A+

DRIVING BUSINESS SUCCESS

Issue 8 Volume 18 August 2022

PLUS:

FAMILY OFFICES

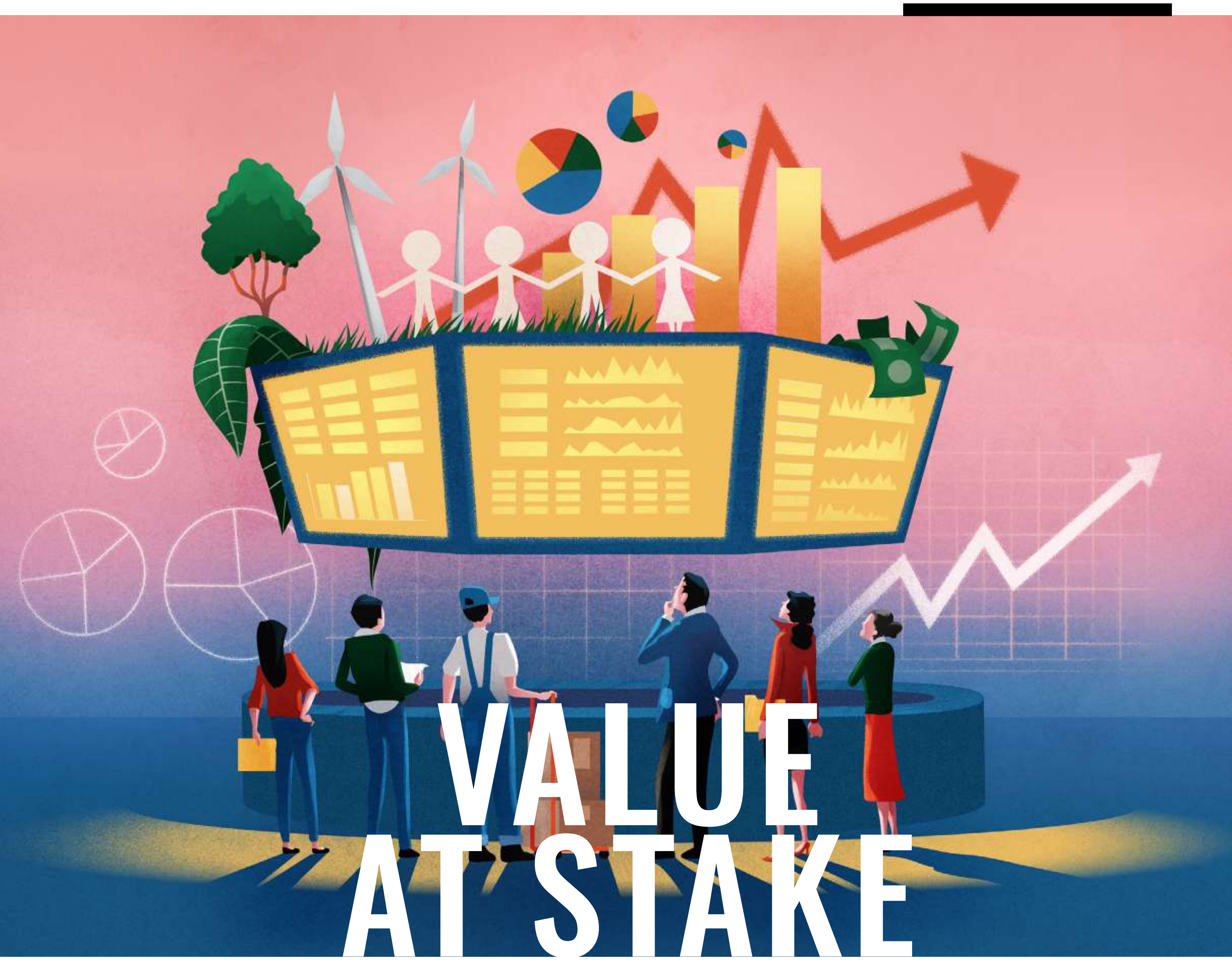
How are accountants helping to manage the wealth of high-net-worth individuals in today's volatile business environment?

PROFILE

James Liu FCPA, Finance Director, IKEA at DFI Retail Group Holdings Limited

SECOND OPINIONS

As we trend towards deglobalization, how can companies adapt?



VALUE AT STAKE

With stakeholders now expecting more from companies, especially in the areas of environmental, social and governance, how can investor relations experts deliver better engagement?

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> "After the completion of reform, the Institute will continue to shoulder the responsibilities of incubating talent and developing Hong Kong's accounting profession, as well as the crucial role of setting industry standards."

Dear members,

This month, I participated in a series of interviews with the media to talk about the latest industry developments, the Institute's implementation of Strategic Plan 2022 so far, as well as a wide range of issues related to the Institute's operations.

We reported on the smooth transition of the Institute's regulatory role to the Financial Reporting Council (FRC) and further explained how the COVID pandemic has hindered the progress of the review between members of the Global Accounting Alliance, which has led to a temporarily shortened mutual recognition agreement renewal period. We also spoke about the ways accounting firms have been handling the issue of talent retention, which has also affected many industries and regulators in Hong Kong, as well as the opportunities for Hong Kong accountants in the Greater Bay Area.

During the interviews, I also touched on the two exposure drafts setting out proposed International Financial Reporting Standards (IFRS) Sustainability Disclosure Standards published by the International Sustainability Standards Board (ISSB) in March. With the period for comment having ended on 29 July, the ISSB must now analyse the comments received from more than 1,300 comment letters from jurisdictions spanning six continents, and deliberate how they will adjust the current proposals.

A summary of the Institute's response can be found on page 33 of this issue of *A Plus* while the full response has been made available on the Institute's website. The Institute will continue to participate in the global discourse and will work closely with the relevant authorities to introduce the international sustainability reporting standards to Hong Kong.

In late August, it was announced that the Ministry of Finance of The People's Republic of China and the China Securities Regulatory Commission signed a Statement of Protocol with the United States Public Company Accounting Oversight Board (PCAOB). The landmark agreement allows the PCAOB's access to audit workpapers of Chinese companies registered with the U.S. Securities and Exchange Commission and breaks a longstanding deadlock between the regulators of the two countries. While details of the arrangements have yet been announced, there is likely not much time before inspections are to be carried out.

Without much detail at the moment of writing, the role of the local profession may likely involve coordinating, arranging, and centralizing audit workpapers from the Mainland to Hong Kong to facilitate the inspection process. Preparations will surely be underway as the U.S. has indicated its inspectors must be on the ground by mid-September for their work to be completed by the end of this year.

On 16 August, the Institute and the FRC, which will be renamed the Accounting and Financial Reporting Council's (AFRC), signed a Revised Statement of Protocol on Oversight Arrangement. The revised statement includes the AFRC's broader responsibilities to oversee the Institute's performance of its statutory functions under the further reform of the regulatory regime of the accounting profession, which commences on 1 October.

The Institute has been closely working with the FRC over the past year to steer a smooth transition of the Institute's statutory functions of regulating the accounting profession to the AFRC. After the completion of reform, the Institute will continue to shoulder the responsibilities of incubating talent and developing Hong Kong's accounting profession, as well as the crucial role of setting industry standards. We will continue to ensure the profession's dedicated contribution to maintaining Hong Kong's status as an international financial hub.

As the Mid-Autumn Festival approaches, I would like to wish our members and readers good health and joyful days ahead with their loved ones.

Loretta Fong CPA (practising)
President

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Room for growth

James Liu FCPA, Finance Director, IKEA at DFI Retail Group Holdings Limited, on how he finds ways to grow the global furniture company's footprint in Hong Kong, and the importance of driving sustainability initiatives within companies

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

HKICPA and FRC sign Revised Statement of Protocol on Oversight Arrangement

(From left) Loretta Fong CPA (practising), President of the Hong Kong Institute of CPAs; Margaret Chan CPA, Chief Executive and Registrar of the Institute; Christopher Hui, Secretary for Financial Services and the Treasury; Marek Grabowski, Chief Executive Officer of the Financial Reporting Council and Kelvin Wong, Chairman of the FRC.

On 16 August, the Institute and the Financial Reporting Council (FRC), which will be renamed the Accounting and Financial Reporting Council (AFRC), signed a Revised Statement of Protocol on Oversight Arrangement (Revised Statement of Protocol) which was witnessed by Christopher Hui, Secretary for Financial Services and the Treasury.

The Revised Statement of Protocol includes the AFRC's broader responsibilities to oversee the Institute's performance of its statutory functions under the further reform of the regulatory regime of the accounting profession which commences on 1 October 2022.

Institute responds to the ISSB's exposure drafts

The Institute has responded to the International Sustainability Standards Board's (ISSB) exposure drafts on its International Financial Reporting Standard (IFRS) S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. Overall, the Institute is supportive of the ISSB's proposals but has made several suggestions to ensure the smooth transition to the standards, especially for small- and medium-sized entities. A summary of the response can be found on page 33 in this issue of *A Plus* while the full response has been made available on the Institute's website.

The Global Accounting Alliance, of which the Institute is a member body among 10 of the world's leading accounting institutes, also responded to the request for comments, stating it believes there is an urgent need for global sustainability reporting standards, and that a single set of high-quality sustainability reporting standards will serve the public interest and bring significant benefits to the global economy, capital markets, and society at large.

In addition, Accounting for Sustainability (A4S), a charitable organization under The Prince of Wales's Charitable Foundation, has coordinated responses by 86 chief financial officers from around the world and institutional investors representing more than £620 billion in assets under management to the consultation. The Institute is a member of A4S's Accounting Bodies Network.

Membership renewal for 2023

The next date of expiry for CPA memberships with the Institute is on 31 December. If you are a practising member, the renewal of your practising certificate, practice unit and registered public interest entity auditor registration (where applicable) with the AFRC (currently known as the FRC) will be subject to the successful renewal of your membership with the Institute.

In order to allow more time for members who may need to complete the renewal procedures with the Institute before completing the renewal procedures with AFRC, the Institute will be allowing members to renew their membership beginning on 1 October. Members will thus be able to do so one month earlier than the usual practice.

To ensure that you are able to receive the annual renewal notice, please check and update your contact details in MyCPA on or before 9 September.

Keeping CPD records and documentary evidence

Members are reminded that they are required to keep their continuing professional development (CPD) records and documentary evidence of their verifiable CPD hours for a minimum of five years. Members selected for CPD compliance audit will need to produce the records and supporting documents to verify their CPD activities.

73rd National Day Celebration for the accounting profession

The commemoration of the National Day of the People's Republic of China is an important annual event for the accounting profession in Hong Kong. To celebrate the 73rd National Day this year, the Institute is co-hosting a celebration with the Association of Hong Kong Accounting Advisors, Hong Kong Association of Registered Public Interest Entity Auditors Limited, Hong Kong Business Accountants Association and The Society of Chinese Accountants and Auditors.

In light of the current situation under the pandemic, no food or beverage will be provided during the celebration. Book your seat and subscribe for the newspaper supplement, or become a prize sponsor now.

Council meeting minutes

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

Resolution by agreement

Lau Siu Wah CPA

Complaint: Guilty of dishonourable conduct. Lau was convicted of criminal intimidation under sections 24 and 27 of the Crimes Ordinance (Cap. 200) in December 2020. The conviction was likely to have brought discredit upon Lau himself, the Institute or the accounting profession. As a result, he was guilty of dishonourable conduct under section 34(1)(a)(x) of the Professional Accountants Ordinance (Cap. 50).

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

1. Lau acknowledges the facts of the case and his non-compliance with the Professional Accountants Ordinance;
2. Lau be reprimanded; and
3. Lau pays costs of the Institute of HK$15,000.

Settlements

Fan Kin Nang CPA (practising) and Ken Fan & Co.

The Hong Kong Institute of CPAs has withdrawn the complaint against Fan Kin Nang CPA (practising) and Ken Fan & Co. before a Disciplinary Committee paid a sum of HK$2,800,000 as a contribution to the respondents' costs of and incidental to the investigation and disciplinary proceedings and discontinued the disciplinary proceedings. The Institute arrived at this decision in the interests of the public and the profession after further considering the merits of the case, the duration of the proceedings, and the potential impact on the application of the relevant professional standard.

In the course of the disciplinary proceedings, the Disciplinary Committee gave directions in relation to disclosure to the respondents of certain unused materials held by the complainant.

Cheng Sin Bun, Benson CPA (practising)

The Institute has settled regulatory proceedings with Cheng Sin Bun, Benson CPA (practising) concerning alleged non-compliance with professional standards.

The matter concerns audit deficiencies identified in a practice review conducted on PricewaterhouseCoopers (practice). The review covered the audit of the financial statements of a regulated entity for the year ended 31 December 2020, on which the practice expressed an unmodified opinion. Cheng was the engagement partner of the audit.

The practice reviewer found that Cheng failed to exercise adequate professional scepticism in the audit due to his failure to obtain sufficient and appropriate audit evidence on the valuation of an investment and the accuracy of a bank balance. He also failed to prepare adequate audit documentation in support of the audit conclusion.

As a result of the above, Cheng failed or neglected to observe, maintain or otherwise apply Hong Kong Standard on Auditing (HKSA) 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing*; HKSA 230 *Audit Documentation*; HKSA 500 *Audit Evidence*; and HKSA 540 (Revised) *Auditing Accounting Estimates and Related Disclosures.*

Settlement agreement: The Council of the Institute has agreed with Cheng that:
1. Cheng acknowledge the facts of the case and areas of non-compliance with professional standards;
2. Cheng be reprimanded; and
3. Cheng pay a financial penalty of HK$90,000 and costs of HK$35,100.

Ip Pui Sum CPA (practising)

The Institute has settled regulatory proceedings concerning alleged non-compliance with its professional standards by Ip Pui Sum CPA (practising).

The matter concerns the compliance reporting and financial statements audit conducted by Sum, Arthur & Co. on an insurance broker for the year ended 31 December 2018. The firm expressed an unmodified auditor's opinion on each of the two engagements. Ip was the engagement partner.

The Institute concluded a practice review of Sum, Arthur & Co. in November 2021 and identified deficiencies in the above two engagements. There were inadequate procedures carried out in testing the insurance broker's compliance with statutory requirements on professional indemnity insurance, handling of client monies and reconciliation of brokerage debtor and creditor balances. Deficiencies pertaining to the audit of the financial statements were also found in the firm's procedures relating to planning and tests of internal controls, material account balances and maintaining of proper audit documentation.

As a result of the above, Ip failed or neglected to observe, maintain or otherwise apply the following professional standards:
- HKSA 230 *Audit Documentation*;
- HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*;
- HKSA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*;
- HKSA 320 *Materiality in Planning and Performing an Audit*;
- HKSA 330 *The Auditor's Responses to Assessed Risks*;
- HKSA 500 *Audit Evidence*;
- HKSA 530 *Audit Sampling*; and
- The fundamental principle of professional competence and due care as specified in section 110.1 A1(c), as elaborated in section R113.1, under Chapter A of the *Code of Ethics for Professional Accountants.*

Settlement agreement: The Council of the Institute has agreed with Ip that:
1. Ip acknowledge the facts of the case and areas of non-compliance with professional standards;
2. Ip be reprimanded; and
3. Ip pay a financial penalty of HK$120,000 and costs of HK$50,000.

Yen Ching Wai, David CPA

The Institute has settled regulatory proceedings concerning alleged non-compliance with its professional standards by Yen Ching Wai, David CPA.

The complaint concerns the removal of Yen as one of the joint and several liquidators of a private company by the Court of First Instance in 2017 due to his conduct during the liquidation of the company. Yen appealed against the removal order but the Court of Appeal upheld the decision of the Court of First Instance and dismissed his appeal. The decision of the Court of First Instance brought discredit to Yen and the profession.

As a result of the removal order, Yen failed or neglected to observe, maintain or otherwise apply the fundamental principle of professional behaviour under sections 100.5(e) and 150.1 of the *Code of Ethics for Professional Accountants.*

Settlement agreement: The Council of the Institute has agreed with Yen that:
1. Yen acknowledge the facts of the case and areas of non-compliance with professional standards;
2. Yen be reprimanded; and
3. Yen pay a financial penalty of HK$100,000 and costs of HK$80,000.

The Institute considers a settlement 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 and the settlements are available on the Institute's website.

27%

The drop in net profit the Hong Kong Exchanges and Clearing (HKEX) recorded for the first half of the year. The figure, which sees the city's bourse netting a profit of HK$4.84 billion, is lower than the HK$5.15 billion forecast by Bloomberg analysts, and its lowest interim profit in five years. The fall is the result of investment losses and lower fees from securities trading and initial public offerings, the HKEX unveiled in a post-results briefing on 17 August.

5

The number of Chinese state-owned enterprises (SOEs) that plan to delist from the New York Stock Exchange this month. The voluntary delisting of the five SOEs, one of which is Mainland China's leading energy and chemical company Sinopec, comes after all five were flagged by the United States Securities and Exchange Commission in May for failing to meet U.S. auditing standards.

Norman Chan

The former chief executive of the Hong Kong Monetary Authority and majority shareholder of a special purpose acquisition company (SPAC) that listed on the main board of the HKEX on 15 August. More than half of the SPAC, HK Acquisition Corp, will be owned by Chan, while the other 49 percent will be owned by Katherine Tsang, the sister of former Hong Kong chief executive Donald Tsang, and her nephew, Thomas Tsang. It is the third SPAC to complete an initial public offering under HKEX's new listing regime for SPACs, which rolled out in January.

Hong Kong's unemployment rate dropped to 4.3 percent for May to July, 0.4 percent lower than the previous three-month period of April to June, according to figures released by the Census and Statistics Department on 17 August. The drop is attributed to the rise in local economic activity and the Hong Kong government's wage subsidy scheme, according to Chris Sun, Secretary for Labour and Welfare.

1 August

The date the IFRS Foundation completed its consolidation with the Value Reporting Foundation. The consolidation follows a commitment made at 2021 United Nations Climate Change Conference to merge staff and resources of leading global sustainability disclosure initiatives. It will support the IFRS Foundation's new International Sustainability Standards Board's work to develop a comprehensive global baseline of sustainability disclosures for the capital markets.

HK$4.99 billion

The loss Cathay Pacific Airways reported for the first half of the year. The figure, announced on 10 August, is 33.9 percent down from the same period in 2021 amid a rebound in passenger flights. Hong Kong's strict travel measures for airline crew members remain the "single biggest impediment" to the company's plans to operate more flights, according to its Chairman, Patrick Healy.

14,000%

The percentage gain in stock price AMTD Digital saw on 3 August, three weeks after listing on the New York Stock Exchange. This valued the Hong Kong-based company, which develops digital businesses, including financial services, at more than US$407 billion by the end of trading day, before losing value a week later. Though the cause of the surge in value is unclear, it meant the three-year-old company was briefly worth more than Wells Fargo & Co., Morgan Stanley and Goldman Sachs Group Inc., despite reporting just US$25 million in revenue for the year ended April 2021.

Third Agenda Consultation Feedback Statement

The title of the statement published by the International Accounting Standards Board (IASB). The statement outlines the IASB's priorities for the next five years and three main strategic priorities. More information can be found in *Technical news* on page 37.

"Make no mistake, though: The proof will be in the pudding."

– Gary Gensler, Chair of the U.S. Securities and Exchange Commission, said in a statement after regulators in the U.S. and Mainland China reached a landmark deal this month. The agreement will allow the Public Company Accounting Oversight Board, the U.S. auditor watchdog, to access audits of Chinese companies listed on American exchanges. The agreement breaks a longstanding deadlock between the two countries. Mainland China has not allowed foreign regulators to scrutinize the audits of Chinese companies, citing state secrets, while the U.S. has said it will delist Chinese companies that fail to comply.

GENERATING WEALTH

With family offices being an important growth segment in the wealth and asset management industry in Hong Kong, the city is focused on cementing its status as a family office hub. Nicky Burridge finds out the challenges of maintaining Hong Kong's competitive edge in this area, the evolving needs of high-net-worth families, and how accountants can play a role in this booming industry

Illustrations by Axel Rangel García

Despite the economic challenges created by the COVID-19 pandemic, the number of ultra-wealthy individuals in Asia is continuing to grow at a significant rate. A total of 87,460 people in Asia have amassed a fortune of at least US$30 million each, with this group collectively sitting on wealth worth US$10.2 trillion, according to wealth insight company Wealth-X's *World Ultra Wealth Report 2021*.

These ultra-high-net-worth individuals (UHNWI) are increasingly turning to family offices to help manage their wealth and assist with succession planning, creating significant opportunities for the financial services sector.

In a bid to cement Hong Kong's status as a family office hub, Financial Secretary Paul Chan FCPA announced plans to introduce a tax concession for family offices in the 2022-23 Budget. Under the proposal, which is expected to come into effect for the 2022/23 tax year, family-owned investment holding vehicles managed by single family offices in Hong Kong would be exempt from profits tax on qualifying transactions.

In order to benefit from the exemption, the family office must have its central management in Hong Kong, be owned by members of the same family, have assets under management of at least HK$240 million and not be engaged in commercial or industrial activities.

Dixon Wong FCPA, Head of Financial Services and Global Head of Family Office at InvestHK, says: "The proposed tax exemption would attract family offices to domicile in Hong Kong, creating more demand for investment management and other related professional services, including financial, legal, and accounting services. It will also deepen Hong Kong's funding pool and create more business opportunities for the financial services industry."

Roy Phan CPA, Tax Partner at Deloitte China, agrees the change will make Hong Kong more attractive as a location for family offices, in part due to the tax certainty it provides. "Given the rapidly changing tax landscape, such as the refinement to the Foreign Source Income Exemption regime in Hong Kong, which is expected to be effective from 1 January 2023, it is important to have certainty on the tax exemption treatment for family offices," he says.

But Simon Ng CPA, Senior Partner at Consortium Family Office Limited, points out that the exemption would only apply to family-owned investment holding vehicles, which likely cover single family offices managing the assets of a single family, and not multi-family offices, which work on behalf of several families. "Some professionals and practitioners have commented that the scope is too narrow and won't help to build Hong Kong up as a family office hub, as by only applying to single family offices, it misses out a major part of the business," he says.

A competitive advantage

Hong Kong was already a popular destination for both single and multi-family offices before the proposed new tax exemption was announced.

Gigi Chan CPA, Founder and Chief Executive Officer of Wonder Capital Group, a boutique investment firm specializing in family offices, points out that Hong Kong's status as an established financial centre with a diverse range of financial services and access to a wide range of investments, as well as all the necessary professional services needed to build and maintain an efficient family office, makes it a compelling base for family offices.

Ng adds that Hong Kong's role as a gateway to Mainland China, and the significant business and investment opportunities this creates, also gives it a unique advantage. He points out that there are two aspects to managing family assets, namely: wealth preservation and wealth creation. "Preservation is largely dependent on the principles and operation of law, as well as the integrity and effectiveness of the law and court system. I think most common law jurisdictions would argue that their system and infrastructure are the best," he says. "So for Hong Kong, our unique position is acting as the front door to the Greater Bay Area, in particular, and in Mainland China in general, which gives us the edge over the others under one country, two systems."

Travis Lee CPA, Tax Partner, KPMG, and member of the Institute's China Tax Subcommittee, adds that as family offices not only manage a family's wealth, but also assist with succession planning, Hong Kong's robust legal system and established trust structures also make it an appealing place in which to set up a family office.

While not directly related to the running of a family office, Lee thinks Hong Kong's diversified education sector, with top-tier government schools and a wide range of international schools, as well as a gateway to world-class universities in the Mainland, further increases its appeal as a location. "Families often choose to be based in the place where they set up their family office, and Hong Kong is well positioned from an education standpoint," he says.

A growing sector

Family offices are an important growth component of the wealth and asset management industry in Hong Kong, according to Wong. "The family office business is booming. According to an industry report, by 2026, the number of UHNWI in Asia and Australasia is expected to grow by 33 percent from 2021 to 2026, creating a huge demand for family offices. This is a rare and ideal opportunity for the asset management industry."

> "Succession planning broadly involves passing on wealth and the family business to the right people, and protecting the family's wealth so that it can last for generations."

He adds that the government has introduced a number of initiatives which benefit family offices, including the newly launched Limited Partnership Funds regime, which offers low setup and operating costs, and tax exemptions on carried interest, subject to certain conditions, when the main investment activities of the fund are carried out in Hong Kong. It has also introduced a simplified mechanism to facilitate the re-domiciliation of foreign funds to Hong Kong as Limited Partnership Funds and open-ended fund companies, and has introduced the carried interest tax concession regime.

In addition, it has created FamilyOfficeHK, a dedicated team at InvestHK, to provide one-stop support services to people interested in running family offices in Hong Kong. Wong says as of 1 June 2022, the team has been actively processing more than 50 cases from different regions, covering licensing, visa and marketing assistance, and has successfully assisted at least 13 family offices to set up or expand their business in Hong Kong, including Mainland, European, ASEAN, and North America family offices.

Phan thinks the proposed profits tax exemption, coupled with the existing unified funds exemption and carried interest tax concession, will be a big step forward in attracting family offices to manage their assets in Hong Kong through different investment holding or fund structures. "The launch of Hong Kong fund vehicles, such as Limited Partnership Funds and open-ended fund companies, which have gained increasing popularity in the past year or so, will also be a catalyst to facilitate the 'onshorization' of investment structures," he says.

Lee points out that the increasing demand for succession planning, primarily fuelled by Chinese entrepreneurs' need to plan, will also help to drive growth in the sector in the years ahead. "Succession planning broadly involves passing on wealth and the family business to the right people, and protecting the family's wealth so that it can last for generations," he says. "The number of family offices will increase going forward, particularly as Chinese families are observed to have a much stronger awareness of the reach of their third generation and need to turn their attention to succession planning and wealth protection. They see it equally important as driving business and investment

returns.” Lee adds that succession planning varies between families, as no families are the same. For example, some families want to operate the family business over generations as the business stands for the family’s values, while others may prefer to exit the business and use the wealth for other investments to sustain succession.

Chan also thinks Hong Kong will benefit from growing wealth in Mainland China. “There is a lot of potential from China that hasn’t been capitalized. The family office segment in China is still at its infancy and there is tremendous demand from Mainland China families looking for offshore asset managers in Hong Kong,” she says.

But there are a number of challenges the city needs to overcome to increase further its attractions as a family office hub. Like much of the financial services sector, family offices are currently facing problems recruiting talent, and anti-pandemic measures disrupting mobility, according to Lee.

He adds that Hong Kong also undeniably faces significant competition for family office business from Singapore. “Singapore is a very strong rival to Hong Kong in terms of attracting family offices, and it shares many similarities with Hong Kong in terms of positioning itself as a financial centre, therefore it is also attractive to family offices.”

Chan adds that increasing connectivity with other markets to grow investment opportunities is also key to helping Hong Kong remain an attractive base. “I would like to see Hong Kong develop a more diversified portfolio of unique financial products and platforms that other competing markets do not yet offer,” she says.

Ng suggests Hong Kong should also adopt a more strategic and coordinated approach to encourage family offices to be based in the city, with a single government department put in charge of the sector. “The Monetary Authority of Singapore offers a one-stop shop to family offices setting up there, in terms of tax, visas and so on. But in Hong Kong, you have to go to the Securities and Futures Commission for the relevant licence(s), the Immigration Department for a working visa and talk to someone else about office space and recruitment. Hong Kong needs to have one dedicated and speciality team where you can go to save time and effort.”

He adds that the city should also introduce a simplified licensing regime and make it easier for the sponsoring family and professionals employed by family offices to obtain visas and school places. Lee thinks another important step the government could take would be to make it easier for the family to gain permanent resident status in the city. “It currently takes seven years, and voices from various sectors

in the city are calling for a revisit of the immigration policy, which is a long time by international standards. Hong Kong suspended its Capital Investment Entrant Scheme back in 2015, but it may be time to revisit the programme, or consider a new one."

Changing investment trends

In the meantime, family offices already established in Hong Kong are becoming increasingly sophisticated in terms of their investments.

Ng recalls the family office setup was already commonly found in Hong Kong when he was a junior accountant at a CPA firm 30 years ago, when clients would employ a small team of lawyers and accountants to manage their assets, such as renting out entire residential buildings, redeveloping land or properties, or investing in a side business such as restaurants. "In recent years, we have seen more full-scale family offices being established, with ultra-high-net-worth clients and families retaining their own investment professionals to manage their investments without solely relying on the traditional banks and fund houses as they previously did," he says.

Lee has seen a growing interest in environmental, social and governance (ESG) and socially responsible investing, as well as philanthropy, among family offices. "Family offices are increasingly not just about managing wealth but also about building up the family's reputation in society; they care about how much they give away and who they give it to," he explains.

Lee adds that as the younger generation have become more informed in the decision-making, and investments are becoming more diversified and more globalized, often because this generation has spent time overseas. Wong agrees: "UHNWI, including the newly rich, are recognizing the importance of family offices in protecting and passing on their wealth. We note that their interest in green finance, the arts and philanthropy continues to grow."

He adds that Hong Kong is well-placed to meet this growing demand, with the government committed to strengthening its position as a green finance hub, while it already has one of the largest green bond markets in the world. "Hong Kong also has an extensive network of philanthropic activities, and charitable assets account for about 3.3 percent of Hong Kong's economy, the highest in Asia. The city is also the regional centre for more than 15,000 charitable organizations," Wong adds.

Phan has observed a trend for family offices to invest in digital assets. "Alongside traditional private equity and securities in the secondary market, more family offices are getting in on the digital assets trend by investing in cryptocurrencies, tokens, and non-fungible tokens," he says.

“Family offices are increasingly not just about managing wealth but also about building up the family’s reputation in society.”

Chan agrees. “For the crypto world, while traditional investors have their eyes mostly on investment opportunities in the real world, the next generation are more open-minded and have started their journey in this area in recent years,” she says. “But, particularly after the adjustment of crypto in the past six months, investments require more solid backing and a decent structure, instead of being purely virtual. It will be very exciting to see how the market will evolve and how the market players will merge real and virtual to make the investment opportunities more viable and risk managed.”

Opportunities for accountants

The growth in family offices choosing to be based in Hong Kong creates significant opportunities for accountants. Chan says: “New rules and regulations create more opportunities for accounting and tax professionals to offer advice and services to users. Tax planning and implementations are always crucial for investments and businesses. Family offices will be keen to understand the new tax rule and how to capitalize on the benefits in practice.”

She adds that accountants in Hong Kong generally have more diverse exposure to and experience of in different industries, markets and jurisdictions. “They are very resourceful for family offices and UHNWI, not only for their investments but their businesses. accountants should be more proactive about bringing their intelligence and knowhow of success factors, best practices and governance to family offices and UHNWI.” Chan suggests that to thrive in the industry, at a corporate level, CPA firms should seek solid partnership and co-organize events with financial institutions and multi-family offices, while at the individual level, they should learn more about financial products, tools and structures to provide more pragmatic solutions to investors.

Lee points out that accountants play an important role in family offices. “Accountants are widely perceived by family business owners as being well trained, trustworthy, and sensitive to numbers. Indeed, these attributes are of paramount importance to drive the success and values of family offices. In addition, the network of accountants in Hong Kong is an important asset in the eyes of business owners as we have a huge accounting community here, and many issues can be solved through leveraging this network.”

Ng thinks accountants also have an important role to play in helping to educate wealthy clients about the benefits the arrangement can bring the family. “As trusted advisors, accountants can introduce clients to the concept of a family office and the benefits it offers to effectively and efficiently manage their assets. Accountants also understand the current accounting and other regulatory regimes, such as Trust or Company Service Provider Licenses, and all the relevant initiatives proposed by the government where accountants then become the ideal party to advise clients on establishing a family office structure in Hong Kong.” He adds that most accountants have an in-depth understanding of the family business they have been dealing with, but many hesitate to reach out to the family and advise them on how to structure a proper and holistic platform to manage the family assets – not just the operating business but also the financial assets and other investments.

Phan points out that accountants can also provide professional accounting and tax services to help UHNWI design, review and implement their investment holding structures, as well as their family trust structure where applicable. “Accountants also play an important role during the investment phase by providing due diligence (financial and tax), deal structuring and post-deal support services,” he says.

Wong agrees that the growth in family office business in Hong Kong will not only boost the financial services industry, but also create a ripple effect for related professionals, including accountants, lawyers, compliance officers and risk management personnel. “With the strong support of the government and the continuous growth of private wealth in the Greater China region and Asia, the development of the family office industry in Hong Kong will definitely go up a notch,” he says.

A total of 87,460 people in Asia have amassed a fortune of at least US$30 million each, with this group collectively sitting on wealth worth US$10.2 trillion, according to wealth insight company Wealth-X’s *World Ultra Wealth Report 2021.*

ROOM FOR GROWTH

To elevate an already well-known, global furniture company to new heights, you have to think outside the box, says James Liu FCPA, Finance Director, IKEA at DFI Retail Group Holdings Limited. He tells Jeremy Chan how he helped to identify new avenues for growth since he joined and why some products – especially household furniture – simply sell better in person

Photography by Leslie Montgomery

Hot dogs, ice cream, popcorn and meatballs. What may sound like the kind of food moviegoers line up to buy before a long film is, instead, readily available to eat at a furniture retail store.

While most people wouldn't associate delicious food with furniture shopping, it is the combination of both that perfectly encapsulates the shopping experience at an IKEA store, says James Liu FCPA, Finance Director, IKEA at DFI Retail Group Holdings Limited. By providing customers – who are usually hungry after navigating the labyrinthine aisles, showrooms and house fittings found throughout the store – with the promise of freshly-made food, Liu says this not only boosts sales, but keeps shoppers happy and most importantly, keeps them coming back. "In terms of the whole IKEA concept, our bistros are always set up next to the check-out counter. The food is quite affordable, so whatever spare change customers may have, they can choose to spend it on some food before they leave," he says.

But food wasn't always on the company's menu; IKEA began selling food in 1960, 17 years after being founded in 1943 in Sweden. It started by selling coffee and cold dishes by the end of that year, and was able to start selling hot food following the introduction of a microwave oven, which was a novelty item at the time. IKEA is the brainchild of Swedish-born Ingvar Kamprad, who started the company in Småland, Sweden as a mail-order sales business. The company name "IKEA" itself is a combination of the founder's initials, with the addition of Elmtaryd, the farm on which he grew up, and Agunnaryd, a nearby village.

Since opening its first store in 1958 in Almhult, Sweden under the name Möbel-IKÉA, the company has expanded globally and now has 473 stores in 64 markets. It opened its first store in Hong Kong in 1975 in Tsim Sha Tsui – its first branch in a Chinese-speaking territory – and now operates four large stores in the city along with four other smaller outlets in select districts. Jardine Matheson, a Hong Kong-based multinational conglomerate, had the license to operate IKEA stores in Hong Kong since 1988 and sold the rights to DFI Retail Group (formerly Dairy Farm Group), a subsidiary of Jardine Matheson, in 2002. DFI Retail Group currently operates IKEA stores in four markets: Hong Kong, Macau, Taiwan and Indonesia, and it is the second largest franchisee of IKEA.


104 ft²
VINLIDEN

As Finance Director, IKEA at DFI Retail Group Holdings Limited, James Liu FCPA is responsible for its bookkeeping, management reporting, financial planning and analysis, budgeting, internal audit, risk and compliance, treasury and tax as well as non-finance duties.

Creating opportunities

Liu's role at the company is diverse. "I'm in charge of the bookkeeping, management reporting, financial planning and analysis, budgeting, internal audit, risk and compliance, treasury and tax. These are the core functions of my finance role," he says, adding that he also oversees the company's non-trade procurement, property, company secretarial, legal and IT-related matters. "It's a wide range of responsibilities, but that keeps the role exciting."

When Liu joined DFI Retail Group as a financial controller in 2016, he was first in charge of Giant, a hypermarket retail chain in Singapore. He then became the group's head of finance of IKEA Hong Kong and Macau in 2018, and finance director of IKEA North Asia in 2019 before taking on his current position in 2020 where he oversees multiple markets in addition to Hong Kong such as Macau, Taiwan and Indonesia.

Like most companies in the city, IKEA has been grappling with the challenges of the last three years. "With the social unrest in the second half of 2019, people were either too afraid to leave their homes or weren't in the mood to shop. Then, since early 2020 until now, we've been affected by COVID. So, sales over the last few years haven't been the best," says Liu.

The economic downturn and ongoing outflow of expatriates in Hong Kong, Liu says, have also led to a drop in mid-year sales. "We've seen sales go down, especially at our Causeway Bay store. A lot of expats in Hong Kong are teachers, so during the summer months, we typically see a surge in sales," he says. "They usually come in and buy furniture for their homes before the start of the school year. But we didn't see that increase in sales last year, nor did we see it this year."

Recurring lockdowns in Mainland China, along with geopolitical issues earlier this year, inevitably led to supply chain issues, notes Liu. "Due to COVID lockdowns in Shanghai, as well as the Russia-Ukraine war, our stock availability was, at one point, down to 65 percent; in other words, a third of our shelves were empty. There were times we weren't able to meet demand," he says.

Seeing is believing

Liu says the in-store experience is critical to IKEA's service offerings, noting that the nature of its products necessitates its sizable outlets. "The home furnishing business will always require a physical presence – people still want to touch and feel the material of the furniture before they make a purchase," he says. Indeed, 71 percent of retail sales is still driven from in-store purchases, according to *Inter IKEA Group Financial Summary FY21*, the group's 2021 financial report.

The layout of each store is intentionally arranged to "inspire" each and every visitor, Liu highlights. "As soon as they enter one of our larger stores, the first thing they see is the demo rooms. We have five furnished rooms of different sizes to demonstrate how they can decorate their homes with our products," he says. "We offer home furnishing solutions – that in itself is very important. A lot of the time, our customers may have a desire to improve their home, but they might not know how. So this in-store experience is key and sets us apart from other retail companies."

That, however, isn't to say their online presence isn't important at all, notes Liu. In addition to IKEA's e-commerce website, the company also sells its furniture and accessories through a dedicated smartphone app.

Liu and his team suggested that the company open smaller stores in Kowloon, the New Territories, and Hong Kong Island. This would allow the company to tap into new locations and drive revenue in districts located away from its four main outlets and offer customers increased accessibility and flexibility. The smaller establishments would offer an array of furniture, dining room products, accessories, food, as well as a "pick up point" for customers to pick up or return their purchases. "To generate sales, we've been focused on building smaller stores in Hong Kong in certain districts, such as our 5,000-square foot store in Tai Po, which we opened last year, followed by the opening of a 3,000-square foot outlet in Discovery Bay," he says. Its largest store in Kowloon Bay, by comparison, is around 150,000 square feet large.

> "A lot of the time, our customers may have a desire to improve their home, but they might not know how. So this in-store experience is key and sets us apart from other retail companies."

The smaller shops, Liu adds, come with showrooms, and selected products to inspire customers with new ways to furnish their homes and encourage them to visit one of their larger establishments. This month, IKEA opened its latest "small" store, a 15,000-square foot outlet in K11 Art Mall in Tsim Sha Tsui.

The decision to set up smaller outlets was also driven by unique opportunities that Liu identified during the pandemic. "It was also about deciding whether we should be more conservative or aggressive in terms of our expansion strategy, and whether we should seize opportunities. In the end, we chose the latter," he says. "Take our Tai Po and Tsim Sha Tsui shops for example. The landlord noted that there were a lot of tenants leaving, so we knew it would allow us to negotiate a good lease."

The smaller outlets have been well received by customers so far, says Liu. "Our customers appreciate the flexibility. They can enter, buy what they want, and leave. Some customers have said that it often takes too long to walk from one end of our parent stores to the other, so these smaller stores have helped with this," he says. "The sales and profits have actually exceeded our expectations."

The company's brand name also allowed them to expand in Indonesia, with the company opening a store in central Jakarta this year, with another store in Surabaya on its way. "A lot of tenants had to close their businesses due to COVID. This left a lot of malls empty and a need to bring tenants back, so our presence and brand name were able to drive a lot of footfall back to the mall."

Operating sustainably

Sustainability has to be at the heart of the company's operations, products and even its food and beverage (F&B) offerings, Liu says. Indeed, IKEA plans to ensure that all materials in its products will be renewable or recyclable by 2030 and to also become a climate positive business, or a company that offsets its carbon footprint by saving more greenhouse gas emissions than they are generating, that same year. "IKEA is a vertically integrated company. This starts at the product design stage with the use of raw, recyclable and sustainable materials such as bamboo, which grows relatively quickly, as well as the use of recycled wood," he says, stressing that all materials go through vigorous testing to make sure they are durable and that the use of raw materials will not compromise the product.

Sustainability initiatives are also found throughout the company's supply chain, Liu points out. "We use electric vehicles for deliveries," he says. "All our stores in Taiwan have solar panels installed on the rooftop, so we're also using more solar energy to generate electricity," he says.

Liu says IKEA has also rolled out more sustainable food options over the years, such as plant-based meatballs, ice cream, local delicacies such as plant-based *siu mai*, and plans to introduce meatless hot dogs soon. "The idea is to consistently reduce our carbon footprint, so through each change, we try to further our sustainability agenda," he adds.

It is important for the company's food options to meet the evolving demands of customers, he says. Sales from its F&B business, which includes sales from bistros, Swedish food markets and restaurants, make up roughly

5 percent of its global revenue. In Hong Kong, 12 percent of its total revenue stems from its F&B business, according to Liu. "It's fortunate, because what started off as a side business has grown into something that is so profitable," he says. Liu explains that the company's food business covers three categories: its bistros, which serve hot dogs, popcorn and ice cream, its Swedish food market, which offer salmon and sourdough bread, and its restaurant business, where patrons can enjoy whole meals. "Not all of our stores have restaurants, such as our Causeway Bay store, but our food business is a key generator of traffic. It draws people in and has, in many ways, become a standalone business," he says.

The finance function must therefore do their part to drive sustainability initiatives at companies, says Liu. "In addition to compliance with global standards, the finance function can help with asset allocation to safeguard funding for sustainability initiatives, such as ones related to energy-saving," he says. It is also every CPA's responsibility to equip themselves with the necessary knowledge in environmental, social and governance (ESG) to add value to companies and the community, he adds. "CPA skills not only teach us to look at historical information, but help us to plan for the future. ESG is really about creating a better environment for the next generation; a better planet for our children and grandchildren."

The success ingredient

Liu was born in Hong Kong and completed his preparatory education in the city before going to the United Kingdom for his high school education. He later attained a master's degree in engineering at the University of Oxford. "I've always been interested in engineering – but I think it's always been more of an interest than anything else. I also heeded advice from my father, who said: 'university is the only time in life you get to study something you truly enjoy.' So, I took that chance," says Liu.

The decision to become an accountant came while he was interning at engineering companies during the summer months. "What I quickly realized was the need to manage both resources and people, no matter what company you work for," he says. "Back then, I didn't quite understand business, so I knew that becoming a CPA would give me a professional view in terms of how companies work. It would also set the foundation for me to understand the business world and provide me with a qualification that is globally recognized."

With that goal in mind, Liu began his career as an auditor at Deloitte in the U.K. Despite the challenging years – and hours – Liu says the experience ultimately laid the groundwork for him to build his skills upon. "There were times where we'd be at the office auditing a company until the wee hours of the morning. I'd then go home for a few hours of sleep before heading back in. Days were tough, but they were memorable," he says. "My auditing experience provided me with a strong skill set. I'm able to look at the big picture, and also analyse the numbers to quickly understand the financial health of a company, regardless of industry. Having audited so many different companies, I came to realize later in my career just how critical that skill is."

After almost three and a half years, Liu then worked as group accountant at media group Aegis Group plc, now known as Dentsu International, then as corporate finance manager at property developer Hongkong Land before joining Dairy Farm Group. Liu learned the importance of strategy and asset allocation at Hongkong Land, he notes. "I learned how much we needed to invest in commercial and residential property, and in which regions, in order to divest our risk, for example," he says. "Within Dairy Farm Group, I worked in Singapore helping with Giant's hypermarket business, and then moved back to Hong Kong to manage IKEA. The role in Singapore was really my first foray into the operations side of business. I really learned how a company makes money," Liu notes. He continues to apply his knowledge in asset allocation at DFI Retail Group. "I play a part in deciding how much we should invest into IT infrastructure, automation, ESG, and our people. I'm often asked 'how much should we invest' on the job. There really isn't a right or wrong answer and depends on the business cycle of the company, whether it is choosing to grow or taking a more conservative approach to growth, and also on the macro environment."

Liu says his CPA knowledge has given him the skills to also analyse companies from different perspectives. "By knowing how to look at financials, such as a company's balance sheet, and profit and loss statement, you're able to understand a lot of relevant information about the business. Most people don't know how to interpret these numbers," he says. The CPA qualification, Liu adds, instills a high level of confidence in the people he meets. "The qualification itself helps to open doors. As soon as I present my CPA qualification, people are more confident in my abilities, and level of knowledge and professionalism."

Liu's knowledge in finance also helps him to better collaborate with supply chain teams. "For example, accountants are able to identify

"As soon as I present my CPA qualification, people are more confident in my abilities, and level of knowledge and professionalism."

Liu graduated from the University of Oxford with a master's degree in engineering. He began his career at Deloitte and worked various roles in corporate finance and property development before joining his current company in 2016.

ways to save cost. In turn, supply chain teams will be able to provide ideas to the finance department on how they could reinvest the savings into new technologies for further operational and energy efficiencies, and its people."

Young professionals should mindfully develop and refine their interpersonal and communication skills, as well as build a solid understanding of how businesses work, early on in their careers. Doing so, Liu notes, will help them to create meaningful value in any organization they work for down the line. "They should learn how to explain their ideas and strategies to the organization in a language that they understand. This is critical," he says.

Continued growth

Liu maintains a healthy work-life balance through his passion for golf, and his love for theatre and classical music. "The city has a lot to offer in terms of arts and music. I'm looking forward to attending more concerts at the Hong Kong Philharmonic, once that restarts again, as well as next year's Hong Kong Arts Festival."

Liu remains determined to continue driving the growth of IKEA in the years to come. "We will continue with our investments into smaller stores the rest of this year and next year – so we look forward to opening two more stores next year," Liu discloses. "The aim is that by 2027, we will have at least 10 small touch-points in Hong Kong. We're also excited about our Tsim Sha Tsui store, which opened this month. It's another significant investment for us."

Unsurprisingly, Liu is also a big fan of the company's products himself. "I do shop at IKEA – it's hard not to when your office is right next to an IKEA store," he jokes. "A lot of my furniture at home is from IKEA, such as my sofa, footstool, TV cabinet, table, bedside table, and working desk, to name a few." He also frequents their restaurant for lunch and often visits their bistro for a mid-day snack. "My favourite item is the hot dogs – they're delicious and it's extreme value for money," he says. "Every time I'm there, I like seeing customers enjoy our food and also take the time to greet our co-workers."

Above all, he is proud to be at the helm of a brand that gets people talking. "Whether people like IKEA furniture or not, most people have heard of our brand and our products," he says. "People always talk about our stores and tell me things like 'every time I visit, I end up walking around for at least an hour!' It's always an excellent conversation opener, and I enjoy being able to connect with people through our company's strong brand."

Since opening its first store in 1958 in Sweden, IKEA has expanded globally and now has 473 stores in 64 markets. It opened its first store in Hong Kong in 1975 in Tsim Sha Tsui and now operates four large stores in the city along with four other smaller outlets in select districts.

ENHANCING ENGAGEMENT

Strategic stakeholder engagement not only helps companies establish and maintain trust, but can also lead to a more resilient and future-ready organization. Jeremy Chan finds out how evolving stakeholder demands have impacted the role and expectations of investor relations professionals, the steps corporates can take to be better communicators, and how CPAs can also bridge the gap between company management and stakeholders

Illustrations by Gianfranco Bonadies

Stakeholder expectations have changed. It was only a few years ago when investors would mainly look at financial performance and capital allocation, while other stakeholders would zone in on compliance-related risks, says Mark Lam CPA, Head of Investor Relations and Corporate Sustainability at Hongkong Land Limited. "But now, stakeholders are looking beyond the financials in order to better understand a business' long-term plans, especially around environmental, social and governance (ESG). Investors are also much more data-driven in their analysis of the market, company financials, and ESG performance."

The current economic environment is also prompting investors to question a company's long-term performance. "The interest rate today is more than double that of what it was two years ago. Rising inflation also has an impact. These uncertainties are forcing investors to question how their investments are performing and what companies are really doing with their money," highlights Michael Chan FCPA, Managing Director, MTR Lab Company Limited, and Chairman of the Institute's Professional Accountants in Business Committee.

This has led to increased demand for investor relations (IR) professionals to effectively disclose a company's performance to allay investors' concerns. They serve as a key communication channel between a company's management and stakeholders, keeping relevant parties updated on company affairs and assisting them in making informed investment decisions pertaining to the company. "IR professionals have to be able to explain to investors the company's framework and methodologies, especially on how they would react to changes in the market, together with their principles and the rationale behind those decisions," Michael Chan adds.

Stakeholder engagement is a process that companies follow in order to listen to, collaborate with, or inform their existing stakeholders. It involves identifying, mapping and prioritizing stakeholders to determine the best methods for effective communication. Stakeholder engagement essentially helps businesses to develop or refine corporate strategies that recognize the needs and wishes of their employees, management, investors, customers, suppliers, vendors, communities and government. When done well, stakeholder engagement can mitigate potential risks and conflicts with stakeholder groups.

Changing stakeholders' expectations are not unique to Hong Kong, but suggest a global trend, according to the *EY Long-Term Value and Corporate Governance Survey*, an EY report issued in February. The study found that 86 percent of business leaders want to see an added focus on ESG, as well as sustainable and inclusive growth, noting that they are critical to building trust with stakeholders in today's business environment. The figure is an increase from 78 percent in 2021, according to the survey, which polled 200 senior leaders from 15 European countries and 25 industries. A further 83 percent of respondents noted that companies that maintained their focus on ESG and long-term value will be more resilient in the face of increasing disruption and volatility.

More institutional investors are using ESG as a yardstick to measure a company's long-term viability and investment returns, according to *2022 Institutional Outlook Executive Overview*, a study by investment banking company Natixis, which surveyed 500 institutional investors in 29 countries. It found that 75 percent of institutional investors believed that ESG is integral to sound investing, with half of them noting that investing in companies with better ESG will lead to greater returns on their investment.

New priorities, new pressures

Increasing demands from investors have added new layers of complexity to the IR role in the stakeholder engagement process, notes Lam. "Investors now expect more interactions than in the past, as well as more in-depth and frank discussions," he says. This, Lam adds, sees IR professionals playing the critical role of facilitating communications between management and stakeholders. "We need to effectively relay messages from the board and senior management teams, while also reflecting feedback from investors."

It is also becoming more

"Investors now expect more interactions than in the past, as well as more in-depth and frank discussions."

commonplace to see IR professionals taking on customer-related tasks, notes Eva Chan FCPA, Chairman of Hong Kong Investor Relations Association. "Say a customer isn't happy and a company receives a complaint letter. Back then, a company might disregard the complaint and note that 'it is just one customer.' But nowadays, we have to understand the root of a customer's dissatisfaction," she says. Previously, she adds, it was mainly the public relations department handling such enquiries and complaints. "But now, more IR professionals have to look at whether there are underlying issues the company has to improve upon to avoid these sorts of complaints."

Ignoring customer or employee complaints can quickly and easily lead to reputational damage for companies, Eva Chan points out. "If you have unhappy employees, it only takes minutes for negative news or messages to spread through social media or messaging apps," she says. To avoid situations like this, she says it is vital for IR professionals to speak to customers or employees at the outset of the complaint to understand their side of the story and find ways to ratify the issue.

Identifying stakeholders

Stakeholders differ in each organization, making it important for companies to first determine who their key stakeholders are in order to meet their needs. Companies can better visualize who their stakeholders are and their roles by building a stakeholder map, notes Michael Chan.

Stakeholder mapping is the visual process of laying out all the stakeholders of a company's products, services, projects or ideas on one map. It allows companies to holistically analyse who their stakeholders are and categorizes them in terms of their level of influence and interest in a particular product or project. "Stakeholder mapping is a very useful tool that helps companies to identify which stakeholders to engage with and how to advocate a certain message with them. It is a key tool that we use too," he says.

In setting up a stakeholder engagement plan, Lam says it is vital to first receive buy-in and support from the C-suite and senior management team. "This is crucial, as is gaining the trust of all operational colleagues internally. It's also important to work closely with your corporate communications colleagues because there is often significant overlap in terms of the audience being targeted," he says. "Internal consultation between the C-suite, senior management, operational teams and IR professionals is important – a proper process in this regard helps to make sure important stakeholders are not neglected."

Once a company's key stakeholders have been identified, businesses should have internal policies in place to ensure frequent and meaningful engagement with them, notes Eva Chan. "An internal policy is needed so that key individuals and management are aware of the regular communication and engagement that needs to take place between them and stakeholders, and procedures to follow in the event of a crisis," she says.

Companies would also benefit from keeping investor communication records, notes Danita On CPA, Senior Director of Investor Relations and Corporate Communications at Chow Tai Fook Jewellery. "We can retrieve those records anytime, look back at previous questions investors may have, and view their fund interest," she says, noting that keeping investor communications records can help to align the goals of the management and IR teams, and assist them in anticipating the questions investors

might ask and prepare for them. On says the records are especially useful during roadshows, which are a series of presentations companies make in various locations leading up to an initial public offering.

The most effective way to get a message across is still to meet key stakeholders in person, Lam notes. "While we have had to adopt a raft of online tools to connect due to COVID-related restrictions, realistically, nothing replaces face-to-face discussions to connect and effectively communicate – and to receive honest feedback," he says. "Ultimately, the setting needs to be professional, but should also allow the attendees to feel comfortable – avoid scheduling a formal boardroom meeting with too many people present, for example."

It is key for management and IR professionals to fully understand what their stakeholders want the company to achieve, notes Michael Chan. "C-suites and IR individuals need to be able to put themselves in the shoes of stakeholders; it's our job to see things from our stakeholders' perspective, illustrate and explain our suggestions well to them," he says. While it can be difficult striking this balance, he adds, IR professionals need to know how to carefully articulate their purpose, while also taking into account the interests of stakeholders. "You have to respect stakeholders' views and understand where they are coming from in order to build trust. These are all important elements in striking a meaningful engagement with stakeholders."

Synergy through ESG

The Hong Kong Stock Exchange (HKEX) announced enhanced ESG reporting requirements in December 2019, making it mandatory for all listed companies to issue an ESG report for financial years commencing on or after 1 July 2020. In December 2021, the HKEX issued further amendments to its Main Board Listing Rules, requiring companies to provide targets and timelines for achieving gender diversity at board level, introduce a shareholder communication policy to include channels for two-way communication, and shorten the publication timeframe of ESG reports to be aligned with annual reports, among other requirements.

The rise in prominence of ESG has prompted investors and financial institutions to become increasingly critical of company-level ESG data, Lam notes. "The majority of investors largely used to rely on third party ESG ratings," he says. This isn't the case anymore, he says, adding that many investors are now deploying their own in-house ESG teams in their key operating regions alongside their traditional investment teams to scrutinize a company's ESG reports.

Companies with lacklustre ESG reports that fail to properly and regularly communicate ESG-related data to investors may land themselves in unfavourable positions with stakeholders. "Simply put, if ESG reporting – and, by extension, engagement with investor ESG teams – is not done right, it may reduce the pool of potential capital available for investment in a particular company's securities. It would also affect equity or bond values," Lam says.

Bond investors, Lam adds, may avoid subscribing to a company's bond issuance as a result of being unhappy with its decarbonization plans or disclosures, even if the company has met financial metrics such as its business outlook, net operating cash flows and interest coverage. "If investors are dissatisfied with the quality of their ESG reporting, which is how they judge performance, they may exclude a particular company from their 'investable universe,'" he says.

On agrees, noting that a company's ESG initiatives and disclosures are important amid more ESG funds now available in the market. ESG funds are equities or bonds where ESG factors have been integrated into the investment process. "When fund managers buy investment products like ESG funds, it's important that these funds meet minimum ESG requirements. The evolution of these products is in response to market demand," she explains, highlighting that investors generally view companies with better ESG initiatives to perform better in the long run. "As part of the due diligence process, investors want to be satisfied with a corporate's ESG strategies and initiatives before they choose to invest."

Investors and other stakeholders are also looking beyond a company's commitment to run-of-the-mill energy savings disclosures and questioning their diversity, equality and inclusion (DEI) initiatives, says Michael Chan. With investors asking more questions about hiring policies and equality in the workplace, companies should consider taking a step back to scrutinize their own levels of DEI to identify which areas they can improve on and come up with a feasible timeline for any enhancements. "Companies have to question whether they are nurturing a diverse workplace in which people of different genders, ethnicities and socioeconomic backgrounds feel comfortable, respected, supported, and valued," he says.

The company's impact on the community is also being examined, adds Michael Chan. Previously,

companies could simply donate money to charities or get involved with volunteering work, but now investors want to see more concrete results from their efforts. "A growing number of investors expect that some of the money they put into a corporation goes back into the community and contributes to sustainable growth," he says.

Eva Chan agrees, noting that companies should not only focus on reducing their carbon footprint, but also on the "social" and "governance" aspects of ESG, and make a conscious effort to clearly communicate their progress and aspirations to stakeholders. "It's important that companies fulfill all aspects of ESG – from the social aspects such as employee relations, whether customers and suppliers are happy, and their investment in the community, as well as governance, so whether the company is being run ethically and governed well. These are sorts of areas that investors question these days," she says.

To better engage with stakeholders on ESG matters, Eva Chan adds that companies should have a plan to outline engagement activities for the year ahead. "It could include engagement activities and tasks to be done with different stakeholders and the best communication channels for doing so. It should also contain their follow up requests and enquiries after each meeting activity," she says.

Managing the different expectations of stakeholders can be challenging for IR professionals and management, adds Eva Chan. "For example, employees may want a raise, while investors want the company to cut cost. So sometimes there can be a conflict in expectations," she says. "Finding a way to balance the different expectations of stakeholders while maximizing the company value is an art."

A need for talent

Despite IR being a relatively new specialization, the evolving investment landscape has led to increased demand for professionals, notes Eva Chan. "IR is quite a new profession in Hong Kong; most listed companies didn't have IR positions before, so we've only seen IR professionals come about in the last 15 to 20 years," she says, adding that another factor contributing to more demand is the rise in institutional investors. Most investors back then were retail investors who bought a company's stock but didn't do much analysis, adds Eva Chan. "But institutional investors are different. They are more vocal in voicing out their demands and won't hesitate to provide financial, ESG or corporate social responsibility suggestions to the company. We need people like IR professionals to communicate with them."

The demand for IR professionals presents an ocean of opportunity for CPAs, who are ideal candidates for the IR role, as the job requires trustworthy professionals who have a high level of integrity to provide expert insight derived from a company's financials, notes On. "Investors also focus a lot on financial statements, key ratios and operations. These are all reflected in different financial key performance indicators or disclosures. An IR professional needs to have a good understanding of this to answer any questions," she says.

One of the biggest advantages CPAs have is a solid understanding of numbers, and the reasons behind a company's financial figures. "Though investors are also interested in a company's strategy and outlook of a company, at the end of the day, the figures mean the most," emphasizes Eva Chan. "Investors need these numbers to do their own analyses to ensure they will have a satisfactory return on their investment. So when investors ask about a company's financials, or question its figures, CPAs are able to provide them with proper feedback right away." On agrees, noting that CPAs also have to understand the implications and movement behind these numbers and find correlations. She adds that IR specialists are also involved in the preparation of a company's annual report, a crucial task in which accounting skills are highly beneficial.

With their firm grasp of the financials, CPAs can help to tell a more accurate story about the company to stakeholders, Michael Chan says. "CPAs have a huge role to play when it comes to helping or guiding a corporation to disclose information in both a meaningful and factual manner; we help corporates to tell their story," he says. "We're able to turn insights into information."

On that note, IR professionals need to be more proactive in today's business environment, says On, as being more involved with the business can help them to provide better advice to members of management, gain a clearer view of the market, and identify any strategies that the company could use in times of uncertainty. "They have to work closely with senior management and operations teams to get good feel of how the business is developing and whether current strategies can help to overcome challenges," she says.

While it may be tempting

"The global trend for IR is moving towards placing CPAs with prior experience in senior or external facing roles in IR positions."

for IR specialists to meet with stakeholders only during times of good performance, this would paint an inaccurate picture of the company. "This is something they have to avoid," Eva Chan stresses. "It's better that they explain to investors and stakeholders why they aren't able to meet financial or ESG targets, and then if applicable, present them with a new plan to meet them."

Trust is paramount in the stakeholder engagement journey, Michael Chan says, and IR professionals should aim to build confidence from the start. "Companies should make it clear to investors that they are open, transparent, and committed to them," he says, noting that doing so will allow IR experts to manage investors and stakeholders' expectations in the long run and lead to a better relationship with them.

Ultimately, CPAs who work in IR should apply their technical and soft skills to the best of their ability to drive a company's stakeholder engagement and ESG initiatives, Lam adds. "CPAs should develop their skills and feel comfortable speaking about topics outside of finance such as business strategy, industry trends, ESG trends and performance. They need to 'walk the talk' by having the knowledge to bring insights to the broader business," he says. "IR is an area ripe for CPAs to further develop their careers. The global trend for IR is moving towards placing CPAs with prior experience in senior or external facing roles in IR positions. Senior IR roles are also increasingly becoming a stepping stone to more senior executive positions."

EY Long-Term Value and Corporate Governance Survey, an EY report issued in February, found that 86 percent of business leaders want to see an added focus on environmental, social and governance, as well as sustainable and inclusive growth, noting that they are critical to building trust with stakeholders in today's business environment.

SECOND OPINIONS: AS WE TREND TOWARDS DEGLOBALIZATION, HOW CAN COMPANIES ADAPT?

SIMON LEE CPA
HONORARY INSTITUTE FELLOW, THE ASIA-PACIFIC INSTITUTE OF BUSINESS AT THE CHINESE UNIVERSITY OF HONG KONG BUSINESS SCHOOL

Before the COVID-19 pandemic, there was a high level of interdependence among countries. Things have since changed. Recent and ongoing events such as United States-China tensions, global warming, and the Russia-Ukraine War have changed the rules in today's global economy. The trigger point was the pandemic, which suspended many cross-border activities. Frankly speaking, I think the world was too reliant on certain countries for production, raw materials and labour, with many companies not putting enough focus on diversification.

At this year's Davos World Economic Forum, deglobalization was a hot discussion topic. I believe the extent of this development depends on when the pandemic will end and the eventual outcome of U.S.-China tensions. While the outcome of political negotiations is unpredictable, one thing that is quite certain is that the degree of globalization is decreasing. Governments and big companies are restructuring their production and logistics network to reduce the risks of interdependence. Such reshaping actually started before COVID and can be traced back to 2016 when the Trans-Pacific Partnership was signed. The signing of the Regional Comprehensive Economic Partnership in 2020 further reflected the trend of more regional entities being formed rather than global entities such as the World Trade Organization.

Reorganizing such networks takes time and involves huge initial investments. Some companies have already started their diversification by moving some of their facilities to countries in Southeast Asia to serve the regional markets there.

ASEAN countries like Thailand, Indonesia, Vietnam and Cambodia have a vast population of young people who specialize in areas such as production or provide professional services. Businesses could form a new company with local corporations or set up a new office there involving local people. With that said, small- and medium-sized enterprises in Hong Kong should consider gaining a better understanding about ASEAN countries and the business opportunities there.

> "Small- and medium-sized enterprises in Hong Kong should consider gaining a better understanding about ASEAN countries and the business opportunities there."

Before the pandemic, several ASEAN countries had already reported gross domestic product growth higher than Mainland China, but such trends were often ignored as many were perhaps too focused on growth within the Mainland. I believe that if companies are exploring opportunities in the Greater Bay Area, they should also consider exploring opportunities within some of these ASEAN countries to cope with the trend of deglobalization.

CHRIS CHAN CPA
PARTNER, STRATEGY AND TRANSACTIONS,
EY TRANSACTIONS LIMITED

After nearly three decades of worldwide macroeconomic maturation, the forces of globalization – fuelled by economic growth through geopolitical openness, cross-border trade and interdependence – are now slowing down. Deglobalization is influencing global value chains while at the same time, the COVID-19 pandemic has intensified the Mainland government's policies focusing on the domestic economies. With geopolitical tensions and protectionism on the rise, businesses are increasingly doubtful whether the benefits of globalization have outweighed the dangers. Business leaders need to articulate a clear and robust strategy to navigate the ever-changing global landscape.

At EY, we have identified key steps every company should take to adapt to the ever-changing reality:

1. *Map all operational dependencies and vulnerabilities*: Conduct a comprehensive, clear mapping of all dependencies within its operational footprint. By considering risks from every angle – geopolitical, financial, regulatory etc. – business leaders can gain the necessary insight into material risks in each market before adjusting their strategy accordingly.
2. *Realign supply chain to match geopolitical realities*: Deglobalization dynamics will complicate traditional cross-border supply chains. Business leaders should seize the opportunity to re-examine their companies' supply chains for nearshoring, onshoring or "friendshoring" opportunities, which involves relocating operating activities to close political partners, to improve resilience and security.
3. *Incorporate geopolitical risk in acquisition and divestment strategies*: EY's *2022 CEO Outlook Survey* found that 55 percent of business leaders adjusted their strategic investments due to geopolitical challenges. Business leaders should anticipate potential geostrategic complications by incorporating political risk assessments in transactions, due diligence and broader business planning.
4. *Strengthen digital security and technological acceleration*: The rise of new technologies presents a primary source of disruption and dislocation, and an increasing number of businesses are at a heightened risk of cyberattacks. Business leaders should prioritize strong cyber defences and data protection systems to gain a competitive advantage, and to gain stakeholders' trust.

"Business leaders should actively reconfigure their companies for resilience."

The transformation imperative is now clearer than ever. Business leaders should actively reconfigure their companies for resilience, invest strategically for optimal growth, and ensure they have access to the right expertise and insight to ensure their geostrategy mirrors the ever-changing geopolitical environment.

PATRICK ROZARIO
MANAGING DIRECTOR,
MOORE ADVISORY SERVICES

The past 30 years have seen a dramatic increase in globalization, as businesses have become increasingly interconnected and international trade has grown exponentially. But it has also led to a concentration of wealth in multinational corporations, disrupting industries and making developed economies more vulnerable with issues like jobs elimination.

The COVID-19 pandemic has further exposed the risk of globalization, as it has quickly spread around in an interconnected world. An interconnected world may not always be a good thing when it comes to national health, for example. While vaccines may be produced in one country and then shipped to another, this means that a break in the supply chain can have serious consequences. A COVID outbreak or an industrial accident leading to contamination in a plant responsible for producing vaccines could halt the supply of lifesaving vaccines, for instance. The pandemic has shown that the safety of national health is only as strong as the weakest link in the global supply chain.

In recent years, we have seen increases in international trade disputes and geopolitical conflicts, forcing companies to rethink their supply chains and look for ways to de-risk. As a result, we are seeing the trend of decoupling, where companies are focused on reducing their dependence on any one country or region. Another trend is the move to onshore production, where companies are seeking to bring productions closer to the end market in order to reduce exposure to potential disruptions. The net effect of these trends is that globalization has reached an inflection point and we are now seeing a shift towards deglobalization.

For companies, this presents challenges, opportunities, and a need to adapt to changes in the business environment. On one hand, they may need to adapt their business models to cope with reduced demand for their products and services from overseas markets. On the other hand, they may be able to benefit from opportunities arising from shifts in global supply chains. One solution is to "deglobalize" your company's operations. This involves tailoring your products and services to the specific needs of each market and establishing regional supply chains.

With deglobalization, capital flows have begun to slow and nations have become more protectionist. This shift has created challenges for companies that have come to rely on globalization for their growth. In order to adapt, companies need to focus on becoming more efficient and effective by investing in technology and talent, and finding new ways to reach their customers. In addition, they need to re-evaluate their business models and strategies. The companies that are able to adapt will be the ones that survive and thrive in the new world order.

"With deglobalization, capital flows have begun to slow and nations have become more protectionist."

by Catherine Wong

The Chief Development Officer, Chorev Consulting International Ltd. on using the Trust Triangle to build and maintain effective client relationships

How to build strong business relationships with clients

Every relationship hinges on one key thing: trust. Client relationships are no exception. But how can we dissect what trust is all about in order to create strong relationships with clients, particularly in an increasingly challenging business environment? In professional services – clients can now choose who they want to work with globally, and it is increasingly common that we don’t get to meet face-to-face with our clients. Out of all the trust models out there, the one I refer to most is the Trust Triangle by Frances Frei, a Harvard professor. It is a formula for building trust within organizations that has three key components: authenticity, logic, and empathy.

When it comes to establishing a client relationship, I always start with focusing on authenticity because that has an impact on the level of trust being established at the very beginning.

Authenticity

Authenticity is being who you are. It is about how comfortable you are allowing clients to experience the real you. As a litmus test for authenticity, ask yourself: do I assume a different persona when I am around clients vs. my friends or family members? If the answer is a resounding yes, be aware that clients can pick up on that. This is because the human brain excels at identifying inconsistencies subconsciously. When clients cannot experience the real you, the relationships will always remain professional in a sense that is transactional, cold and indifferent. This makes advising on and co-creating solutions more difficult.

The “clients are always right” motto can potentially stop us from being authentic. When holding this belief, there is a tendency to withhold our genuine thoughts and dance around ideas instead of being creative and forthcoming. In a professional world, clients look for your professional knowledge and insights. They want to hear your views to help them move forward. Of course, there are times when professionals need to be tactful in expressing their views when things are sensitive.

Another dimension of authenticity is the consideration of the time horizon. If you are working with a client for an extended period of time, authenticity is also about delivering your promise over time. If you keep promising your client the highest quality work but fail to deliver on that promise, this inconsistency will erode your authenticity.

Logic

Logic is the science part of trust. It is about sound reasoning and judgement. It is also about how knowledgeable you are in your field, and your capability of making the most appropriate decisions, and reaching a desirable outcome given the situation. Reading more books and learning from industry experts can help improve logical thinking.

Communication is an integral part in being perceived as logical. One of my coaching assignments years ago was to help a highly knowledgeable chief financial officer to transition into his new role. An important aspect of the role was to manage stakeholders, including board members and business heads. One piece of feedback my client received was that he needed to be more logical, which surprised him. I learned from the stakeholders that they found his presentations and communications confusing. Therefore, to be perceived as someone who is logical and an expert in a particular field, professionals should be able to make technical information more digestible to a non-technical audience so that a coherent picture can be presented.

Empathy

Empathy is something professionals usually fall short in when it comes to building trust. This is often because we feel that we know more than our clients, and therefore feel they should unreservedly embrace our advice and suggestions. But it’s important to recognize that there are things that we may be unaware of, and that what may seem silly or small to us, are real concerns from the client’s perspective, and should be addressed with high priority.

The definition of empathy by the Oxford dictionary is: “the ability to imagine and understand the thoughts, perspective, and emotions of another person.” The client should believe you care about their well-being and success. The easiest way is to put yourself in your client’s shoes and try to see the world from their perspective. What are their fears? What are their desires? Fear and desire are strong emotions that drive most decisions, and also connections. A renewed understanding about the client can bring greater clarity on the range of solutions that are acceptable to the client, and areas that you bring the greatest value to the relationship.

The art of building trust

What if the authentic me strongly believes the client should pursue something, but the empathetic side recognizes that is not possible? Building trust is an art. It takes time, and trial and error to make things work. When facing a situation like this, I like to tell clients: “Can I be honest here, despite hearing your concerns?” This is because I believe having the courage to speak up wins both respect and trust.

Whenever I feel that the client relationship is not going smoothly, I always revisit each corner of the Trust Triangle to see what the problem could be. Am I being too focused on earning higher fees that I am losing my authenticity? Am I relying too much on my past knowledge and experience, and not updating myself on the latest market trends, leading to unsound logic? Or am I allowing my ego to block my empathy? These are all good questions for when we have challenges in establishing client trust.

Pat Woo CPA (practising)

The Partner and Head of ESG, Hong Kong at KPMG China and member of the Institute's Sustainability Committee says boards and the C-suite need to stamp out greenwashing within their organizations before the regulatory tide comes in

Walking the ESG talk: the time is now

Defending organizations from within against "greenwashing" – false or fraudulent advertising of companies and their products or services as being environmentally friendly or carbon-neutral – is becoming an urgent imperative as regulatory hammers start to fall across jurisdictions.

A number of landmark cases globally are paving the way for more regulatory action for companies that do not live up to their environmental, social and governance (ESG) and climate action commitments. In March 2022, a major bank paid a US$1.5 million fine to the United States Securities and Exchange Commission to settle a case alleging that certain investments made by its funds, marketed to retail investors as ESG, did not undergo sufficient ESG quality reviews.

Last year, a court ruling in Europe found that a leading energy company was continuing to invest heavily in fossil fuels despite its commitment to be carbon neutral by 2050, and imposed stricter carbon reductions the company must make by 2030. Two global investment banks are also currently being investigated by U.S. and German authorities respectively for alleged greenwashing related to their ESG funds.

With China's central government working towards achieving the dual targets of peak carbon emissions by 2030 and carbon neutrality by 2060, executives in Hong Kong and Mainland China are foreseeing increased regulatory pressure to report their progress on meeting climate action targets.

A 2021 KPMG survey of 1,325 global chief executive officers found that 42 percent of CEOs in Hong Kong and Mainland China are facing significantly increased demands from local regulators to disclose ESG information – much higher than the global average of 29 percent and up from just 5 percent in 2020. With pressure mounting, boards and executives are grappling with how to align their business practices with the ESG goals and achievements that they are communicating externally.

Reporting gap set to widen as new standards are introduced

At present, part of the problem with creating effective governance lies in the current lack of standardized and comparable ESG reporting. Aiming to address this are the proposed standards by the newly created International Sustainability Standards Board (ISSB), which build on the recommendations and prior standards of the Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB). The proposed ISSB standards are structured around the four pillars that represent core elements of how companies operate, namely governance, strategy, risk management, as well as metrics and targets.

It is widely expected that reporting under the ISSB's standards will become mandatory for Hong Kong-listed companies. The Green and Sustainable Finance Cross-Agency Steering Group has expressed its support, and the Securities and Futures Commission and Hong Kong Exchanges and Clearing Limited are currently engaging with industry practitioners to evaluate how the ISSB's proposed requirements can be applied in Hong Kong.

Despite the current tide towards stricter regulation and enforcement, significant gaps remain between Hong Kong companies' current climate reporting and the proposed ISSB standards. A KPMG survey of Hong Kong-based governance professionals released in July 2022 found that only 7 percent of companies polled have adopted the TCFD recommendations and just 4 percent have adopted the SASB standards. Meanwhile, 34 percent of respondents, the survey found, don't have a plan to conduct climate-related scenario analyses. Furthermore, a large majority (86 percent) said that their companies have not yet set a climate transition plan, while 47 percent consider that their companies are unlikely to set one.

Adding to the complexity of governance is the current lack of a mandatory requirement for ESG data assurance to verify that reported data is robust and accurate. Non-financial assurance standards, such as International Standard on Assurance Engagements 3000, are currently in use, but many inconsistencies exist in how organizations apply those standards. Regulatory action to close data assurance loopholes is expected as enforcement of ESG reporting standards progresses.

Effective ESG governance requires a reality check

To stay well ahead of the rising trend among regulators to investigate and crack down on greenwashing, organizations need to close the gap between external expectations and internal realities when it comes to ESG.

From a governance point of view, this will first require boards and the C-suite to understand what climate-related commitments have been made as well as the current execution plans now in place. Secondly, they must confirm who is responsible for leading the company's efforts to achieve those goals, and how they can oversee those efforts to enforce the commitments. Next is developing and executing the roadmap that the organization will take to deliver on its ESG goals. This should include an understanding of how the goals will affect all aspects of the company's business model, such as product development, supply chains, and internal business functions. Existing staff across the company's various departments will also need to be trained and upskilled, as well as incentivized to help the company meet its goals. With these objectives in mind, boards and executives should also be aware of external tools and resources that can be deployed to help them meet ESG targets.

By taking clear ownership of their ESG strategy at the board level, companies will be able to say what they mean and mean what they say when it comes to climate commitments – helping to ensure regulatory compliance as well as a more sustainable future for everyone.

FIVE QUESTIONS FOR PAIB

Gigi Lee CPA

Senior Manager – ESG and Corporate Services at Dah Sing Bank, Limited on the benefits of being a continuous learner, and how companies can maintain momentum after embedding a sustainability strategy

What are the three biggest lessons in your career so far? The first is to not be afraid of taking on new challenges, even if it means changing course. In a world that is so volatile, the ones who can easily and quickly adapt to changes are those who can survive the ebb and flow of the economy. The second is to maintain a good attitude. You may not like everything you do, but your attitude determines how far you go, how others perceive your capabilities and how much they can rely on you. The last lesson is that even if you are already at a senior position or if you are a subject matter expert, you still need to be open-minded and willing to absorb new knowledge.

What do you like most about specializing in ESG? I facilitate the design and implementation of corporate environmental, social and governance (ESG) strategies, programmes and initiatives through stakeholder engagement. I also lead the execution and continuous enhancement of ESG governance including the preparation of ESG reports and other sustainability-related disclosures, developing ESG-related policies and guidelines, as well as raising staff awareness on ESG. As a nature lover, specializing in ESG resonates most with my personal core values and gives me a sense of satisfaction that I never had in my previous roles. I find it meaningful and rewarding to advocate something within the corporate world that has an impact on the sustainable development of our society. It is also fantastic to witness and experience how fast ESG has evolved in recent years.

In what ways has your CPA training helped you in your career? The analytical mindset I received from my CPA training has certainly helped in a lot of situations throughout my career. The skills in preparing financial reports, analysing and auditing financial data are also very useful when it comes to ESG data management, as both share similar, if not the same, principles. Measuring impact, setting key performance indicators and targets are critical components of an ESG strategy and my past training as a CPA has allowed me to manage these tasks more naturally.

How can organizations get it right when it comes to building a sustainability or ESG strategy? It is important to have a long-term vision but also mid-term milestones. Sustainability goals in general may take a longer time to achieve, but there will be a lack of urgency and motivation to take concrete action if long timelines are set. Being able to identify some "low-hanging fruit" or small wins in your ESG strategy and communicating them would help gain further support from management and key stakeholders. It is also critical to draw the connection between your ESG and business strategies in order to demonstrate the value and impact to your business, and to let your stakeholders see the relevance of your ESG strategy to them, rather than something that is just nice-to-have.

What do you view as critical for effective ESG reporting? While it's important to measure ESG performance in a quantitative manner, it is also essential to evaluate the resources a company can put to measure its impact. ESG disclosure requirements are becoming more and more sophisticated nowadays. A company needs to strike a balance between data quality in terms of, for example, relevance, completeness and accuracy, and data collection efforts such as frequency, quantification methodology and the manpower needed.

FIVE QUESTIONS FOR PAIP

Adele Yim CPA

Head of Risk Advisory Services at Mazars on the value of audit experience and how there is more to risk management than simply protecting businesses from risk

What are the three biggest lessons in your career so far? The first is the importance of networking, which is about building and nurturing long-term, mutually beneficial relationships with the people you meet. The connections you create today may come in handy in the future. The next thing would be to never stop learning. This will help you to stay relevant in today's ever-changing business environment, which sees developments in regulatory requirements, corporate governance, and the growing interest in environmental, social and governance. Lastly, keep an eye on technological advancements in the market. This will provide you with a competitive advantage in delivering services to clients.

What do you like most about specializing in risk advisory? In risk advisory, our objective is to anticipate and respond to a business' operational, financial and compliance risks. This starts with reviewing our clients' systems to ensure that the right processes are in place and enhancing them if necessary. These enhancements help to accelerate growth, minimize costs, maximize opportunities, and streamline critical processes. These experiences are valuable as they allow me to gain new knowledge and take on challenges through the process. Through evaluating and commenting on clients' business operations, I have the opportunity to help companies in a diverse range of industries, including manufacturing, retailing, food and beverage, and financial services.

In what ways has your CPA qualification helped you in your career? My CPA qualification has opened opportunities for me to meet professionals from various fields and backgrounds. Through the networking events and seminars organized by the Institute, I've been able to stay updated on the latest developments in regulatory requirements and within the accounting profession. I've also been able to exchange views with other professionals, and gain different perspectives. This has equipped me with the skills to handle a diverse range of work and challenges.

Why is it important for companies today to look at risk management as a value add? Every business decision comes with some level of risk. Enterprise risk management emphasizes the identification of risk in a company and the ability to effectively manage these risks. It also ensures compliance with rules and regulations. It essentially refers to a company's ability to manage uncertainty and to consider how much risk to accept as it strives to increase its own value. With fewer uncertainties, we are able to help companies to plan ahead, and meet their goals and objectives in an efficient manner. A proper risk management strategy in the business' operations can improve the reputation of a company and create confidence among its stakeholders, including employees and customers.

How does your audit experience help you in your role? There are actually overlapping areas and skills. When I was an external auditor, I gained several skills, including those in research, interviewing and logical analysis. With better logical analysis skills, I can efficiently understand the company based on its financial performance. I also learned that the financial performance of an organization is closely linked to how effective its internal audit function is in overseeing internal controls, risk management and governance. With an in-depth understanding of a company, I can bring valuable risk management services to clients.

Solutions to implementing the AML/CTF requirements

What to expect from a webinar that covers the latest anti-money laundering and counter-terrorist financing obligations under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance and how to comply with them

Albert Lo FCPA, Partner, Deloitte Asia Pacific, has broad professional experience in AML, national risk assessment and sanctions reviews for regulators, financial institutions, and other DNFBPs. Over the last 11 years, he has worked on various investigations and compliance reviews across various industries in several Asia-Pacific countries – in particular, AML compliance review, fraud investigation, procurement fraud investigation, fraud risk review, SOX review, and corporate intelligence at a Big Four firm.

Since 1 March 2018, accounting professionals have been subject to the statutory anti-money laundering and counter-terrorist financing (AML/CTF) obligations under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (the AMLO), with the *Guidelines of AML/CTF for Professional Accountants* published by the Institute. Under AMLO, accountants are required to perform customer due diligence and record keeping when they prepare for or carry out certain kinds of transactions for their clients. Other legislations impose related legal obligations which have impacted our practices, e.g. to report suspicious transactions and apply targeted financial sanctions in relation to terrorists and the proliferation of weapons of mass destruction.

AML/CTF obligations and measures are broad. They cut across all three government branches (i.e. the executive, the legislative and the judiciary) and require international cooperation between countries and regions. One notable change in the new Financial Action Task Force (FATF) methodology for the fifth round of mutual evaluations is that immediate outcome (IO) 4 will cover the Designated Non-Financial Businesses and Professions (DNFBPs) only (previously the financial institutions and the DNFBPs were assessed in IO 3 together). It is expected that the Hong Kong government will pay more attention to the DNFBPs sectors (including the accounting sector) as they account for 1 out of 11 IOs.

Prevention is the first line of defense against money laundering, and terrorist and proliferation financing, which is also stressed by the FATF IO 4, where the DNFBPs should adequately apply AML/CTF preventive measures commensurate with their risks. A well-regulated private sector plays a vital role in preventing the proceeds of crime and funds in support of terrorism from entering the financial and other sectors. Businesses are expected to identify, assess and understand the risks to which they are exposed to and take measures commensurate to those risks to mitigate them effectively. More importantly, nurturing a healthy compliance culture and environment in the organization can be the catalyst to further enhancing the effectiveness of all other preventive measures. It is vital that accountants are aware that the regulatory coverage extends beyond the large banks and financial institutions, and reaches all relevant businesses.

There are important legal updates on the horizon for Hong Kong's AML/CTF regime which relate to three key areas:

- **Licensing of virtual asset exchanges:** the Anti-Money Laundering and Counter-Terrorist Financing (Amendment) Bill 2022 (AMLO Amendment Bill) has been issued in a draft. The AMLO Amendment Bill proposes amendments to provide a framework for the licensing of companies that operate virtual asset exchanges in, or market to, Hong Kong. The Securities and Futures Commission will oversee the new regime which commences on 1 March 2023;
- **Dealers in precious metals and stones (DPMS) registration:** a new registration regime for DPMS under the AMLO is to be introduced, overseen by the Commissioner of Customs and Excise. It will be a two-tier system that will apply with the level of regulation depending on whether the DPMS engages in cash transactions for HK$120,000 or more; and
- **Upgrading and modernization of AMLO standards:** the AMLO Amendment Bill also makes a number of miscellaneous but important updates, including:
  - The definition of the politically exposed person (PEP) is to change such that enhanced due diligence will be required not only for PEPs from outside of Mainland China but also for PEPs from other parts of the Mainland outside of Hong Kong;
  - Alignment of beneficial ownership definition of trusts to the concept of controlling person by clarifying that, where trust is concerned, a beneficial owner includes a trustee, beneficiary and class of beneficiaries;
  - Greater flexibility regarding customer due diligence in non-face-to-face situations; and
  - Increased sanctions for unlicensed money service operators.

About the webinar

The webinar, available in two sessions on 7 and 13 September, aims to refresh and update participants' understanding of the latest AML/CTF requirements and how to comply with them. The workshops explore practical solutions to facilitate compliance with AML/CTF requirements. It is very important for member practices and members working in relevant sectors or carrying out relevant transactions, to understand their obligations, as non-compliance could result in disciplinary action, or even criminal sanctions.

The webinar will also cover the implications of the latest sanctions policies toward Russia. The upcoming updates to the AML landscape and what members should look out for in terms of new obligations will also be discussed.

The Institute's response to the ISSB's exposure drafts on general and climate-related disclosures

A summary of the Institute's response to two exposure drafts setting out proposed IFRS Sustainability Disclosure Standards by the International Sustainability Standards Board

As the only body authorized by law to set and promulgate standards for professional accountants in Hong Kong, including those relating to sustainability disclosures, the Institute has responded to the International Sustainability Standards Board's (ISSB) exposure drafts (EDs) on its IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* as mentioned in the feature article with Emmanuel Faber, Chair of the ISSB, in the May 2022 issue of *A Plus*.

This article provides highlights from our response to the EDs. The full response is available on our website.

Our key comments

Overall, we are supportive of the ISSB's lead in establishing a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors when assessing enterprise value. This can facilitate investors to assess the effect of significant sustainability-related risks and opportunities on an entity's enterprise value. It can also encourage entities to further integrate sustainability into their corporate thinking and business strategy by, for instance, establishing appropriate governance and risk management, as well as disclosing their strategy and metrics of significant sustainability issues. In the long run, it will likely enhance the competitive advantage and improve the corporate image of an entity.

We noted that the EDs contain many highly prescriptive requirements that are challenging even for companies that are more experienced in sustainability reporting. While we appreciate the urgency of addressing climate and sustainability-related risks and opportunities, we encouraged the ISSB to allow the market sufficient time to build up capacity for this relatively new yet significant reporting initiative in order for preparers to produce information that is truly meaningful to investors.

The availability of reliable source data remains a major concern for all stakeholders, and practices are still emerging and evolving as to what is appropriate in terms of methodologies, models, assumptions and drivers. This is particularly true for Scope 3 emissions data and scenario analysis which in turn affects an entity's ability to quantify the anticipated effects of climate on its future financial position and performance. As such, we strongly recommended the ISSB to consider a phased approach to the mandatory adoption of certain aspects of the proposed standards. We also suggested to the ISSB to adopt a proportionality approach in terms of the timing and extent of application by small- and medium-sized entities (SMEs) as the challenges faced by them are more pronounced.

In addition, we strongly encouraged the ISSB to collaborate with the United States Securities and Exchange Commission and the European Financial Reporting Advisory Group in terms of their sustainability disclosure standards to achieve alignment in disclosure principles on investor-focused sustainability information as much as possible to achieve global consistency and to reduce costs for preparers and other stakeholders. We also thought that there would be merit in including specific transitional provisions in the ISSB standards to facilitate existing sustainability report preparers to transition to the ISSB standards.

Other key comments

Materiality
We find the determination of materiality for disclosing sustainability-related information to be highly subjective and judgemental. We therefore recommended the ISSB to specify the factors that an entity should consider when determining materiality, e.g. the likelihood and impact of the event, its frequency of occurrence, duration, etc.

Comparative information
We generally find that adjusting for all changes in estimates retrospectively will create a disconnect between prior year sustainability information and financial statements information. We recommended that entities distinguish between different types of changes in estimates and, depending on the nature of change, adjust for it retrospectively or prospectively as appropriate.

Current and anticipated effects
The draft IFRS S2 requires an entity to disclose quantitative information unless it is unable to do so. However, it is unclear what "unable to do so" means. Besides, there are concerns about the usefulness of isolating the anticipated effects of climate-related risks and opportunities from other risks and opportunities as many of the environmental, social and governance risks are interlinked and it is difficult to isolate one assumption or input from another to estimate each risk's standalone effect. The end result of any

arbitrary disaggregation could potentially be misleading. In addition, while it may be appropriate to provide quantitative information for short- to medium-term expectations, it may be more appropriate to provide qualitative information for long-term expectations due to the lack of reliable data for the long term.

Climate resilience

Climate scenario analysis requires a large amount of data and resources depending on the methodology used, and this may be difficult for entities, especially SMEs or entities with limited access or knowledge, on related topics. We recommended to the ISSB to specify how many and which type of scenarios should be disclosed, as well as to include the drivers/factors that each scenario should consider to increase comparability between entities and facilitate application of the requirements. Furthermore, we recommended to the ISSB to require the disclosure of significant drivers, methodologies, estimates and assumptions used in the scenario analysis.

Scope 1 and Scope 2 emissions for associates, joint ventures, unconsolidated subsidiaries or affiliates (non-controlling investments)

There are many known challenges in terms of financial reporting where information from non-controlling investments is not easy to obtain due to a lack of control. For greenhouse gas (GHG) emissions, the challenges could be further complicated by the investee's (i) use of a societal value approach; (ii) use of a method that is not "GHG Protocol aligned"; (iii) use of an operational control method while the reporting entity uses an equity share method; and (iv) having a different period-end from that of the reporting entity. We asked the ISSB to consider requiring the use of consistent methodologies as the reporting entity by non-controlling investments, similar to IFRS Accounting Standards which require associates and joint ventures to use consistent accounting policies as the group.

Scope 3 emissions

It is difficult to obtain high-quality and reliable source data for Scope 3 emissions as they fall outside an entity's direct management. We suggested that the ISSB allow a phased approach for the disclosure of Scope 3 emissions, starting with the identification of material sources of Scope 3 emissions and proceeding to requiring quantitative Scope 3 information only once practices become more mature and more reliable information becomes available. In addition, we believe it would be beneficial for the ISSB to provide guidance to assist entities in determining how many levels up and down the value chain they should disclose for Scope 3 emissions or refer stakeholders to relevant existing literature.

Appendix B of draft IFRS S2

We noted that certain metrics in Appendix B might still not be applicable in many jurisdictions even though attempts have been made to internationalize them. This might hinder international adoption of the standard as entities might be prevented from asserting compliance with IFRS S2 given Appendix B is an integral part of the standard. We recommended that Appendix B not be made mandatory until the ISSB has conducted further industry-wide consultations and made relevant updates thereto to ensure the metrics in Appendix B can truly serve as an international baseline for global adoption.

Effective date

We suggested the ISSB allow a phased approach for the effective dates of certain elements of the standards such as Scope 3 emissions, scenario analysis, as well as the disclosure of emissions for non-controlling investments and financed emissions. If an entity takes such an approach, it should explain why certain requirements have not been complied with and the expected timeline for compliance. This may encourage more uptake by entities and allow an earlier effective date for the other requirements of the standards.

*This article was contributed by **Anthony Wong** CPA, CESGA, Associate Director of the Institute's Standard Setting Department. Visit the department's "What's new" webpage for our latest publications, and follow us on LinkedIn for upcoming activities.*

The SFC's new regime for climate-related risk management and disclosure under the FMCC

A step-by-step guide for smaller fund managers who will need to follow new guidelines in managing climate-related risks from this November

On 20 August 2021, the Securities and Futures Commission (SFC) issued the *Circular to licensed corporations – Management and disclosure of climate-related risks by fund managers*, which sets out the expected standards for complying with the amended Fund Manager Code of Conduct (FMCC). On the same day, the SFC released a set of frequently asked questions to provide further guidance on how fund managers can comply with the amended FMCC. The *Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers* was also released to summarize the feedback from fund managers and the SFC's corresponding responses regarding the proposed regulatory requirements for managing climate-related risks. In this article, we undertake a review of the climate-related risks regulatory framework and set out a step-by-step guide for fund managers who have less than HK$8 billion assets under management (AUM) on how to assess the applicability of the relevant regulatory requirements; what they should do to ensure compliance; and any potential legal disclosure considerations.

Step 1: Consider if you are "in-scope"

In a nutshell, the new disclosure requirements only apply to managers in Hong Kong who hold a Type 9 (Asset Management) Regulated Activity licence under the Securities and Futures Ordinance and are responsible for the management of "funds."

In-scope: Fund managers who manage collective investment schemes with investment discretion (fund managers).

Out-scope: Licensed corporations that act as investment advisors or distributors without any investment management discretion.

Step 2: Determine which requirements are applicable if you are "in-scope"

Assuming a fund manager is "in-scope," the next step is to consider which of the requirements set out by the SFC are applicable to it. The fundamental requirements (also known as the "four pillars") are focused around (1) governance, (2) investment management, (3) risk management, and (4) disclosure. Depending on the three determinants of (a) relevance of the climate-related risks, (b) materiality of the climate-related risks, and (c) "ROOF" status of the fund manager, meaning whether the fund manager is responsible for the overall operation of the fund (ROOF), Table 1 below will help guide fund managers on which of the four pillars are applicable to them.

Step 3: How to determine "relevance" of climate-related risks?

All in-scope fund managers should then identify the following types of climate-related risks and determine whether they are relevant to their funds in Table 2 on page 36.

In determining relevance, fund

Table 1

Relevance	Materiality	ROOF	Pillars and requirements
No	N/A	No	• Investment management: Reevaluate the relevance assessment periodically.
No	N/A	Yes	• Investment management: Reevaluate the relevance assessment periodically. • Disclosure: List out types of investment strategies/funds for which climate-related risks are not relevant.
Yes	No	No	• Governance: All the governance-related requirements. • Investment and risk management: Reevaluate the relevance and materiality assessments periodically.
Yes	No	Yes	• Governance: All the governance-related requirements. • Investment and risk management: Reevaluate the relevance and materiality assessments periodically. • Disclosure: Disclose (a) governance arrangement and (b) investment and risk management processes but only in relation to how climate-related risks are identified and assessed.
Yes	Yes	No	• All four pillars requirements except for disclosure-related requirements.
Yes	Yes	Yes	• All four pillars requirements.

Table 2

Type of climate-related risks	Definition	Examples
Physical risks	• Risks which arise from the physical effects of climate change, environmental degradation and climate-related hazards.	• Extreme weather events. • Long-term and indirect effects of climate change.
Transition risks	• Risks which are associated with transition to a low-carbon and more climate-friendly economy.	• New laws and regulations and change in market pattern. • New environmental technology.

managers may adopt any, or a combination, of the following approaches:

(I) Investment strategies approach
Although the SFC has expressed the view that it will be rare that climate-related risks are not relevant, it accepts that there may be circumstances that such risks are not relevant to certain funds and investment strategies. In that case, fund managers must, after exercising professional judgement, provide justification. Examples of investment strategies for which climate-related risks are likely to be not relevant include day trading strategies, forex strategies, index tracking or managed futures strategies, interest rate strategies, macro strategies and quantitative strategies.

(II) Asset classes
If a fund manager chooses to assess the relevance of climate-related risks by reference to the asset classes in which it invests, asset classes that are likely to be relevant include agricultural assets, commodities, government securities, digital assets (e.g. cryptocurrencies), infrastructure, real estate and single-name issuers' equity or bonds.

Step 4: How to determine "materiality" of climate-related risks

If climate-related risks have been assessed to be not relevant, there is no need to analyse their materiality. However, if the risks are relevant, fund managers then need to assess the materiality of climate-related risks by adopting an approach which is appropriate and proportionate to their circumstances. When assessing materiality, fund managers may adopt an approach that is (a) qualitative, (b) quantitative or (c) some combination of both.

Fund managers may also set their own percentage thresholds which are deemed appropriate and proportionate to their investment strategies or funds. Nevertheless, such percentage thresholds should be (i) justified to be objectively sensible and (ii) applied on a consistent basis.

In conducting materiality assessment, fund managers should, depending on whether they have similar assets and/or strategies, decide whether the analysis of climate-related risks is required at (a) an investment strategy level, (b) a specific portfolio level, (c) an individual investment level, (d) an overall portfolio level or (e) some or all of the aforementioned levels.

Step 5: Disclosure requirements

If disclosure is required, fund managers should follow the guidelines given by the SFC on disclosure.

Step 6: Maintain records and periodically review the assessments

Regardless of the approach that the fund manager chooses to adopt (and the conclusions that are drawn therefrom), reasons and justifications for methodologies used and any conclusion determined should be properly documented in writing. Internal records of such assessments should also be duly maintained. In addition, such assessments should be reviewed regularly (at least annually) and whenever any major changes occur (e.g. change to a fund's investment strategy). To reflect the latest assessments, disclosure should also be updated.

Special consideration for fund of funds
For fund of funds, it is unlikely that ROOF managers can take no action at all and completely rely on the risk management measures of the manager of the underlying invested funds. Depending on the circumstances, ROOF managers should take appropriate and proportionate actions and cooperate with the underlying managers to analyse the materiality and relevance of the climate-related risks.

Step 7: Deadline and other practical considerations

Fund managers who have less than HK$8 billion in AUM must comply with the requirements above by 20 November 2022. Last but not least, they should take the following into consideration when assessing and implementing a risk management framework for climate-related risks:

- Detailed records of all documents involved in the assessment of climate-related risks should be duly maintained for compliance review purposes.
- Assessment of climate-related risks and relevant risk management procedures and policies and their disclosures should be reviewed periodically and be updated as appropriate.
- Risk management procedures and policies should be complied with and applied consistently.
- Good corporate stewardship should be built to influence investee companies to implement climate-related risk mitigation measures.
- Management of climate-related risks should involve the board, portfolio managers, investment management team and risk management team, and not only the legal and compliance team.
- The risk management framework for assessing and managing climate-related risks should be proportionate to the circumstances of each fund manager.

*This article was contributed by **Gaven Cheong**, Head of Investment Funds, and **Esther Lee**, Registered Foreign Lawyer (Counsel-equivalent) at Tiang & Partners, and **Loretta Ng CPA**, Partner, Climate and Sustainability at PwC Hong Kong.*

TECHNICAL NEWS

The latest standards and technical developments

Members' handbook
Update no. 276 includes updates to the Code of Ethics for Professional Accountants (the Code) for the new and revised provisions relating to:

- *Revisions to the Code Addressing the Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers;*
- *Revisions to the Non-Assurance Services Provisions of the Code;*
- *Revisions to the Fee-related Provisions of the Code;* and
- *Quality Management-related Conforming Amendments to the Code.*

The above revisions to (1) Part 4A will become effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022; (2) Part 4B will become effective for assurance engagements beginning on or after 15 December 2022; and (3) Conforming and consequential amendments to other sections of the Code will become effective as of 15 December 2022.

Financial reporting

Institute workshops on IFRS/HKFRS 17 *Insurance Contracts*
Due to continued demand from members, the Institute will re-run a series of face-to-face workshops on International Financial Reporting Standards (IFRS)/Hong Kong Financial Reporting Standards (HKFRS) 17 *Insurance Contracts* in September:

- 5 September: Life insurance (Part 2) – Deep dive application;
- 13 September: General insurance (Part 1) – Overview and deep dive application; and
- 21 September: General insurance (Part 2) – Reinsurance, interaction with other standards, and presentation and disclosures.

Institute e-learning on HKFRS 3 *Business Combinations*
This archived webinar covers the recent amendments to HKFRS 3 which revise the definition of business and introduce the optional concentration test. Speakers use examples to illustrate the differences in accounting for business combinations and asset acquisitions, and common application issues of HKFRS 3. An update of the development of the International Accounting Standards Board's (IASB) projects relating to business combinations is also provided.

Institute e-learning on HKFRS 13 *Fair Value Measurement*
This archived webinar covers the key principles in 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 explains how those principles and requirements apply to certain specific examples. Speakers also share the audit considerations on fair value measurement and practice review findings.

***IASB Update* July 2022**
A summary of the IASB July meeting is now available.

IASB July 2022 podcast
The IASB podcast, with its chair and executive technical director highlighting the projects discussed during its July meeting, and a summary of the July meeting, are now available.

IASB sets out its 2022-2026 priorities
The IASB has published its Third Agenda Consultation Feedback Statement and Snapshot outlining its priorities for the next five years. The three main strategic priorities are to:

- Maintain the strategic direction and balance of the IASB's activities while slightly increasing efforts to develop digital financial reporting and improving the understandability and accessibility of IFRS Accounting Standards;
- Progress current projects; and
- Add intangibles, statement of cash flows and climate-related risk in financial statements to the work plan.

IFRS Interpretations Committee Q2 2022 podcast
In this podcast, IFRS Interpretations Committee Chair and member of IASB Bruce Mackenzie joins IASB Technical Staff Member Patrina Buchanan to discuss activities to support consistent application of IFRS Accounting Standards in the second quarter of 2022.

IFRS Interpretations Committee agenda decisions
The IFRS Interpretations Committee has published the following agenda decisions:

- Negative Low Emissions Vehicle Credits – International Accounting Standard (IAS) 37 *Provisions, Contingent Liabilities and Contingent Assets.*
- Special Purpose Acquisition Companies: Classification of Public Shares as Financial Liabilities or Equity – IAS 32 *Financial Instruments: Presentation.*
- Transfer of Insurance Coverage under a Group of Annuity Contracts – IFRS 17 *Insurance Contracts.*

Auditing and assurance

Invitation to comment
The Institute is seeking comments on the International Auditing and Assurance Standards Board (IAASB) exposure draft on proposed narrow scope amendments to International Standard on Auditing (ISA) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements* and ISA 260 (Revised) *Communication with Those Charged with Governance* by 4 September. The proposed amendments will help operationalize recently approved changes to the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* related to listed and public interest entities. The changes to the Code require firms to publicly disclose when the independence requirements for public interest entities have been applied in an audit of financial statements.

The Institute's Auditing and Assurance Standards Committee meeting minutes
Minutes of the 401st meeting is now available.

Reminder: Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules (Cap. 41L) Savings and Transitional Arrangements
The Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules (Cap. 41L) (Broker Rules) came into force on 23 September 2019. The Broker Rules set out the requirements applicable to licensed insurance broker companies for minimum share capital, net assets, professional indemnity insurance, the keeping of proper books and records, and contents for audited financial statements and auditor's report subject to specified Savings and Transitional Arrangements.

When performing audit engagements for licensed insurance broker companies, auditors should consider relevant requirements in the Broker Rules including the Savings and Transitional Arrangements as summarized in the reminder issued by the Insurance Authority.

Implementation Guide for ISA 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement*
This first-time implementation guide published by the IAASB focuses on the more substantial changes that were made to ISA 315 (Revised 2019) and will help stakeholders understand and apply the revised standard as intended.

Reporting going concern matters in the auditor's report
This non-authoritative publication issued by the IAASB addresses some of the common questions related to reporting going concern matters in the auditor's report and focuses on the use of and interrelationship of the *Material Uncertainty Related to Going Concern and Key Audit Matters* sections, and the *Emphasis of Matter* paragraphs, in an auditor's report prepared in accordance with the ISAs.

IAASB 2021 Public Report
The IAASB Public Report explains how the IAASB accelerated efforts in 2021 to serve the public interest in audit and assurance. In doing so, the IAASB focused on topics that have generated the greatest public interest attention, including fraud, going concern, audit evidence, and assurance on sustainability reporting.

Implementation tool: New quality management standards
CPA Canada's *Implementation tool for practitioners: New quality management standards* explains the scope and objective of the quality management standards and individual appendices which expand on each component of a system of quality management. It also includes example scenarios, factors to consider in evaluating the system of quality management and tips to prepare for the new quality management standards.

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:

- A virtual event "Are you ready for the new International Standards on Quality Management (ISQMs)?" to be held on 16 September helps auditors to ensure that their procedures are up to date and ready for the new quality management standards. The webinar will cover establishing quality objectives; risk assessment; design and implementation of systems of quality management; monitoring and remediation processes; documentation, and more.
- The article, *Why quality management is (mostly) about people*, explores the human factor of a firm's approach to quality management.
- *Audit and Beyond July/August 2022* provides practical support and resources to auditors. Guidance in this edition includes fraud in a financial statements audit; Q&A on revised ISAs etc.
- Resources to help audit firms prepare for the new and revised quality management standards under ISQM 1, ISQM 2 and ISA 220 (Revised).

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

Sustainability

Institute submission
The Institute has submitted its comment letter on the International Sustainability Standards Board (ISSB) exposure drafts, IFRS S1 *General Sustainability-related Disclosure Requirements* and IFRS S2 *Climate-related Disclosures.*

IAASB's comment letter to the ISSB
The IAASB has submitted a comment letter to the ISSB on its exposure drafts on sustainability- and climate-related disclosures. In its comment letter, the IAASB noted the importance of reliable, high-quality, globally consistent sustainability reporting that investors and regulators are able to trust.

***ISSB Update* July 2022**
This *ISSB Update* highlights preliminary decisions of the ISSB at its inaugural meeting in July 2022. The ISSB discussed preliminary feedback gathered during meetings with stakeholders on the exposure drafts. It also discussed its approach to preparing a request for information to consult the public on its agenda priorities. The request for information will inform the development of the ISSB's two-year work plan.

ISSB July 2022 podcast & update
The first episode of the ISSB podcast, with its chair and vice-chair discussing the highlights from the inaugural July meeting, and a summary of the July meeting, are now available.

IFRS Foundation completes consolidation with VRF
The IFRS Foundation has completed the consolidation of the Value Reporting Foundation (VRF) into the IFRS Foundation. It follows the commitment made at COP26 to consolidate staff and resources of leading global sustainability disclosure initiatives to support the IFRS Foundation's new ISSB's work to develop a comprehensive global baseline of sustainability disclosures for the capital markets.

More companies obtaining independent assurance on sustainability
The research study by the IFAC, American Institute of CPAs and Chartered Institute of Management Accountants shows that the number of global companies obtaining independent assurance on their environmental, social and governance (ESG) information has increased continuously. It also states that sustainability reporting and assurance will only reach its full potential when it is based on a harmonized global system led by the ISSB's comprehensive baseline of disclosure. The research study also encourages auditors to be engaged in ESG assurance as they are professionally qualified and licensed accountants who have the requisite expertise, objectivity, integrity and commitment to professional standards that are essential for instilling trust in ESG reporting.

Insolvency

Opening of special accounts for obtaining protected information on the Companies Register maintained by the CR
The Companies Registry (CR) is now preparing for the implementation of Phase 2 of the New Inspection Regime of the Register under the Companies Ordinance (Cap. 622). In particular, liquidators and trustees in bankruptcy, who are specified persons under the new regime, can apply for opening of special accounts for making future applications for protected information electronically upon the commencement of Phase 2 of the new regime on 24 October 2022. Further details will be provided once available.

Taxation

Announcements by the Inland Revenue Department (IRD)
Members may wish to be aware of the following matters:

- Inland Revenue (Amendment) (Tax Concessions for Certain Shipping-related Activities) Ordinance 2022 gazetted.
- IRD's circular letter to tax representatives – extended due date for "D" Code Returns.
- LCQ13: Financial position of government.
- Insurance agent convicted of tax evasion.
- Jail sentence for insurance agent convicted for tax evasion.
- List of Qualifying Debt Instruments (as at the end of 30 June 2022).
- Stamp Duty statistics.

Electronic filing of profits tax return
Corporations and partnerships satisfying the conditions specified by the Commissioner of Inland Revenue can file their profits tax returns for any year of assessment from 2016/17 to 2021/22, and attach supplementary forms to profits tax return S1, S2, S3 and S4 electronically under eTAX, either by themselves or, with effect from 1 April 2022, through a service provider. Please visit the IRD's website for details.

Legislation and other initiatives

Announcements by the government
Members may wish to be aware of the following matters:

- Policy Address consultation launched.
- Senior government appointments.
- Appointment of under secretaries and political assistants.
- Appointment of Chairman to Consumer Council announced.
- Appointments to Financial Reporting Review Panel.
- Appointments to Advisory Committee of Accounting and Financial Reporting Council.
- Process Review Panel for Financial Reporting Council publishes 2021 report.
- Analytical Accounts of Exchange Fund.
- Advance estimates on Gross Domestic Product for second quarter of 2022.
- Survey on Small and Medium-Sized Enterprises' Credit Conditions for Second Quarter 2022.
- Exchange Fund Position at end-June 2022.
- Exchange Fund Abridged Balance Sheet and Currency Board Account.
- Ministry of Finance issues Renminbi Sovereign Bonds through Central Moneymarkets Unit of Hong Kong Monetary Authority.
- LCQ19: Roles and responsibilities of Deputy Secretaries of Departments.
- Government announces adjustments to quarantine arrangements for inbound persons.
- Government announces enhanced Vaccine Pass function.
- Resumption of airmail services to Australia, Canada, France, Italy, Japan, Malaysia, Nepal, New Zealand, Pakistan, South Africa and United States.

AML notices
The list of individuals and entities published under section 43 of the United Nations Sanctions (Libya) Regulation 2019 (Cap. 537CF), was updated on 19 July.

The list of individuals and entities published under section 31 of the United Nations Sanctions (Democratic People's Republic of Korea) Regulation (Cap. 537AE), was updated on 27 July.

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

Agnes Cheuk CPA, Compliance Manager at Airwallex Hong Kong, doing the King Dancer pose or the Natarajasana.

FINDING INNER PEACE

Yoga is an ancient practice with over 5,000 years of history, and today it has become one of the most popular activities for its benefits to physical and mental health, not least among members of the profession. Three Institute members tell Thomas Lo about their journey as yogis, and how practising yoga ultimately changed their outlook on life

In Maharashtra, one of the largest states in India, Agnes Cheuk CPA joined an ashram, a place for practising yoga, meditation and other spiritual practices, while she was studying to become a yoga teacher. One night, while practising yoga, Cheuk had a sudden epiphany. "All of sudden, it all clicked. I realized that I don't have to chase anything. All I have to do is stay calm and just let things unfold and announce themselves to me," says Cheuk, Compliance Manager at Airwallex Hong Kong.

Her time at the ashram was eye-opening, she says. "It completely changed how I approach yoga," she adds. "It made me realize the importance of shedding my ego. In the ashram, students do chores, and I have to listen to the gurus instead of asking them to teach poses that I want to do when my body is not ready."

Cheuk is one of many Institute members who find inner peace, and achieve a better work-life balance, through regularly practising yoga and making it an integral part of their lives. In 2015, she was looking for ways to keep fit. She tried different fitness programmes, but none of these activities held her interest for long. Then she attended her first yoga group class at a gym. "After participating in the yoga class for a few months, my passion for it did not fade, but grew stronger. While I did not see drastic changes in my fitness level immediately after the first few months, I did feel more energetic than before. After doing classes more frequently, I could feel the effects. From once or twice a week, I gradually increased to doing classes every day at my peak."

In September 2016, after practising yoga for a year, Cheuk took part in a 200-hour yoga course to become a teacher in Hong Kong that involved learning about the human anatomy, the history of yoga and teaching skills to gain a deeper understanding of yoga. Two years later, she decided to take a career break and used this time to further explore her interest in yoga. She went to the ashram in India for another course to explore the differences between modern and traditional teachings of yoga.

After a month at the ashram, Cheuk returned to Hong Kong and went back to working as a compliance professional. This led to her taking fewer yoga lessons as she went from daily classes to going to class three times a week. "Before, I would be pushing myself too hard to achieve a yoga pose but I didn't live by the yoga philosophy," Cheuk explains. "Social media shows cool pictures of others doing all sorts of difficult poses, but at the same time, it plants seeds of comparison. I became so competitive, and I forgot about my initial goals in doing yoga: improving my health and finding peace. That month at the ashram taught me about acceptance."

Following those courses she took, Cheuk now teaches others.

"I became so competitive, and I forgot about my initial goals in doing yoga: improving my health and finding peace. That month at the ashram taught me about acceptance."

"Teaching yoga has become a way of sharing my passion for yoga. While I am teaching, I also learn how to improve my teaching skills."

The Crane pose, a pose emphasizing balance while strengthening muscle groups such as the arms, shoulders, legs and core, is done by using the arms to lift the body from the floor and curling inwards, resembling a crane standing in the water. "It is a challenging pose for beginnners usually. It felt impossible for the first six months. I couldn't even lift myself up," says Cheuk. "I felt disappointed, but then I did other exercises like push-ups and planks to strengthen my core and muscles. I also stopped caring about whether I could do it. I told myself that it will happen when the time is ripe – and this mindset extends to other aspects of my life. I don't have to rush. This comforted my mind, and I found peace, just like I did the first time I practised yoga."

Yin and Yang

It is 6:00 a.m. in Frankfurt, Germany and Vein Feth CPA, Regulatory Reporting Manager at Standard Chartered, is up before her kids, doing her daily 30-minute yoga routine to kick start her day.

While working at her office job, Feth developed minor lower back pain due to poor posture and a lack of exercise. This led her to try yoga 15 years ago. "It completely changed my life. I was always busy or planning ahead, and I seldom had a moment of peace. I was always in a rush and that led to me having quite a short temper at times. I can still remember that moment of peace I felt when I finished my first yoga class," says Feth.

The mental benefits of yoga were only apparent after five years of consistent practice, she says. "After a year of practising, I saw my weight drop, and my skin complexion improved. I also gained strength, stamina and flexibility. However, it was not until my fifth year of practising that I could finally feel yoga's effect on my mind," she says. "My loved ones have noticed that I am calmer than I used to be. Yoga taught me to slow down, and I can't imagine what I would be like now if I hadn't started practising."

In 2016, Feth attended a 200-hour yoga instructor course in Germany to further understand the practice. Three years later she completed another 100-hour yoga instructor course in Naples to refresh her skills.

But the course, she says, that had the most meaningful impact on her was the one she attended in 2021 in Frankfurt. There, she met an inspirational yoga instructor, Jo Phee, Founder of a yin yoga school, who taught Feth the art of both Yin and Yang yoga, as well as Chinese acupuncture. "Yin yoga is a slower practice where poses are there to strengthen the connective tissues and joints in the body. Yang yoga is the more traditional form of yoga, and practising it increases muscular

Vein Feth CPA, Regulatory Reporting Manager at Standard Chartered, doing the Tree pose or the Vrksasana.

> "Yoga taught me to slow down, and I can't imagine what I would be like now if I hadn't started practising."

strength, stamina, and flexibility," Feth explains. "I am good at doing Yang yoga, and still working on improving in Yin yoga."

Prenatal yoga is well known for its many benefits for pregnant women. "Practising Yin yoga helped me while I gave birth to my second child this year," says Feth. "The breathing technique helped me to work through the pain more easily, and my body was strong enough to give birth to my child without any issues."

Learning about Yin and Yang yoga introduced Feth to a new approach to the practice. "Jo Phee taught me about the acceptance of differences," Feth adds. "I used to take the photos in magazines very seriously and tried my best to pose exactly like them. But from Jo Phee, I learned there is no perfect standard for every pose, and everyone should do poses according to their body as we are all built differently. As long as everyone embraces their body, their pose can be beautiful in their own way."

Mind over matter

As the sun rose in Ueno, one of Tokyo's busiest areas, Bowie Lam CPA, a novice yoga instructor and a former senior tax consultant at PwC, had just finished her morning yoga practice and was ready for the day ahead. After three years of practising yoga, she is now well aware that yoga is not as easy as she first assumed it to be. "It can be intense and challenging. It felt like I almost broke into half when I first learned the Wheel pose. But all the hard work pays off if you continue putting the work in," Lam says.

In 2019, Lam was in her second year of work experience, and with her office workload and lack of exercise, she developed minor lower back pain. She decided to check out a yoga studio next to her apartment. "I was looking for a less intense form of exercise, and I joined a group course once a week to get into the habit of working out," Lam explains. "I was wrong in thinking that yoga was not intense or challenging. But after only a month, my back pain was gone. I saw the benefits immediately and enjoyed the relaxing atmosphere of the group classes, so I kept going."

Bowie Lam CPA, a yoga instructor, doing the Mermaid pose or the Eka Pada Rajakapotasana.

In 2021, after practising yoga for two years, Lam decided to kick it up a notch by applying for a 200-hour yoga instructor course in Hong Kong. "During my time, I learned about the philosophy of yoga and anatomy of the human body," she says. "Most importantly, I came to understand that yoga is not just about the body, but also the mind. When doing the handstand or Pincha pose, the most difficult part of it is not keeping your balance but maintaining your concentration. One seldom learns to train the mind to stay calm in everyday life. Yoga is more than maintaining one pose; it is about the alignment of mind and body. Once you find peace of mind, you will find balance when posing."

The instructor course taught Lam that the practice of yoga only gets more and more interesting over time. "With my experience and deeper understanding of yoga, I realized there is a never-ending process behind every pose. Even if I do a pose correctly, I still have to work on my breathing pattern, concentration, technique or strengthen different body parts."

Yoga, Lam says, strengthened her body and mind. "As I have now moved to Japan to pursue overseas work experience, everything is new to me. Practising yoga every morning prepares me for the challenges life throws at you."

> "Yoga is more than maintaining one pose; it is about the alignment of mind and body. Once you find peace of mind, you will find balance when posing."

Whenever she faces a challenge, she reminds herself of how she finally learned to do the Wheel pose. "All it takes is time and countless hours of practice. It is a continuous process, and that does not happen overnight. It took me three months. I had to learn how to relax my back and practised regularly. It is a gradual process where you bend backward slightly inch by inch until one day you finally do it. When that happens, the sense of accomplishment is indescribable. And the same goes for other things in life. Baby steps will gradually lead to success."

Yoga is derived from the Sanskrit root "Yuj," meaning "to join" or "to unite" and its origins can be traced to northern India over 5,000 years ago. There are 84 traditional asanas, or yoga poses, in modern yoga.

IVAN SO CPA

Risk Advisory Manager
at BDO

Photography by Anthony Tung

As Risk Advisory Manager at BDO, Ivan So CPA helps his clients to mitigate a wide range of risks and, in doing so, builds stronger relationships with them. He tells *A Plus* why staying two steps ahead of risk is key to helping companies avoid it, and to being a future-ready consultant

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

As Risk Advisory Manager at BDO, I am in charge of conducting risk assessments, as well as internal control, corporate governance, and regulatory compliance reviews for our clients, who are mainly from the financial services sector, including banks, insurance companies and licensed corporations. I am also responsible for the planning and coordination of each engagement. I hold regular status meetings with teams to ensure everything is on track and also communicate regularly with my clients and different parties to maintain a close working relationship with them. I provide in-house and external training on internal controls and compliance practices to my peers and to the senior management of our clients. Everything is going very well. I enjoy my job very much and I have genuine enthusiasm for the work.

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

The most challenging aspect is the ongoing demand to learn and the need to understand new professional and regulatory developments. To conduct regulatory compliance reviews, I need to be familiar with and stay abreast of the latest and upcoming laws and regulations, for example, the introduction of legislation for a new Hong Kong licensing regime in June to regulate the licensing of virtual asset service providers and the trading of cryptocurrencies for anti-money laundering and counter-terrorist financing purposes. New regulations can have a tremendous impact on the business and operation processes of regulated entities. I have to read and thoroughly understand relevant consultation papers, analyses and articles from other institutions, and attend seminars and forums. This helps me to understand the challenges and problems faced by our clients, and present them with a workable and effective solution. Though the role is challenging, I enjoy solving issues for our clients and deepening my relationship with them. It's satisfying when your work leads to positive changes within companies and benefits their customers, suppliers and staff. I also appreciate the opportunity to learn every day through handling different projects and working with highly regarded subject matter experts in different areas.

What inspired you to become an accountant?

I never thought that I would become an accountant – I was a science student in secondary school and wanted to be a pharmacist. The idea of becoming an accountant first came to my mind when I watched a documentary revealing the inside story of the infamous Enron scandal. I realized how important auditors are in preventing fraud and protecting investors, and I wanted to be one of them. After that, I was determined to pursue a career in auditing and chose to study accounting at university before I started my career as an auditor.

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 would love to advance within this role and continue specializing in risk advisory. I hope to obtain other qualifications related to my profession in order to upskill myself and expand my professional competence, and aim to take on more responsibilities and new challenges that bring out the best in me. I look forward to growing with the firm and assisting younger colleagues to achieve their career objectives. In 10 years, I envision myself as a leader in this profession and one who gives back to society.

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

By working as a manager, I learned what leadership is. I realize that power does not come with the position or title that you hold. Instead, it comes from the people who are willing to follow your lead. If you want your subordinates to devote their efforts and deliver their best at work, you have to always put yourself in others' shoes to understand how they feel, what they need, and what inspires them. It helps to build trust and create a positive team environment. We are not just here to lead the team to get the job done or tasks accomplished; we are here to help others grow. The more we help others to reach their full potential, the more successful we are as leaders. We also have to be passionate about our work, to enjoy what we do and to not see it as our job. When we feel excited about what we do, we stay motivated and engaged, and that helps us to tackle each day with focus and to always go the extra mile for the best results.

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

I learned a great deal from the QP. Apart from the technical accounting and finance knowledge, it equipped me with the skill set needed in my career and helped to develop my business acumen and agility to view things from a commercial perspective. I am able to understand various business scenarios and cope with them effectively. For instance, I learned about risk and liquidity management, internal controls, and have been able to apply this knowledge to provide professional advice to our clients, especially when they are facing compliance and financial matters. The QP also trained me to think logically and holistically in my day-to-day work, and that has helped me to successfully handle a variety of situations that I encountered during my previous role as an auditor, as well as in my current role as a consultant.

AFTER HOURS

As recommended by Institute members

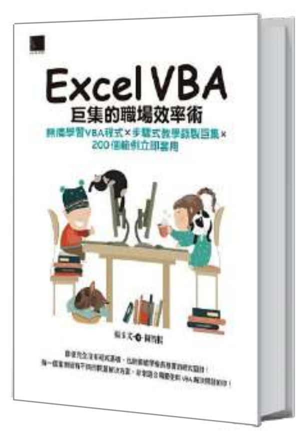

Char koay teow

Travel

"I recommend visiting Penang, located on the northwest coast of Malaysia. Once a British colony, the state has many beautiful colonial-era buildings that have been preserved through the years. The Malaysian population consists of Chinese, Malays and Indian, and this unique cultural mix is a major influence behind its cuisine. You can't visit Penang without trying its food, so I recommend hawker classics such as *char koay teow*, *prawn mee*, and eating at restaurants that serve "Nyonya" cuisine, which is the result of blending Chinese ingredients and recipes with Indo-Malay flavours, herbs and spices." – Alex Yuen CPA (practising), Partner of Alex Yuen & Co.

Read

"I recommend *Excel VBA巨集的職場效率術* by 楊玉文 and 陳智揚. As accountants, knowing how to carefully manage data is key, especially when it comes to financial reporting. Visual Basic for Applications (VBA), which is the programming language of Microsoft Excel and other Office applications, is a simple and effective way to handle large amounts of data. The book covers both basic and intermediate-level concepts in VBA in a way that are easy to understand and applicable. The methods in this book have helped accelerate everyday tasks and increase my overall working efficiency." – Stanley Hui CPA, Assistant Accounting Manager at Hutchison Property Group Limited




Hala, guitarist of NiLiu

Listen

"I recommend listening to the band NiLiu (逆流), which is a local Hong Kong metal band. Songs such as *序樂* (Prelude), *一瞬* (One moment), and *Can you hear us* are a few of my favourites. The title of their band name, which means 'countercurrent' in English, points to two things about the band and their music: that they are a rare breed in Hong Kong, since metal music has never gone mainstream, and their will to go against the grain to earn recognition. The lyrics of their songs are meaningful and contain cheerful and positive messages, which I think is particularly inspirational, given what Hong Kong and the world has gone through in the past two years." – Marcus Ng CPA, Finance Director of A.S. Watson Retail (HK) Ltd. – Fortress


Pérignon
1996
Success symbol
CPA
Success ingredient