DRIVING BUSINESS SUCCESS
Issue 5 Volume 18 May 2022

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A NEW ERA OF REPORTING

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

"I hope our explanation on the matter will have answered members' questions and quelled any concerns. The Institute remains a leading professional accounting body in the international community, and we will continue to work hard towards upholding the quality and values of the profession."

Dear members,

As we approach the mid-point of the year, we are finally seeing further easing when it comes to restrictions under the pandemic. With fingers crossed, we can all look forward to even less restrictions and more activities during the summer.

For accountants, many will be keeping a keen eye on the developments of international environmental, social and governance (ESG) reporting standards this summer, with the International Sustainability Standards Board (ISSB) currently fielding its first two proposed standards for public consultation, which will end 29 July. In this issue of *A Plus*, we have the immense honour of featuring Emmanuel Faber, the inaugural Chair of the ISSB in an insightful profile where he speaks on his vision to lead the development of global ESG reporting standards. Interested readers should also be sure to pay attention to the Institute's online survey seeking to collect stakeholder feedback on the ISSB's exposure drafts, which will remain open until 13 June.

The month of May has been eventful for the development of the accounting profession in Hong Kong. The government gazetted three pieces of subsidiary legislation for the commencement of the new regulatory regime of the profession, which were subsequently tabled in the Legislative Council (LegCo) for negative vetting on 11 May. The subsidiary legislations formally appoint 1 October 2022 as the commencement date for the new regime, and provides for other transitional arrangements in the meantime, as well as setting the fee levels for collection by the Accounting and Financial Reporting Council. Interested readers should visit the dedicated webpage on the Institute's website for further details.

On 13 May, the government gazetted the Professional Accountants (Amendment) Bill 2022 to revise the election arrangements of the Council of the Institute and make other technical changes. The Bill was then introduced into the LegCo for first and second reading on 18 May. The Financial Services and the Treasury Bureau has indicated before that they intend for the proposal to take effect before the 2022-end election. More details are available on the Institute's dedicated webpage on the website.

Members would have received the Institute's clarifications regarding the recent discussions on the non-renewal of the mutual recognition agreement (MRA) between the Institute and the United States International Qualifications Appraisal Board (IQAB), which will expire on 31 December 2022. The issue sparked speculation online which caused certain implications to be overstated. We expect the non-renewal to have minimal impact on our members; after all, few members make use of this MRA every year.

To reiterate, the Institute and the IQAB could not come to an agreement to extend the agreement due to the precondition proposed by the IQAB. The precondition required the new MRA to waive the standard requirement for all IQAB accountants to have one year of local experience in order to obtain a practising certificate in Hong Kong, with audit experience solely obtained in the U.S. recognized instead. I hope our explanation on the matter will have answered members' questions and quelled any concerns. The Institute remains a leading professional accounting body in the international community, and we will continue to work hard towards upholding the quality and values of the profession.

I always find solace in seeing young talents looking to grow and exert a positive influence on their surroundings, especially within our excellent profession. In the past month, I delivered the welcome speech in the Institute's V-fair 2022 event, our annual career fair for young aspiring CPAs. The virtual occasion featured sharing sessions from experienced leaders in the profession on the prospects of the profession and guidance on career paths to success with the CPA qualification. While we were not able to meet these talents in person, I am optimistic we will see many of them follow in the footsteps of so many brilliant CPAs before them in this ever evolving profession.

I encourage our seasoned colleagues to share the video highlights of the event with the young people around them, and perhaps this might encourage them into a fulfilling career as a CPA. Read our article on the Institute's Mentorship Programme on page 40, which offers a glimpse of how your experience can help nurture the profession's leaders of tomorrow.

Loretta Fong CPA (practising)
President

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There is an increase in CPAs taking on the role of independent non-executive directors (INEDs), who guide listed companies towards better corporate governance. What are some of the skills INEDs need today and how can CPAs prepare themselves now to succeed as tomorrow's INEDs?

A+ DRIVING BUSINESS SUCCESS

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

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NEWS

Institute news Business news

Institute survey report highlights further need for ethics-related training

The results of the Institute's ethics survey, which will be used by the Ethics Committee to inform and evolve the Institute's ethics strategy and initiatives, is now available for members to read.

The survey was conducted in 2021 to understand the ethical attitudes of professional accountants in Hong Kong and how the *Code of Ethics for Professional Accountants (Revised)* (the Code) contributes to their performance of professional activities. "The intention was for us to understand how the profession perceives the Code with regards to the relevant regulatory requirements. We were also interested to identify areas that have a higher risk of ethical non-compliance, as it helps us to focus any training we provide and any articles we issue," Maria Xuereb CPA, Deputy Chair of the Ethics Committee, told *A Plus* in an ethics feature in the April 2022 issue.

The survey found that 87 percent of respondents considered ethics to be very important in the accounting profession, and 70 percent of them believed ethics-related training should be included in mandatory continuing professional development for Institute members. However, despite the positive attitude towards ethics, less than half of all respondents (41 percent) undertook ethics-related training within the last year.

Members can read the *Ethics Survey 2021* report to find out more about the findings, including professional accountants' perception of ethics, common ethical issues they face at work and their familiarity with the Code. It can be found on the Institute's website.

Non-renewal of MRA with IQAB

The current mutual recognition agreement (MRA) between the Institute and the United States International Qualifications Appraisal Board (IQAB) will expire on 31 December. Refer to the Institute's website to learn more about the background and implications of the non-renewal of the MRA.

e-Manager discount

The Institute is offering an exclusive 10 percent discount on 10 e-manager courses that have been curated to give members an edge as society gradually recovers from the latest COVID-19 outbreak. The courses cover interpersonal skills, business planning and strategy, and information technology competencies. This offer is available from now till August. Those interested must enrol by 31 August.

Council meeting minutes

The abridged minutes from the March and April Council meeting are now available in the "Members' area" of the Institute's website.

Annual meeting with the IRD

The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the Inland Revenue Department took place on 13 May. The meeting minutes of the meeting are available on the Institute's website.

Resolution by agreement

KPMG, Muk Chung Wing CPA and Wong Sau Ling CPA

Complaint: Failure or neglect by KPMG and Muk to observe, maintain or otherwise apply the fundamental principle of professional competence and due care in sections 100.5(c) and 130.1 of the Code of Ethics for Professional Accountants; failure or neglect by Wong to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 220 *Quality Control for an Audit of Financial Statements*.

KPMG audited the consolidated financial statements of Merry Garden Holdings Limited (now known as China Environmental Technology and Bioenergy Holdings Limited), a Hong Kong listed company, and its subsidiaries for the year ended 31 December 2015. Muk was the engagement partner and Wong was the engagement quality control reviewer.

The Institute received a referral from the Financial Reporting Council (FRC) about deficiencies in the audit. The respondents failed to identify that earnings per share disclosed in the financial statements were misstated. The misstatement had resulted from errors in calculating the weighted average number of shares outstanding after a bonus share issue and an open offer of shares made by the company during the year.

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

1. The respondents acknowledge the facts of the case and their non-compliance with professional standards;
2. The respondents be reprimanded; and
3. KPMG, Muk and Wong pay an administrative penalty of HK$50,000, HK$35,000 and HK$35,000 respectively to the Institute, and they jointly pay the costs of the Institute of HK$15,000 and of the FRC of HK$127,905.07.

Disciplinary findings

Li Sau Ying CPA (practising)

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

Li operated a part-time practice in her own name. The practice was subject to its first practice review in February 2018, which identified multiple deficiencies in the practice's quality control system. In addition, Li was found to have adopted a flawed audit methodology, which demonstrated her failure to carry out audits with professional competence and due care.

The practice review found that Li had inappropriately issued unmodified auditor's reports on the financial statements of two clients, when modified opinions should have been issued for material omissions and misstatements. She also issued modified auditor's reports, including a disclaimer of opinion, on the financial statements of certain other clients in a deliberate attempt to avoid performing the necessary audit work.

Decisions and reasons: The Disciplinary Committee ordered the cancellation of Li's practising certificate with no issuance of a practising certificate to her for 36 months. In addition, Li was ordered to pay costs of disciplinary proceedings of HK$150,000. When making its decision, the committee took into consideration the particulars of the breaches committed in this case, Li's conduct throughout the proceedings and her personal circumstances.

Li appealed the committee's decision. Following the Court of Appeal's dismissal of the appeal in March 2022, the practising certificate of Li was cancelled with effect from 8 April 2022.

Chan Wai Dune, Charles CPA (practising), Teh Delores Eng-Hua CPA (practising), Yau Hok Hung CPA (practising) and CCIF CPA Limited

Complaint: Failure or neglect by Chan and CCIF CPA Limited to observe, maintain or otherwise apply HKSA 200 *Objectives and General Principles Governing an Audit of Financial Statements*, HKSA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, HKSA 330 *The Auditor's Procedures in Response to Assessed Risks* and HKSA 500 *Audit Evidence*. Failure or neglect by Teh and CCIF CPA Limited to observe, maintain or otherwise apply HKSA 200 (Revised) *Objective and General Principles Governing an Audit of Financial Statements*, HKSA 500 and HKSA 530 *Audit Sampling and Other Means of Testing*. Failure or neglect by Yau and CCIF CPA Limited to observe, maintain or otherwise apply HKSA 200 (Revised), HKSA 230 *Audit Documentation*, HKSA 500 and HKSA 530.

CCIF CPA Limited expressed unmodified auditor's opinions on the consolidated financial statements of First Natural Foods Holdings Limited (now known as Imperial Pacific International Holdings Limited, a Hong Kong listed company, and its subsidiaries (collectively, group) for each of the years ended 31 December 2005, 2006 and 2007. Chan, Teh and Yau were the engagement directors of the 2005, 2006 and 2007 audits, respectively.

The Institute received a referral from the FRC about deficiencies found in one or more of the audits. The deficiencies included failures to carry out audit planning and risk assessment on revenue, to properly evaluate evidence of revenue obtained from certain parties who had apparently acted only as agents for ultimate customers, and to assess the impact of the main customer's recurring non-response to audit confirmation requests sent to it. In addition, the audit team failed to ensure the completeness of population of revenue from which samples were drawn for testing, and to adequately document certain audit procedures performed.

Decisions and reasons: The Disciplinary Committee reprimanded the respondents. In addition, Chan, Teh, Yau and CCIF CPA Limited were ordered to pay penalties of HK$200,000, HK$150,000, HK$150,000 and HK$300,000 respectively, and to jointly pay HK$493,881 towards the costs of the Institute and the FRC. When making its decision, the committee considered that the case involved significant deficiencies, and that it reflected the respondents' lack of professional scepticism in auditing the group's revenue, as a significant volume of transactions were made with the non-responding customer over a number of years.

Zenith CPA Limited, Cheng Po Yuen CPA (practising) and Yam Wai Man CPA (practising)

Complaint: Failure or neglect by Zenith CPA Limited and Cheng to observe, maintain or otherwise apply HKSA 200 (Clarified) *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*, HKSA 260 (Clarified) *Communication with Those Charged with Governance* and HKSA 500 *Audit Evidence*. Failure or neglect by Yam to observe, maintain or otherwise apply HKSA 220 (Clarified) *Quality Control for an Audit of Financial Statements*.

Zenith CPA Limited expressed unmodified auditor's opinions on the consolidated financial statements of Simsen International Corporation Limited (now known as Huarong International Financial Holdings Limited), a Hong Kong listed company, and its subsidiaries for the financial years ended 30 April 2014 and 2015. Cheng was the engagement director and Yam was the engagement quality control reviewer of the audits.

The Institute received a referral from the FRC concerning the deficiencies related to the audits of (i) assets and liabilities held for distribution to owners and discontinued operations; (ii) impairment assessment of available-for-sale investments; (iii) accounting for a convertible note; and (iv) impairment assessment of loans and accounts receivable and finance leases receivable.

Decisions and reasons: The Disciplinary Committee reprimanded the respondents. The committee further ordered the cancellation of Cheng's practising certificate, with no issuance of a practising certificate to him for six months, with effect from 19 May 2022. In addition, the committee ordered Zenith CPA Limited, Cheng, and Yam to pay penalties of HK$200,000, HK$200,000 and HK$50,000 respectively, and to jointly pay HK$397,815 towards the costs of the Institute and the FRC. When making its decision, the committee took into consideration the particulars in support of the complaints, the respondents' personal circumstances and the conduct of the respondents throughout the proceedings.

Settlements

Chu Ngar Yee CPA (practising)

The Institute has settled regulatory proceedings concerning alleged non-compliance of its professional standards involving Chu Ngar Yee CPA (practising).

The complaint concerns deficiencies in KPMG's audit of the financial statements of a private company for the year ended 31 December 2019, which were identified in the Institute's practice review of the firm in 2021. KPMG issued an unmodified auditor's opinion on the financial statements. Chu was the engagement partner of the audit.

The deficiencies related to audit procedures carried out on goodwill included in the financial statements, which was materially misstated. The practice review found that Chu failed to:

- Design and perform audit procedures to obtain sufficient appropriate audit evidence for the goodwill;
- Take steps to resolve inconsistencies in the audit evidence obtained; and
- Obtain reasonable assurance that the entity's 2019 financial statements as a whole were free from material misstatements.

As a result of the above, Chu failed or neglected to observe, maintain or otherwise apply HKSA 500 *Audit Evidence* and HKSA 700 *Forming an Opinion and Reporting on Financial Statements.*

Settlement agreement: The Council has agreed with Chu that:
1. Chu acknowledges the facts of the case and areas of non-compliance with professional standards;
2. Chu be reprimanded; and
3. Chu pays a financial penalty of HK$100,000 and costs of HK$60,000.

Chow Tsz Ki CPA (practising)

The Insitute has settled regulatory proceedings with Chow Tsz Ki, CPA (practising) concerning alleged non-compliance with professional standards.

The complaint concerns deficiencies in Deloitte Touche Tohmatsu's audit of the financial statements of a private company for the year ended 31 December 2018, which were identified in the Institute's practice review of the firm in 2020. Deloitte expressed an unmodified auditor's opinion on the financial statements and Chow was the engagement partner of the audit.

The practice reviewer found that the audit team failed to perform sufficient audit procedures pertaining to the following:

- The company's advance receipts from customers;
- Certain excess receipts from customers and discounts from suppliers being recognized in income; and
- The impact those receipts and discounts would have on forecasted cash flows, which formed a basis for evaluating goodwill impairment.

As a result of the above, Chow failed or neglected to observe, maintain or otherwise apply HKSA 500 *Audit Evidence* and HKSA 520 *Analytical Procedures*.

Settlement agreement: The Council has agreed with Chow that:
1. Chow acknowledges the facts of the case and areas of non-compliance with professional standards;
2. Chow be reprimanded; and
3. Chow pays a financial penalty of HK$75,000 and costs of HK$60,000.

The Institute considers settlements on the agreed basis to be in the public interest. In the circumstances, the Institute is satisfied that there is no purpose to be served in pursuing disciplinary proceedings.

Details of the resolution by agreement, disciplinary findings and settlements are available on the Institute's website.

Europe and the U.S.

The locations of two additional offices Hong Kong Exchanges and Clearing (HKEX) will establish over the next year. The move, announced by Chief Executive Officer Nicolas Aguzin this month, hopes to attract more overseas investors and market the city as a fundraising destination. It will be the first overseas offices outside Asia for HKEX, which already has a presence in Beijing, Shanghai and Singapore.

e-HKD: A policy and design perspective

The title of a discussion paper issued by the Hong Kong Monetary Authority (HKMA) inviting views from the public and the financial industry on key policy and design issues for introducing a retail central bank digital currency (e-HKD). The HKMA has not yet made a decision on whether or when to introduce e-HKD.

The Fraud Lens – Interactions Between ISA 240 and Other ISAs

The title of a non-authoritative guidance issued by the International Auditing and Assurance Standards Board this month. The guidance illustrates the relationship and linkages between the captioned auditing standard and other ISAs when planning and performing an audit engagement and reporting thereon.

Hong Kong's gross domestic product fell by 4 percent in the January to March period this year. The contraction, which was higher than the median estimate of 1.3 percent in a Bloomberg survey, is the biggest contraction since the third quarter of 2020. Factors such as the city's fifth wave of COVID-19 and resultant restrictions, along with disruptions in cross-border trade, contributed to the lacklustre economic performance.

US$40 billion

The amount that was wiped off cryptocurrency exchanges after Luna, a popular crypto token, collapsed this month. The collapse, in what research company CryptoCompare called "the largest destruction of wealth in this amount of time in a single project in crypto's history" has focused the attention on standards crypto exchanges apply when they decide to list a coin.

£3.4 million

The total KPMG in the United Kingdom was fined by the U.K. regulator, Financial Reporting Council, this month. The firm was penalized for failings in its audit of British jet engine manufacturer Rolls-Royce's 2010 accounts. In 2017, the company agreed to pay £671 million in penalties after investigations into claims it paid bribes to land export contracts.

"There is currently a wide range of what asset managers might mean by certain terms and what criteria they might use. It is easy to tell if milk is fat free. It might be time to make it easier to tell whether a fund is really what they say they are."

– Gary Gensler, Chair of the United States Securities and Exchange Commission (SEC), said. The SEC is preparing to crack down on inflated environmental, social and governance (ESG) credentials in investment products and introduce rules that combat greenwashing. The rules would require investment funds to disclose how ESG funds are marketed and how ESG is incorporated into investing, reports the *Financial Times*.

20%

The percentage of employees in various industries who noted they are likely to switch jobs in the next 12 months, according to PwC's *Global Workforce Hopes and Fears Survey 2022*, which surveyed more than 52,000 workers in 44 countries. The firm said that higher pay, more job fulfillment and wanting to be "truly themselves" at work are the factors pushing employees to change jobs.

US$5.5 million

The total fine chipmaker Nvidia agreed to pay this month over allegations that the company failed to disclose that cryptomining was a significant element of its material revenue growth from the sale of its graphics processing units designed and marketed for gaming.

AN OUTSIDE PERSPECTIVE

Every listed company in Hong Kong requires independent and impartial advice to ensure it is being managed correctly – a need that calls for an independent non-executive director (INED). Jeremy Chan speaks to Institute members who have taken up the role of INEDs and finds out how increased regulation has added new layers of complexity to the role over the last decade, and why INEDs today need the right industry experience and people skills to work effectively with any board, and ensure a high standard of corporate governance in any organization

Illustrations by Gianfranco Bonadies

When Steve Au FCPA decided to become an independent non-executive director (INED) shortly after retiring, he saw it as an ideal opportunity to put his experience in accounting and finance, as well as his CPA knowledge, to good use. "If you're in a later stage of your career, and you have diverse experience, the role is a great way to help companies," says Au, an INED for Vincent Medical Holdings Ltd. and Expert Systems Holdings Ltd. Though the INED role, he adds, isn't solely for professionals who are retired or considering retiring, it is a meaningful way to keep busy and add value to companies. "As an INED for a manufacturer of medical equipment and also for an IT systems company, I'm able to learn new things on the job. The benefits are mutual."

Considered a natural progression for many accountants as they become more senior, the INED role is fully independent from a company, but is invited by the board to provide impartial, objective, and constructive advice regarding their strategy and corporate governance. INEDs also take into account the interests of the board and the company's stakeholders and shareholders.

In Hong Kong, listed companies listed on the Main Board of the Hong Kong Stock Exchange are required to have at least three INEDs on the board of directors, according to the Chapter 3 of the Hong Kong Exchanges and Clearing's (HKEX) Listing Rules. The rules also state that INEDs must make up a third of the board of directors and that at least one of

the INEDs must have appropriate professional qualifications in accounting or related financial management expertise. This is one reason why becoming an INED is a viable career goal for many CPAs, notes Randy Hung FCPA. "CPAs have many advantages as INED candidates. First of all, they could well become the audit committee chairman or member, as their knowledge will help the board with financial matters," says Hung, who has previously served as an INED for various companies such as IPE Group, Zhongyu Gas Holdings Ltd., Zhongtian International Ltd. and ZZ Node Holdings Company Ltd. "CPAs who have worked in audit should have the right exposure to different industries, which is a huge plus for the INED role."

Hung notes that there has been an increase in CPAs looking to become INEDs in recent years, with reasons such as career development, added flexibility and better credentials pushing accountants to vie for the role. "Being an INED allows a CPA to tap into an industry in terms of knowledge, experience and connections, and open up a new area of practice or career opportunities. Associating with listed companies is considered as a 'professional credential' too," he says, adding that INEDs often help listed companies with transactional matters. "INEDs could become a referrer or advisor to recommend the appointment of professional firms to the listed companies in hopes that these appointed firms will reciprocally refer business or career opportunities to the INEDs."

There is also increased demand for INEDs in general. On 1 January, the HKEX's revised Corporate Governance Code and Listing Rules came into effect, raising the corporate governance bar for both listed companies and INEDs. The amended rules require issuers to appoint a new INED if their current INEDs have served on the board for more than nine years, and additional disclosures have to be made on why long-serving INEDs are still independent and should be re-elected. To enforce board diversity, the rules also require issuers to appoint a director of a different gender no later than 31 December 2024, with additional disclosures to be made on gender diversity in the workforce. To help issuers comply, the HKEX published *Corporate Governance Guide for Boards and Directors* in December 2021.

A role overseeing controls

The role of an INED is unique. It calls for individuals who have the right industry knowledge and connections to provide direction to the companies they serve, and build strong relationships with the company management and employees – all while remaining independent. This makes the role ideal for professionals who are in a later stage in their career, as they are more likely to have established an extensive network of connections in different industries that they can tap into to advise the board. "It's an ideal role, because by the time you're an INED, you have more career experience. It is a chance to reach another stage in your career," says Vanessa Chan FCPA, who is an INED for Innovax Holdings Ltd. and Tycoon Group Holdings Ltd. "You also have a chance to broaden your horizons, meet people from different backgrounds and businesses, and provide advice on the strategy and policies of a company. It's a chance to look at a company from a bird's eye view."

It is worth noting that the roles and responsibilities of an INED differ from those of a non-executive director (NED), who, in most cases, has previously worked with the company, and taken on a non-executive role to continue providing advice. "Most NEDs are already known to the company; they could be former executive directors or senior management who have now retired but are retained by the remaining management to give advice to the company from time to time, on a non-executive basis," explains Paul Cheng FCPA, who is an INED at Bank of Shanghai (Hong Kong) Ltd.

INEDs are not involved in the day-to-day operations of a company, highlights Au. "It's not our role to 'police' companies; we have to ask the right questions and offer management advice from the perspective of an outsider to help their strategy, internal controls, business development and what risks to manage."

INEDs who are CPAs are, in most cases, assigned to chair a listed company's audit committee, and also participate in other board committees including the nomination committee, remuneration committee and risk management committee. "The audit committee is responsible for overseeing the financials, risk management and internal control of the company," notes Chan, who is a committee chairman for the two companies she serves as an INED. "We also hold regular meetings with both external and internal auditors to discuss the performance of a company and assess whether internal controls have been put in place."

Working with increased regulation

Amendments to the HKEX's Corporate Governance Code and Listing Rules have made the role more complex, Chan points out. "Because of the increasing complexity of the requirements under the Listing Rules, INEDs are obligated to encourage the chairman and senior management of a company to comply – and to ensure that the company complies with the regulations genuinely," she says.

In another example of increased regulatory requirements impacting the board, including INEDs, Hung highlights Part XIVA of the Securities and Futures Commission's (SFC) Securities and Futures Ordinance, which came into effect on 1 January 2013, making it mandatory for listed corporations to disclose price sensitive, or "inside" information. "It's a very powerful provision. If the company has inside information that they don't announce as soon as it is practical, then the SFC has the power to penalize the company in the form of fines or disqualify board members, including INEDs. I've seen this happen before," says Hung.

Since INEDs bear the same level of responsibility as other board members, it is paramount for INEDs to ensure they have an accurate picture of the company and address any issues at hand, before they escalate. "There is now more intense regulatory scrutiny. A decade ago, the SFC usually acted behind the scenes, but now they are more of a frontline regulator. They would not hesitate to investigate or prosecute those suspected of wrongdoing. This, unfortunately,

"Because of the increasing complexity of the requirements under the Listing Rules, INEDs are obligated to encourage the chairman and senior management of a company to comply."

has landed some INEDs in trouble," he says. "So now, INEDs may be involved in court cases if company directors are charged with wrongdoing. This has made the role riskier and more complex." To help the company stay out of trouble, Hung advises INEDs to take all the necessary steps to understand the company inside and out. "You have to be very proactive in wanting to understand the company and think of what you can do to protect it," Hung says. "This experience taught me how to be a better INED and helps me to train people as well."

INEDs have to be especially wary of companies that have just gone public, adds Chan. "There have been a few cases of irregularities or malpractice seen in companies, especially in ones that have just been listed." she says. "So it's been important for INEDs to continuously perform in-depth reviews of the company's performance and be vigilant."

Ensuring better corporate governance

The independent nature of INEDs and the fact that they typically serve on various board committees puts them in an advantageous position to help with a company's corporate governance. "As INEDs, we don't have a stake in the company. With this independence, we are able to bring a fresh or different perspective to ensure companies follow best practices in terms of corporate governance," says Au.

As Chan notes, corporate governance has risen in importance in recent years, as a result of investors and analysts seeking a clearer picture of a company's overall performance and whether its current practices will lead to sustainable growth and returns. "As INEDs, we need to question the long-term integrity of the board and chairman, and whether the company has the appropriate policies or guidelines in place to run the business. We also look at whether it has any contingency or succession plans, or whether there is frequent communication with external and internal stakeholders, and communication between board members and senior management."

INEDs should utilize their position on company board committees to push for better corporate governance, Cheng notes. Of particular importance, he adds, is ensuring transparency around how directors are nominated, and how their remuneration and bonuses are determined, which is a function of the nomination committee and the remuneration committee, respectively. "There needs to be someone independent of company manangement and controlling shareholders to ensure any nomination for board appointment is in the best interests of the company and shareholders, and that the remuneration awarded to the directors is fair and reasonable," explains Cheng.

"For example when considering awarding directors year-end bonuses based on their performance, there needs to be someone independent to determine whether the basis for such awards has supporting merits and the amounts to be awarded are reasonable, and are in line with the prevailing market practices. The persons expected by shareholders or stakeholders to do this job with the least conflict of interests are the INEDs, because of their independence from management and controlling shareholders. These are key requirements among those defining 'independence' as stipulated in HKEX's Listing Rules."

However, with no written rules in place for both management and INEDs to discuss corporate governance, it is up to INEDs to take the initiative in discussing corporate governance with the board and shareholders, Hung notes. "Corporate governance, in my opinion, is a bit like having effective internal controls – but among board members. The question is how one can control or contain the power of a majority shareholder and the chief executive officer or chief financial officer. There needs to be a good set of rules established among the board – but these rules generally do not exist," he explains, stressing that improving corporate governance within an organization should be an INED's number one priority. "INEDs should have a timetable or schedule in terms of what they aim to achieve and then be able to convince the board to go with the plan."

A vital head start

The complex role of an INED calls for individuals with adept people skills, and those who can strike a balance between being articulate, honest and considerate. "Many executive directors simply aren't used to having outsiders during board meetings, and so some of them may feel uncomfortable when we ask critical questions," notes Au. "So while it's important that we probe the directors on the intricacies of the company's operations, we can't be overly critical or harsh." Chan agrees, noting that communication, problem-solving and analytical skills are essential to be an effective INED. "You can't just question everything; you have to be able to look at issues and ask yourself whether they are beneficial to the shareholders or company," she says.

While the Listing Rules call for a minimum of four board meetings a year, INEDs are advised to be proactive in scheduling frequent formal and informal meetings with the board to build a strong relationship with all members of management. This, Au highlights, will lay a solid foundation for a healthy, long-term working relationship between INEDs and the board, facilitate an honest exchange of feedback and, most importantly, establish trust. "We have to emphasize to executives that as INEDs, we are acting in the interests of the company and its stakeholders," he says. "Executives may get into the nitty-gritty details of certain aspects about the company during board meetings and oftentimes, as INEDs, we are unfamiliar about what they're talking about. At the same time, it is our role to monitor their strategy and how they deliver it. This requires asking questions that have been carefully thought out."

Hung says that INEDs shouldn't shy away from getting to know board members outside of the office, noting that INEDs should make the most of one-on-one time to build trust and rapport, and to communicate on any sensitive matters. "INEDs should aim to take time to speak privately with individual members of management, especially those who have influence in the company. Instead of challenging them, they should first aim to fully understand any issues at hand first. And when it comes to solving issues, INEDs have to be tactful and polite," he stresses. "My advice is to never bring up sensitive issues during board meetings, unless they have been discussed individually with the members."

Hung adds that current and prospective INEDs should always remind themselves about what they want to achieve in the role. "I wouldn't say age or experience matter the most. What matters is why you chose to become an INED in the first place," he says. "Some

"As an INED, you're specifically responsible for upholding corporate governance, which includes compliance – and as CPAs, we have this compliance culture in our blood."

might only become an INED just for the name or the money, but it isn't a good enough reason. They have to ask themselves what they want to accomplish, what changes they hope to see, how they will improve corporate governance and why they are helping this particular company."

Cheng points out that CPAs have a head start in terms of the prerequisite skills needed to be an INED. "As an INED, you're specifically responsible for upholding corporate governance, which includes compliance – and as CPAs, we have this compliance culture in our blood," he says, noting that helping with corporate governance is similar to doing an audit, as it involves a thorough understanding of a business. "CPAs always strive to understand a business before we set our audit programme, which in most cases, involves employing a risk-based approach."

Actual experience working with a board, Au highlights, can benefit CPAs who wish to become INEDs. "Back when I was a CFO, I learned how to handle board situations. I also saw how INEDs used to critique and question us. This helped tremendously," he says. "So now that I'm an INED, I know how to ask the right questions and in a way that will help and won't upset management."

A trusted advisor

The INED role, Au adds, is well-suited for those who are retired but still looking to contribute to a company's success. "I think all CPAs should give thought to becoming an INED. It's an interesting role and very different from a regular full-time job," he says. "The job can offer you a lot of perspectives and allow you to build connections with people in different industries."

Chan says the most rewarding aspect of the INED role is being able to sit at the highest level of a company and drive company growth. "It's fulfilling to be involved in setting the strategy along with the board, attend meetings to discuss the business plan, mission, growth strategy and then make recommendations to the board," she says. "We have to look at all aspects of the company and consider many factors beyond the finances."

Being seen as a trusted member of the board, Hung concludes, makes the INED role worth pursuing. "The real satisfaction comes from knowing that you are working well together with the board, and as a team," he says. "You can feel it, especially when the executive director comes to speak to you about other things beyond what's expected of you as an INED. You then realize that you have become a key advisor to the board."

According to the Chapter 3 of the Hong Kong Exchanges and Clearing's Listing Rules, INEDs must make up a third of the board of directors and that at least one of the INEDs must have appropriate professional qualifications in accounting or related financial management expertise.

A NEW STANDARD OF SUSTAINABILITY

Over the years, investors and companies have watched the much-talked-about "alphabet soup" thicken. The array of environmental, social and governance (ESG) reporting standards, frameworks and ratings trying to shape how companies measure and disclose their sustainability performance has created fragmentation in reporting and much confusion.

It is no wonder, then, why the announcement made by Erkki Liikanen, Chair of the International Financial Reporting Standards (IFRS) Foundation Trustees, at COP26 on 3 November 2021 attracted a lot of attention from around the world. He announced the formation of the International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of sustainability-related disclosure standards for the financial markets, which would bring clarity to sustainability reporting. It will be up to each jurisdiction to decide whether and how to incorporate the global baseline into their own requirements. The board will also consolidate two investor-focused international sustainability standard setters, the Value Reporting Foundation (VRF), and the Climate Disclosure Standards Board (CDSB), Liikanen told the audience in Glasgow.

The next month, Emmanuel Faber was appointed the board's inaugural Chair, leading the development of ESG reporting standards that inform global capital allocations, market prices and cost of capital. "Over the past several decades, global capital markets shaped a period of unprecedented change. The transition to a climate-resilient economy, within socially acceptable boundaries, will not happen without the necessary tools for markets to create further systemic change. This will happen through a shift of capital allocation, informed by a shared understanding of what is at stake for companies in this transition. Providing consistent language for this dialogue is our mission at the ISSB," says Faber, who took on his new role in January.

A long-time advocate of sustainable business, Faber is the former chief executive officer of food products company Danone, and is well-known for driving a number of sustainable initiatives during

Since the new body was announced, all eyes have been on the International Sustainability Standards Board (ISSB) to see how it will establish standards for environmental, social and governance reporting and bring an end to gaps in sustainability reporting worldwide. Emmanuel Faber, Chair of the ISSB, tells Jemelyn Yadao about the priorities of the board this year, what it will take for the standards to become the global norm, and the role of the profession in reducing greenwashing

his tenure there. These include implementing voluntary reporting of "carbon adjusted" earnings per share, which is a profitability metric that accounted for the offset cost of Danone's entire carbon footprint. The company was recognized as a global environmental leader, becoming one of only 10 companies with a "triple A" score in 2020 by Carbon Disclosure Project, the international nonprofit that helps companies and cities disclose their environmental impact.

"It is truly a great privilege to have been appointed as the Chair of the ISSB. Throughout my career as a CEO, I placed sustainability at the heart of business strategy," says Faber. "I did this not just because I think it is necessary for society and the environment, but because first and foremost, I trust it benefits the long-term success and resilience of the company."

From prototype to proposals

The ISSB is moving quickly with its ambitious work plan. At the end of March, it published its first two proposed standards for public consultation. One sets out general sustainability-related disclosure requirements, and the other specifies climate-related disclosure requirements. Faber calls on all stakeholders to get involved and comment on the proposals.

"I strongly encourage readers to review these and provide us with your thoughts," says Faber. "This feedback will help to ensure our standards are of the highest quality and are such that their adoption will allow companies to report in a cost-effective manner and investors to make capital allocation decisions on their basis." The 120-day consultation period ends 29 July. The ISSB aims to issue the final standards by the end of the year, subject to the feedback.

The exposure drafts are built on the prototype climate and general disclosure requirements, which were also announced during COP26, and developed by the Technical Readiness Working Group (TRWG), a group formed by the IFRS Foundation Trustees to provide a running start for the ISSB. Representatives of the CDSB, the International Accounting Standards Board (IASB), the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), the VRF and the World Economic Forum had worked together to come up with the prototypes.

Faber says the work done by the TRWG was invaluable and brought together various frameworks and standards. "It gave us a very solid base on which to start our work. Feedback from the market was clear: don't start from scratch, build on what already exists. The TRWG enabled us to do that and gave us strong momentum that allowed us to produce our draft proposals in the first quarter of this year." He adds that the CDSB Framework and TCFD recommendations are incorporated into the draft climate-related disclosures standard and the industry-based requirements are based on Sustainability Accounting Standards Board (SASB) Standards. "Ultimately, SASB Standards will evolve into IFRS Sustainability Disclosure Standards." The incorporation of the VRF, bringing with it the International Integrated Reporting Framework and SASB Standards, will take place by the end of June.

Another key focus for this year is the search for the remaining 12 members of the ISSB, says Faber. Following his appointment, Sue Lloyd, previously IASB's vice-chair, was named Vice-Chair of the new board. "It is encouraging to see the quality of applicants we have been receiving," says Faber, adding that the board is approaching the appointments in stages, with initial nominations being announced soon. "This is to ensure we have a quorum of board members in place and ready to deliberate on the feedback received through our consultation, and finalize the first two IFRS Sustainability Disclosure Standards."

The board is taking a "climate first, not climate only" approach for its strategic direction, recognizing the urgent issue of climate change. This has led to observers questioning how the ISSB will tackle the challenge of moving into the other areas of ESG. Faber believes a consultative process focused on meeting the needs of the global markets will reveal what the next steps should be. The board will launch a public consultation on its future standard-setting priorities later this year, he says. "This is a fundamental tenet of the IFRS Foundation and will clearly continue to be the case as we look to our next areas of work. I have my own views based on my experience as a CEO, and based on what the climate standard is likely to naturally request as a follow up, but ultimately, it's for the board to deliberate on this and we'll look to our network of stakeholders to guide us through consultation."

Complementing the IASB

The ISSB sits alongside the IASB, with both boards overseen by the IFRS Foundation Trustees. While both are independent, the two boards will work closely with each other, ensuring compatibility between IFRS accounting standards and the ISSB's standards.

With IFRS standards now adopted by 166 jurisdictions, the ambition is for ISSB's standards to have similar success. To have that, the ISSB can learn a lot from the IASB, including on overcoming the challenges of achieving

The Institute has launched an online survey to collect stakeholder feedback on the ISSB's exposure drafts on its proposed standards on general sustainability-related disclosures and climate-related disclosures. The survey includes questions that specifically cater for the Hong Kong context. The results of the survey will be used by the Institute to develop its response to the ISSB. The survey is open until 13 June.

"The transition to a climate-resilient economy, within socially acceptable boundaries, will not happen without the necessary tools for markets to create further systemic change. This will happen through a shift of capital allocation, informed by a shared understanding of what is at stake for companies in this transition."

convergence. With the IFRS accounting standards, for example, it took decades to come up with a set of accounting rules that are largely converged. "This is the core motivation behind the creation of the ISSB, and why so many believe that the IFRS Foundation is the right organization to take on the task of creating global sustainability disclosure requirements aimed at the capital markets," says Faber. "Our objective is to develop standards that result in more consistent, complete, comparable and verifiable sustainability-related financial information. To do this, we will also look to the mechanisms and lessons learned through the IASB's work."

Faber adds that it is working closely with other international organizations and countries to incorporate the global baseline into jurisdictional requirements. "Indeed, we developed our proposals in response to requests from G20 leaders, the International Organization of Securities Commissions, investors, and others for enhanced information from companies on sustainability-related matters," he says. The support of these bodies, he notes, paves the way for future adoption of the new standards.

Faber also highlights that companies can choose to apply the standards on a voluntary

Emmanuel Faber founded and chairs several international organizations and initiatives, including the One Planet Business for Biodiversity coalition and the G7 Business for Inclusive Growth coalition.

"Investors taking part in major capital markets hubs like Hong Kong will be able to access the same sustainability-related financial information as they would in any other market, facilitating the global flow of capital."

basis, which has been the case for SASB Standards, as well as CDSB Framework and TCFD recommendations. "I expect our standards to be taken up by investors and companies globally before many securities regulators mandate them. Interestingly, this is what made the SASB industry-based standards a market-proven solution for more than 1,500 companies, among which is more than half of the largest listed companies in the world."

Faber believes that the interoperability of the new standards is crucial for creating a global baseline. He points out that while the ISSB will work with the IASB to consider interactions with IFRSs, it will also seek to ensure that IFRS Sustainability Disclosure Standards can be applied by companies that use other Generally Accepted Accounting Principles (GAAP), such as the United States GAAP. "Having said that, with accounting standards and sustainability standards for investors being developed under the same roof (albeit by different boards), we are in a unique position. A defining goal of the IFRS Foundation is to develop requirements that result in disclosures that are holistic and integrated to give investors a complete understanding," he says. "As such, the IFRS Foundation is encouraging companies to adopt the International Integrated Reporting Framework, which is currently used by businesses globally to drive connectivity between different strands of disclosure, to communicate a concise and comprehensive understanding of how a business creates value over time."

Ultimately, the principles and concepts of the International Integrated Reporting Framework and the IASB's Management Commentary, he adds, will provide the basis for connectivity between accounting requirements and sustainability disclosure requirements.

The role of accountants

Speaking on Hong Kong, Faber says the city undoubtedly has a leading role to play in the transition to a sustainable global economy. "Major steps have already been taken that place Hong Kong at the forefront of this work. The work to mandate disclosures aligned with TCFD across all relevant sectors by 2025 is already underway. I was delighted to see at COP26 the Green and Sustainable Finance Cross-Agency Steering Group reaffirm its commitment to strengthening Hong Kong's financial ecosystem for a greener and more sustainable future," says Faber, referring to the steering group established by the Hong Kong Monetary Authority and the Securities and Futures Commission to accelerate the growth of green and sustainable finance in Hong Kong.

The city has much to gain from the IFRS Sustainability Disclosure Standards when they are finalized, notes Faber. "Companies today face an alphabet soup of standards and are coming face to face with the risk of multiple reporting requirements. Our mission is to support all market participants in reducing this fragmentation burden and barrier," he says. "Thus, investors taking part in major capital markets hubs like Hong Kong will be able to access the same sustainability-related financial information as they would in any other market, facilitating the global flow of capital. Meanwhile, companies listed in Hong Kong will not be required to service an unnecessary reporting burden."

Faber points out that what inevitably comes out of the patchwork of different reporting standards is "greenwashing." The development of the global sustainability standards seeks to respond to ever-growing concerns of companies exaggerating the sustainability of their products or practices to boost their appeal to ethical investors. "It has prevented investors from engaging in a meaningful dialogue with companies about their sustainability risks and opportunities based on solid, factual, measurable, comparable metrics and language. They therefore can't make appropriate judgements informing their capital allocations," he adds.

The accounting profession, Faber believes, has an important role to play in countering greenwashing. "Leading institutions like the Hong Kong Institute of CPAs are essential in helping to build capacity in this space, and accountants will need to develop skills in applying judgement to these new areas [of ESG]," he says. "By utilizing the core skills of accountants, we can ensure sustainability information is consistent, comparable and verifiable. When this information is available, we will begin to see sustainability information moving market prices and impacting investor behaviour on a global scale."

Key to success

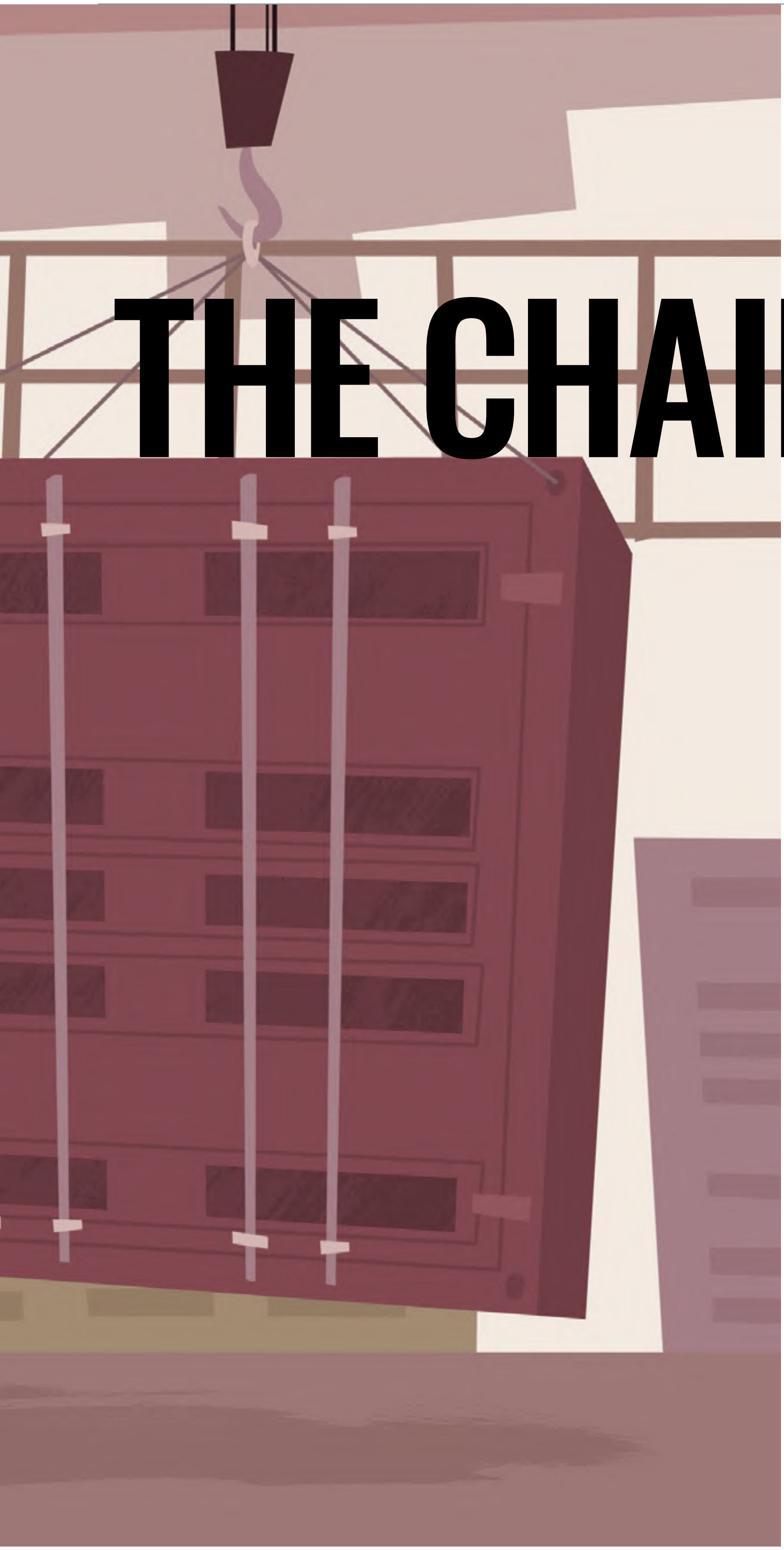
Faber says the success of his board will depend on the technical expertise of his colleagues at the IFRS Foundation, as well as the board's soon-to-be colleagues at CDSB and VRF. "The expertise of our advisory bodies and the rigorous due process and transparency of the IFRS Foundation are integral. But it is this continued collaboration that will drive us forward, and in the right direction," he adds.

> "By utilizing the core skills of accountants, we can ensure sustainability information is consistent, comparable and verifiable. When this information is available, we will begin to see sustainability information moving market prices and impacting investor behaviour on a global scale."

Collaboration and the exchange of ideas with all jurisdictions will also be important. With this in mind, Faber points out that the ISSB announced last month that it had established a working group of representatives from several jurisdictions to discuss compatibility between the ISSB's exposure drafts and ongoing jurisdictional initiatives on sustainability disclosures. It will also discuss how those jurisdictions can build upon the global baseline according to their needs. "We will create a new advisory body – the Sustainability Standards Advisory Forum – during the next quarter to facilitate regular dialogue with a broad set of jurisdictions," he says.

Also critical, of course, will be the leadership skills and drive of the board's chair, who is an avid rock climber in his spare time. Faber says rock climbing requires many of the same skills he needs in his working life – and to finally meet the strong demand for global sustainability standards: "mental focus, commitment, the accurate judgement of risk and a sense of responsibility for the collective."

STRENGTHENING



THE CHAIN

The disruption to global supply chains as a result of the COVID-19 pandemic has made it more crucial for supply chain and finance teams to collaborate in order to manage crises. Nicky Burridge finds out the benefits that come with supply chain and finance teams joining forces, and why teaming up will give companies a competitive and sustainable edge to their supply chain operations

Illustrations by Ester Zirilli

Furniture retailer IKEA has a target of always having 96 percent of its products in stock. Before COVID-19, around 98 percent of products were typically available. But when the pandemic struck, stock levels in Hong Kong fell to just 77 percent. "In pre-COVID days, if stock levels dropped from 98.4 percent to 98.2 percent that would trigger questions. But during COVID, more than 30 percent of our shelves were empty. All of our bestsellers were either out of stock or had incomplete parts. We had kitchen cabinets and wardrobes but no hinges, and bed frames but no cross beams. The impact was vast," says James Liu FCPA, Finance Director, at IKEA, which is part of the Dairy Farm Group.

IKEA is a vertically integrated business with consolidated hubs across the world that supply particular markets. Hong Kong's hub is Shanghai, meaning it was hit hard by COVID restrictions in late March. "In the end, the decision was made to use air freight to supply hinges to Hong Kong, as the lost revenue from not being able to sell these products outweighed the higher cost of air freight," Liu says.

The situation is a good example of the benefits companies can gain by having their finance and supply chain teams work closely together. There are many advantages to be gained from having the two functions collaborate, according to Florence Tang CPA, Senior Manager, Supply Chain and Operations, Consulting, at EY. These include optimizing planning, managing risk, driving sustainability and cost reductions, and helping to incorporate new technology-based solutions. "Companies often have quite a siloed approach and teams don't really talk to each other, but it is important that finance and supply chain teams sit down together and communicate, and understand each other's visions, key performance indicators (KPIs) and pain points, as well as how they can work together," she says.

Nelson Chow, Partner, Supply Chain and Operations, Consulting, Greater China, EY, thinks it is important that finance teams take the time to share company goals such as increased revenue or margin, new product launches or capturing additional market share, with supply chain teams. "If finance wants to drive down costs, they need to define what costs they mean, such as the cost of goods sold, or sales, general and administrative expenses. Without sharing those common goals or having a common language, employees may just revert to their own job description and follow their own KPIs," he says. Chow adds that people working in finance also need to make the effort to spend time on the shop floor talking to people in operations and understanding the issues they face. "Informal communications, such as having lunch together, are useful, as most people connect better in an informal way, rather than at a meeting," he says.

Lawrence Leung CPA, a certified Internal Auditor at a consumer goods company, thinks having the finance and supply chain teams working together enables companies to do more accurate forecasting and manage lead times. "The first piece of the puzzle is understanding demand fluctuations and planning for certain scenarios to avoid either an excessive build-up of inventory or running out of stock."

He points out that supply chains require frequent, and ideally real-time, monitoring. "If finance plays a bigger role and acts as a good business partner to the supply chain team, the process can be made much more efficient, and both teams' perspectives can assist with real-time monitoring as much as possible."

John Yang CPA, Non-executive Director of Tsui Wah Holdings Limited and Chief Financial Officer of Hailan Holdings Limited, points out that in the food and beverage sector it is very important that the two functions work closely together. "The finance team has an important role to play in processing payments and monitoring that the goods and services have been received by the company. Meanwhile, the supply chain team needs to ensure that everything is properly documented for the finance and audit teams," he says. Yang adds that the finance team can help the supply chain to become more efficient by putting in place monitoring systems, and finding ways to cut costs or labour. "Finance nowadays is not just bookkeeping, they are more involved in areas such as supply chain, monitoring processes and identifying risks."

> **"The finance team has an important role to play in processing payments and monitoring that the goods and services have been received by the company."**

A different skill set

Finance professionals, including accountants, have a number of skills that can help supply chains operate more efficiently. Tang suggests their strategic planning skills can be used to set priorities, strengthen operations and ensure employees and other stakeholders are working towards common goals. She adds that finance teams can also use their analytical skills and forecasting skills to help make accurate predictions for product demand, seasonal variations, and pricing differences, as well as anticipating future revenue and expenses, enabling the supply chain team to plan resources and allocate their budget ahead of time. Chow says: "Finance and supply chain teams usually have different knowledge and skills. Finance might be more focused on numbers, meeting compliance and internal audit requirements, while supply chain may be more focused on operations, so it is important to have open dialogue and share common goals."

Yang points out that the finance team's critical thinking skills can be used to spot any suspicious or abnormal transactions in the supply chain, helping to protect this area of the business from fraud. Meanwhile, Liu says they can help those working in the supply chain with governance and data protection. "We are also able to add return on investment and the financial perspective into the mix." He adds that he has also learned a lot about the business from the supply chain team, particularly about customs regulations and how goods need to be labelled. "This knowledge helps with planning.

Sometimes if we, the finance team, provide feedback to the franchisor to add certain text to the label, it can meet compliance requirements, clear customs quicker and reduce the cost to serve," Liu says.

Managing crises

The benefits of finance teams and supply chain teams working together have been brought into sharp focus during the challenges created by the COVID-19 pandemic. Liu points out that when IKEA did not have the hinges it needed, the finance team analysed the potential business loss on sales of the whole product, and the impact this would have on meeting its annual sales targets, if it failed to fly these components in. "We looked at the situation holistically, forecasting what stock would be available and what stock would not be available, looking at warehouse capacity, how many containers were still on vessels and how many had been unloaded at ports," he says. Having made the decision to fly in certain critical components, the finance team was also able to look for where efficiency savings could be made to offset these higher costs.

At the same time, Liu says they were also able to allocate budget to new areas of need that emerged during the pandemic. "We set aside money to look after our co-workers, promising not to make lay-offs nor ask for unpaid leave, providing them with face masks and rapid test kits, and organizing for people to get tested. It was important to build up a level of trust." He added that when 30 percent of IKEA's Hong Kong workforce was off work due to COVID-19, it was able to help with staff rotas and ensure those able to work were deployed in the most efficient way. "We also took the opportunity to invest in automation as well as put money into fleet management software, enabling customers to track orders on their smartphone to alleviate some of the pressure on our frontline staff on the logistics side," he says.

Yang agrees that the finance team has had a particularly important role in helping the supply chain during the disruption caused by the pandemic. "Communication between the finance team and supply chain team to make sure both goods and payment arrive as scheduled is very important. If payment is delayed, the supplier will stop delivering."

COVID-19 is not the only disruption that companies face, with many also impacted by issues such as the conflict in Ukraine, geopolitical trade tensions, and even cyberattacks. Chow says finance teams can help the supply chain overcome these issues by acting as a business partner. "If your supply chain set up is too reliant, for example, on Mainland China-based suppliers, oil from Russia, or raw materials from Ukraine, the finance team will need to work with supply chain people to find both short- and longer-term fixes.

"In the short term, finance may have to loosen KPIs, such as margin improvement, to fix the supply problem, ensure sales orders are met and the company does not lose customers. Longer-term solutions

may require an investment plan or capital expenditure, such as digitizing their systems, or plant relocations to diversify your sources and avoid disruptions," Chow says.

Leung agrees that the finance team can also help respond to potential future disruptions through helping the supply chain diversify its supply base, taking into account not only location, but also the speed and capabilities of the supplier.

Tang points out that finance teams also need to help build resilience in the supply chain. "The disruptions may be short-term crises but they have long-lasting implications on the way people work and how different teams collaborate. There is a need for the business to build long-term resilience into its supply chains to manage future challenges." She suggests finance teams should work with the supply chain to build data platforms and incorporate technology, such as data analytics, artificial intelligence and machine learning, and blockchain, to increase end-to-end transparency across the supply chain. At the same time, they should put in place risk responses to potential disruptions as part of their business as usual protocols.

Going green

The need for collaboration has increased with environmental, social and governance (ESG) reporting requirements. With the finance team responsible for gathering data and writing reports on this area, they need to work closely with their supply chain counterparts to get the information they need. Yang thinks the finance team can help ensure companies' supply chains operate in an ethical way through increasing their transparency and the level of documentation available. "It is very important that there is correct documentation at every stage throughout the process. Ensuring everything is easily traced can help to reduce ethical issues in the supply chain," he says.

Leung points out that an important element of improving sustainability is having a level of accountability and a way of measuring success. "It is a long-term process. Finance is typically well versed in data reporting, creating metrics and frameworks, communicating, and reporting to a wide range of internal and external stakeholders. This skill set and experience can translate into supply chain KPIs and measuring success to motivate and encourage progress over a long period of time."

"It is very important that there is correct documentation at every stage throughout the process. Ensuring everything is easily traced can help to reduce ethical issues in the supply chain."

Chow explains that supply chains also play a critical role in helping companies reduce their carbon emissions, particularly in terms of scope three emissions under the Greenhouse Gas Protocol. While it is not compulsory to report scope three emissions, many leading companies have started to do so. Scope three emissions are generated by activities from assets that are not owned or controlled by the company. Supply chains account for more than 90 percent of companies' greenhouse gas emissions, with supply chain emissions 11.4 times higher than operational emissions, according to the Carbon Disclosure Project's *Global Supply Chain Report 2020*. "Finance will need to collect these data from the supply chain, including information on first tier and their Tier-N suppliers," he says.

Chow adds that the two teams will have to collaborate on how to reduce these emissions, such as through changing their procurement criteria to align with their carbon reduction goals. "In the past, if finance wanted to drive down costs, they may go for the cheapest bid at tender. Now, if the goal is sustainability, the scoring method may be different, with non-price goals. Finance and supply chain teams will have to collaborate and modify their internal processes and policies to find ways of working to capture these requirements."

He points out that finance teams will also have to collaborate with supply chain teams if they are applying for sustainable finance, such as green loans, which require certain environmental targets to be met. "If companies are not sustainable, it is going to get harder for them to obtain finance," Chow says. IKEA has set the target to become climate positive by 2030. As a result, Liu says the finance team is working closely with the logistics team to find ways to reduce supply chain emissions. "We are also investing in solar panels to generate electricity to reduce our carbon emissions, and we have invested in software to consolidate orders and minimize the number of journeys delivery trucks make."

Gaining a competitive edge

Leung thinks the key advantage of having the teams work together is being able to reduce risk through identifying risk indicators early and reacting to them. "Risk is reduced, and reaction speed is increased if finance teams and supply chain teams are involved closely, helping organizations respond to the changing business landscape. You can only deliver value if you are not disrupted by circumstances and maintain the ability to respond to consumers' needs," he says.

Liu agrees it is critically important that the finance team is more involved in the supply chain to help manage risk. "IKEA's engine is its supply chain. If we don't have stock, we won't have a business. Under the worst scenario, not only would we not get stock to customers, which has financial consequences, but there are also environmental ones if we have to write off that stock and send it straight to landfill." He adds that working together can also help the finance team produce more accurate forecasts by gaining a better understanding of the company's cost base, pricing, and its ability to reinvest into the business. "We need to look at stock and mobility, as well as costs to forecast accurately. We need to consider stock ordering from the beginning all the way through to whether we have sufficient warehouses to store our stock in, and the cash flow impact if we have over-ordered stock," he explains.

> "If companies are not sustainable, it is going to get harder for them to obtain finance."

The finance team also needs to plan for the future, both in terms of capacity, and future investment that might be needed to improve the efficiency of the supply chain, such as setting up warehouse automation. "We are currently working with our Greater Bay Area (GBA) network to conduct a study on the arbitrage on warehouse rental for stock capacity between Hong Kong and the GBA, looking ahead to 2030 and beyond. We are projecting how many cubic metres we will need, how things will fit together and the different technologies we can use to increase efficiency," Liu says.

Tang thinks collaboration between the two functions is particularly important as companies digitize their operations to enable them to make best use of the data they collect, with the finance team supporting the supply chain in using and analysing this data. "If companies have an integrated solution, it can help them to address traditional challenges, such as speed, efficiency and cost accuracy. It also enables them to be more agile and make informed business decisions."

She adds that working together can also help make companies more resilient to change. "The world is dynamic and everything changes in a short period of time. Finance teams and supply chain teams have to cope with ever-changing requirements and regulations. Working together can help make companies more sustainable and agile." Chow agrees: "Everyone needs to work together to achieve the company's goals. It will increase the competitiveness of the entire organization if different functions are more coordinated and less fragmented."

Supply chains account for more than 90 percent of companies' greenhouse gas emissions, with supply chain emissions 11.4 times higher than operational emissions, according to the Carbon Disclosure Project's *Global Supply Chain Report 2020*.

SECOND OPINIONS: HOW WILL THE ISSB'S TWO PROPOSED STANDARDS MEET THE NEEDS OF INVESTORS?

CYRUS CHEUNG CPA (PRACTISING)
PARTNER, ESG SERVICES AT PWC,
AND DEPUTY CHAIRMAN OF THE INSTITUTE'S
SUSTAINABILITY COMMITTEE

The International Sustainability Standards Board's (ISSB) two proposed standards help to set the foundation for comparable and transparent reporting. During the 2021 United Nations Climate Change Conference (COP26) in November 2021, the IFRS Foundation responded to the call for globalization of sustainability standards and announced the formation of the ISSB. Two proposed standards were published, one on climate-related disclosure requirements and one on general sustainability-related disclosure requirements. The ISSB standards are intended to cover important environmental, social and governance (ESG) topics relevant to investors – climate is a specific topic chosen given increased attention on the topic and growing focus on how climate will impact companies. Going forward, the ISSB also intends to develop thematic and industry-based requirements.

The ISSB's two proposed standards will meet the needs of investors in three main ways:

Meeting investors' information needs: Investors are looking beyond information in financial statements and taking into account sustainability matters affecting companies, as well as how these matters will affect a company's long-term sustainability – from their risk management in response to climate change, to how they are attracting talent and their impact on and from surrounding communities. Topics such as these will impact investment decisions and the ISSB standards facilitate transparent disclosure of relevant ESG topics to better equip investors in their decision-making.

Ease of comparability through standardized standards: With an "alphabet soup" of frameworks and standards, the market is currently not aligned in terms of ESG disclosure. In PwC's *2021 Global Investor ESG survey*, 74 percent of investors surveyed agreed their decision-making would be better informed if companies applied a single set of ESG reporting standards. A standardized set of standards – with standardized data sources, scope and presentation – will help investors draw insightful comparisons between companies. Standardized standards will provide comparable and useful information to not only investors, but also regulators and other ESG stakeholders.

"Standardized standards will provide comparable and useful information to not only investors, but also regulators and other ESG stakeholders."

Investment growth: The proposed standards can help investors benefit from investment growth through a coherent baseline and common metrics where investors gain a clearer sense of ESG risks and opportunities from company disclosures. With growing awareness on responsible investment strategies and trends where companies with stronger ESG propositions outperform peers – what Larry Fink, Chief Executive Officer of BlackRock, referred to as a "sustainability premium" in his CEO Letter in 2021 – investments in ESG companies are expected to continue, and both transparent and comparable information will assist investors in this area.

Personally, I very much welcome increased alignment in the ESG space and the two proposed standards, and look forward to continued alignment of data for continued and greater impact.

PAT WOO CPA (PRACTISING)
PARTNER, HEAD OF SUSTAINABLE FINANCE, HONG KONG AT KPMG CHINA, AND MEMBER OF THE INSTITUTE'S SUSTAINABILITY COMMITTEE

The establishment of the ISSB during COP26 was a landmark moment for the ESG space. The ISSB marks the beginning of efforts to standardize ESG reporting, and will sit alongside the International Accounting Standards Board, whose accounting standards are followed by over 140 jurisdictions globally.

In March, the ISSB issued two exposure drafts, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (S1) and IFRS S2 *Climate-related Disclosures* (S2). S1 is focused on general disclosures around ESG, while S2 focuses on climate-related disclosures. With S1 and S2, the ISSB has taken the approach of developing standards for short-, medium- and long-term enterprise value disclosures that are more investor-focused.

Although companies already utilize guidelines such as Global Reporting Initiative, current ESG reports tend to be freeform in format, which often makes it difficult for readers to compare between different companies, even within the same sector. Going forward, ISSB standards will make disclosures more uniform, and as such, investors will be able to compare like with like, similar to financial disclosures.

The ISSB also aims to connect financial statements to the ESG reports through its focus on enterprise value. Previously, ESG reports were standalone with little or no direct correlation to corporates' financials. This will change with the adoption of S1 and S2, which will require corporates to determine the potential of ESG material matters and how they may impact revenues, cash flows, asset valuations, etc. These disclosures may be forward-looking, in particular in relation to climate, and will give investors comfort that the corporate understands future risks and their potential impact on enterprise value.

"Going forward, ISSB standards will make disclosures more uniform, and as such, investors will be able to compare like with like, similar to financial disclosures."

In the future, the ISSB also aims to develop standards on other topics around ESG, but with these new standards, it is first focusing on climate-related requirements. This is in line with what the market is currently demanding.

With S1 and S2, the ISSB has contributed to creating step change in overall enterprise reporting, which will benefit the market as a whole, giving investors additional information and data to help them make investment and financing decisions. In addition, disclosures will give greater assurance that ESG matters are being properly managed in reporting entities.

CALVIN KWAN
HEAD OF SUSTAINABILITY AT LINK REIT, AND MEMBER OF THE INSTITUTE'S SUSTAINABILITY COMMITTEE

The ISSB's two proposed standards coalesce existing ESG frameworks and standards into a common reporting platform. This underscores the importance of ensuring consistency and connectivity between financial decision-making and material ESG issues.

The proposed broader reaching S1 serves to align and streamline the reporting of ESG data both across and within industries by establishing the minimum in ESG disclosure requirements. With emphasis on material issues, the issue of corporate greenwashing can be reduced, and investors can make more accurate and near like-for-like comparisons of target companies.

S2 requires preparers to detail the impact of climate-related physical and transitional risks and opportunities on enterprise value. With focus on the disclosure of absolute and intensity-based greenhouse gas emissions data, internal carbon pricing, emissions target setting and the capital deployment towards related risk and opportunities, investors can develop more granular assessments of a preparer's resilience, preparedness and vulnerability to climate challenges.

These two standards represent a significant step forward for corporates and investors alike in terms of data integrity, material issue alignment and performance comparability. While still in the consultation stages until the expected formal adoption at the end of 2022, smart management perceives this as a timely opportunity to review and update the management tools and internal competencies to ensure compliance and establish global best practices. Already, leading companies are harnessing the power of artificial intelligence and other system innovations to leverage data utility. Also, internal teams in IT and ESG are being upskilled to complement the financial and governance decision-making needed to accommodate investor expectations aligned with these standards.

"These two standards represent a significant step forward for corporates and investors alike in terms of data integrity, material issue alignment and performance comparability."

While there is high potential for the ISSB proposed standards to align ESG reporting and enhance disclosures, they are limited in their ability to arrive at a comprehensive solution for an industry that has developed using voluntary and competing data sets and arbitrarily chosen standards for reporting. Several key points for investor comfort remain to be addressed by the standard setters including universal adoption by regulatory bodies and unclear assurance processes.

by Albert Lee & Agnes Fok CPA

The Global Co-Leader and Asia Pacific Leader, and Director, of Tax Technology and Transformation, EY, on getting ready for the implementation of BEPS 2.0

How to get ready for BEPS 2.0 – a new era of taxation

The second phase of the base erosion and profit shifting (BEPS) 2.0 initiatives led by the Organization for Economic Co-operation and Development (OECD) fundamentally changes the traditional mechanisms for taxing international businesses, so unsurprisingly, BEPS 2.0 will require significant changes to systems and processes.

What is BEPS 2.0?

BEPS 2.0 comprises two pillars. Pillar One addresses the challenges of the digitalization of the economy through changing the way profits and taxing rights are allocated aligning to the profits to the market jurisdiction. Pillar Two addresses profit shifting and tax rate competition among countries and, hence, proposes imposing a global minimum tax of 15 percent to multinational companies.

In Hong Kong's 2022-23 budget, the Financial Secretary announced plans to implement a global minimum tax rate. Hong Kong will also consider introducing a domestic minimum top-up tax starting from the year of assessment 2024-25 of 15 percent to safeguard Hong Kong's taxing rights.

A new mechanism for taxation

BEPS 2.0 rules introduce new mechanisms for taxation. Pillar One requires data concerning business revenue derived in certain market jurisdictions, whereas the calculation of Pillar Two is based on data from group consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP) at the legal entity level. Organizations will therefore have to analyse the potential impact of accounting treatment (especially deferred tax accounting) on the jurisdictional Global Anti-Base Erosion (GloBE) effective tax rate (ETR).

From an operational perspective, data availability will be a key challenge. Also, BEPS 2.0 calculation rules and regulations are complex, which makes manual calculations through the use of spreadsheets almost impossible. The implementation of a domestic minimum tax (DMT) by local tax authorities will also likely employ calculations aligned with GloBE methodology.

A new set of data sources

Pillar Two calculations start off with the identification of the multinational entity group and requires corporate secretarial data (e.g., percentage of shareholding, accounting consolidation method, nature of entities, date within and outside of the group, etc.) After that, Group GAAP financials and tax data are used to compute the adjusted GloBE income and GloBE covered tax. The data should be gathered at the legal entity level and be aggregated at the jurisdictional level to compute the ETR. It should be noted that given that consolidated financial statements are often prepared based on the principle of materiality, it may not provide enough detail for Pillar Two adjustments. The organization would need to go back to the legal entities and gather the details to support the GloBE adjustments.

Moreover, both financial and non-financial data (such as HR data and other data sources) would be required for the purposes of considering the safe harbour rules, substance-based carve-outs and other GloBE elections.

Ambitious implementation timeline

An implementation timeline of the new rules largely with effect from 2023 was proposed by the OECD. However, a number of jurisdictions, notably the European Union (EU), are pushing the start to 2024 at the earliest. It is worth noting that financial reporting may require provisions for tax liabilities once legislation is out for any jurisdiction. Given the complex rules and tremendous data requirements, it is important for organizations to start now.

Leveraging your existing foundations

It is unlikely that a single tool will solve the BEPS 2.0 challenges. Depending on each organization's existing technology stack, structure and IT roadmap, a combination of technologies will most likely be needed for the optimal solution.

Companies should start by looking at the existing technologies available and consider leveraging their enterprise technology e.g. Enterprise Performance Management systems, where possible.

As most of the data for BEPS 2.0 come from the tax reporting cycle, it makes sense to consider leveraging their existing tax reporting platform to capture additional data sets for BEPS 2.0 reporting and compliance.

So, what do you do to get ready?

A good place to start is an impact and readiness assessment exercise to understand the potential impact, which could cover an ETR assessment, accounting, tax planning and data and technology assessment. As part of the data gap analysis, the data source and data readiness for each of the data points are assessed, and options are identified to mitigate the data gaps and plan for future system implementation. As Pillar Two calculation adjustments ignore a majority of timing differences, the tax accounting is complex and requires review.

From a technology perspective, a Proof of Concept (POC) exercise can help to validate the proposed solution architecture for BEPS 2.0 compliance, without the need for a full technology build and implementation process. A POC exercise can help one to think through the potential risks and obstacles, and can help with stakeholder management by getting them involved at an early stage, while setting the direction and budget request for a full implementation roadmap.

BEPS 2.0 is a fundamental change to taxation, requiring significant changes to the data requirements and processes. The changes will impact multiple functions – tax, local accounting, group finance, and IT, who will need to coordinate to develop a holistic response. The timeline for implementation is short and in addition to the potential tax and accounting impact, organizations need to assess the potential operational changes and develop a plan and roadmap quickly.

Amir Ghandar

The Chartered Accountants Australia and New Zealand's Reporting and Assurance Leader, on the possibilities of digital reporting and the barriers to adoption

The accounting revolution will be digitized

A revolution on what information corporates report is already underway with moves to global climate and sustainability reporting – but what about how that information is reported? The corporate reporting "palette" has not changed much in thousands of years, despite giant leaps forward in the means available to collect, report and assure information. The nature and complexity of the audience, and the entities whose stories reporting is trying to tell have also evolved.

A 2D, static annual report format in paper or PDF is not that different to the papyrus on which Egyptian scribes reported on the royal inventories more than 7,000 years ago. Genuine innovation calls for a fully digitized reporting format, where the financial and sustainability information presented by companies can be consumed and analysed in whatever format the user decides suits their unique decision-making needs.

Digital reporting uses a common language or "taxonomy" to attach "tags" to each item being disclosed. This means the information can be presented and analysed in a dynamic way, for different purposes and users. For instance, simplified, basic information presented at a high level for main street, small-scale investors; much deeper detail drawn directly into the analytic systems applied by professional analysts or fund managers. The language of digital reporting allows all of this to be drawn from a consistent data set, without the need for clunky manual coding or text recognition.

Digital reporting can potentially offer new ways of dealing with the communication and structural challenges of reporting both non-financial and financial information to an increasingly diverse range of users. Digital gives companies more control over the quality of their reporting without the errors that can result from manual transcription of PDF reports by third-party data services. Better, more reliable data reduces cost of capital.

Looking further ahead, digital reporting also has the potential to open new dimensions in accounting in areas where the thinking has been constrained by the need to fit on paper. Accounting methodology and standards appear to have to hit a conceptual dead end on a widening scope of judgements in reporting to deal, for example, with intangibles, fair value, and shifting economic context. Erring toward conservatism has meant less meaningful financial statements, but opening the gates to more abstract accounting judgements can mean less reliable reporting or even lead to moral hazard.

Digital reporting might just provide the new paths needed to overcome this continuum that has plagued accountants, auditors, standard setters and regulators for years. Timelier, if not real time, reporting reduces the need for and reliance on big, hairy, annual accounting judgements – the ones you read about in the papers and hear about in inquiries when it's all gone wrong.

As of now, these ideas seem to raise more problems than solutions – what about accountability for judgements? How can this possibly work when reporting and auditing are at a point in time, not real time? How do you regulate it? These are valid questions that seem almost insurmountable from today's vantage point. But it's a bit like if you had tried to imagine how a mobile phone navigation app would work at a time before Wi-Fi or the Internet was invented. Moving to a digital accounting language is just the first step to unlocking these possibilities, but it is an essential one.

A large and growing majority of the world's major capital markets have adopted digital reporting. However, fragmentation is also emerging as jurisdictions introduce their own reporting languages or local adjustments to the global taxonomy published by the IFRS Foundation. For some major jurisdictions, a meaningful adoption of digital reporting across public reporting remains elusive. Both Australia and New Zealand have stepped up discussion and efforts toward adopting digital reporting – including an endorsement from Australia's parliament at the profession's urging – however this is yet to be translated into concrete outcomes.

The approach to assurance of digital reporting is also in its infancy. Some jurisdictions have implemented limited assurance requirements, while others have none. Widely accepted, dedicated standards and methodologies that would bring the same level of assurance we're used to on a signed financial report are yet to be developed for digital reporting data sets. Importantly, the International Auditing and Assurance Standards Board has adopted on its work programme "exploring the need for assurance standards related to eXtensible Business Reporting Language, and developing a pronouncement."

A lack of understanding is one of the most significant challenges to the adoption of digital reporting, and one of the main arguments against a mandate has been the costs associated with implementation. Traversing these challenges calls for:

1. Education and awareness building – both on the benefits and costs among preparers, business and directors;
2. Robust two-way engagement of the profession with users and intermediaries including exchanges, and platform providers;
3. The ability for regulators and exchanges to accept digital filings, and a willingness to mandate digital reporting as a required format;
4. Focused regulatory cooperation to promote convergence and avoid fragmentation worsening; and
5. Focused efforts from the auditing and assurance profession and standard setters together with capital market stakeholders to develop a global approach to assurance.

As a new era dawns on corporate reporting with the establishment of the International Sustainability Standards Board, the move to digital reporting is now more pressing than ever. Making sense of financial and non-financial reporting with an assortment of information that doesn't fit neatly into the closed system of an accounting equation, demands a more powerful means of communication. *This article originally appeared on the IFAC Knowledge Gateway.*

FIVE QUESTIONS FOR PAIB

Stephen Li CPA

Director, Public Markets Portfolio Management at Prosus, a global Internet group and technology investor, on China's evolving consumer Internet sector and its potential future

What are the three biggest lessons in your career so far? I have been working in rapidly evolving sectors where one can only keep up with the pace through continuously acquiring new knowledge. I am particularly inspired by the book *The 100-Year Life* by Lynda Gratton and Andrew J Scott. To live a long life that is fulfiling, we should not stick to one expertise for life. Another important lesson is to learn to embrace uncertainty. "Learn" is the keyword here, because by nature we do not like things that are unexpected. Lastly, author and inspirational speaker Simon Sinek inspires me with his quote, "Leadership is not a rank or a position, it is a choice." The mentors in my life demonstrated what it means to lead by example, which is something I want to be better at every day.

What do you like most about specializing in consumer Internet? China's consumer Internet industry has been growing at a rapid pace. When I worked as a consultant, the model of inbound cross-border e-commerce was just emerging, with only a handful of Chinese cities as pilot cities. Now, over 100 cities and regions can now facilitate it. In another example, five years ago or so, people were talking about the e-commerce market reaching an "end-game," with consumers only shopping between the two big platforms, Alibaba and JD.com. Fast-forward to today, a third player, Pinduoduo, has established its foothold through the viral effect of social connections. We also see that live streaming has become an increasingly important channel for brands. I am excited to be in this continuously evolving industry.

In what ways has your CPA qualification helped you in your career? Accounting has been part of my life since I was a kid, as my father is the co-founder of a small local firm. Since starting my career as an auditor at one of the Big Four, I have not regretted becoming a CPA. Reading financial statements has been an integral part of my job, even after I left audit. The experience of drafting a set of accounts end-to-end allows me to understand a company inside-out from a financial perspective.

What challenges do you face in your role? One big challenge is giving an accurate interpretation of the market. Data is one facet. We are living in a world where data is not scarce. One could access a huge volume of information from simple desktop research. Interpretation is another facet. It is interesting to see how diversely different news outlets cover the same event. My CPA training taught me to always go to the data source and verify. Cultural and language differences add to the challenge. But I think what gives homegrown accountants in Hong Kong an edge is that we are trained in a culturally diverse environment.

How do you view the future of consumer Internet platforms? I am very optimistic about the development of the consumer Internet sector as a whole. Not long ago, a mobile phone was a luxury product for many, but there are now around one billion smartphone users in China. When I was working in a start-up in Hangzhou, we spent much time discussing what would be the next mobile-like device and how we would interact with it. Many people including my parents now do not type up messages, but send them through voice recognition. We also make purchases through facial recognition. Technological innovations like these have shaped and will continue shaping our lives.

FIVE QUESTIONS FOR PAIP

Gary Stevenson CPA

Head of IFRS/HKFRS and Technical Accounting at RSM Hong Kong, advises listed companies and initial public offering applicants on accounting standards. He shares how his career choices led to him being part of the global IFRS community

What are the three biggest lessons in your career so far? Firstly, approach work with a sense of curiosity – have a desire to learn, to explore and to question. Being open to new and different cultures and perspectives has allowed me to challenge my own thinking and has been key to my growth. Another is the importance of continuous learning. Each new book can bring new knowledge and new ideas. Lastly, learn from others who have stood in your shoes before you. I have been lucky to have had great mentors throughout my career.

What do you like most about specializing in the application of professional accounting standards? I enjoy solving problems, teaching, and helping others. This specialization has allowed me to combine all three in my work consulting with audit teams on complex International Financial Reporting Standards or Hong Kong Financial Reporting Standards (IFRS/HKFRS) issues faced by listed and initial public offering (IPO) clients, and leading my firm's IFRS/HKFRS training programmes. Through my participation in accounting groups at both the Hong Kong Institute of CPAs and the RSM International network, I have gained wider insights which I have been able to apply to my work with clients in Hong Kong and Mainland China.

In what ways has your CPA qualification helped you in your career? One of the great attractions of the CPA qualification to me is the diversity of career opportunities it affords holders. After spending the early part of my career in audit, I chose to specialize in the application of professional accounting standards and joined the technical department of my firm. But I did consider other alternatives at the time including forensic accounting and litigation support. Another factor I considered in choosing to be a CPA was the global nature of the qualification which, although I obtained it in Ireland, has led me much further afield over the past 30-plus years including London, Paris, the Caribbean, Singapore, Shanghai and finally Hong Kong, which I now consider home.

What financial reporting issues in Hong Kong are currently part of the IASB's work plan? The International Accounting Standards Board (IASB) is currently working on a number of projects which are very relevant to financial reporting in Hong Kong. The Business Combinations under Common Control project is perhaps the most interesting for local companies as it may have a significant impact for many preparers here. These types of transactions are normally undertaken in preparation for an IPO and, in some cases, also post-listing. The IASB proposals as set out in its discussion paper could see significant changes to the accounting currently applied under the Institute's Accounting Guideline 5 *Merger Accounting for Common Control Combinations* if adopted.

What is your general advice for dealing with common application issues of IFRSs/HKFRSs? I would encourage both preparers and practitioners to pay attention to the agenda decisions published by the IFRS Interpretations Committee. Also, take your time and ensure you have a complete understanding of all of the relevant facts before you start considering the accounting implications of a transaction or event. In my experience, when preparers or practitioners go wrong, it is often because they do not have a complete picture of the transaction or event and not always through lack of accounting knowledge.

Views on debt restructuring from the buy-side

What to expect from a webinar on the debt restructuring process from the perspective of the buy-side and the career opportunities available in the field

Alex Liu is Head of Fixed Income Research and Director, Taikang Asset Management (Hong Kong) Co. Ltd.
Liu has over 15 years of experience in investment and research, and he possesses extensive experience in various fixed income products including loans trading, securitized products and principal protected notes. Currently, he is a CFA, AICPA member and a certified ESG analyst.

Since October 2021, the Chinese real estate sector has seen over US$50 billion worth of defaults due to market downturn, financing disruption and other external factors. This has pushed the rolling 12-month default rate of China high yield properties to more than 50 percent. So what happens before and after a default? Some of you who serve as financial advisors to debt holders and corporates may be familiar with the whole process, but let's go through it from the view of a buy-side, and perhaps it will reveal interesting career prospects for some.

The market usually smells something before a corporate shows any sign of trouble, which is often reflected in the price of its securities (bonds, equities and even loans). While financial statements may show deterioration of the financial health of the company on a gradual basis, this wave of defaults is more abrupt and driven by external factors.

The negotiation process can be as quick as a few weeks or as long as a few years, and there could be multiple parties involved. Financial advisors are often hired by the company and debt holders during the negotiation and restructuring process, and accountants are hired to dig into the financial matters of the company to determine the financial basis to a deal and transaction. Obviously, financial advisors from both sides can come to very different conclusions as their respective duties to the parties are different. Financial advisors of the issuer, in working together with the issuer and its lawyers, will formulate a restructuring plan to the debt holders. Debt holders will usually be represented by a debt restructuring committee (or an ad hoc committee) to negotiate, block, and propose new terms in an event where the issuer's proposed terms are bad or unfair. A Chinese property company that defaulted in 2014 is a recent example that went through the debt restructuring process. During the final stages of debt restructuring talks, while a deal was almost finalized with one ad hoc committee, another big ticket investor came forward with a better recovery plan to block the first plan. Debt holders obviously chose the better plan in the end.

The worst case scenario is when both parties cannot reach a deal (or that there is no sign of a breakthrough), debt holders may force or threaten the company to go through a liquidation process. Debt holders will usually ask the court to appoint a financial advisor to act in the capacity of a liquidator. The liquidator will go through a list of assets and assess debt rankings, and will subsequently sell assets and distribute the payments received to debt holders after fees. Many debt-laden Chinese developers have multiple projects in different provinces and cities, some are wholly-owned and some are joint ventures with other parties (who may have also defaulted). This would complicate the whole liquidation process. A major Chinese company defaulted on its debt obligation of more than US$4 billion in 1998. The whole liquidation process lasted close to 20 years. Debt holders (who by then were claim holders) did not receive their final distributions until 20 years from its collapse, and only then would equity holders receive any residual value. In an ideal world, neither equity nor debt holders want to go through the liquidation process as value is further eroded by time and fees. In the eyes of an equity holder, this process would only be accepted if they see the business as no longer viable even after a debt restructuring and want to refrain from further liabilities.

With the changing landscape in the market, it will be difficult for the sector and the Chinese real estate high yield market to return to its glory days. However, issuers and debt holders need to work on a deal acceptable by all parties. This is why debt restructuring financial advisory has emerged as a hot business right now, as is distressed debt investing. There are plenty of opportunities in both areas, and what has been shared here is only a tiny spectrum of the market and process.

About the webinar

The Institute's Mainland Business Interest Group, and Property, Infrastructure and Construction Interest Group are jointly organizing the e-learning webinar on 27 June, titled "Debt restructuring of Chinese/Asian companies with offshore debt," which will be presented from the buy-side's perspective, and discuss what happens in a debt restructuring; how the market views the default and debt restructuring; and the future of this market for anyone who is interested in this avenue.

Reviewing valuation reports in an audit

A look at the procedures to an asset valuation that auditors should keep in mind when obtaining audit evidence

Valuation of assets is a frequent issue in audits of financial statements. For example, in assessing impairment of an asset, the auditor would review the asset's fair value and/or its value in use. In most cases, the auditor obtains the value of an asset from a technical valuation exercise. The following article focuses on determining which procedures should be applied by the auditor to an asset valuation in order to obtain the required audit evidence.

Basic principles

Asset valuations presented in an audit may be performed by management, a valuer engaged by management, or a valuer engaged by the auditor. The auditing standards set out the basic principles for the auditor:

- The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence (paragraph 6 of Hong Kong Standard on Auditing (HKSA) 500 *Audit Evidence*).
- If information to be used as significant audit evidence has been prepared using the work of a management's expert, the auditor shall evaluate the competence, capabilities and objectivity of that expert, obtain an understanding of the work of that expert, and evaluate the appropriateness of that expert's work as audit evidence for the relevant assertion (paragraph 8 of HKSA 500).
- The objective of the auditor is to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework (paragraph 11 of HKSA 540 *Auditing Accounting Estimates and Related Disclosures*).
- The auditor shall evaluate whether the auditor's expert has the necessary competence, capabilities and objectivity, and shall also obtain a sufficient understanding of the field of expertise of the auditor's expert to enable the auditor to determine the nature, scope and objectives of that expert's work, and to evaluate the adequacy of that work, for the auditor's purposes (paragraphs 9 and 10 of HKSA 620 *Using the Work of an Auditor's Expert*).
- The auditor shall prepare sufficient audit documentation on a timely basis, of the nature, timing, and extent of the audit procedures performed, the results of the audit procedures, the audit evidence obtained, and significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions (paragraphs 7 to 11 of HKSA 230 *Audit Documentation*). In addition, documentation requirements in paragraph 39 of HKSA 540 should also be observed.

Audit planning and general issues

A robust audit planning process would identify the level of risk of material misstatement attached to individual assertions pertaining to assets and liabilities in the financial statements, such that the auditor could design and perform appropriate audit procedures to address each risk. Where, for example, the valuation assertion of an asset has a high risk because of its magnitude and the uncertainty involved in determining the amount, the auditor may have to obtain a valuation of the asset by a capable person. The valuation is sometimes done by a member of client management, but more often it is done by a professional valuer engaged by the client. In some circumstances, the auditor may consider it necessary to engage his or her own valuer to do the work.

In assessing a valuation report to determine if it has sufficient appropriate evidence to support the value of an asset, the auditor needs to consider the following general issues:

Valuer's credentials and objectivity
The valuer should have the appropriate professional qualifications. Furthermore, a specialized asset, e.g. machinery of a gold mine, would call for a valuer having adequate length and depth of valuation experience in the specialized field, and the extent of public recognition of a valuer's expertise could be useful reference. The valuer should prepare their report objectively, a point that requires the auditor's particular attention when the valuation is done by a member of client management or a client-engaged valuer.

Valuation approach
While the selection of the approach used for a valuation is a professional decision of the valuer, the auditor should understand and assess the factual basis on which the decision is made. For a given valuation, the valuer may prefer the income approach to the market approach, on the grounds that the asset has no comparable counterpart in the market and it has great potential to yield profits in the future. In that situation, the auditor should seek evidence from the market, the asset's track records and management's business plans to support the asserted uniqueness and expected profitability.

Valuer's caveats
The valuer may qualify their conclusion by stating that the valuation was done using

source data and assumptions supplied by management which the valuer had not verified. In that situation, the auditor should pay particular attention to verifying the accuracy of the source data provided by management for the valuation.

Timing of valuation

For purposes of an audit, management may present a "most recent" valuation report that was in fact compiled years before the current audit period. This may be motivated by management's desire to avoid incurring cost when it perceives, rightly or wrongly, that there has not been circumstances justifying an updated valuation to be done. The auditor should exercise caution in relying on that report. Obviously, circumstances affecting the use of an asset, such as market conditions, may have changed in a way that has rendered the report outdated. This is true even for an asset like mineral ore, the total amount of which available for extraction may remain unchanged over its useful life. In such a situation, the auditor should obtain an up-to-date valuation from management, and if this is not possible, consider engaging their own valuer to carry out a current valuation.

The discounted cash flow method

The discounted cash flow (DCF) method is a common valuation method adopted under the income approach to valuation. The auditor's review of a valuation using DCF would typically require them to verify a number of parameters:

Forecast period

The auditor needs to understand management's rationale for adopting a given forecast period for projecting cash flows, and assess its reasonableness and consistency with other related facts. For example, the auditor should challenge management's use of a forecast period of 20 years when the useful life of the asset is expected to be only 10 years, or when management's previous feasibility study on the use of the asset was based on estimated cash flows for eight years. In a case where use of an asset is subject to official approval or licenses being obtained, the auditor should obtain evidence to support the granting of the approval or license for the full forecast period, including the prospect of success of any renewals required in the period.

Projected cash inflows and outflows

Cash inflows and outflows are estimated on the basis of relevant underlying assumptions which the auditor should assess rigorously. To the extent that these estimates are often prepared by management from assumptions and expectations of the future, there is often a higher degree of subjectivity and the auditors should look at them with a more questioning mind. Where, for instance, products made from a piece of machinery are projected to bring in significant cash inflows that increase year on year, the auditor would need to seek sufficient evidence of adequate production capacity or management's plans to raise it to the required level, as well as the prospect of selling the products at the forecast prices and volumes. The auditor should objectively test the reliability of market research presented by management and, if appropriate, the effectiveness of planned marketing campaigns. In cases where a rate of growth is incorporated in the cash flows, the auditor would need to ensure the growth rate is one that properly reflects the characteristics of the asset or its products, rather than a reference to parameters like general inflation.

Terminal value

This is the value of an asset beyond the forecast period when future cash flows can be estimated. It assumes an income stream will grow at a set growth rate forever, or alternatively the asset will be sold, after the forecast period. Terminal value may comprise a large percentage of the total value of an asset assessed under the DCF method. Where this is the case, it is important for the auditor to obtain sufficient evidence to support the reasonableness of assumptions about perpetuity of the income stream, the growth rate and the cash inflow achievable upon sale of the asset at the specified time in future. Special care should be taken where the asset or its output has a relatively short useful life due to quick changes in technology or demand, such as computer-related products.

Discount rate

As the result of DCF calculations is sensitive to changes in the discount rate, the auditor should robustly assess whether the discount rate adopted in a valuation is appropriate. Although a company's weighted average cost of capital (WACC) is often used as a discount rate, the auditor should assess whether it is the most appropriate rate to use for valuing the asset in question (and if it is, whether the rate is correctly calculated). There could be circumstances, such as the level of return required by a prospective buyer of the asset, which might call for a rate other than WACC to be used for the DCF exercise, and the auditor would have to be alerted to any such circumstances arising. The auditor should also understand and assess components in the discount rate which are incorporated to reflect the unique circumstances of a particular valuation. For example, where a risk premium of 3 percent per annum is included in the discount rate to reflect the uncertainty inherent in the prospect of a new business, the auditor should obtain objective evidence to support the reasonableness of the incorporated premium.

Management representations

The auditor would need to hold detailed discussions with management in the course of reviewing the bases and assumptions in a valuation. The auditor should verify significant representations of management to supporting or corroborating evidence. It is important for the auditor to keep a sceptical mind in dealing with management's claims and expectations about future outcomes, as they may well be biased as a result of management's close involvement in the operations or other reasons. The auditor should be prepared to challenge management's assertion that sales of a computer application will yield HK$1 million next year with a 5 percent per annum growth afterwards, when a test launch of the application in the current year produced negligible revenue. Similarly, the auditor should seek evidence to support management's expectation that an expiring license for mineral extraction could be renewed, when there is as yet nothing to indicate the licensing authority is prepared to grant the renewal. The auditor should obtain positive assurance, and avoid the pitfall of accepting management's unsupported representations simply because there is nothing to contradict them.

Disclosure aspects

Profit and cash flow forecasts in a valuation are prepared from quantity inputs some of which may be estimated, such as the expected market share of a product. The auditor should be alerted to the disclosure requirements for the different levels of estimated inputs under Hong Kong Financial Reporting Standard 13 *Fair Value Measurement* and ascertain if the disclosure in the financial statements is compliant.

Documentation

In accordance with HKSA 230 and HKSA 540 (see page 33), the auditor should prepare adequate documentation, *at the time of the audit*, of all significant bases and assumptions underlying a valuation report, evidence in support of them including management representations obtained and other evidence, and the auditor's assessment of the reasonableness of those bases and assumptions in light of the evidence available. It does not help for an auditor to leave these matters out of the contemporaneous audit documentation, only to respond to a subsequent enquiry with substantive representations on audit procedures carried out but not recorded in the audit file.

Role of the engagement quality control reviewer

Audit procedures carried out on the bases and assumption in a valuation report involves significant judgements and conclusions made by the audit team. In an audit in which an engagement quality control reviewer (EQCR) is appointed, it is important for them to discuss those judgements with the audit team, review the underlying audit documentation, and evaluate whether the conclusions reached are appropriate. The EQCR should document details of the engagement quality control review procedures in the working papers.

Conclusion

The above broadly describes the audit procedures for a valuation report. Reviewing asset valuations is an area involving considerable judgement, in which the auditor should always exercise adequate professional scepticism and watch out for the risk of management bias. The auditor should document their procedures adequately, and ensure that significant judgements and conclusions made by the audit team are evaluated during engagement quality control review. Assessing a valuation report on an asset requires an insight into the client's operating characteristics, its products and the market in which it operates. This means the auditor has to understand the client's business well.

This article was contributed by the Institute's Compliance Department.

TECHNICAL NEWS

The latest standards and technical developments

Financial reporting

Live webinar: HKFRS 13 *Fair Value Measurement*
The live webinar on 9 June will cover the key principles in Hong Kong Financial Reporting Standard (HKFRS) 13, including special considerations on non-financial assets and liabilities, measurement of fair value of unquoted equity instruments and fair value disclosure requirements. It will also explain how those principles and requirements apply to certain specific examples. Speakers will also share the audit considerations on fair value measurement and practice review findings.

Live webinar on HKFRS 3 *Business Combinations*
The live webinar on 21 June will go through the recent amendments to HKFRS 3 which revise the definition of a business and introduce the optional concentration test. Speakers will share with participants the differences in accounting for business combinations and asset acquisitions, as well as common application issues of HKFRS 3. They will also provide an update on the development of related International Accounting Standards Board's (IASB) projects.

E-learning on IFRS Interpretations Committee Agenda Decisions that are relevant to Hong Kong
This archived webinar covers several IFRS Interpretations Committee agenda decisions and tentative agenda decisions which may have wider implications in Hong Kong. It explains how the applicable principles and requirements in the International Financial Reporting Standard (IFRS) Accounting Standards apply to specific fact patterns.

IASB March 2022 podcast
In this podcast, IASB Chair Andreas Barckow and Executive Technical Director Nili Shah discuss the topics from the March IASB meeting. Topics discussed include primary financial statements, financial instruments with characteristics of equity, post-implementation review of IFRS 9 – classification and measurement, business combinations under common control and second comprehensive review of the *IFRS for SMEs* accounting standard.

IASB April 2022 podcast and update
The IASB has published a summary of discussions at its April meeting. Topics discussed include equity method, goodwill and impairment, post implementation review of IFRS 9 – classification and measurement, primary financial statements and third agenda consultation.

The podcast, with its chair and executive technical director highlighting the projects discussed during the meeting, is now available.

Q1 2022 IFRS Interpretations Committee podcast
In this podcast, the IFRS Interpretations Committee Chair and member of the IASB Bruce Mackenzie joins Technical Staff Member Patrina Buchanan to discuss activities to support consistent application of IFRS Accounting Standards in the first quarter of 2022. Topics discussed include demand deposits with restrictions on use arising from a contract with a third party, transfer of insurance coverage under a group of annuity contracts, negative low emission vehicle credits, lessor forgiveness of lease payments, special purpose acquisition company transactions – classification of public shares and accounting for warrants at acquisition, and IASB narrow scope projects.

IFRS Interpretations Committee April 2022 Update and agenda decision
The IFRS Interpretations Committee Update provides a summary of discussions at its April meeting. It has also published its agenda decision on *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party (International Accounting Standard 7 Statement of Cash Flows)*.

Audit and assurance

HKICPA resource centres
Access the resources and publications at the Institute's revamped Auditing and Assurance Resource Centre which will keep you updated with the latest auditing and assurance pronouncements.

Also visit the Institute's New and Major Standards Resource Centre for resources on new and major pronouncements that will come into effect soon, including quality management for firms and engagements and Hong Kong Standard on Auditing 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement.*

Recordings of the New Quality Management Standards Series
Register for the e-learning series which covers key requirements, applications and illustrated examples on how small and medium practitioners can meet the requirements of the new quality management standards.

IAASB modernizes its standard for group audits in support of audit quality
The International Auditing and Assurance Standards Board (IAASB) released International Standards on Auditing (ISA) 600 (Revised) *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*. The revised standard addresses special considerations that apply to audits of group financial statements (group audits). Group audits are often more complex and challenging than single-entity audits because a group may have many entities or business units across multiple jurisdictions, and component auditors may be involved. The revised standard becomes effective for audits of group

financial statements for periods beginning on or after 15 December 2023.

New IAASB fact sheet addresses engagement team definition
As part of the IAASB quality management project, the definition of "engagement team" was clarified and updated to improve quality management at the firm and engagement level.

The IAASB recently released a fact sheet addressing the clarified definition and its possible impacts, including recognition that engagement teams may be organized in a variety of ways such as across different locations or by the activity they are performing. The fact sheet also includes a diagram that walks users through who specifically is included and excluded.

New non-authoritative guidance on fraud in an audit of financial statements
The IAASB released a non-authoritative guidance – *The Fraud Lens – Interactions Between ISA 240 and Other ISAs* that illustrates the relationship and linkages between the captioned auditing standards when planning and performing an audit engagement and reporting thereon.

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

IAASB eNews
IAASB's latest eNews is now available, highlighting various activities going on in and around the IAASB.

ICAEW audit and assurance resources
The Institute of Chartered Accountants in England and Wales (ICAEW) has the following resources that may be of interest to members:

- *Audit & Beyond April 2022* offers practical tips on auditors such as audit implications of the war in Ukraine; new resources for adopting ISA 540, risks from social media pitfalls etc.
- An online event series designed to help small and medium practices to implement the new quality management standards.
- A webinar recording on practical hints and tips when assessing and responding to the risk of fraud for small and medium sized audit firms.
- An ISAs online learning and assessment programme to gain a better understanding of ISAs and the audit process.
- *Quality management: iterating for improvement* discusses the new and revised quality management standards aimed at comprehensively and actively managing risks to quality, through greater accountability, improved focus on leadership and culture, and continuous improvement through a required monitoring and remediation feedback loop.
- *What do audit quality risks look like?* illustrates examples of external and internal quality risks that auditors should identify and mitigate before significant problems are created.
- *Quality management: what the new standards mean?* emphasizes the benefits arising from the new and revised quality management standards which will become effective soon and how they move from a reactive approach to a risk-based proactive managing approach to quality.

Institute members can subscribe to ICAEW's International Standards for free to access a wide range of resources on auditing and ethics.

Ethics

Invitation to comment
The Institute is seeking comment on the International Ethics Standards Board for Accountants' (IESBA) *Strategy Survey 2022* for the development of its strategy and work plan 2024-2027 by 8 June.

Revised non-assurance services and fee-related provisions of the Code
Register for the e-learning session which covers specific provisions of the revised non-assurance services (NAS) and fee-related independence standards of the Code of Ethics for Professional Accountants. The revisions significantly strengthen the guardrails around auditor independence in two important areas that have the potential to create incentives influencing auditor behaviour – NAS provided to audit clients and fees. They will come into effect in December 2022.

HKICPA Ethics Survey 2021
Access the Institute's Ethics Survey report and video on recent findings to professional accountants' perception of ethics, common ethical issues they face at work and their familiarity with the *Code.*

The April issue of *A Plus* also shared the Institute's Ethics Committee's comments on the importance of ethics in the accounting profession and recapped the survey findings.

Report on IESBA accomplishments for 2020-2021
IESBA released a report – *Elevating Ethics and Independence Standards for a Complex World* that showcases the significant progress that the IESBA has made on behalf of the public interest, provides an overview of the IESBA's extensive stakeholder outreach efforts and information about its partnership with the International Federation of Accountants (IFAC) to promote awareness, adoption, and effective implementation of the Code as well as provides an overview of the IESBA's Consultative Advisory Group.

Benchmarking international independence standards
The IESBA published the *Benchmarking International Independence Standards*

Phase 1 Report: Comparison of IESBA and the U.S. SEC/PCAOB frameworks to promote awareness and further adoption of the Code. The report details the findings of a study comparing the independence provisions of the Code applicable to audits of financial statements of public interest entities (PIEs) with the relevant rules of the United States Securities and Exchange Commission (SEC) and the U.S. Public Company Accounting Oversight Board (PCAOB). Without making judgements as to the relative merits of the two independence frameworks, the report highlights the similarities and key differences between the Code and the SEC and PCAOB rules in areas of greatest interest to stakeholders, including the permissibility of non-assurance services to audit clients, fees, long association with an audit client, and business and financial relationships. The IESBA will consider the findings of the benchmarking analysis in developing its 2024-2027 strategy and work plan.

Alongside the detailed report, an abridged report is also published to provide an overview of the main similarities and differences, as well as an additional publication with further information on the background and objectives of the initiative.

Mindset and enabling skills of professional accountants
The current environment of rapid technological change impacts the way organizations operate and the accounting profession is also in the process of being transformed. A final publication in a four-part thought leadership series by the IFAC, Chartered Professional Accountants Canada and the Institute of Chartered Accountants of Scotland highlights the need for the profession to redefine its value proposition, build new skills for the future and complete a competence paradigm shift in order to remain relevant.

Global ethics board expands universe of entities that are PIEs
The IESBA released the revised definition of a PIE together with other revised provisions in the Code. The revised provisions specify a broader list of categories of entities as PIEs whose audits should be subject to additional independence requirements to meet stakeholders' heightened expectations concerning auditor independence when an entity is a PIE. The revised PIE definition and related provisions become effective for audits of financial statements for periods beginning on or after 15 December 2024. Early adoption is permitted and encouraged.

IESBA quality management-related conforming amendments to the Code
The IESBA also released a number of conforming amendments to the Code as a result of the issuance of the IAASB's suite of quality management standards. These conforming amendments will be effective as of 15 December 2022.

Sustainability

IFRS Foundation to establish ISSB presence in Montreal
On 6 April, the IFRS Foundation and Chartered Professional Accountants of Canada announced an agreement to establish the Montreal centre of the International Sustainability Standards Board (ISSB). The Montreal centre will host key functions on behalf of the ISSB, including the coordination of activity across the Americas.

ISSB establishes working group to enhance compatibility between global baseline and jurisdictional initiatives
On 27 April, the ISSB announced the formation of a working group of jurisdictional representatives to establish dialogue for enhanced compatibility between the ISSB's exposure drafts that are currently open for comment and ongoing jurisdictional initiatives on sustainability disclosures. The formation of the working group is part of an extensive programme of outreach activity designed to encourage feedback on and engagement with the ISSB's consultation from all jurisdictions and stakeholder groups.

Webinars on the ISSB's exposure drafts
The recordings of the ISSB webinars on its proposed standards on general sustainability-related disclosures and climate-related disclosures are now available.

Corporate finance

SFC proposes changes to the position limit regime
The Securities and Futures Commission (SFC) launched a consultation, on 26 April, on proposed changes to the position limit regime for listed futures and options contracts. The key proposal is to set out how the statutory prescribed limits and reporting requirements should be applied to unit trusts and sub-funds under an umbrella fund.

The submission deadline is 27 June. Please refer to the press release for details.

Taxation

Annual meeting with the IRD
The annual meeting between representatives of the Institute's Taxation Faculty Executive Committee and the Inland Revenue Department (IRD) took place on 13 May. At the meeting, the IRD confirmed the extended due dates for lodging profits tax returns for the year of assessment 2021/22. These are:

Accounting date code	Extended due date	Further extended due date if opting for e-filing
"N" code	30 June 2022	14 July 2022
"D" code	30 August 2022	14 September 2022
"M" code	15 November 2022	29 November 2022
"M" code – current year loss cases	31 January 2023	No further extension

The meeting minutes of the 2021 annual meeting are available on the Institute's website.

Announcements by the IRD
Members may wish to be aware of the following matters:
- Employer's Return of Remuneration and Pensions.
- Government welcomes passage of tax concessions.
- Secretary for Financial Services and the Treasury's opening remarks on public finance and financial services at the Legislative Council (LegCo) Finance Committee special meeting.
- LegCo question on development of green finance.
- LegCo question on promoting switch to electric taxis among taxi trade.
- LegCo question on consolidating Hong Kong's status as international financial centre.
- IRD's notice on the tax obligations of taxpayers and employers.
- Fraudulent SMS message purportedly issued by IRD.
- IRD to largely resume normal public services.
- Government starts legislative process on tax deduction for domestic rent.
- Stamp Duty statistics.

Legislation and other initiatives

Announcements by the government
Members may wish to be aware of the following matters:
- Distancing measures easing.
- Apply for deferral of payment of rates and/or Government rent for Specified Commercial Premises by respective deadlines.
- Chief Executive welcomes LegCo's passage of government's funding application on 2022 Employment Support Scheme.
- Judiciary rolls out integrated Court Case Management System for court users.
- LegCo to resume physical meetings and arrangements of Secretariat's public services.
- Companies Registry to resume normal public services starting from 19 April.
- Post offices to resume normal business hours.
- Court registries to resume normal operating hours and special ticketing arrangements to cease shortly.
- LegCo Secretariat releases Research Brief on "The 2022-2023 Budget."
- Hong Kong's latest foreign currency reserve assets figures released.
- LCQ10: Solicitors practising as a solicitor corporation.
- Land Registry releases new Street Index and New Territories Lot/Address Cross Reference Table.
- Provisional financial results for the year ended 31 March 2022.
- Exchange Fund Abridged Balance Sheet and Currency Board Account.
- LCQ7: Cross-boundary Wealth Management Connect Scheme in Guangdong-Hong Kong-Macao Greater Bay Area.
- Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Bill to be introduced into LegCo.
- Gazettal of three pieces of subsidiary legislation for commencement of new regulatory regime of accounting profession.
- Revisions to election arrangements of Council of Hong Kong Institute of CPAs.
- Economic situation in first quarter of 2022 and latest gross domestic product and price forecasts for 2022.
- Government announces subscription and allocation results of retail green bond.
- General holidays for 2023 published.
- Hong Kong Property Review 2022 available online.
- Judiciary rolls out integrated Court Case Management System.

AML notices
IFAC and ICAEW highlight the tools accountants can use to fight money laundering in latest installment of collaborative thought leadership series
On 27 April, the IFAC, together with ICAEW, released the latest installment in its Anti-Money Laundering: The Basics educational series: Installment Nine: Tools to Fight Back, which examines the tools professional accountants have at their disposal to address money laundering once it's suspected.

The publication is part of a series helping accountants enhance their understanding of how money laundering works, the risks they face, and what they can do to mitigate these risks and make a positive contribution to the public interest.

Sanctions updates
The following regulations were gazetted on 14 April:
- United Nations Sanctions (Afghanistan) Regulation 2012 (Repeal) Regulation.
- United Nations Sanctions (Afghanistan) Regulation 2022.
- United Nations Sanctions (Somalia) Regulation 2019 (Amendment) Regulation 2022.

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

A POWERFUL EXCHANGE

In achieving career goals, it can be difficult knowing when or where to switch paths. But having the right mentor can give you the assurance that you are on the right track. Thomas Lo explores the benefits of mentoring relationships, even during a pandemic, by talking to mentor-mentee pairs from the Institute's 2021-22 Mentorship Programme

Photography by Leslie Montgomery

Joe Chan CPA (left), Project Manager at EVE Asia Co., Ltd., and his mentor, Brigitte Choi CPA, Regional CFO, APAC at Kering Eyewear.

The moment Acube Ma CPA, Senior Accountant at Transtec International Ltd., stepped out of the interview room, he just knew that his interview was a success, and that he had been accepted to study a master's degree at Hong Kong Baptist University. One of the first people he called to share the good news was Marcus Ng CPA, Finance Director at A.S. Watson Retail (HK) Ltd. – Fortress, and his mentor. All the mock interviews they had done together had paid off.

Indeed, having Ng as a mentor helped Ma improve his soft skills. They both met through the Hong Kong Institute of CPAs' long-running Mentorship Programme, which was established to enable experienced Institute members like Ng to pass on knowledge, experience and advice to aspiring CPAs. Institute members with more than seven years of post-qualification experience can apply as mentors, and members with less than seven years of post-qualification experience can apply as mentees. The mentor-mentee relationship is never one-way, and requires both parties to be engaged and proactive in the process to gain the most out of the programme.

Ng says he applied to be a mentor to close the gap between young individuals and older professionals. "It is the responsibility of my generation to pass on knowledge and experience to our successors," he says. While he was training younger team members in his workplace as a team leader, he often heard his peers complaining about younger teammates. "Others my age might blame the younger generation for not listening. But I say we did not give them enough time to catch up. I believe I can be the bridge for younger generations of CPAs like Ma to connect with the older generations," Ng explains.

In May 2021, Ma applied to study for a postgraduate degree in counselling at Hong Kong Baptist University, as he has always enjoyed helping others. However, he struggled when it came to interviews, whether it was for university or a job. To help Ma with this, Ng brought in the expertise of his wife, who has worked in the property industry for many years. During meetings with Ma, the couple conducted mock interviews. "I took in the advice they gave from the first mock interview and applied it in the second mock interview," Ma explains. "The mock interviews felt so real – some of their questions caught me off guard. By splitting the mock interviews into two rounds, I felt like I could learn and improve upon my first attempt."

After taking in the advice from the couple as well as his own hard work, Ma secured the degree and was offered a fellowship. "I believe that by studying counselling, I can grow as a person, and can help others. One day I hope to be a voluntary counsellor in my spare time and help the less fortunate," Ma says. "I believe Ng and his wife's advice will help me again in my future interviews for higher positions as I continue to sharpen my accounting knowledge along the way."

Acube Ma CPA (left), Senior Accountant at Transtec International Ltd., and his mentor Marcus Ng CPA, Finance Director at A.S. Watson Retail (HK) Ltd. – Fortress.

"I believe I can be the bridge for younger generations of CPAs like Ma to connect with the older generations."

After a year of mentoring, Ng also learned from Ma, and his go-getting nature. In pursuing his postgraduate degree after work, Ma moved into a smaller apartment close to the university to shorten his commute between home, work, and school. Inspired by Ma's determination, Ng decided to put more effort into pursuing his hobby. He joined a football team last year and started to train six days per week after work. "He reminded me of the importance of planning ahead and making moves strategically. When you look at his achievements, you will know he left no room for errors," Ng explains.

The bond between mentor and mentee will last a lifetime, notes Ng. "I would have invited him to my wedding in March if it was not because of the restrictions!" He says. "Nevertheless, my wife and I will attend his graduation ceremony. We made a pact to show up at each other's important moments in life. It is no longer just a mentorship, but a strong friendship."

Newbie leader

Right after qualifying as a CPA, Joe Chan left the company where he worked for six years and became the Project Manager at EVE Asia Co., Ltd., a listed company producing renewable lithium batteries. Moving to this new role, as Chan soon found out, brought with it an increase in workload and responsibility. In search of guidance, Chan joined the Mentorship Programme and was paired with Brigitte Choi CPA, Regional Chief Financial Officer, APAC at Kering Eyewear, a luxury eyewear company.

Despite their hectic working schedules, and not being to meet in person due to pandemic-related concerns, they arranged meetings online after work every three weeks for an hour or two. "Building trust was challenging initially, but with consistent effort from both sides, we made it work," Choi adds. "Funnily enough, we have yet to meet each other in person. Whenever we found a time to meet in person, there would be a COVID outbreak, leading us to cancel the meeting."

At the beginning, it took Chan a few months to open up to his mentor. "I was a bit nervous before the online meeting, and I was expecting a typical middle-aged mentor. Instead, Choi was an energetic and outgoing lady," he says. "During the first few meetings, she asked me different questions and got me to talk to her. It took me a while to finally realize that having her as my mentor meant I can talk about subjects that I normally can't discuss with my manager, or subjects that my peers cannot advise on," Chan adds.

For the first 10 years of Chan's career, he worked as a consultant

"The key to mentoring is not to impose yourself on your mentee. I am just here to show ways and options to approach the same problem."

in Mainland China and mostly worked alone. "I used to have only one subordinate at most. So, the workload, working culture and being a leader managing a team of five were completely new to me. The pressure of fitting in at a new job and being a leader was overwhelming. Yet, things started to change, thanks to Choi," Chan explains.

Coincidentally, Choi experienced a similar situation during the early stages of her career. "I understand his struggles. Though he and I have faced similar challenges, I believe it is much harder for Chan due to the pandemic. The support he can get is limited, as the pandemic has affected his company's operations," Choi explains, "I am glad that my experience can help him. The key to mentoring is not to impose yourself on your mentee. I am just here to show ways and options to approach the same problem, and it is up to him to decide whether to follow or not."

Choi recommended tools and approaches to tackle the situation swiftly. "She taught me to build trust among my teammates and use tools to know my teammates better. Strategies and tools such as the strength, weakness, opportunity and threat analysis, proposed by Albert Humphrey in the 1960s, and drafting a project roadmap, are ways for me to quantify and measure progress." Chan explains. "Clearly illustrating the map to success and knowing my teammates more will strengthen bonds and form trust. These will be important skills to master if I want to be the director of an accounting firm by the time I am in my 40s."

For Choi, staying in touch with the younger generation is key for her own continuous learning. "From his smile and energetic tone, I knew Chan broke through his obstacles in just a very short period of time. It is always satisfying to a mentor, and I have learned how to better communicate with my younger teammates by helping him," Choi adds. "I am confident that the younger generation are professional and proficient in their work. Yet, communication and leadership skills will be areas they have to work on. I hope more experienced CPAs can join the Mentorship Programme and share their experience with the younger generations. It is a win-win situation."

Finding direction

2020 was the year Crystal Wu CPA entered another new chapter in her life. Not only did she fulfil her dream of becoming a CPA, she also welcomed a second daughter into her family. At the end of that same year, she was searching for new job opportunities and further development in her career. Realizing that she was standing at a crossroads, she began to explore where she could find direction. "With the help of my mentor, I landed the best job possible at my current career stage. I left my former employer, knowing deep down there were things that I could develop in my career beyond accounting. My mentor helped make it clear to me that I wanted to be a leader," explains Wu, who is working as an Accountant in Group Finance at PCCW Ltd.

Her mentor, Dennis Ip FCPA, Chief Financial Officer at Impro Precision Industries, a Hong Kong-listed company specializing in precision manufacturing, has been a mentor in the programme since the beginning. He has helped more than 10 mentees through the programme. "The old passing on knowledge and experience to the young is a way

Crystal Wu CPA (right), an Accountant in Group Finance at PCCW Ltd., and her mentor, Dennis Ip FCPA, CFO at Impro Precision Industries.

to keep an industry's vitality and sustainability. I always consider being in a mentor-mentee relationship an investment instead of a burden," Ip adds. "Both parties will benefit from the experience if we stay open and engaged. The mentees and I have become close friends, and we talk daily. They work in different industries, and I can better understand society through talking to them."

Wu decided it was the right time to leave her role after three years, partly because her manager at the time, who she looked up to, had resigned. "During March and April last year, I was applying for jobs from companies in different industries such as media, investment companies and parental services. After every interview, I would share my experience with Ip and listen to his opinion on the prospects of both the company and the industry it belonged to. He would tell me what to expect and what I should be seeking during my time in the company."

Ip never had a mentor himself and relies on his more than 20 years of experience to impart advice. "The decision of staying at your old company or leaving will remain an issue for all employees, especially when you have been in the same working environment for three years or more. All I am offering is my experience and the information I gathered from my network. Ultimately, she will be the one calling the shots," says Ip. In late April 2021, Wu was offered her current position, allowing her to explore the field of management. Ip was glad after hearing her good news, but was not surprised. "She is an energetic and talented young mum with all the potential to become a successful accountant. I believe in her judgement," he explains.

"My mentor helped make it clear to me that I wanted to be a leader."

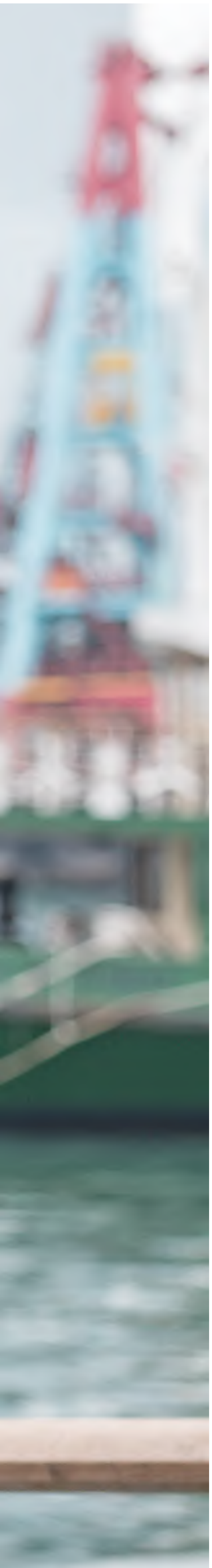
A few months later, both Ip and Wu finally met in person for lunch. "We had only conversed through emails, text messages and phone calls, and never through a video call, but luckily that was never an issue," Wu adds. "Even though it was the first time we met, the conversations went so smoothly, as if we had known each other for a long time. We talked about parenting and work-life balance. You will be surprised by what you will learn during the Mentorship Programme. It definitely exceeded my initial expectations."

The Institute's Mentorship Programme offers aspiring CPAs the opportunity to learn from experienced members to develop their careers through consultation and experience sharing. Find out how to join the programme by visiting the "Mentorship Programme" page of the Institute's website.

CYNTHIA CHAN CPA

Compliance Manager
at a bank

Photography by Anthony Tung



As Compliance Manager at a bank, Cynthia Chan CPA is responsible for ensuring that the bank complies with anti-money laundering (AML) regulations. She tells *A Plus* what she finds most intriguing about working in the world of AML, and why she looks forward to putting her Big Four experience to use in the banking industry

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

As Compliance Manager at a bank, I focus mainly on group AML advisory. My responsibilities include leading a team to review AML policies and guidelines to ensure compliance with regulatory requirements, provide advisory on AML-related matters, and conduct regular and compliance reviews in the areas of AML controls, such as customer due diligence, transaction monitoring, customer name and payment screening, and suspicious transaction reporting. I joined a year ago and I've been enjoying the job so far. I worked at PwC for 11 years before taking on this role. I began as an assurance associate, then transferred internally to compliance and worked as a senior compliance manager. The key driver behind the transfer is I wanted to try something new and gain exposure in compliance, which is an area I am fond of. I think I made a good decision, as the move helped me to strengthen my knowledge in compliance. Though quite different from working in a consulting firm, I feel my current role is an ideal opportunity to gain hands-on experience in the banking industry.

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

This is my first time working in the banking industry, so I'd say the most rewarding aspect is the exposure I now have to the AML world within the banking sector. I really appreciate the opportunity to learn more about the different aspects of AML on the job, and I'd say it's a strong start for my career in banking. The most challenging thing was stepping into the commercial field. It was a big jump for me. The learning curve was indeed steep at the beginning, so I needed to take the time to fully understand the processes involved. For example, I need a good understanding of key bank-specific AML controls and processes in handling suspicious transactions and customer name and payment screening alerts, and how to communicate with different parties within the bank. I also have to perform institutional risk assessments, evaluate our screening system effectiveness, and conduct compliance reviews to assess whether existing controls are robust enough to address key AML risks. So though challenging, my role and responsibilities are quite diverse from an AML perspective.

What inspired you to become an accountant?

I studied business administration at university. At first, I thought I'd be working in a financial institution or a bank, since I wasn't initially interested in accounting. But after attending a few seminars and workshops organized by the Big Four, I was interested in the clear and stable career path that comes with being an accountant, and the opportunity to attain a professional qualification.

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

I'd like to continue working in the field of AML compliance, and I look forward to being promoted to a more senior role within the bank. AML is indeed a very hot topic right now. You always hear about money laundering in the news and stories involving fraudsters and suspicious transactions. Working in this field, I feel really connected to what is happening in the world of AML and this motivates me to make a difference in my job. I enjoy knowing what to be cautious about and pay special attention to.

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

It would be learning the importance of leadership and project management. Both my previous and current roles require handling multiple projects within tight deadlines. I also have to communicate and liaise with different parties such as clients, supervisors, teammates and subordinates. I realize that it is very important to develop good leadership and project management skills in order to manage multiple projects and people well. I believe that my experience at a Big Four firm, and time under the Institute's Qualification Programme (QP), have helped to shape my soft skills. It's these skills that we have to continuously improve on.

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

The programme is very well designed and I have found all four modules (financial reporting, business finance, business assurance, and taxation) to be helpful in further enhancing my skill sets and useful in my career so far. The QP helped to shape my analytical and critical thinking skills. Apart from the written exams which require analysing complicated questions and providing answers within a limited time, all QP students are required to attend workshops. These workshops provide students with the perfect opportunity to ask questions and interact with both instructors and course mates – something I found valuable. The QP also helped me with my presentation skills. During the workshops, we had to prepare a short presentation with our peers on a topic that was assigned on the spot. This unique – and nerve-wracking – experience taught me how to give structured presentations and apply my knowledge in a short period of time. It has also helped me to give better presentations and to effectively present during meetings at work.

AFTER HOURS

As recommended by Institute members

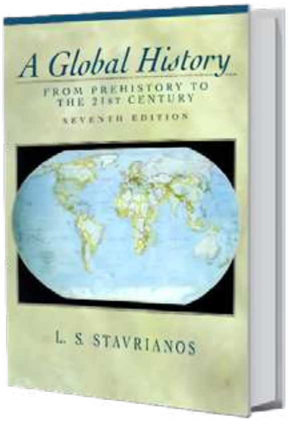
O Veggie

Eat

"Try the food at O Veggie by Gingko House, which is a social enterprise restaurant group that has been providing employment opportunities for the elderly in Hong Kong's food and beverage industry for almost 17 years. Some of their restaurants even feature live music, performed by elderly performers. Their dishes are delicious, and I recommend ordering their salted kumquat soda, vegetarian spaghetti, or vegetarian risotto. Both the spaghetti and risotto are light, fresh, and perfect for when you want to eat something healthy. The social enterprise has been especially helpful during the pandemic – they distribute meal boxes, protective face masks, hand sanitizer, bottled drinks and fresh fruit to the needy every day." – Corwin Kwong CPA, Internal Auditor at The Salvation Army

Read

"I recommend *A Global History: From Prehistory to the 21st Century* by Leften Stavrianos. This best-selling book is a classic exploration of world history, and looks at major events that have had a global impact. It stresses connections between the past, present and future, and emphasizes the question "What does it mean for us today?" This book is especially instructive for Hong Kong accountants nowadays who are working in a dynamic business environment. It was an impressive read." – Louis Lin FCPA, Associate Vice President, Christie's Asia




Robert Schumann

Listen

"I recommend *Frauenliebe und Leben, Op. 42* (A Woman's Love and Life) written by German composer Robert Schumann. It is song cycle comprised of eight songs detailing a woman's love for a man, getting married, having a child, and then ending with her husband's death. Schumann's music perfectly complements the lyrical poetry in the songs with beautiful melodies, tempo and expression marks to express the woman's emotions. Schumann closes the song cycle with a postlude on the piano referencing the first song about the early days when she first admired this man. This song allows listeners to emotionally understand a woman's journey through love and life, through such a great piece of music." – Gloria Chan CPA