isn't solely focused on winning or losing, but rather knowing how to play against different competitors. "What I enjoy most in table tennis is really the focus required to learn about your opponent's playing style very quickly in order to win points, because every time you play somebody new you don't know his or her style," Wan says. "You really need to quickly observe from the start of the match what their strengths and weaknesses are in order to score points."

**"Since I joined the TTIG, I have had the opportunity of representing the Institute at competitions. I always play to the best of my ability."**

### An alluring hobby

For Wan and many members of the TTIG, the game has been a lifelong hobby that has drawn them in because of its unique physical and mental challenges. For others, it is an emerging interest and one that quickly takes hold through regular practice sessions.

Chan Ka Yan CPA only joined the interest group in June 2020, but she has already become a committed player. “When I was little, I just played [table tennis] for leisure. After working from day to night for some years, I wanted to develop my interest, which is why I started playing again since last year. Now I’m more passionate about table tennis and improve by attending regular private lessons,” says Chan, Manager at PwC.

“Whenever I get more points from the same player [after competing several times], I know I have improved and feel a great sense of achievement. The most challenging point is squeezing in time from work to practice. Sometimes I feel very tired after a long day of work, but if you’re passionate about something, nothing is impossible.”

Besides joining Institute’s regular weekly sessions, Chan competed in an open table tennis tournament in

**“Sometimes I feel very tired after a long day of work, but if you’re passionate about something, nothing is impossible.”**

May and made it to the quarter-finals. For her it was a proud moment, having only been playing seriously for less than two years and with all the stress of a full-time job. “Though I have missed the golden time to train, I wish to gain more experience now and do my every best to strive for better results,” she says.

Going forward, Chan says a major goal will be working on her footwork with her coach, a skill that she says will allow her to move more efficiently during matches.

### A dynamic challenge

Chan Yuen Lam CPA has played table tennis for as long as she can remember. She was introduced to the sport at the age five and kept on playing, even through university, and joined the TTIG in 2013. She says the game has been a great way to keep her reflexes sharp while providing a fresh challenge from each game to the next.

“It’s a very quick and dynamic two-player game. Sometimes you play well, but other times it’s impossible to hit the ball, for example, if it touches the net and suddenly changes direction. The outcome depends on how responsive you are to that sudden change,” says Chan, Assistant Manager at KPMG.

But the uncertainty and fast pace of each table tennis game adds to the thrill. “Sometimes you think you are going to lose if the opponent is at a good position to attack or hit you, but then suddenly he or she might hit the ball out or hit the net. You never know where the ball is going,” she says.

Chan says she also enjoys the social element of the sport, such as playing with co-workers on her company team as well as at the TTIG’s practice sessions. On past business trips, she has also found table tennis to be a great icebreaker

**“Sometimes you play well, but other times it’s impossible to hit the ball, for example, if it touches the net and suddenly changes direction.”**

with new acquaintances, especially when there may be a language barrier. “On overseas business trips, I have met a lot of colleagues from different countries, but not all of them could speak English very well. So after work, I would invite them to play table tennis. It’s not difficult to find a table tennis facility in some bars, restaurants or hotels,” she says.

### Returning to the team

The social side of table tennis has also been a major draw for Wong Wai Yee CPA, who has recently been able to return to the game. Like many of her fellow CPAs, Wong also began playing as a student in Hong Kong and always made time to practice and compete, even as a busy working adult. She swept the Institute’s very first table tennis tournament in 2007 by winning the women’s singles, women’s doubles and mixed doubles games.

But then, 12 years ago, she suffered a brain haemorrhage, forcing her to quickly reassess her priorities as she juggled recovery from brain surgery with family and career responsibilities. Despite her love for table tennis, she put it on hold until 2019, when she rejoined the TTIG as part of her rehabilitation.

As part of that journey, Wong says table tennis has helped her to



Chan Ka Yan  
CPA, Manager  
at PwC, joined  
the TTIG in  
2020.



Photography by Anthony Tung

Photography by Anthony Tung

Chan Yuen Lam  
CPA, Assistant  
Manager at  
KPMG, joined the  
TTIG in 2013.



## WORK AND LIFE

CPA table tennis players



Wong Wai Yee CPA, in 2007 having won the women's singles, women's doubles and mixed doubles at the Institute's table tennis tournament. She rejoined the TTIG in 2019.



Kelvin Lam CPA joined the TTIG in 2013.

Photography by Anthony Tung

## “I’m healthier and happier now, and table tennis has been a positive contribution to my health.”

get exercise without overstraining herself and also return to a more active social life after putting other priorities first for many years. “It was a good decision. I decided to reach out to my professional peers after closing myself off for so many years. I’m healthier and happier now, and table tennis has been a positive contribution to my health,” Wong says. “While I played quite intensively before, now I try to see how much I can catch up with my peers’ intensity, without the cost of physical and mental pain. I get social benefits, health benefits and the sport also helps me to reduce my stress.”

While Wong has a table tennis machine that allows her to practice at home, she has also enjoyed meeting her teammates, who have offered her advice on how to improve or where to get a massage when the game leaves her feeling sore. “I don’t rely on winning to make me feel happy. I would rather enjoy whatever I commit to and take part in, and enjoy the process instead of only focusing on the result. I get a second chance to live again now, so I want to enjoy my life – enjoyment is more important than winning to me, personally,” she says.

### Low impact exercise

Kelvin Lam CPA also returned to playing table tennis after a lengthy gap and some health problems stemming from a sedentary lifestyle. “I started playing table tennis in primary school and continued to play in secondary school. I joined the school team and played in interschool competitions, but after I graduated from high school I stopped playing. I only recently started to play again,” says Lam, who joined the TTIG in 2013. “Some time ago, I started experiencing some back pain due to a lack of exercise – I wanted to strengthen my muscles, which is why I started playing again.”

Lam also participates in many of the TTIG’s practice sessions. Though new players are always welcome, he encourages anyone starting from scratch to consider hiring a coach to teach them the correct moves in the beginning.

“There are lots of moves to learn in table tennis, and a coach can help you to learn moves such as like serving, receiving, looping and smashing. It’s not an easy sport if you want to play well, but a coach can help you improve quicker,” he says.

Lam adds that an instructor could also help players trying to improve their game. “After you reach a certain

**“It’s not an easy sport if you want to play well, but a coach can help you improve quicker.”**

level, it’s not easy to break through and reach the next stage. I think that any athlete will encounter that,” he says.

### Joining the team

Aside from providing an outlet for passionate table tennis players to play and improve, the interest group is also a way for CPAs of all ages to make new friends and socialize outside of work. Practice sessions are booked by the Institute and take place either on Hong Kong Island or Kowloon.

“I practice weekly with the TTIG,” says Wan. “On top of that I have also joined another table tennis interest group with a mixed group of people from different walks of life and different professions. I try to play table tennis two to three times every week and get to know new people and new friends through these interest groups.”

Chan Yuen Lam says players shouldn’t feel intimidated about joining the interest group, even if they are new to the game or returning after a hiatus. “Just bring your paddle. It’s not something hard to learn, and with constant practice, you’ll be able to master the moves as well. Everyone knows we are all at a different stage of mastering table tennis, so it’s all very friendly,” she adds. “Most CPAs in Hong Kong have quite a stressful life, so I think table tennis is a convenient way for us to take a couple of hours out of every week to do some sports and relax. I would strongly recommend members, especially female members, to join our table tennis team.”



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



**YOUNG MEMBER OF THE MONTH**

Stanley Hui CPA

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# STANLEY HUI CPA

Accountant at the  
Airport Authority Hong Kong





As Accountant at the Airport Authority Hong Kong, Stanley Hui's accounting expertise is relied upon in many aspects of the airport's operations, from creating insightful reports for management to the development of projects at Hong Kong International Airport (HKIA). He tells *A Plus* how he was influenced by his family to become an accountant and why he enjoys putting his CPA skills to use in the aviation sector

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

As Accountant at Airport Authority Hong Kong (AA), I manage the daily operations of the fixed asset accounting functions in accordance with financial accounting policies and procedures. I also supervise the preparation of reports and schedules, and liaise with external auditors for interim reviews and annual audits of the AA's financial statements. I need to ensure the proper accounting treatment is applied to daily transactions and that they comply with Hong Kong Financial Reporting Standards (HKFRS) and other relevant statutory requirements. I also provide professional advice to departments on accounting issues and contribute to the processing of annual budgets. Since HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases* came into effect a few years ago, more reports have had to be prepared.

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

A large part of my role involves report writing, so what I find most challenging is compiling meaningful reports for management to review under tight deadlines. I have to work with a large amount of data when it comes to managing accounts and then use this data to write a report. For example, I am keeping an eye on accounts of mega projects such as the Three-runway System. Though tough, it's very rewarding when everything comes together in the end. Another rewarding aspect is the opportunity to apply self-developed programmes to help increase productivity and efficiency at work. For example, I use a programme to prepare several reports automatically, and this greatly helps with my report writing. What used to require a whole day can now be done in a few hours with the help of this tool.

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

I would be happy to continue working in the field of financial reporting. I enjoy analysing different people's views on interpreting the same standard, which I believe is a skill that will also be helpful in the future. Financial reporting has to comply with requirements stipulated by accounting standards and relevant law and regulations. However, in most cases, there isn't only a single way to interpret standards. Management and auditors may hold a different view on the same transaction, so aligning their views while maximizing the benefit of company is the most challenging task in the field of financial reporting. This is highly reliant on one's experience and how familiar one is with standards.

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

One manager taught me the importance of good formatting when it comes to writing reports. When you write a report or working paper with the correct format, you can really help preparers and reviewers to understand what you're trying to present. An ideal working paper should be linked to the data so that reports can automatically be updated if and when there are any changes in data. If there is no consistent formatting, figures have to be individually updated, and this will require additional time.

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

The QP and the learning pack provided really helps students, especially fresh graduates, to really understand accounting standards and the reasons why one needs to perform tasks such as vouching, for example. I found Module A financial reporting to be the most helpful in my current role and career so far. Sometimes there are rarely-used accounting standards that need to be applied, and having taken the QP exams, I now have a better idea in terms of which standards are the most applicable in different situations. The knowledge gained from the QP helps one to progress within and beyond the profession.

# SPOTLIGHT ON FAVOURITE BEACHES

Institute members recommend their favourite beaches to spend a weekend

## Stanley Main Beach

“My favourite beach to spend a weekend with my family is Stanley Main Beach, located at the south of Hong Kong Island. It is convenient to get there – just take a minibus from Causeway Bay or Chai Wan MTR station and you’ll even be able to enjoy the scenery of the boundless South China Sea along the highway. The beach sand is fine and the water is not too deep for children, like my son, to play in. The restaurants along the seafront of Stanley Market are also a great place to chill out with friends,” says Lin.

- Louis Lin FCPA, Associate Vice President, Finance Manager, Christie’s Asia



## Repulse Bay Beach

“I love Repulse Bay Beach the most. If you’re looking to have a chill and relaxing day and catch a bit of weekend sunshine at the beach, look no further! It’s a 15-minute bus ride away from Causeway Bay and also right next to a nice shopping complex, which has a range of quality shops and cozy restaurants alongside the beach,” says Wong.

- Katy Wong CPA, Tax Assistant Manager at RSM Hong Kong



## Pui O Beach

If you’re looking to wind down after a long week at a remote beach that offers picturesque views of lush mountains and the deep blue sea – and don’t mind making a journey to get there – visit Pui O Beach on Lantau Island. Soft white sand and clear waters make this seaside an ideal getaway from the city. You can also step into Treasure Island Beach Club, for a drink with a view of the sunset.

- Recommended by A Plus editors





# EYES & EARS

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



## What I'm listening to

- Anil Daryanani FCPA, Chief Financial Officer of Thakral Corporation Ltd.

"I recommend Kiss, especially their song *I Was Made For Lovin' You* from their album *Dynasty*. Every bit of this song is epic – the intro, chorus and the guitar/drum solos towards the end are just how it should be done! I recall hearing this song on the radio probably during my school days but came across this again only last year. It was a spine-tingling moment!"

## What I'm reading



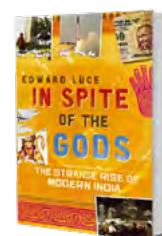
A few years ago, I read *Me Before You* by Jojo Moyes which was also made into a movie with the same name in 2016, it's a heartbreaking love story that teaches one how to appreciate life and have the courage to live on even if serious accidents happen. The book also teaches what it means to love someone unconditionally. I learned that there is an undeniable and overwhelming pull from our hearts that grows only when we really let ourselves care about someone selflessly.

- Tiphaine Chan CPA, Regional Head of Compliance and Audit for APAC at a United States headquartered communications company.



I recommend *Between a Rock and a Hard Place* by Aron Ralston. It is a real story about the author himself, whose arm gets trapped in a boulder while hiking in Utah, and is forced to go through five days of hunger, thirst and despair before deciding to amputate his own arm and free himself. The book was made into the gripping movie *127 Hours*, which I also recommend.

- Eric Leung CPA, Finance and Administration Manager at Asphalt Surfaces (International) Ltd.



*In Spite of the Gods: The Strange Rise of Modern India* by Edward Luce is about how India is becoming one of the world's largest economic powers. The book describes its political, economical and cultural transformation to illustrate how quickly the country has grown in the last decade. Luce also discusses how the nation's religion and traditional mindset has become both a threat and opportunity. His writing is very detailed and he makes it easy for readers to visualize his vision of modern day India. This book will take you on a real journey – which makes it ideal to read during this pandemic.

- Joseph Ho CPA, ex-group head of tax, Asia, the Middle East, Europe and Africa at BT

# Money for nothing

Hong Kong's humorist on why you should never let your kids near your money



**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*

“H a ha ha ha!” Daughter Number Two was laughing at her parents. Nothing unusual about that. But it was what she was amused about that made my eyebrows rise – mum and dad’s complete

lack of financial acumen compared to her own.

What?! Now this was a young woman who spends actual real world money on pictures of gold coins in *Animal Crossing*, a video game. (Or, to be strictly accurate, she spends Dad’s actual money on pictures of gold coins.)

How could she be more financially astute than her pin-sharp parents, who took only 22 years to work out that no sensible person shops for staple items at Wellcome or ParknShop?

Her laughter came when she noted that she was earning 25 cents a day on her trendy virtual bank account and asked how much interest mum and dad got from their boring brick-and-mortar bank.

“Fifty cents a year,” her mother replied, truthfully.

“Ha ha! Suckers! Twenty-five cents a day is a lot more than 50 cents a year,” she said, a mathematically accurate statement that proved to me that all those school fees had been worth it, I suppose.

But that was just the start of it. Two weeks later, we were at the computer centre in Wanchai buying a Nintendo game for a birthday present when the shopkeeper declined my credit card and asked for “payment by FPS app.”

I was stumped, but Daughter Number One showed me how to zap payment to the man with a thumb on the phone.

When Chinese New Year came round, there was a big debate about whether people trying to practice social distancing should touch *lai see* packets – but my children sent out their virtual account numbers from ZA Bank, a Hong Kong virtual bank, and received cartoon packets on their screens, containing real money that could be spent. It was kind of the *Animal Crossing* thing,

but in reverse.

A rival virtual bank named Livi Bank lets you check your YUU shopping loyalty points. I guess you can use it to see if you have enough points to make it worth the risk of entering the supermarket and having your ears assaulted by the horrible “why-you-you” theme song.

All virtual banks offer round-the-clock banking, so the kids can “shoot” cash over to each other to share the cost of late-night snacks, for example, which is useful.

But there is one thing that I found to disapprove of. Virtual banks make spending fun. That’s bad. That’s very, very bad.

ZA Bank enters your card purchases into a lucky draw. My daughter won 10 percent back, but her friend won 200 percent of what she’d spent. Think of the lesson that friend has been taught: Spend money! Get free stuff! Get your money back too!

As proprietor and guarantor of the Bank of Dad, I can tell you that anything that makes spending that much fun is evil, maybe even satanic.

You see, I reckon the main psychological difference between parents and children is that when I part with any amount of money, it causes me enormous physical pain, so much so that I sometimes fall on the floor, writhing.

But the young generation thoroughly enjoys spending, and talks of “retail therapy.” That cannot be good.

Why can’t virtual bank people install functions that are actually useful? There should be some app open in the background that waits until my children are in a shop reaching for something, at which time it should say: “Do you really need that? Don’t you have one just like it at home? Now put it back and step away from the shelf.”

Now that’s a hi-tech app I could get behind.

Still, I did find myself reaching towards the ZA Bank app the other day. Twenty-five cents a day IS more than 50 cents a year.





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