# A+

DRIVING BUSINESS SUCCESS

*Issue 10 Volume 18 October 2022*

PLUS:

## MENTAL HEALTH
Strategies used by the Big Four to tackle and promote mental wellbeing of staff

## PROFILE
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## SECOND OPINIONS
What are the opportunities and limitations of ETF Connect?

# WEATHERING THE STORM

Against the backdrop of high inflation, rising interest rates and an imminent global recession, how should CFOs and treasury managers prepare companies for these challenging conditions?

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# ANNUAL DINNER 2022
# BUILDING UPON CHANGE

**Date: Monday, 5 December 2022**

**Time: 7:30 p.m.**

**Venue: Ballroom, JW Marriott Hotel Hong Kong**

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## "Now, a new chapter has begun for the Institute as it looks to reach new heights in its redefined role and build upon change."

Dear members,

The Institute's former regulatory roles in the issuance of practising certificates, registration and inspection of practice units, and regulating the professional conduct of all CPAs and practice units were finally transferred on 1 October to the now renamed Accounting and Financial Reporting Council (AFRC) under the further reform of the regulatory regime of accounting profession.

Since the reform was first announced by the Secretary for Financial Services and the Treasury in June last year, the Institute has worked closely with the government and the Financial Reporting Council to address the legislative, operational and transitional implications of the changes. Throughout the process, the Institute has demonstrated professionalism in fulfilling its regulatory functions while facilitating the seamless transfer of regulatory powers to the AFRC. Members were kept abreast of the developments and subsequent changes to the registration process have been provided via a dedicated webpage, standalone emails, as well as multiple members' forums.

Now, a new chapter has begun for the Institute as it looks to reach new heights in its redefined role and build upon change. Despite the transferral of these functions, the Institute will continue to shoulder essential responsibilities of registering CPAs, the training and development of the accounting profession in Hong Kong through the Qualification Programme and continuing professional development programmes, as well as the crucial role of setting professional standards and supporting our members.

As I've mentioned in my interview in *A Plus* when I first became President of the Institute, the change spells a critical opportunity for us to focus our efforts on supporting members for the betterment of the industry.

Looking forward, we are excited about reaching a major milestone as we enter the 50th year since the Institute's establishment. Plans are underway for various initiatives to celebrate the profession and our members, and promote their achievements to the public.

To kick us off, starting from 30 October, a brand new series of short interviews developed by the Institute in collaboration with local outlet *ViuTV* will be broadcasted on television once a week to introduce the accounting profession to the broader public. These shorts will take a look at different experiences on the career ladder as well as how accountants are fulfilling their social responsibility.

Through this programme, we hope to articulate the lively dynamics of the accounting profession for the general public. Interested members should stay tuned to our social media channels for the latest broadcasting schedules as well as upcoming celebration events.

This issue of *A Plus* will be our last full issue before we return in January 2023 under a brand new quarterly schedule. For the next two months, readers of *A Plus* may check the Institute's website for any new updates and continue to have full access to past issues of the magazine through the digital, pdf and flipbook versions. We appreciate the support for *A Plus,* and are constantly looking to improve our offerings. We hope to continue to serve our community with quality content and timely enhancements to the user experience.

**Loretta Fong** CPA (practising)
President

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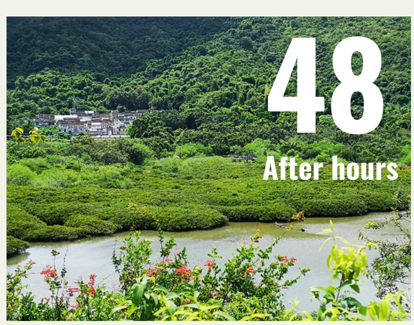



DRIVING BUSINESS SUCCESS

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

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The digital version is distributed to all 47,478 members, 14,340 students of the Institute and 2,358 business stakeholders every month.

# A new era: The Institute redefines its role for the profession

As of 1 October 2022, the Institute's former regulatory roles in the issuance of practising certificates, registration and inspection of practice units and regulating the professional conduct of all CPAs and practice units have been formally transferred to the Accounting and Financial Reporting Council under the further reform of the regulatory regime of accounting profession.

The Institute website has been updated to reflect the Institute's redefined role. Members can read the full "Message from the President" on the website for more details. Members should also visit the updated "Membership" section of the Institute's website to be aware of any updates to the timeline and requirements with regards to the upcoming 2023 membership renewal.

## Call for 2023 committee self-nominations

The Institute's Nomination Committee is inviting self-nominations for 2023. Members interested in playing a meaningful role in the development of the Institute and the accounting profession next year can put their names forward to join the committees. Members can learn more about the committees from the Institute's website and should submit the nomination form online on or before Friday, 18 November for consideration by the Nomination Committee.

## Revised Practical Experience Framework to be launched

The Institute's revised Practical Experience Framework (PEF) will be launched in December this year, introducing a one-stop online system for registration, updates and renewals for Authorized Employers or Authorized Supervisors (AE/AS), and for reviewing and verifying Qualification Programme (QP) students' practical experience. The revised PEF will provide AE/AS with flexibility in work arrangements for their QP students and enable transparent communication with the QP students via the brand new online system for reviewing their development progress.

With the launch of the revised PEF, a three-year transitional arrangement will be granted to existing QP students who have already started accumulating experience to have sufficient time to continue to attain the practical experience under the current framework. Further information about the revised PEF will be shared via the Institute's website and various channels.

## Mandatory CPD requirements

Members are required to complete 120 hours of continuing professional development (CPD) in a three-year rolling period, of which 60 hours must be verifiable; and at least 20 hours of relevant professional development activity in each year. More details about CPD requirements and relevant frequently asked questions are available on the Institute's website.

## PAIB Conference 2022

The face-to-face PAIB Conference 2022, organized for Professional Accountants in Business (PAIB), will take place on 12 November at the Grand Ballroom, Kowloon Shangri-La. Three panels of respected speakers will discuss and share their insights on the latest trends and developments relating to sustainability, environmental, social and governance, and green finance; digital technologies to help evolve business and operating models; and the value of CPAs in the era of digitalization.

## Annual Accounting Update 2022

With the theme "A New Chapter for Corporate Reporting," the virtual Annual Accounting Update 2022 on 19 November will focus on the new initiatives in corporate reporting started by the accounting profession to cater to the needs for a more sustainable future. Speakers will cover topics including the standard setting function of the Institute and major standard setting projects in progress; the standards which will be effective in 2023 and 2024; application issues of Hong Kong Financial Reporting Standards 9, 15 and 16, and the latest developments in sustainability reporting. Read *Meet the Speaker* on page 32 to learn more about the event.

# PAIB CONFERENCE 2022

## CPA Here and Now: Sustain, Transform & Deploy


**FACE-TO-FACE CONFERENCE**

**Date: Saturday, 12 November 2022 | Time: 9:00 a.m. - 1:00 p.m.**

**Venue: The Grand Ballroom, Kowloon Shangri-La, Hong Kong**

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# HK$30 billion

The value of the Hong Kong Co-Investment Fund that Chief Executive John Lee announced in his 2022 Policy Address – part of a plan to attract international businesses to Hong Kong. Financial Secretary Paul Chan FCPA later set out how companies looking to tap into the fund would be evaluated on capital investment, jobs created, potential return on investment and relevancy to Hong Kong's development goals.

# Israel + China

The two EY affiliates that have so far, as of 25 October, rejected the plan of the firm's global leadership to separate its auditing and consulting businesses across the world. EY Israel's managing partner said the split of the units would not create benefits for his firm. Earlier, EY China had cited differences in market and regulatory environment as its reason. EY said that splitting off its global advisory businesses would free its consultants from potential conflicts of interest, which currently prevent them from consulting for audit clients.

# US$20 million

The amount that the Securities and Exchange Commission (SEC) in the United States fined Deloitte's Chinese affiliate for issues related to the 2018 audits of 12 U.S.-listed Mainland companies. The SEC said that the firm "fell woefully short of professional auditing requirements" by asking clients to select their own audit samples and prepare their own workpapers. The firm self-reported the issue to regulators and agreed to remedial measures.


Hong Kong's consumer inflation rate stood at 4.4 percent in September, its highest level since March 2015, according to data from the Census and Statistics Department. The rate was more than double the 1.9 percent measured in August. Hong Kong government officials said that COVID-19 relief measures accounted for some of the increase. It noted that import prices were expected to rise amid high inflation in many major economies, but added that mild domestic cost pressures should keep overall near-term inflation at moderate levels.

# 30%

The percentage of large companies that are considering relocation or have already left Hong Kong, according to a survey conducted by the Hong Kong General Chamber of Commerce. Meanwhile, 10 percent of those companies surveyed said they had already permanently relocated. The chamber urged the government to further ease COVID-19 related travel restrictions, which are often cited by companies as a reason why they are moving.

# Zero

The number of G20 nations that cut their 2021 carbon emissions fast enough to limit future global warming to 1.5°C above pre-industrial levels (what is often cited by scientists as the warming limit to maintain a safe climate), according to PwC's *Net Zero Economy Index 2022*. The firm stated that a global decarbonization rate of 12.9 percent would be required to avoid passing the limit. According to PwC's study, the decarbonization rate of G20 countries in 2021 averaged 0.2 percent, worse than the global average of 0.5 percent.

# 13-year low

Hong Kong's Hang Seng Index fell below 15,000 points on 25 October, its lowest level since April 2009. The stocks of Chinese Internet giants Alibaba, JD.com, Baidu and Tencent all fell by more than 10 percent on the day, with some analysts citing Mainland China's continued strict COVID-19 related policies. Mainland property and insurance companies also experienced double-digit percentage falls.

# 58%

The percentage of wealthy investors in Hong Kong and Singapore that are invested in digital assets including cryptocurrencies, according to a survey of 30 family offices and high-net-worth individuals conducted by KPMG. Of those respondents that do hold digital assets, 100 percent held bitcoin, while 60 percent had NFTs and other metaverse tokens.

# Fair Value

How companies in the U.S. could potentially measure their cryptocurrency holdings in the future, after a tentative recommendation by the Financial Accounting Standards Board. While not yet official guidance, it signals a significant step for companies that have been pushing for their digital assets to be reflected on their balance sheets at fair value according to market prices, rather than as intangible assets at their lowest value during a reporting period. Earlier in April, the International Accounting Standards Board had voted against starting a similar project, stating that cryptocurrencies are not being commonly used by most of the 140 jurisdictions that use International Financial Reporting Standards.

This month, the World Bank warned that the world is in for one of the worst periods for economic growth fueled by uncertainty and high inflation. Amid the gloom, Nicky Burridge finds out the steps chief financial officers and treasury managers are taking to manage the risks and whether the current economic outlook creates opportunities for treasury management

**Illustrations by Gianfranco Bonadies**

# THROUGH GOOD TIMES AND BAD

The World Bank recently warned that a global recession could be on the cards in 2023, as central banks across the globe increased interest rates in a bid to combat high inflation. It pointed out that central banks were raising interest rates with a degree of synchronicity that had not been seen for the past five decades, but these rises and other policy actions may still not be enough to bring inflation down.

"Global growth is slowing sharply, with further slowing likely as more countries fall into recession. My deep concern is that these trends will persist, with long-lasting consequences that are devastating for people in emerging market and developing economies," David Malpass, World Bank Group President, said.

The situation creates significant challenges for treasury managers as they position their companies to withstand the economic volatility that lies ahead.

Chief financial officers and treasury managers currently face a highly challenging combination of high inflation, rising interest rates, foreign exchange volatility and slowing economic growth. Anna Cheng CPA, former treasury manager of a multinational corporation, explains that rising interest rates are driving up the operating and finance costs of companies. "A global recession would also suppress demand and economic activities, which further squeezes the working capital of companies," she says.

Dennis Ip FCPA, CFO at Impro Precision, says many companies have already seen a fall in customer demand, leading to lower sales and profitability, which not only creates lower cash flow and liquidity, but also results in higher working capital requirements, due to increasing inventories and a possible rise in overdue receivables.

Meanwhile, Keith Ng FCPA, Deputy Chairman of the Hong Kong Institute of CPAs' Corporate Finance Committee and Managing Director - Finance at Link REIT, points out that as interest rates rise, property and other asset prices are likely to decline, increasing companies' gearing ratios. This, in turn, increases debt servicing costs, and companies are likely to have pressure on their net profit and cash flow. "For weaker companies, banks may be getting nervous because of asset price declines and gearing ratio increases, making them less willing to lend. The market for high-yield bonds has dried up, so for some companies it is no longer easy to raise money on the bond market," he says.

Cyrus Wong CPA, Finance Director of Pizza Express Hong Kong, says one of the biggest challenges created by high inflation for the food and beverage (F&B) sector is increased raw material costs. "We order quite a lot of food from Europe. Both food and logistic costs have increased significantly, managing costs and margin is one of the key challenges to our business," he says.

## Weathering the storm

For many treasury managers, preparations for these challenging conditions began some time ago. "When the tide goes out, you learn who has been swimming naked. It is a cliché, but it is very true for treasury management. Preparation must be done when the market is good. It could be very costly if you want to rectify it during a volatile market," Ng says.

In the current environment, he says

treasury professionals must stick to the fundamentals and avoid the temptation of short-term profits or cost savings. For example, he points out that for bank financing, while uncommitted funding may be cheaper, companies should not rely on it too much, as banks may withdraw it at short notice.

At the same time, Ng says companies should diversify their funding as much as possible. "In Hong Kong, bank loans are typically cheaper, so some companies rely on those, and are reluctant to issue bonds because they are more expensive. But bank loans are typically only for three to five years, and if they don't diversify their debt maturity it could become lumpy, with a lot of loans maturing in a particular year."

He points out that treasury managers can use bonds or swaps to fix the interest rates for some of their debt, while they should also conduct a cost-benefit analysis on how much of their foreign exchange risk they want to hedge. "If you short sell a high-yielding currency, you pay a premium, but if it is a low-yielding currency you won't. With the renminbi (RMB), people very rarely do a 100 percent hedge because if they do, all of their investment returns will be gone because it is very expensive. Obviously, hedging costs have recently reduced as the U.S. dollar interest rate went up. But, the U.S. dollar has strengthened a lot already," he says.

Ip thinks CFOs and treasurers should ensure their company has ample liquidity, regardless of the market conditions, pointing out that when COVID-19 first hit in 2020, many companies ran into problems due to having inadequate liquidity. "We always maintain around HK$1 billion in undrawn banking facilities to ensure ample liquidity, even in extreme circumstances like in the past couple of years," he says.

Ip adds that Impro Precision, a global casting and machined components manufacturer, has also diversified its sources of finance, increasing the number of Hong Kong principal bankers it has from four in 2016 to more than 10. "We do this to maintain healthy competition between the banks so that we don't rely on one particular bank, in case it is hit by bad credit and reduces its lending."

Ip adds that the company also maintains banking facilities outside of Hong Kong, in Mainland China and Turkey, so that it can tap additional financing if it needs to. Cheng says: "Treasury management needs to strike a balance between the days sales outstanding and the credit term to optimize working capital. Other sorts of funding from financing or investing activities are also necessary to stabilize the liquidity of companies." She adds that for short-term purposes, trade discount and factoring are commonly used for the early collection of receivables, although this involves additional financing costs.

**"When the tide goes out, you learn who has been swimming naked. It is a cliché, but it is very true for treasury management."**

Wong says he has worked closely with the financial planning and analysis function of the business during the challenges of the past three years to take steps to manage cash and optimize operational costs. "Every time new anti-pandemic measures are announced by the government, we need to assess the potential impact and look at different scenarios, such as a 50 percent drop in sales, to make sure we are prepared," he says. "We need to project our cash position for the upcoming 12 weeks on a weekly basis based on difference scenarios to make sure the business is self-sufficient in term of cash, whereas this process was done on a monthly basis when the market was stable." He adds that the frequency and accuracy of forecasting is particularly important during difficult times.

Like many businesses in the F&B sector in Hong Kong, Pizza Express' main costs are labour, food and rent. "In the face of rising food costs, we are constantly adjusting our menu or offering to maintain the balance between food quality and margin. We also need to be more flexible with the cost structure of labour, to enable us to react if sales are expected to drop significantly. Recruiting and retaining our part-time staff pool is the key to building a flexible labour structure. We need to reduce fixed costs and convert some of them to variable costs to manage our cash flow for both the short and long run," he says.

Dr William Chen FCPA, CFO at Quasar Engineering, a medical device manufacturer, points out that high inflation has led to increased raw material prices. At the same time, following the recovery from the COVID-19 pandemic, some materials are in high demand globally, meaning there are longer lead times for delivery. As a result, Quasar Engineering is ordering higher quantities to ensure sufficient material for production and to make purchases before prices increase further.

"From a financial perspective, it ties up more cash in terms of both unit cost and quantity before we can transfer the cost to our customers. The finance function plays an important partner role by working more closely with purchasing, operations and sales teams to analyse and identify the right balance of material inventory levels, unit material costs and cash flow," he says.

The strong U.S. dollar is another challenge. "We all learn that FX

For Wong and the F&B industry, the biggest risk is uncertainty in the market. "For treasury management purposes, we need very accurate forecasts for cash inflows and costs. But it is currently difficult to predict sales accurately, as they are highly dependent on the government's anti-pandemic measures. We expected the end of hotel quarantine to benefit the market and the business but it turns out the impact is not as good as we expected. We still need to keep managing the uncertainty and build different scenarios to make sure we are not over-optimistic in our forecasts."

Ip points out that as a precision manufacturer, the biggest risk his company currently faces is reduced demand for automotive and certain industrial goods during the economic downturn. Other risks include higher working capital requirements, high interest rates and volatile exchange rates. To ensure it has adequate working capital, the company reviews its inventory and receivables on a weekly basis. It has also included working capital in its key performance indicators, and built foreign exchange movement adjustment mechanisms into its customer contracts.

"Whenever there is a significant change, such as a 3 to 5 percent movement in the U.S. dollar and RMB exchange rate, we have an adjustment mechanism under which we can move the sale price up or down," Ip says.

He adds that the company also has access to financing in different countries to help manage interest rate risk. "In China, the interest rate is currently dropping, so we are borrowing more from there to replace higher cost borrowing in Hong Kong."

To increase cash flow, Chen suggests working closely with the

hedging is like buying insurance, but sometime the hedging cost is high. We do a matching/natural hedge, such as making material purchases in same currencies as sales," Chen says.

## Managing risk

An important part of the role of treasury management is identifying and managing risk. Cheng says foreign exchange volatility is one of the key risks multinational corporations currently face, due to the diversity of their businesses across different countries. "This can be minimized by keeping transactions in local currencies to mitigate the foreign exchange risk, but it cannot be avoided altogether due to the different denominated currencies in different countries within the same group. Therefore, appropriate hedging strategies need to be in place to minimize exposure to foreign exchange fluctuations," she says.

**"For treasury management purposes, we need very accurate forecasts for cash inflow and costs. But it is currently difficult to predict sales accurately."**

Cheng adds that in an inflationary environment, rising interest rates, and by extension increased financing costs, is another risk. "Executing fixed-term instruments or arranging hedging, such as interest rate swaps, can help to stabilize financing cost arising out of short-term increases in interest rates," she says.

commercial team to increase the frequency and accuracy of sales order forecasts, and with the supply chain and operations team to closely analyse material and finished goods turnover, as well as unit costs. "Treasury professionals should also regularly review with the supply chain team the payment terms of the top 20 vendors to identify opportunities, as well as increase the review frequency of receivable aging for faster collections, and challenge the necessity and timing of capital expenditure," he says.

## Identifying opportunities

While the current economic environment presents challenges for treasury managers, it also creates opportunities.

Ip points out that as a company that has the majority of its production in China, the RMB's current weakness has resulted in a HK$26 million exchange gain in the first half of 2022. "We have also taken advantage of the Hong Kong Interbank Offered Rate being lower than the London Interbank Offered Rate and the Secured Overnight Financing Rate to divert some of our U.S. dollar financing into Hong Kong dollar financing in order to leverage the lower borrowing costs of the Hong Kong dollar," he says.

Ng says: "As interest rates went up quickly, previous swaps' fair-value gain could be pretty good. I know some companies are considering closing out some of those swaps and taking profits. However, that should only be done within the risk appetite of the corporation."

> "We are witnessing an increase in awareness of the need for more sophisticated treasury management, particularly in an environment in which the economic outlook is volatile."

He adds that a high interest rate environment is also good for new investments. "Investment-grade bonds are easily yielding more than 6 percent nowadays. It is the right time to deleverage but also a good time to invest in solid businesses and bottom fish," Ng says, referring to a short-term price action strategy where investors buy assets that have experienced a decline.

Wong points out that the current environment also makes it a good time for restaurants to invest in new premises. "Though many restaurants in Hong Kong have closed, we see that the market rent is lower and the cost of building a new restaurant cheaper than a few years ago. But we need to bet on the recovery of the economy," he says.

Meanwhile, Cheng thinks the current challenges offer treasury professionals an opportunity to shine. "Previously, companies may have used accounting and finance staff to cover the treasury function, regarding it as a cashier function. As the complexity and diversity of a business grows, we are witnessing an increase in awareness of the need for more sophisticated treasury management, particularly in an environment in which the economic outlook is volatile."

## Being prepared

As treasury professionals navigate the current volatile environment, Ip stresses the importance of staying up to date with macroeconomic developments, and fine tuning the company's strategy to take account of these changes. "We have to maintain good liquidity, and have good control of working capital. It is also important to have a strong team in place to report the numbers quickly and continuously update financial forecasts," he says.

Ng suggests treasury professionals should prepare for the challenges ahead by arranging surplus financing and committed revolving facilities and ensuring that debt maturities are scattered. "Formulate your interest rate and foreign exchange strategies and seek approval from your board to ensure alignment."

He adds they should also keep abreast of the market developments and ensure they have the professional knowledge to understand any products they are offered thoroughly. "Both accounting and finance knowledge is essential for treasury professionals. A lot of treasurers have both CPA and chartered financial analyst qualifications. For every transaction a treasurer does, they need to know exactly what the accounting treatment will be and what the accounting implications are before they act," Ng says.

Chen advises treasury professionals to be heavily involved in business discussions at both strategic and operational levels, and discuss the implications for cash flow with top management before any decision is made. He adds: "They should also consider increasing the facility line headroom when the business performance and cash flow is still positive."

Wong suggests treasury professionals to closely monitor their business, not just in terms of cash flow, but also the accuracy of the information they receive across the business, such as figures on projected sales and costs. "Any variant could cause very serious consequences. If we miss 10 percent of the sales forecast then the result could be very different, especially when the fixed costs still account for a significant portion in the business model." Ip adds: "Overall, treasury managers should always be prepared, no matter whether times are good or bad." Ip adds: "Overall, treasury managers should always be prepared, no matter whether times are good or bad."

Recent consensus forecasts suggest that the global economy will experience its steepest decline in growth over the next two years following a post-recession recovery since 1970. Growth forecasts for the United States, Euro area, and China have also been lowered significantly, according to a report released by the World Bank last month.

# KEEPING THE CROWN

Bonnie Y Chan, Head of Listing at Hong Kong Exchanges and Clearing Limited, tells Jemelyn Yadao how the city can remain a top global listing venue, and about the further enhancements of its IPO regime

**Photography by Jocelyn Tam**

During a speech last month, China Securities Regulatory Commission Vice Chairman Fang Xinghai announced new measures signifying the broadening mutual access scheme between the Mainland and Hong Kong financial markets. One of them is the inclusion of Hong Kong-listed international companies in Southbound Stock Connect, an initiative that will give investors in the Mainland the opportunity to access the securities of international companies through the trading channel.

Bonnie Y Chan, Head of Listing at Hong Kong Exchanges and Clearing Limited (HKEX), says this is game-changing for the city as a listing hub. "For international companies that want to capture the potential of Mainland's huge investment pool, they only really have two choices – try to go onshore to get listed, which at the moment there's no easy way of doing, or get listed in Hong Kong and tap the Mainland investor base through the Stock Connect programme. We are the only international capital market which is able to offer that possibility."

This should come as welcomed news, particularly after the slowdown in initial public offering (IPO) activity globally during the first six months of the year, reflecting global market sentiment and the continuing impact of the pandemic. "With the new initiative, we hope we'll build on our high-quality capital raising hub for companies around the world," says Chan.

As head of HKEX's listing division, Chan is constantly looking at ways to further elevate the quality of Hong Kong's market. Her listing team acts as frontline regulators of Hong Kong's listing market, reviewing and approving IPO applications, and supervising the ongoing compliance by listed issuers with their obligations under the listing rules. Another key role of the division, she says, is to continue enhancing the rules that govern the eligibility of listing in Hong Kong. "When people talk about the listing division, they usually think about how we monitor listed companies for their compliance, which obviously is a very important part of what we do. But the more impactful part is creating new opportunities through new chapters [of the Main Board Listing Rules]. That to me is very rewarding," she says.

But creating listing policies is also the most challenging part of her team's work, Chan adds. "As a regulator, we need to map out the wishes and the demands of all our stakeholders, which includes a very broad spectrum of buy-side, sell-side professionals and intermediaries, regulators and government. There's never perfect alignment, but what we do is create a solution that most of these stakeholders will find acceptable and satisfactory."


HKEX
香港交易所

Bonnie Y Chan was appointed Head of Listing at HKEX in January 2020. As part of her role, she oversees the development of listing policies.

## Transforming the framework

Over recent years, numerous adjustments to HKEX's listing rules have been made, including the creation of three new chapters in 2018: Chapter 8A, which accepts companies with weighted voting rights structures; Chapter 18A, which deals with the listing of pre-revenue biotech companies; and Chapter 19C, which creates an easier path for Greater China companies to come to Hong Kong for a secondary listing. "We were targeting new economy companies back then, and it's translated into positive results. With our listing pipeline, these days we are increasingly seeing the centre of gravity migrating to new economies rather than traditional companies. So that was very successful," says Chan. From 2018 when the new listing rules took effect until September this year, 227 new economy companies listed in Hong Kong, raising a total of HK$893.3 billion and which accounted for 63.8 percent of IPO funds raised in the city during the period.

To facilitate the listing of innovative companies, HKEX launched a market consultation on new listing rules for specialist technology companies in October. The proposed rules will enable eligible pre-revenue and revenue making companies in five frontier specialist technology sectors to list in Hong Kong, including next generation IT, advanced hardware, advanced materials, new energy and environmental protection, and new food and agriculture technologies. "The initiative takes into account the

uniqueness of the role technology plays in these businesses and their early stage of development relative to other listing applicants, supporting their fundraising needs," says Chan.

HKEX has also made it easier for international companies to list in Hong Kong through its overseas issuers listing regime, which took effect in January. Doing this exercise was important for improving Hong Kong's competitiveness as an international financial centre, says Chan. "If we want to live up to that claim, we need to make sure that we attract not only the best Mainland companies, but also the best international companies," she explains, noting that over the past decade companies such as Prada, L'Occitane, Samsonite and Budweiser APAC have listed in Hong Kong. "But we also heard from these companies about areas where we could improve. Therefore, one aspect of last year's enhancement of our rules is to make sure that the regime includes measures that would enhance our market's accessibility for international companies.

"It used to be the case that before companies come to Hong Kong, they first needed to qualify their jurisdiction as an acceptable jurisdiction, and that involves a complicated exercise of comparing the shareholders protection features. We levelled the playing field so that regardless of where you come from, all you need to demonstrate is that you have fulfilled one set of Core Shareholder Protection Standards. With the new listing rules, we think we are very well-positioned to support this new pipeline of international companies."

Chan says that the second aspect of the regime is to support a vast pipeline of homecoming IPOs or listings, by which overseas-listed Mainland companies come to Hong Kong by means of a secondary or dual primary listing. Under the new listing regime for overseas issuers, for example, a United States-listed Chinese company without a weighted voting rights structure may seek a secondary listing on HKEX without demonstrating it is a company from emerging and innovative sectors, and with a lower market capitalization requirement.

"We're seeing an increased number of homecoming listings – now we have around 30. Interestingly, many of these companies have opted to come back by way of a dual primary listing as opposed to a secondary listing. I think the reason for that is because if you are dual primary listed, you may

"If we want to live up to that claim, we need to make sure that we attract not only the best Mainland companies, but also the best international companies."

be eligible for Stock Connect and that's a big attraction. In fact, a lot of the companies which were secondary listed on our exchange have now applied to become dual primary listed," says Chan. She expects the new listing rules will continue to facilitate this ongoing trend.

## Maintaining market quality

Most recently, HKEX also introduced a listing framework for special purpose acquisition companies (SPACs). Chan recalls how fast the process was from consultation to launch, with the consultation initiating in mid-September 2021 and the first SPAC being listed in March 2022. "That is six months, which is the fastest time we've completed an exercise," she says. Speed is necessary, she points out, as there are growing market expectations. "We need to get these new chapters ready so that when the market improves, companies can immediately get listed. But at the same time, we make sure we have a high-quality SPAC regime that strikes the right balance between business considerations and investor protection."

She calls it fortuitous that HKEX was able to study existing models in the SPAC space, such as the U.S. regime. "From the get-go, I think we had the benefit of learning from other people's lessons. And we had a few general principles. First of all, we decided that we are not going to create our SPAC regime to enable ineligible assets to get listed. We


In line with the prevailing global trend, fundraising activities slowed in Hong Kong, but on the upside, Hong Kong saw an increase in IPO activities in the third quarter this year, with 27 IPOs raising a total of HK$51.3 billion, more than twice that had been raised during the first two quarters of 2022, according to KPMG's report: *Mainland China and Hong Kong IPO markets: 2022 Q3 review.*

know we have to hold the line very firm to maintain our market quality," says Chan.

"Number two is we want to make sure that we introduce elements of independence in the whole valuation process. And to do that we introduced this element of minimum independent private investment in public equity, or PIPE investors, so that when a SPAC eventually de-SPACs, you introduce another participant at the bargaining table. They have an interest to negotiate with the SPAC promotor and the business owner, and you end up with a sustainable level of valuation.

"The third thing is that the SPAC regime is designed to be a professionals-only product before the de-SPACing process," says Chan. She points out the reason for this is based on a SPAC entity being a "cash company," meaning that any volatility in the stock price would likely be a result of speculation. "We found it too risky placing it in the hands of retail investors," she says.

Chan points out that this is an innovative aspect of the regime. "It's the first time Hong Kong is able to design new listing rules that allow or disallow participation of certain pockets of investors, commensurate with the risk of the product. And that's useful because that would give us even more latitude to design products of different risk levels."

In the process of developing the SPAC regime, HKEX was in close dialogue with the accounting profession. "A few members on our Listing Committee are accountants by training, and they gave us very good advice in terms of how we should design rules," says Chan. "I thought that was a very good collaboration."

She says that accountants, particularly those who specialize in IPOs, have long played a key role in the listing process. "So far as IPOs are concerned, they will continue to be very critical. They are the gatekeepers. They are there to kick the tyres on the financials and I think they will continue to bring huge value in that regard."

## Evolving ESG journey

HKEX's environmental, social and governance (ESG) journey started in 2013, when it introduced its ESG Reporting Guide and has since continued to upgrade the disclosure obligations of listed issuers. It is now keeping a close eye on international developments in relation to climate reporting. "Without good reporting or data disclosure, funds would not be able to employ their capital. There's a clear commercial rationale," says Chan.

**"So far as IPOs are concerned, they will continue to be very critical. They are the gatekeepers."**

She says that while the International Sustainability Standards Board (ISSB) is working to launch its sustainability-related financial reporting standards, which are expected to be announced early next year, HKEX, alongside the Securities and Futures Commission, are preparing their public consultation on a climate reporting framework. "In the last few months, we have embarked on very robust rounds of soft consultation. We have spoken to over 50 different sets of stakeholders, including listed companies and other professional groups. We are mindful that it's a big exercise, and depending on listed companies' scale and access to resources, they may have different varying levels of readiness in terms of being able to comply with climate disclosures requirements."

HKEX is reviewing its rules to further enhance climate disclosures to align with the new ISSB standards, says Chan. "We hope the ISSB standards will generally be what investors are looking for in terms of climate disclosure for them to make their investment decision. We will closely monitor the international regulatory developments in this regard, and continue to provide guidance and training to our listed issuers to promote ESG and climate change stewardship."

Chan says that climate reporting is an area where accountants can play a substantial role. She points out that based on the soft consultation of its rules, it is evident that there is a need among listed companies for more advisors to help them comply. "One comment we keep getting is that 'we don't mind doing the work and complying, but we cannot find enough advisors in the market to help us with our climate reporting.' I think the biggest auditing firms already know that they need to make the investment and build capacity in this area. It's just that the pace needs to be accelerated as there are a lot of opportunities there for the profession."

As well as the development of ESG reporting, Chan is looking forward to seeing more women sitting on the boards of Hong Kong-listed companies in the near future. Starting from July, HKEX no longer accepts IPO applicants with single-gender boards. Existing listed issuers with single gender boards have until 31 December 2024 to appoint at least one director of a different gender. "I think it's going to create a very strong momentum. For new listings, usually we'll have about more than 100 new listings each year. Even if everyone simply has at least one female director, that's already a big pool of female talent we're adding," she says.

According to Chan, a third of existing listed issuers have all-male boards, accounting for around 800 companies. "I don't think they're going to wait until 2024. I think the churn will start whenever they have to bring in a new director, so that's going to be quite exciting."


Chan graduated from the University of Hong Kong and Harvard Law School. Besides her two stints at HKEX, she has worked as a solicitor, banker and in-house counsel for an investment bank.

## Leading to win

Chan graduated from the University of Hong Kong and Harvard Law School. She has worked as a solicitor, banker and in-house counsel for an investment bank. "These were diverse experiences that gave me different perspectives when approaching a new problem," she says.

Chan first joined HKEX in 2007 as head of the IPO department, and moved to private practice in 2010. She then spent nine years with international legal firm Davis Polk in Hong Kong as a private practitioner before assuming her current role. "HKEX is one of the world's biggest and most-respected exchange groups in the world. I am as exhilarated as I was when I first joined in 2007 to play a role in carving the future of global financial markets. In the past two years, I have had the privilege to continue working with a very professional team, and together we have driven a number of initiatives that have contributed towards Hong Kong's enduring success as an international financial centre."

As Chan oversees the listing function's relationships with key stakeholders, she says that the ability to address the needs and pain points of different stakeholder groups is crucial in her current role. "For example, in 2020, we worked very closely with the accounting profession to overcome audit challenges resulting from the COVID-related travel bans. Through our direct engagement with the accounting profession and the affected listed issuers, we were able to come up with innovative solutions that kept the market informed. Having the empathy to appreciate and address the difficulties of the affected stakeholders was key to get that challenge to a safe resolution."

A new passion that Chan developed during the pandemic is weight training. "Since COVID, it dawned on me that it is very important to make sure that I'm physically and mentally fit. So I began going to the gym about a year ago, and now I'm completely hooked, going to the gym five times a week."

This fitness side of her was highlighted during a recent two-month corporate wellness challenge for HKEX staff, in which she came in among the top few performers across the entire organization. "More than a thousand colleagues joined; I did 4,300 kilometres of cycling in two months, and the listing team won the challenge as a division," says Chan, still shocked. "There were moments, especially after the first month, where I thought I was going to give up, but I stuck with it thinking I should set an example for my team."

# MENTAL HEALTH IN ACCOUNTING

With World Mental Health Day 2022 held this month, the Big Four firms share the steps they have taken to promote wellbeing among their talents. Nicky Burridge reports

**Illustrations by Ester Zirilli**

Accountants suffer greater levels of stress than professionals working in other sectors, with the high workload, long hours and the lack of margin for error tipping many over the edge. This was the conclusion of a recent study into accountants' mental wellbeing conducted for the Institute of Chartered Accountants in England and Wales. It found that 56 percent of professional accountants were suffering from stress and burnout, compared with 41 percent of employees across other sectors.

While no similar study has been conducted in Hong Kong, there is reason to think professional accountants working in the city suffer from comparable mental pressure.

Depression and anxiety are the most common mental health problems people in Hong Kong suffer in a workplace setting, with burnout also widely seen, according to Odile Thiang, Lead Clinical advisor – Anti-Stigma Programme, at Mind HK. "Burnout is the result of sustained and unmanaged chronic workplace stress. Long working hours, unreasonable workloads, unsupportive leadership, a lack of collegiality and autonomy can all contribute to burnout and lead to further mental health distress," she says.

Thiang adds that the COVID-19 pandemic has had a significant adverse impact on the mental health of people in Hong Kong due to its associated societal and economic concerns. There is also a significant stigma around mental health in the city, with 41 percent of respondents in a survey conducted by Mind HK stating mental health problems were the result of a lack of self-discipline and willpower. "This is of course not true, as mental ill health is complex and multifactorial, including biological, psychological and social factors. The stigma of mental health is important because it is likely contributing to the fact that three in four people struggling with mental health do not seek help," Thiang says.

Research by the City Mental Health Alliance Hong Kong (CMHA HK), a not-for-profit alliance of businesses working with mental health experts to support mental wellbeing in the workplace, suggests mental health issues among professionals are getting worse. Its *2022 Thriving at Work Assessment*, based on a survey of its members, who include accounting firms, as well as leading global banks and law firms, found that 40 percent of employees had experienced mental health issues in the past 12 months, significantly higher than the 27 percent who reported issues in 2020.

Peter Picton-Phillipps CPA, EY APAC Financial Services Partner, Wellbeing Sponsor Partner at EY Hong Kong, and a Board Director for CMHA HK, says: "Stress and associated burnout, depression, anxiety, loneliness, lack of resilience, and inability to sleep are all symptoms of mental health issues impacting many accountants, particularly those working in the audit industry."

Edward Au FCPA, Vice President of the Hong Kong Institute of CPAs, and Southern Region Managing Partner at Deloitte China, thinks the pressure professional accountants work under can make them more vulnerable to mental health issues. "Accountants play a frontline role in the financial success of businesses, and very often have to balance costs and benefits, and consider various perspectives when making decisions. With constant pressure to manage multiple tasks that require high accuracy and hard deadlines, it may be that accountants are easily prone to stress and anxiety," he says.

## Promoting mental wellbeing

Accounting firms are increasing the attention they pay to the mental wellbeing of staff, with many introducing programmes to promote good mental health. When introducing such programmes, Thiang thinks the most important factor in determining their success is whether they are supported by leadership. "Mental wellbeing programmes have to come from the top down, with the leaders of the company openly talking about the importance of mental health, as well as enacting policies that are aligned with a healthy work-life balance," she says. Thiang adds that bringing in experts to talk about mental health, or having short-lived mental health and wellbeing campaigns, tend to fall flat unless there are concrete policies to back them up.

Recommended initiatives include measures that support work-life balance, such as having appropriate leave allocation, offering flexible working opportunities, and ensuring an appropriate amount of sick leave is available, including time off for mental health distress. Setting up employee assistance programmes and making them widely available is also important, according to Thiang.

Research by CMHA HK found that the most effective initiatives for promoting mental wellbeing in the workplace were providing culturally appropriate in-house and external mental health support, and giving employees access to preventive and early intervention services. The report added that using external campaigns, such as World Mental Health Day and the Green Ribbon Campaign, to raise the profile of mental health issues was also effective.

"Mental wellbeing programmes have to come from the top down, with the leaders of the company openly talking about the importance of mental health."

But the research also found that companies still needed to do more in terms of supporting employees through lifecycle events, as well as communicating their commitment to workplace mental health to them, and collecting and reporting data to develop and promote workplace mental health strategies. Other areas identified as having room for improvement included appointing and developing mental health champions and providing support for line managers.

"Evidence that many employees are unaware of the mental health resources offered by their employer shines a light on the need for improved internal communication on the strategies and initiatives available, and would be well supported with the introduction of mental health champions to signpost their peers to resources and initiate mental health discussions to help break down the prevailing stigma associated with mental health," the report said.

## Big Four initiatives

All of the Big Four firms in Hong Kong have initiatives in place to promote mental wellbeing among their employees.

PwC is conscious that as a professional services firm, there may be situations in which staff in some of its businesses have to work longer hours at specific times of year. As a result, it takes a proactive approach to providing support through creating what it describes as a wellness ecosystem, a holistic framework that covers physical, mental, social, occupational, and financial wellness. As an integral part of this ecosystem, PwC launched its WeFlex policy in 2018, which provides the flexibility for its employees to choose when, where and how they work, provided that it works for clients, the team, and the individual.

Meanwhile, its Wellness Reimagined app, which was launched last year, connects staff with a one-stop shop of services and products to improve and enhance a personalized wellness experience. In addition to a flexible wellness budget for employees to purchase PwC-curated wellness packages, it offers 24/7 life coaching services covering both personal and professional concerns, as well as regular talks on issues such as mental health hosted by external professional bodies, and articles sharing wellbeing tips to help its employees cope with their everyday stress. In view of the importance of building a sense of community with colleagues across locations, PwC recently updated its Wellness Reimagined app to include a Life Club feature to help people

stay connected and build meaningful relationships.

"We recognize that every individual is on a separate wellness journey and therefore we must be agile in how we respond to their specific needs, providing flexibility and a personalized experience for our people," Ewan Clarkson, Chief People Officer, PwC Mainland China and Hong Kong, says. "Even for accountants working on the same project, each of them can be experiencing different events in life, face different challenges in their flexible work arrangements, or respond differently to stress and pressure as an individual." As a result, he says it is important for team leaders to lean in and be aware of individual challenges and experience, and have frequent check-in with team members.

Clarkson adds that since the firm introduced its enhanced wellness journey, it has seen a 14 percent increase in staff satisfaction around wellbeing and flexibility, while 80 percent of staff downloaded and started using its upgraded Wellness Reimagined app within a month of its launch.

He advises firms setting up wellness programmes to include active listening programmes in leaders' routines to identify demand for mental health and wellness services. "By regularly organizing knowledge sharing webinars and through monitoring the wellness indexes and sentiments via different channels, the needs and voices of employees can be relayed back to people leaders, who then can take actions to address those individual challenges," Clarkson says.

For Deloitte, a key pillar of its wellness initiatives involves facilitating open discussions about mental health issues and encouraging staff to make mental health a priority.

It does this through regularly organizing wellbeing-themed activities to raise awareness about the issue within its practice. "We want to create a culture where people don't feel shy to talk about their own mental stress or issues, and people know how to leverage our internal and external resources when they are in need, including but not limited to a mental health hotline handled by qualified psychologists that Deloitte specifically procured for our talents," Au says.

The firm also places a high emphasis on maintaining a two-way dialogue to address mental wellness, providing regular opportunities for staff to express their needs through surveys, discussion forums and internal communication channels. It has also launched a Mental Wellbeing Month during which it runs various live and virtual activities to engage talents.

Au points out that businesses all have their own unique work culture and practices, and although there are many popular mental wellbeing programmes available in the market, there is no one-size-fits-all approach to promoting mental wellbeing at work.

EY takes a holistic approach to wellbeing, based on four pillars which cover mental, physical,

financial and social wellbeing. While all wellbeing activities get positive take up, post-event surveys have found staff want more events covering mental wellbeing. "We believe it's the individual's responsibility to take primary care of their own wellbeing, but managers and leaders have a responsibility to support the people they supervise," Picton-Phillipps says. "We made a public commitment with respect to mental wellbeing in 2020 on World Mental Health Day, and since then have been raising awareness and reducing the stigma related to the topic, through regular events throughout the year."

He explains that EY has supplemented its existing traditional support mechanisms with specific training for "mental health first aiders," as well as making new self-help information available. "Creating a firm culture where people feel they belong, and which supports them in developing their professional skills and bringing their best self to work is a priority for EY. This encapsulates all aspects of wellbeing, and diversity, equity and inclusion," he says. "We still have a long way to go and continue to look at ways we can enhance the support we provide."

For firms looking to introduce their own wellness programmes, Picton-Phillipps advises them not to try to reinvent the wheel, but to leverage support that is available from organizations like CMHA HK. He also stresses the importance of having buy-in from leadership at the top of the firm. "Having a programme is one thing, but it needs to be embedded into the firm's culture to be successful and bring the benefits to the workforce," he adds.

To promote staff wellbeing, KPMG China has more than 50 staff-led interest groups called myLife, as part of its staff engagement and wellness programme. "Through three key focuses – mind, body and social – myLife aims to help our people strike a better work-life balance and drive social interactions among our people. All these interest groups are funded by the firm to run different activities, ranging from football, hiking and photography, to parenting activities," a KPMG spokesperson explains.

It also holds awareness-building activities on World Mental Health Day, while mental wellbeing is included as a topic in its Fit to Lead programme.

## Win-win outcomes

Introducing effective strategies to promote mental wellbeing in the workplace, has significant benefits for companies, as well as employees.

Picton-Phillipps points out that clients and regulators expect the highest standards from auditors in Hong Kong. "Auditors' work is demanding and challenging to get right, and people can only perform to their best level if they have good physical and mental wellbeing. All audit firms rely on their people to meet these expectations and it is incumbent on them to support their people in achieving good wellbeing for the sake of their people, clients and business," he says.

Thiang says that aside from a company's need to take care of its employees, it is advantageous for an employer's bottom line to prioritize their mental and physical wellbeing. "Employees who are well are better able to contribute meaningfully in their job. Poor mental health negatively impacts productivity and innovation. Attrition from burnout, anxiety or depression will negatively impact productivity and disrupt continuity."

In fact, research by CMHA HK estimates that mental health costs employers between HK$5.5 billion and HK$12.4 billion a year in terms of absenteeism, turnover, team productivity loss as well as opportunity cost.

Au agrees that investing in corporate wellness and offering mental health resources not only benefits employees but also firms. "As a professional services firm, Deloitte sees talent as our greatest asset as we rely on them to deliver the highest quality of services to our clients with their expertise and professional knowledge," he says. "Employees who are motivated and possess a positive state of mind work more productively and maintain a better relationship with our clients, and also tend to stay longer with the team and the firm."

**"Auditors' work is demanding and challenging to get right, and people can only perform to their best level if they have good physical and mental wellbeing."**

He adds that having a strong focus on wellbeing can also help with recruitment. "Job seekers tend to look for workplaces that support high levels of wellbeing nowadays, especially Gen Z and millennials. They have a higher level of mental health literacy and desire their employers to prioritize wellness and offer flexibility at work to accommodate their own interests and individual needs," Au says. But he stresses that Deloitte does not think of wellness programmes as being a recruitment tool. "It is more about how to make Deloitte a better workplace so that talents naturally want to become part of our family."

Clarkson agrees: "Organizations that make wellness and flexibility a priority of their people strategy will not only foster a caring and inclusive culture for a better people experience, but also build a stronger employer brand, attracting and retaining the best talents," he says. "Organizations that make an effort to listen to their people, understand and address their individual challenges to enable employees to live well and work well will lead to higher work efficiency and better business outcomes."

According to research by City Mental Health Alliance Hong Kong, based on a survey of its members, who include accounting firms, global banks and law firms, 40 percent of employees had experienced mental health issues in the past 12 months, significantly higher than the 27 percent who reported issues in 2020.

# SECOND OPINIONS: WHAT ARE THE OPPORTUNITIES AND LIMITATIONS OF ETF CONNECT?

C.Y. WONG CPA
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In 2014, Stock Connect was introduced to allow eligible Mainland China investors to access the Hong Kong stock market with ease, as well as allowing foreign investors to access the Chinese stock market. Since then, Stock Connect has become a successful investment channel for both domestic investors and foreign investors to access more investment opportunities conveniently. In June, it was announced the Stock Connect would be expanded to include eligible exchange-traded funds (ETFs) for both Northbound trading and Southbound trading on 4 July.

As the China domestic market is a closed market, and domestic investors are restricted from accessing overseas market, the risk and return exposures of the Mainland China market are very different from that of the Hong Kong market. The introduction of ETF Connect provides a very good opportunity for investors to get a foot into a new market. As there are thousands of stocks in each stock market, ETF Connect significantly simplified how an investor could access the other markets without needing to hand pick the stocks to invest in as is the case through Stock Connect. Also, since there is an investment cap for each individual stock in ETF, investors could appraise a new market without needing to worry about how to manage and diversify their risk exposure on a single stock. Different baskets of stock portfolios held by different ETFs could also help investors to diversify their concentration risk into different industry segments.

This could help attract more domestic investors to come invest in Hong Kong markets in order to diversify their concentrated exposure in the China domestic market, as well as give foreign investors an opportunity to understand the Mainland China stock market more by actually participating in it. With an enlarged investor base, this could also potentially entice more asset managers to offer more ETFs with distinctive investment mandates in both the China domestic and Hong Kong markets, facilitating further cross-border investment and creating a virtuous cycle for the ETF market.

However, at the initial phase, one of the criteria for an ETF to be admitted into ETF Connect is that most of the stocks in its portfolio must be Stock Connect eligible. As such, investors could already have invested in the underlying stocks directly under Stock Connect, making the ETF Connect less appealing to investors. In addition, unlike the Northbound trading where there are 83 eligible ETFs available for foreign investors to invest in, only four ETFs are admitted into Southbound trading for domestic investors to choose from. The extremely limited number of ETFs available for Southbound trading has significantly hampered the attractiveness of ETF Connect to domestic investors. Without relaxing the admission criteria, the number of ETFs eligible to be included will continue to be limited, and will therefore limit the potential of ETF Connect.

> "The extremely limited number of ETFs available for Southbound trading has significantly hampered the attractiveness of ETF Connect to domestic investors."

**ARON LEUNG CPA**
DIRECTOR AND INDEPENDENT ADVISOR, MAX VALUE PARTNERS LIMITED AND MEMBER OF THE INSTITUTE'S CORPORATE FINANCE COMMITTEE

The launch of the long-awaited ETF Connect this year was a remarkable milestone for the already successful Stock Connect, the investment channel that connects the Hong Kong Stock Exchange, Shanghai Stock Exchange and Shenzhen Stock Exchange. A wider range of investment products plays a critical role in investment risk management and ETF products allow investors more choice to tailor for different investment strategies and to diversify their risk.

Only four Hong Kong-listed ETFs are available for Mainland investors initially under ETF Connect but despite this, the trading volume in the Southbound route for ETF surged by about 90 percent in August. Issuers are happy to see the inclusion of Mainland investors from this channel, which proves to be significant under Stock Connect. As an international financial hub with a properly regulated securities market, Hong Kong will continue to attract global financial institutions to issue Hong Kong-listed ETFs with different themes, and to bolster the development of the ETF market.

Offshore investors, on the other hand, may not be active comparatively in investing in Shanghai and Shenzhen-listed ETFs under ETF Connect. The standard of corporate governance and disclosure transparency of the underlying equities of these ETFs are areas that offshore investors most probably will need to investigate before making their investment decisions. Considering that ETF Connect had just launched in July, it is inevitable that it will take some time for offshore investors to build confidence in the Northbound route. Some of these ETFs are sector-based or niche products that I believe are good options for offshore investors as they have more options in their investment products for different investment strategies. Professionals in Hong Kong have exceptional opportunities to help market these ETF products to offshore investment funds.

Fear of an upcoming recession driven by recent global economic turmoil has relentlessly shocked the market. It accelerated the need for holistic investment vehicles, such as inversed products, to steer through the pervasive and vibrant market conditions. We expect the exchanges will continue to enhance Stock Connect's product offering with the addition of more ETFs with different themes and functions in the near future, and with periodic reviews of market demand.

"Hong Kong will continue to attract global financial institutions to issue Hong Kong-listed ETFs with different themes, and to bolster the development of the ETF market."

**REBECCA SIN**
SENIOR ETF ANALYST AT BLOOMBERG INTELLIGENCE, AND CO-CHAIR OF ASIA'S WOMEN IN ETFS

ETF Connect, which investors have been anticipating since 2016, has started to trade earlier this year. ETFs have been added to Stock Connect linking the Hong Kong, Shanghai, and Shenzhen exchanges. Adding ETFs to the product offerings not only provides a low-cost investment option but also helps broaden the investor base for ETFs, spurring the segment's trading activity, liquidity, and cross-border asset allocations. By bringing onshore Chinese investors to Hong Kong, ETF Connect will diversify the profile of the city's ETF investors and may provide opposing flows as well as liquidity to Hong Kong-listed ETFs.

The inclusion of ETFs on the Stock Connect may take years before materially contributing to the income of Hong Kong Stock Exchange (HKEX) but investors remain optimistic as there is a need for diversification of products in China. Only those that track Hong Kong-listed stocks with average assets under management (AUM) of more than HK$1.7 billion over the past six months are eligible in the Stock Connect programme. ETFs tracking A-shares are eligible for the first phase of inclusion in the Northbound Stock Connect. This excludes non-Hong Kong equities ETFs tracking overseas, fixed income, currencies, and commodities products. Hong Kong equities ETFs account for 51.1 percent of the market capitalization as of March 2022, while Mainland China A-shares ETFs account for 14.3 percent, followed by fixed income and currencies at 12 percent, according to data compiled by Bloomberg.

A potential key for Mainland investors is non-equity focused ETFs and may be key to the success of the Stock Connect as ETFs listed in Shanghai and Shenzhen are primarily dominated by local indices, accounting for more than two thirds of the country's total ETF AUM. Another large portion of ETFs in China are money-market funds which account for roughly 25 percent of ETF AUM as investors look for higher yield compared to traditional bank deposit rates. Southbound demand could be muted though due to limited product selection and will be insignificant towards HKEX's earnings.

"A potential key for Mainland investors is non-equity focused ETFs."

ETFs in Asia have had a slow adoption rate due to the regulatory framework. In Asia, regulations don't favour ETFs as many distributors still provide retrocession fees or rebates for mutual funds, thus putting ETFs in a difficult spot. Trading volume on ETF Connect in Japan remains low. Of the five regions that have or will have ETF Connect programmes, Japan ranks top by ETF flows in 2021 at US$23 billion, followed by South Korea at US$13.7 billion, Hong Kong at US$13.4 billion, China at US$12.9 billion and Singapore at US$2.9 billion. The potential is tremendous across Asia as it's starting from a much lower base, yet regulations would need to support the market to help make ETFs a mainstream product.

by Bernice Lee

The brain-based coach on ways middle managers can thrive in their roles and overcome stressful situations

# How to be a good manager without burning out

People have been dealing with a lot in the past three years – the pandemic, challenging business conditions, remote working, talent shortages, mental health problems, and reading disturbing world news every day. Not to mention the normal pressures of servicing clients, working with difficult colleagues, navigating organizational change, and managing their personal lives.

Middle managers in particular are under a great deal of pressure. In addition to delivering business results, they must maintain effective relationships with those below them and those above them. They need to communicate and negotiate with people that have conflicting interests, advocate for their direct reports, and navigate complex problems and dilemmas. According to a late 2021 Gallup survey, manager burnout is getting worse.

One of my clients, a middle manager in the hospitality industry, was ready to quit her job because she was chronically overworked. Since her team was understaffed, she often had to assist them with daily operations and administration, which pulled her way from her managerial responsibilities. She worked extremely long hours and on weekends to complete her own work. Her team felt unsupported by leadership, which demanded that they do more with less, with no complaints and no expectation of recognition or reward.

Some mid-level managers may be feeling the same way. But by taking certain actions, they can work more effectively, feel fulfilled, and thrive in their roles even under difficult conditions. Here are three ways to be a great manager.

## Prioritize taking care of yourself to build your personal resilience

When you're leading a team, people count on you to have a clear direction, stay calm when times get tough, and guide them to achieve goals and deliver business results. For managers to show up as an effective, present, empathetic, genuine, resilient, and empowering leader, they must prioritize their own well-being.

Think about the last time you flew on an airplane. The flight attendant would have said, "In case there is a loss in cabin pressure, yellow oxygen masks will deploy from the ceiling compartment located above you. Please secure your own mask before assisting others around you." It is essential for managers to "secure" themselves so that they are physically, mentally and emotionally able to cope with stress and be in the headspace to lead their teams to reach their potential, even during challenging times.

There are many scientifically proven ways of taking better care of yourself. Get enough sleep every night; do a little light exercise every day; eat healthy, nutritious, unprocessed food; and practice mindfulness. Manage your priorities, time and attention; and de-clutter your work space. Surround yourself with people you respect and trust, and lean on them for support when you need it.

While this may all sound great, many coaching clients have had doubts about being able to prioritize themselves, especially when they're busy as C-suite level executives or senior managers, and some also have kids to raise. However, they quickly discovered that achieving this vision takes less time than expected, and are surprised by how they have become happier, more engaged, and more effective at work within just four short months. The coaching methodology I use was developed by the NeuroLeadership Institute from the latest research about the human brain and how to maximize human performance and potential.

## Invest in your own development – and take it seriously

To be the best manager, it's important to commit to investing in your own development. Go beyond the generic "I'm going to improve myself." I encourage you to pursue it with strong intentions and laser focus because in a world of uncertainty, the best way to future-proof yourself is to take control of your own career development.

Start by doing an assessment to identify your strengths and developmental areas, for example a psychometric, leadership, or 360-degree assessment. I use the Harrison Assessment with my clients. It measures your behavioural tendencies, interests and preferences at work. It does not put people in boxes with labels like general personality tests do. By completing the Harrison 30-minute online questionnaire, you will gain clarity about your key strengths and how you can be more successful in your job and career.

Secondly, celebrate your strengths. These are your magic powers that you enjoy using and that enable you to excel. Brainstorm different ways to use your strengths more often and in different contexts at work. Thirdly, identify developmental areas that are essential in your role as a middle manager but that you're not highly skilled in yet. Choose one or two areas to work on then identify a role model who is skilled in those areas; find a mentor who's willing to observe you, give you candid feedback, or brainstorm ideas; attend a training session; or hire a coach to assist you.

## Four essential leadership competencies

When I work with coaching clients who wish to elevate their leadership skills, we typically focus on four competencies:

*Opportunity management*: Develop the ability to analyse the potential pitfalls of a plan or strategy while at the same time be willing to take risks. Have a keen sense for valuable opportunities, inspire and motivate others to go after them, and obtain valuable learning from what worked and what didn't.

*Coaching mindset:* Know how to enforce necessary rules with compassion. Take a genuine interest in other people and show you care, encourage them to be their best, and be warm and empathetic, but not permissive.

*Collaborative accountability:* Take responsibility for decisions while at the same time allowing others to genuinely participate in the decision-making process. Know that when you consult with other people, it improves decisions, fosters innovation, shows respect, and has the effect of inspiring engagement, cooperation and teamwork.

*Strategic acumen:* Analyse the potential pitfalls of a plan or strategy while remaining positive about achieving the potential benefits. Monitor threats and obstacles, revise strategies, and be realistic without being sceptical or pessimistic.

Ricky Cheng FCPA

The Director, Head of Risk Advisory, BDO, and member of the Institute's Sustainability Committee, on how chief financial officers should take the lead in helping organizations transition to a low-carbon business model

# A guide to navigating the evolving climate landscape for CFOs

With the increasing emphasis on climate change among stakeholders today and the emerging climate-related disclosure requirements, chief financial officers (CFOs) need to recognize the importance and impact of climate change on business sustainability, as well as the challenges this may bring to their role.

## Don't underestimate the impact of climate

Climate risks, whether they are physical (e.g. rising sea levels, extreme weather, wildfires, changing precipitation patterns) or transitional (e.g. changing policy, laws, market preferences and technology), may affect business operations in a multitude of ways. Examples include disruption to productivity and supply chains, damage to assets and production facilities, and more investment in research and development (R&D). While organizations are identifying climate-related risks and opportunities, and formulating strategies for enabling a more resilient business model in response to climate change, CFOs should factor in the potential financial impact of the risks mentioned above into their financial planning; for example, by allowing for capital to be deployed for mitigation and adaptation, raising funds for R&D, changes in the valuation of stranded assets, and changes in revenue generated by existing products and services caused by changing market preferences.

## Implement processes for meeting global standards

The consultation on the International Sustainability Standards Board proposed exposure drafts of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures* was closed on 29 July, and the new standards are expected to be announced in early 2023. Organizations will need to report on all relevant sustainability topics (in addition to climate) within a consistent global framework and focus on how these topics impact on enterprise value. The reporting will also be connected to financial statements. Therefore, CFOs will need to ensure that the necessary processes and controls are in place for providing consistent sustainability information at the same time as financial information.

## Be mindful not to communicate misleading climate ambitions

Today, investors and even rating agencies are eager to understand how well a company performs in the environmental, social and governance (ESG) space, especially in relation to their climate change risk management, their commitment to protecting the environment, and whether or not they are walking the talk. Having said that, more and more companies are making pledges to achieve net zero carbon emissions by a certain date or committing themselves to carbon neutrality to demonstrate their commitment to tackling global warming. Some companies are exaggerating their carbon reduction achievements, while others aren't keeping track of their progress towards net zero at all. Given that CFOs have full access to their organization's financial and operating data, they can take the lead by establishing a transparent management information system for capturing and reporting sustainability-related information, using a dashboard for tracking performance and validating disclosure.

## Finance the transition

Following COP26 in 2021, many global financial institutions have signed net zero pledges issued by international organizations, such as the Glasgow Financial Alliance for Net Zero, to accelerate the decarbonization of the economy. These financial institutions have huge investments in (or business with) global listed companies that are looking for funding to finance their transition to a low-carbon business model. The CFOs of these companies will need to convince the banks that they have devised and implemented action plans for achieving net zero on greenhouse gas emissions. Otherwise, they may have limited access to capital.

## Lead the transition

CFOs are in a key position to lead the transition. Leveraging their knowledge and experience in financial reporting, CFOs are familiar with the processes and methods – either manual or automated – of collecting relevant information from various stakeholders across the organization for non-financial reporting. The finance team will have many of the skills required to set, measure and report on climate metrics and targets, risk management, cost optimization and evaluating opportunities, among other things. Besides, through budgetary control and monitoring measures, CFOs can monitor the performance of business units to determine if their progress is moving the organization towards its climate-related strategic targets or whether action plans need to be formulated to close the gaps.

CFOs can also enhance the positive impact on enterprise value by assuming the following roles:

1. Capacity building – CFOs should equip themselves with knowledge related to climate change, mega trends, the practices of industry peers, carbon regulations, climate financing, and so on.
2. Linking climate metrics with performance management – By integrating climate metrics into the performance management of business units, CFOs can provide the board with reassurance on the organization's alignment with climate goals.
3. Securing external recognition – A well-established management information system will enable CFOs to better communicate the required information to rating agencies and achieve a good ESG score.
4. Thinking beyond the short-term – CFOs should assist the board to recognize the potential financial impacts and ensure that climate strategies continue over different time horizons to ensure climate resilience over the long-term.

# FIVE QUESTIONS FOR PAIB

## James Cheng CPA

Investment Director at China Everbright Limited, on the importance of Hong Kong's asset management ecosystem, and navigating investment decisions in an era of high inflation

**What are the biggest lessons in your career so far?** After experiencing the many ups and downs, I started to know how to dig my way out of frustration. The first thing to do is to make a fair and honest assessment of the situation, and admit mistakes. Only when we admit our own mistakes can we improve. Then, we should focus on the things we can change. If we actively focus and work on things we can control, then we will feel like we're in the driver's seat. Lastly, see difficult situations as a learning experience, and remember that it will be over. Looking back, I realize that I have always learned something and emerged stronger after getting out of a bad situation. If we cannot change the external environment, we can at least change the way we see things.

**What do you like most about specializing in asset management?** I always enjoy meeting new people, and my role lets me do this. As an asset manager managing a private equity fund, I spend most of my time understanding investment targets before a transaction, and managing portfolio companies after. I therefore regularly work with different people from diverse backgrounds, bringing new perspectives and ideas every day. Asset management also brings a sense of achievement, since the decisions I make have direct consequences to business performance and investment return. A bad decision can cost money, and since these are sizeable businesses, thousands of jobs are also at stake. That being said, I get a huge sense of satisfaction when I see businesses grow and improve as a result of my decisions.

**In what ways has your CPA training helped you in your career?** It has given me the ability to link numbers with business operations. More importantly, the exposure to different businesses in different industries and countries helped me to form my own view on what makes a business good and another bad. I do believe this is an important skill when deciding whether to invest in a company, and what should be done after acquiring it.

**How is Hong Kong maintaining its status as an asset management hub?** Of course, Hong Kong's attractiveness to asset managers has always been the ease of doing business, and our proximity to Mainland China, and no doubt these will continue to be key to Hong Kong's status as an asset management hub. Many service providers form symbiotic relationships with the asset management industry, like investment banks, debt lenders, lawyers, accountants, fund administrators and trustees. I find it much easier to get the support I need as an asset manager in Hong Kong, compared to many major cities in the world. In my view, if we can maintain a vibrant ecosystem, Hong Kong can continue to be the asset management hub of Asia. Accountants, as part of that ecosystem, have an important role to play as well.

**What should asset managers focus on in the next 12 months?** To me, it is definitely inflation, governments' and central banks' reactions, and the resulting cascade of financial market turbulence. The impact is so pervasive that effectively all economies in the world will feel its impact. For over a decade, the world has not seen interest rate at this level. Since we are used to low-cost funding in the era of quantitative easing, it is easy to make mistakes in our investment decisions now that cost of funding is no longer that low.

# FIVE QUESTIONS FOR PAIP

# Wilson Cheng FCPA

Tax Leader, Hong Kong and Macau, and Greater China Tax Controversy Co-Leader at EY, on why tax controversies are not always a negative thing, and the important role he plays as a CPA during and after controversy cases

**What are the three biggest lessons in your career so far?** The first is to look beyond the issue. There are many causes of business issues. Looking into them helps identify possible solutions in the interest of stakeholders. Secondly, when facing an issue, there can be a lot of different aspects to look into. Doing a proper consultation with experts and experienced partners allows me to gain additional knowledge and intelligence to approach an issue from multiple perspectives. Finally, building relationships is a critical element in the tax profession and also in the development of my career. In EY, I learned a framework for building relationships which is "Building relationships based on doing the right thing." This is one of EY's values and it guides us on how and what type of relationship we should build in our profession.

**What do you like most about specializing in tax controversy?** In tax controversy cases, tax professionals play an extremely crucial intermediary role between the Inland Revenue Department and taxpayers. It is not only about resolving tax disputes through settlements or litigation, but also building mutual understanding between the two parties. We also advise taxpayers on upgrading their tax compliance to achieve tax efficiencies. Some of my clients have viewed the tax controversy they have encountered positively, and see it as a way to make improvements to business arrangements. Through post-controversy projects, we help them build a better organization. These long-term impacts are what I like most about specializing in tax controversy.

**In what ways has your CPA qualification helped you in your career or work?** The training as a CPA allows me to analyse business issues critically and to provide forward-looking advice to my clients. The connection with other CPAs expands my knowledge as we work in different specialized areas. Through my qualification, I also have access to a platform that allows me to contribute to the profession and wider community using my professional knowledge.

**In your view, what key changes are reshaping the Hong Kong tax landscape?** The development of the two main pillars of the Organization for Economic Co-operation and Development's base erosion and profit shifting initiative has been broadly discussed in Hong Kong by the government, businesses as well as tax professionals. The impact to Hong Kong headquarters is significant and unprecedented. The low and simple tax regime in Hong Kong would need to be reconsidered in order to maintain Hong Kong's competitiveness within Asia Pacific and globally. The European Union's concern about Hong Kong's offshore tax regime on passive income also changes the tax environment of Hong Kong and requires business substance to be set up in Hong Kong. Our reaction to these changes is imperative for the sustainable growth of Hong Kong's economy.

**What is your advice for those looking to specialize in tax?** Develop a broad business sense to communicate with clients effectively and to understand a client's business before conducting technical tax analysis. Also, deep technical knowledge is the foundation in delivering our services and requires taking the time to learn and research. Lastly, develop a creative mind. Due to the development of new economy businesses and evolving tax legislations, tax problems are now more complex. Tax professionals need to be capable of challenging the current state and proposing new ways of addressing complicated tax problems.

# Annual Accounting Update 2022 – Staying on the same page on financial reporting

The Institute is holding the Annual Accounting Update 2022 as a virtual conference on 19 November to discuss upcoming effective standards, application issues of HKFRSs, and the next chapter for corporate reporting

**Gary Stevenson CPA**, Technical Partner and Head of HKFRS/IFRS at RSM Hong Kong, is the Chairman of the Institute's Financial Reporting Standards Committee. He has more than 20 years of technical experience in accounting, auditing, ethics and independence, and quality assurance roles. He currently specializes in HKFRS/IFRS supporting RSM Hong Kong's capital markets audit and accounting advisory practices.

Since last year's annual accounting update, the world has truly begun to move on from the COVID-19 pandemic and the massive disruptions in its wake. Standard setters, including the Hong Kong Institute of CPAs, have been hard at work continuing initiatives to support the adoption of international standards and ensure their effectiveness.

In March this year, the International Sustainability Standards Board (ISSB) published its first two proposed standards for public consultation, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2). The 120-day consultation period ended on 29 July, and the ISSB has since met to discuss the comments received as well as proposing re-deliberations in September and October. The ISSB is now aiming to publish the IFRS S1 and IFRS S2 as early as possible in 2023.

These standards will be a major step forward in the effort to establish a global baseline for sustainability and climate reporting to provide investors with consistent, comparable sustainability-related data about what companies are doing to address the urgent issue of climate change. The Green and Sustainable Finance Cross-Agency Steering Group, which is co-chaired by the Hong Kong Monetary Authority and the Securities and Futures Commission, and consists of members including Hong Kong government bureaux and its regulators, has already stated its support for the efforts to develop the new standards and will consider how the standards could potentially be adopted for local use.

The accounting profession is in a prime position to lead the implementation of the IFRS Sustainability Disclosure Standards, and it is imperative that CPAs are informed of the latest developments. With the growing demand for clear sustainability disclosures from stakeholders, these new standards will certainly be a defining feature for the new chapter of corporate reporting.

## About the conference

Don't miss out on this year's Annual Accounting Update conference, which will once again be held virtually. The event will be held on Saturday, 19 November from 9:00 a.m. to 1:00 p.m. and will provide an annual update highlighting the latest trends and developments of financial reporting standards. The virtual conference will begin with a presentation from me on how financial reporting standards are set, including a review of the Institute's standard setting function and support offered to stakeholders, as well as the progress of some major standard setting projects.

After my presentation, Byron Khoo FCPA, Partner at EY, will talk about the standards that will be effective in 2023 and 2024, including *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2); *Definition of Accounting Estimates* (Amendments to IAS 8); *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (Amendments to IAS 12) in 2023; as well as *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) and *Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16) in 2024.

Following a short break, Mateusz Lasik, Partner at Deloitte China, will discuss application issues of HKFRS 9 *Financial Instruments*, HKFRS 15 *Revenue from Contracts with Customers* and HKFRS 16 *Leases*, and common pitfalls identified through the recent Accounting and Financial Reporting Council inspections.

We will then focus on the latest developments in sustainability reporting presented by Serene Seah-Tan, Partner at KPMG. This will include the latest requirements in Hong Kong, the latest developments of the ISSB, including preliminary feedback on the IFRS S1 and IFRS S2, and its upcoming agenda consultation, as well as the impact of climate-related matters on financial statements, and more.

As with recent years, the conference will end with a Q&A session where the audience will be able to ask our experts any questions they might have on topics covered during the day. Our goal is to give participants a good understanding of how standards are set now, and how they are likely to develop in the future. Visit the Institute's website for the enrolment details.

# Proposed narrow scope amendments to ISA 700 (Revised) and ISA 260 (Revised) as a result of the revisions to the IESBA Code of Ethics

## An overview of the Institute's response to IAASB exposure draft on the proposed narrow scope amendments

In September, the Institute's Standard Setting Department responded to the International Auditing and Assurance Standards Board's (IAASB) request for comments to an exposure draft related to the 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* as a result of the revisions to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) that require a firm to publicly disclose when a firm has applied the independence requirements for public interest entities (PIEs).

The Institute had responded to the exposure draft after the local comment period. The following provides a high-level summary of our response, which is available on our website.

Overall, we stated our support for the IAASB's proposed narrow scope amendments in the exposure draft, which would be effective in supporting the operationalization of the revisions to the IESBA Code that require a firm to publicly disclose when it has applied the independence requirements for PIEs. The proposed narrow scope amendments should enhance communication between the practitioners and stakeholders in a transparent manner and increase stakeholders' confidence in the audits and the audited financial statements.

In light of the objective of the proposed narrow scope amendments, we also agreed that the effective date for the proposed narrow scope amendments to be aligned with the effective date of the revisions to the IESBA Code, i.e. effective for audits of financial statements for periods beginning on or after 15 December 2024.

In our comment letter, we also recommended the IAASB to consider revising International Standard on Review Engagements (ISRE) 2400 (Revised) *Engagements to Review Historical Financial Statements* to address the transparency requirement in the relevant ethical requirements for independence applied for certain entities, such as the independence requirements for PIEs in the IESBA Code. Given that the IESBA's new transparency requirement is in Part 4A of the IESBA Code which applies to both audit and review engagements, we are of the view that the related revision to ISRE 2400 (Revised) is sufficiently specific and narrow in scope, which should not lead to any unintended consequences and would enable consistent application and compliance with the IESBA Code.

### IAASB's next steps

IAASB is considering comments and suggestions received as a result of the exposure draft. It is anticipated that the IAASB will approve the final pronouncement of the narrow scope amendments by June 2023.

*This article was contributed by the Institute's Standard Setting Department.*

# FSIE regime draft legislation and guidelines released

A look at changes to Hong Kong's foreign source income exemption regime (FSIE), following the gazettal of the draft legislation for implementing the revised regime

The Inland Revenue (Amendment)(Taxation on Specified Foreign-sourced Income) Bill 2022 (Bill) on Hong Kong's FSIE regime was gazetted on 28 October following prolonged negotiations with the European Union (EU) and a consultation exercise with various stakeholders. The Bill proposes that specified foreign-sourced income would be deemed taxable in Hong Kong unless certain conditions are met. Subject to legislative procedures, the new regime will be effective from 1 January 2023.

The Inland Revenue Department (IRD) also published guidelines on its website to facilitate taxpayers' understanding of the regime and to provide information on various practical matters.

## Key features of the FSIE regime

The key features of the FSIE regime are summarized briefly below.

- Applicable to entities that carry on business in Hong Kong and are part of a multinational enterprise (MNE).
- Four types of income are in scope, these are interest, dividends, disposal gains on equity interests and income from intellectual property (IP). Only income that is received in Hong Kong is in scope.
- The primary method of obtaining an exemption is by satisfying one of the following requirements:
  - The economic substance requirement for interest, dividends and disposal gains.
  - The nexus requirement for IP income.
- Dividends and disposal gains benefit from a secondary method of obtaining a tax exemption through the participation exemption regime.
- Where no exemption applies, double taxation relief is available. For dividends, double taxation will be prevented through the use of tax credits under a "look-through" approach.

### Covered taxpayer

An entity that is part of an MNE group and carries on a business in Hong Kong will be in-scope irrespective of the quantum of the MNE group's revenues or assets. An in-scope MNE group is effectively defined as any group that has a taxable presence in Hong Kong and one other location. The precise definition makes reference to the Global Anti-Base Erosion (GloBE) rules promulgated by the Organization for Economic Co-operation and Development (OECD).

The following taxpayers will be excluded from the scope of FSIE regime:

- Investment funds, pension funds, real estate investment vehicles, government entities, international organizations and non-profit organizations as defined under the GloBE rules.
- Insurance investment entities.
- Taxpayers benefitting from the existing preferential tax regimes of Hong Kong.
- Local companies that do not belong to an MNE group.
- Non-Hong Kong permanent establishments of a Hong Kong resident.

### Covered income

The following four types of foreign-sourced income that are received in Hong Kong will be in-scope. Consistent with the current provisions of the Inland Revenue Ordinance (IRO), there is no definition of dividends or interest.

- *Dividends*: In the absence of a definition of dividends, we anticipate the scope of dividend income being legal form dividends.
- *Interest*: While there is no definition of interest, whether income is interest or not will depend on its nature and can be determined based on applicable jurisprudence.
- *IP income*: Defined as income derived from the use of IP, such as royalties and licensing fees etc. Notably, the Bill adopts a narrower definition than the OECD 2015 Report on Action 5 harmful tax practices which includes gains on the disposal of IP.
- *Disposal gains*: Defined as any gain or profit derived from the sale of equity interests (other than partnership interests) in an entity. The equity interest definition follows the GloBE definition and requires the owner to account for the item as equity. This would appear to exclude preference shares accounted for as financial assets from the definition.

### Received in Hong Kong

The relevant income will be regarded as "received in Hong Kong" when the sum is:

- Remitted to, or is transmitted or brought into, Hong Kong;
- Used to satisfy any debt incurred in respect of a business carried on in Hong Kong; or
- Used to buy movable property, and the property is brought into Hong Kong.

If the economic substance requirement, participation exemption or nexus requirement cannot be fulfilled when such foreign-sourced income accrues to the MNE entity (i.e. year of accrual), the relevant income will be deemed subject to tax in the year of assessment when the income is received in Hong Kong (i.e. year of receipt).

### Economic substance requirement (for non-IP income)

Foreign-sourced interest, dividends and disposal gains will continue to be exempt from profits tax if the economic substance requirement is met.

*Pure equity holding company*

A pure equity holding company is subject to a reduced economic substance requirement. The definition of pure equity holding company refers to a company which, as its primary function, only holds equity interests in companies and only earns dividends, disposal gains and income incidental to the acquisition, holding or sale of such equity interests. The receipt of incidental interest income (e.g. interest on the deposit of dividends received) should not affect a taxpayer's status as a pure equity holding company.

The reduced economic substance requirements are:

- Complying with every applicable registration and filing requirement under the Companies Ordinance, Limited Partnerships Ordinance and Business Registration Ordinance etc.;

- Carrying out the specified economic activities (i.e. holding and managing its equity participation) in Hong Kong either by itself or by another entity; and
- Having adequate human resources and premises for carrying out the specified economic activities.

*Non-pure equity holding company*

The economic substance requirements are:

- Carrying out the specified economic activities (i.e. making necessary strategic decisions, and managing and bearing principal risks in respect of any assets it acquires, holds, or disposes of) either by itself or by another entity in Hong Kong;
- Employing an adequate number of qualified employees to carry out the specified economic activities in Hong Kong; and
- Incurring an adequate amount of operating expenditure in Hong Kong.

The IRD indicates that the relevant activities for interest income from loans can be carried out through the holding of board meetings and strategic planning made by the finance department etc. The IRD considers that a Certificate of Resident Status cannot be used to demonstrate sufficient economic substance for the purpose of the FSIE because tax resident status is considered in a different context.

*Source of profits vs. economic substance*

The government emphasizes that the source of profits and the economic substance requirement will be considered in separate contexts, with the former not to be affected by the latter. The source of profits will continue to be determined based on the prevailing principles established by case law. Taxpayers can still make offshore claims and obtain an exemption if they can satisfy the economic substance requirement.

The IRD provides an example where a company carries on an investment business other than a money lending and intra-group financing business in Hong Kong. It receives interest from loans to overseas associates. The activities in relation to the loans (e.g. negotiation of terms, provision of funds etc.) are carried on outside of Hong Kong. The company makes strategic decisions in relation to its investments in Hong Kong. The example explains that the company can meet the economic substance requirement while the interest income from loans can be regarded as offshore sourced.

Taxpayers need to be careful in arranging the specified economic activities so that they will not taint the offshore claim.

**Participation exemption**

For foreign-sourced dividends and disposal gains, the participation exemption provides an additional pathway for taxpayers to obtain an exemption. The conditions for the participation exemption are as follows:

- The investor company (i.e. the taxpayer) is a Hong Kong resident person or a non-Hong Kong resident person that has a permanent establishment in Hong Kong; and
- The investor company has continuously held not less than 5 percent of equity interests in the investee entity for a period of not less than 12 months immediately before the income accrues.

The condition that the investee company should not earn more than 50 percent of its income as passive income, as proposed in the consultation stage, has been removed and replaced with a 12-month holding period requirement. This will generally be helpful and in particular will ease concerns with multi-layer holding structures.

**Nexus requirement (for IP income)**

The exemption requirements for IP income are different to those for interest, dividends and disposal gains. Instead of imposing an economic substance requirement, the nexus approach adopted by the OECD will apply in determining the extent of foreign-sourced IP income to be exempted.

Only income from the use of patents and copyrighted software may qualify for exemption under FSIE regime. Income from marketing-related IP assets (e.g. trademark and copyright) will not qualify for the exemption.

The relevant IP income will be exempt based on a fraction that references research and development (R&D) spend. The fraction is computed by dividing the qualifying expenditure on R&D by the total expenditure on R&D that has been incurred by the taxpayer or original owner during the specified period to develop the IP asset. In performing the computation, certain adjustments should be made. For example, interest payments and payments for land or buildings should be excluded. Qualifying expenditure is also provided with a 30 percent uplift.

Qualifying expenditure only includes R&D expenditure that is directly connected to the IP asset where the relevant R&D activities are undertaken by the taxpayer or outsourced to unrelated parties to take place in or outside Hong Kong or outsourced to related parties that are residents in Hong Kong to take place in Hong Kong.

## Hong Kong's tax policy environment

With the introduction of the proposed FSIE regime, Hong Kong's tax landscape will inevitably change. The Hong Kong government has actively negotiated with the EU and engaged with stakeholders in formulating measures to minimize the impact to taxpayers and the associated compliance burden of the FSIE regime. While there will be very limited time between the passing of the Bill and its provisions becoming effective, the various avenues through which a taxpayer may either fall outside of the FSIE altogether or obtain an exemption under the FSIE are fairly well understood. With a degree of forethought it should be possible for the majority of taxpayers to continue their operations with relatively little financial or operational impact as a result of the introduction of the FSIE. This view appears consistent with the government's policy objective that the FSIE is not a fiscal revenue generation measure.

Hong Kong is required to refine its FSIE regime in order to demonstrate that it is a co-operative jurisdiction within the international tax community. We hope that the refined FSIE regime will pass the EU's review and look forward to Hong Kong being removed from the EU's watch-list in February 2023.

With the draft legislation introduced, as well as the IRD's guidance, taxpayers should assess the implications of the new FSIE regime on their businesses before the legislation becomes effective. They may also consider applying for an opinion from the Commissioner of Inland Revenue or an advance ruling on their economic substance levels in order to obtain certainty and reduce their tax compliance burden.

*This article was contributed by* ***Doris Chik CPA*** *and* ***Jonathan Culver****, Tax Partners at Deloitte China*

# TECHNICAL NEWS

## The latest standards and technical developments

**Members' handbook**
Update no. 278 contains the updated Statement 1.102 Corporate Practices (Model Articles of Association) (Revised October 2022) and Statement 1.103 Corporate Practices (Professional Indemnity) Rules (Revised October 2022).

Update no. 279 contains the following updates to Volume II of the Members' Handbook:

- The *Glossary of Terms Relating to Hong Kong Financial Reporting Standards* (HKFRS) has been updated to incorporate the consequential amendments arising from standards and amendments that are effective for accounting periods beginning on or after 1 January 2023, and is now included in Section 2 of Volume II.
- HKFRS included in Section 1 of Volume II have been updated with editorial corrections.

Update no. 280 includes:

- Revision to relevant ethics and auditing pronouncements in Volume I and Volume III respectively, as a result of the Financial Reporting Council (Amendment) Ordinance 2021 which expanded the Accounting and Financial Reporting Council's statutory functions to include the issuance of practising certificates to CPAs; registration of accounting practice units and local public interest entity auditors; and inspection, investigation and discipline of the accounting profession with effect from 1 October 2022. The Corporate Practice (Registration) Rules was repealed on 1 October 2022.
- Revision to Practice Note 851 (Revised) *Reporting on the Annual Financial Reports of Non-governmental Organizations* to align the requirements of the current version of Lump Sum Grant Manual issued by the Social Welfare Department (SWD) of the Hong Kong government; update the example engagement letter and example report to align with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and SWD's proposed assurance opinion; and include recommended procedures for reporting on the annual financial report of a non-governmental organization.

## Financial reporting

**Invitation to comment**
The Institute is seeking comments on the International Accounting Standards Board (IASB) exposure draft *Third edition of the IFRS for SMEs Accounting Standard* by 16 January 2023.

**List of new and amended HKFRS**
The Institute has published the list of amended HKFRSs that are applicable to accounting periods beginning on or after 1 January 2022.

**IASB September 2022 podcast and update**
In a podcast, IASB Chair Andreas Barckow and Executive Technical Director Nili Shah talk through the highlights from the September 2022 IASB meeting. Topics discussed include goodwill and impairment, financial instruments with characteristics of equity, rate-regulated activities, primary financial statements and equity method. A meeting summary is also available.

**IASB webinar on Primary Financial Statements project**
A webinar provides the latest updates on the IASB's Primary Financial Statements project, including on the IASB's tentative decisions up to September 2022.

**IASB webcasts on Dynamic Risk Management project**
IASB technical staff have produced a series of eight webcasts to explain the Dynamic Risk Management project based on the IASB's tentative decisions to date. The project's aim is to get companies to reflect better in their financial statements how interest rate risk management affects the amount, timing and uncertainty of future cash flows.

**IFRS Interpretations Committee September 2022 Update**
The International Financial Reporting Standards (IFRS) Interpretations Committee Update provides a summary of discussions at its September meeting.

**IFRS for SMEs Accounting Standard September 2022 Update**
The latest IFRS for SMEs Accounting Standard Update, which summarizes the news, events and other information about the *IFRS for SMEs Accounting Standard* and related SME activities, is now available.

**IFRS Foundation's World Standard-setters Conference 2022: a summary**
The IFRS Foundation has published a summary of its World Standard-setters Conference which was held on 26-27 September 2022. The summary includes updates from both the IASB and the International Sustainability Standards Board (ISSB).

## Auditing and assurance

**Revisions to Auditing and Assurance Technical Bulletin**
The Institute has revised AATB 3 *Implementation Guidance on Revised Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 400 Comfort Letters and Due Diligence Meetings* to provide guidance to assist

reporting accountants to determine whether an engagement in accordance with HKSIR 400 (Revised) is appropriate with respect to an issuer's transaction. A marked-up version identifying the amendments to AATB 3 is also available.

**Implementing your system of quality management by 15 December 2022**
In less than two-months time, firms will be required to have designed and implemented a system of quality management that complies with Hong Kong Standard on Quality Management 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* which will be effective from 15 December 2022.

**HKICPA Quality Management Manual**
The Institute's Quality Management Manual offers steps an audit firm needs to take to implement the requirements of the new and revised quality management standards. The manual itself will not be sufficient in ensuring the audit firm is in compliance with the requirements. Instead, it helps the audit firm to develop a customized system of quality management (SOQM), identify and assess quality risks for the audit firm, tailor and document the audit firm's quality management policies and procedures, monitor and identify deficiencies in the audit firm's SOQM and remediate them on a timely basis. The manual comprises of:

- Guidance notes on the requirements of the new and revised quality management standards and how to implement them in practice
- A pre-populated *Risk Assessment Tool* with over 100 examples of risks for firms to customize and add their own risks based on a firm's assessment and circumstances
- Forms, checklists and worksheets to help implement the SOQM
- Sample policies and procedures to address potential quality risks

Members may also register for the e-learning recordings on the new quality management standards series to better understand the key requirements, applications and illustrated examples on how small and medium practitioners can meet the new requirements.

**Revised standard on risk assessment for 2022 audits**
Hong Kong Standard on Auditing (HKSA) 315 (Revised 2019) *Identifying and Assessing the Risks of Material Misstatement* is effective for audits of financial statements for periods beginning on or after 15 December 2021. It introduces major changes in approach to risk identification and assessment which will have far-reaching effects for firms of all sizes.

**HKICPA Audit Practice Manual (2022 edition)**
The 2022 edition is updated to reflect the new and revised requirements of HKSA 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement* which is effective for audits of financial statements for periods beginning on or after 15 December 2021. Guidance notes, audit programmes and checklists, and the example audit engagement file accompanying the manual has also been updated for the latest auditing, financial reporting and other relevant disclosure requirements.

Members may also register for the e-learning recording that provides an overview of the key changes and a deep dive on the requirements of HKSA 315 (Revised 2019), and its implications on auditing which help practitioners plan ahead of audits with year ends on or after December 2022.

**Institute submission**
The Institute has submitted its comment letter on the International Auditing and Assurance Standards Board's (IAASB) proposed narrow scope amendments to ISA 700 (Revised) *Forming an Opinion and Reporting on Financial Statements,* and ISA 260 (Revised) *Communication with Those Charged with Governance*, as a result of the revisions to the International Ethics Standards Board for Accountants' (IESBA) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) that require a firm to publicly disclose when a firm has applied the independence requirements for PIEs.

**The Institute's Auditing and Assurance Standards Committee meeting minutes**
Minutes of the 402nd meeting is now available.

**IAASB, IESBA welcome IOSCO statement of support for developing standards relating to assurance of sustainability-related information**
This article covers the International Organization of Securities Commission's (IOSCO) recognition of support and encouragement for the IAASB's and IESBA's work on developing standards relating to assurance of sustainability-related information. The IAASB and IESBA will continue to closely collaborate with IOSCO and other regulatory and standard-setting bodies to inform the development of robust standards that foster independent, high-quality engagements and globally consistent practices.

## Ethics

**Ethics article on responding to NOCLAR by PAIBs**
The Institute has published an article exploring the responsibilities of professional accountants in business (PAIBs) to respond to non-compliance with laws and regulations (NOCLAR) in accordance with the response framework set out in the Code of Ethics for Professional Accountants (Code) with illustrative scenarios applicable to PAIBs.

**The Institute's Ethics Committee meeting minutes**
Minutes of the 251st meeting is now available.

**IESBA staff and JICPA issue joint guidance illustrating application of IESBA Code to technology-related scenarios**
*Ethical Leadership In a Digital Era: Applying the IESBA Code to Selected Technology-Related Scenarios*, released by the IESBA

staff and the Japanese Institute of Certified Public Accountants (JICPA), provides seven hypothetical scenarios to illustrate how professional accountants can navigate practical issues in ethical leadership when using or implementing technology. Each scenario highlights the application of specific requirements and guidance in the IESBA Code, in particular those related to compliance with the fundamental principles of ethics, and auditor independence.

**IESBA Handbook 2022 edition**
The 2022 edition of the *Handbook of the International Code of Ethics for Professional Accountants (including International Independence Standards)* is now available. It replaces the 2021 edition and incorporates the following revisions that will become effective in December 2022:

- The revisions to the non-assurance services and fee-related provisions of the Code.
- The revisions to address the objectivity of an engagement quality reviewer and other appropriate reviewers.
- The quality management-related conforming amendments to the Code that were issued as a result of the finalization of the IAASB's suite of quality management standards.

## Sustainability

**G7 reiterates commitment to mandatory climate disclosures and welcomes the ISSB's work on global baseline**
The G7 finance ministers and central bank governors have issued a statement on climate issues in which they reiterate their commitment to move towards mandatory climate-related financial disclosures and welcome the ISSB's work to develop a truly global baseline of sustainability disclosures to inform investment decisions.

**ISSB September 2022 meeting podcast and update**
The ISSB podcast, with its chair and vice-chair discussing highlights from its September meeting, and a summary of the September meeting, are now available.

## Taxation

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

- Notify IRD promptly of change of address.
- Businessman convicted of omitting company turnover and property rental income.
- Government starts legislation process to give effect to Multilateral Convention to implement tax treaty-related measures to prevent base erosion and profit shifting in Hong Kong.
- Financial Services and the Treasury Bureau, and Development and Reform Commission of Guangdong Province jointly organize seminar on offshore RMB bond financing in support of Greater Bay Area's development.
- Interest on tax reserve certificates.
- IRD's circular letter to tax representatives – final extended due date for "D" Code Returns.
- Stamp Duty statistics.

**Electronic filing of profits tax return**
With effect from 1 April 2022, profits tax returns can be furnished by service providers. 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 returns S1, S2, S3 and S4 electronically under eTAX, either directly by themselves or through service providers. 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:

- Chief Executive's speech in delivering "The Chief Executive's 2022 Policy Address" to the Legislative Council.
- Speech by the Financial Secretary at Financial Services/Business Professional Services/FinTech Day of Investment Promotion Week.
- "Archives 50 Years" – a journey through Hong Kong's history and development.
- Terms of non-permanent CFA judges extended.
- Hong Kong Monetary Authority, banking and stored value facility sectors support the launch of Scameter to fight against fraud.
- The Environmental Protection Department announces special arrangement for Ex-gratia Payment Scheme for Phasing Out Euro IV Diesel Commercial Vehicles.
- Police launch "Scam Alert Subscription" on Anti-Deception Coordination Centre website.
- Resumption of airmail services to Australia, Brazil, Cyprus, France, Israel, Latvia, Malta, Mauritius, Mexico, Peru, United Arab Emirates and United States.

**AML notices**

- The United Nations Sanctions (Libya) Regulation 2019 (Amendment) Regulation 2022 was gazetted on 14 October.
- The list of individuals and entities published under section 15 of the United Nations Sanctions (Mali) Regulation 2019 (Cap. 537CL) was updated on 6 October.
- The list of individuals and entities published under (i) section 31 of the United Nations Sanctions (Yemen) Regulation 2019 (Cap. 537CI); and (ii) section 30 of the United Nations Sanctions (Yemen) Regulation 2019 (Cap. 537CI) were updated on 6 October.
- 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 webpage.

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

Danny Lau FCPA, Partner Emeritus of Deloitte

Photography by Anthony Tung

# PIECES OF PERSONALITY


The hobby of collecting is usually seen as an extension of the collector. Institute members talk to Thomas Lo about their impressive collections, and how they reflect their true selves

Every year since 1992, Montblanc, the German luxury pen maker, has commemorated advocates of some of the most influential artistic movements in history – from Hadrian, the emperor of Rome, to Napoléon Bonaparte, the French general – with a limited-edition pen. To see the full collection of the "Patron of Art" pens, you would have to visit the Montblanc headquarters in Hamburg or collectors like Danny Lau FCPA, Partner Emeritus of Deloitte.

In the world of writing instruments Monblanc fountain pens are iconic, and Lau has a collection of more than 200 of them. "Pens are the jewellery for men. My pen collection is the part of me that cherishes aesthetics. I only collect pens from Montblanc because they create miracles with the design and vibrant details of each pen," he says.

Since the 1970s, as Lau remembers, the Montblanc classic all-black fountain pen, has been a prized item and a status symbol for professionals in Hong Kong. He started collecting Montblanc pens in 1997 after he got his promotion to audit partner at Deloitte, and his wife bought him a Montblanc writing instrument to mark this career achievement. "Being in this post, signing things had become a daily part of my life. There would be dozens of financial statements waiting to be signed by me," Lau explains.

But Lau didn't want to use just any pen. "I have been practising hard pen calligraphy since I was a kid, and grew up believing in the old Chinese saying that you can know a person by his or her handwriting. Montblanc's pens improve my writing," he says.

In 2018, the loyal customer created an Instagram account dedicated to the craftsmanship of Montblanc pens. He posts photos

"For me, it is never about the money, but about the story behind every nuanced design and design concept."

Photography by Anthony Tung

Alvin Li CPA, Assistant Manager at the Insurance Authority

taken by him of his collection of limited edition writing instruments from the brand, along with detailed captions explaining the rationale behind each design. "Collecting pens is my most expensive hobby, but I also collect wine, cameras, ties, cuff buttons and handkerchiefs. I collect purely for the pursuit of beautiful things," Lau says.

Recognizing his passion for its pens, Montblanc invited Lau to be a member of Club 58, an exclusive invitation-only club of the brand. Members of Club 58 are invited to go to Europe every year to preview the brand's upcoming collections, and the brand's product designers ask their opinions on what theme they should focus on next.

When it comes to design, he says that the model "Artisan LE88: Genghis Khan" particularly stands out for him. "It captures the essence of a historical figure I admire as he is the greatest conqueror in human history. Montblanc never ceases to surprise me when others stop progressing, and it is the only brand that keeps improving each time. For me, it is never about the money, but about the story behind every nuanced design and design concept."

## World of wine

After a long day of work, Alvin Li CPA, Assistant Manager at the Insurance Authority, draws a bottle from his electronic wine cellar and turns on some jazz music before completely giving in to session of me-time. Instead of enjoying his red with cheese or prosciutto, he pairs it with a hamburger and a bag of crisps. "There is no right or wrong wine pairing in my world. The process of searching for a pair that works is already interesting enough," Li explains.

Growing up, Li was no stranger to alcohol as both his parents were wine lovers. The first thing he did when he turned 18 was have a glass of Mateus The Original Rosé N.V. with his parents in a restaurant in Macau. "It is definitely not the priciest or the best wine, and it can be found in most supermarkets. Yet, till this day, I can still remember the taste of the wine," Li says. "I always dreamed of having wine with my parents when I was a kid. We become closer when we're drinking together."

> "I want to highlight that the world of good wine is not limited to France or Italy."

After struggling with choosing a wine during a dinner date with his girlfriend, Li had a strong urge to develop his wine knowledge. In 2019, he enrolled at a course under the Wine & Spirit Education Trust (WSET), a world-recognized wine education programme. "It was lonely and frustrating at the beginning. Only a few people really care enough about wine to study them. I had to study alone," Li says. "But looking back, the initial frustration was all worth it. I met new friends who shared the same interest and cared enough to attend this course. And the more I learned about wine, the more I appreciated them." In 2020, he gained his WSET Level 3 certificate. He also applied for the intermediate level of the Sake Professional Course and became a Sommelier of Sake (International Kikisake-shi).

As he was building up professional and in-depth knowledge on wine and sake, the thought of starting a collection came to mind. He now has over 20 bottles of red and white wines, specifically from unexpected wine regions. "There are a lot of undiscovered gems from these uncommon regions. Through my collection, I want to highlight that the world of good wine is not limited to France or Italy," says Li. "I will open any bottle to change people's mind. My friends would laugh at me when I tell them to try a wine from Thailand, but once they had their first glass paired with good food, they all changed their minds. "

From his collection, Li is especially fond of his Le Nez du Vin – The Masterkit 54, which is a collection of vials of wine aromas that allow him to practice identifying different wines from around the world. "It was a gift from my girlfriend. It meant a lot to me as it helped me push through the exams and frustrations," says Li. "Wine has connected me with my girlfriend and my family more than I can imagine. It is always a good time with wine."

## Great judge of character

Philip Wong FCPA is one of the judges of the Hong Kong International Wine and Spirit Competition (HKIWSC), a freelance wine journalist for *Gourmet & Lifestyle* magazine and runs a website focused on wine (*www.winemattershk.com*). Perhaps if he had not been sent to the HKIWSC event, he wouldn't have embarked on a journey of studying not only wine but also whiskey, brandy and beers. "The realm of wine or spirit is vast and full of surprises waiting for me to discover," says Wong, Chief Financial Officer at G.T. Land Holdings Limited and Wine Consultant at Wine Matters.

In 2012, Wong was with KPMG and was assigned to the scrutineering engagement in respect of the wine scoring at HKIWSC, which is run in partnership with the London-based International Wine & Spirit Competition. The annual wine and spirit judging event takes place in Hong Kong with judges comprising Asia's top industry experts, including Masters of Wine and Master Sommeliers, food and beverage professionals, wine educators, importers, critics and journalists.

Like most people, while Wong enjoyed drinking wine, he had never thought of studying it. "I was having

> "I never realized how wine was related to human society and culture at such a high level."

a conversation with Debra Meiburg, the Founder of Meiburg Wine Media, the organizer of HKIWSC. She shared intriguing knowledge and fun facts on wine that I had never heard before," Wong explains. "It sowed the interest in my mind, and later I decided to take courses to acquire WSET qualifications."

There are four levels of WSET qualifications, and it took Wong four years to attain the Level 4 diploma. "The study of wine consolidated everything I had learned since primary school – biology, chemistry, physics, geography, history, mathematics, economics, and even bible study. They all came into play when understanding wine," says Wong. "I never realized how wine was related to human society and culture at such a high level."

Wong started his wine collection

Philip Wong FCPA, one of the judges of the Hong Kong International Wine and Spirit Competition, and journalist

*Photography by Anthony Tung*

> **"Sneakers were the only thing that revealed your individuality. I have always wanted something that tells others what kind of person I am."**

in 2012, initially focusing only on vintages from France and Italy produced in his family members' birth years. Wong's favourite wines consist of those produced in the Burgundy region in France, such as Échezeaux, Vosne-Romanée, Chambolle-Musigny. He often shares his wines with friends and colleagues. "There is a time limit in storing wine, no matter what you do to store it. You might as well enjoy it with someone you love. My intention behind collecting has always been purely for enjoyment and never for money. I would never consider selling a bottle," he says.

When it comes to enjoying the wine, Wong has a few strict rules. "I would avoid drinking a full-bodied red wine in a steaming hot day in the summer, even if I am in a room that has strong air conditioning. The body temperature and humidity will affect the sensations," he explains. "I would also never drink in a bad mood, as it is a total waste of wine."

Since 2017, Wong has been invited to be one of 50 judges of the HKIWSC. "Though I have to taste and judge more than 20 samples in any flight during wine judging, it is a delight to do a job like this," says Wong. "Learning wine and enjoying it is not just a hobby but rather a way of living for me."

## Pursuit of individuality

One day, Adrian Ho CPA came across a sneaker exhibition at The ONE in Tsim Sha Tsui. He started talking with the curator, who owned more than a 1,000 pairs of sneakers. "He explained the history and story of every pair I pointed at, and some of them were classic vintage models. I admire the design, especially the history behind every creative concept, of New Balance and Saucony," says Ho, who is now based in the United Kingdom and was previously a financial controller at a private equity fund. "Looking at them reminded me of my dream as a young boy – to have sneakers that stand out from the crowd."

Ho says that his secondary school teacher was his first style inspiration. "The teacher's fashion sense left a mark on my mind as the world of all-boy schools tend to be monotonous," he explains. "As students, we dressed and looked the same. But in the physical education lessons, sneakers were the only thing that revealed your individuality. Since then, I have always wanted something that tells others what kind of person I am."

In 2014, Ho started his own sneaker collection and now has more than 200 pairs of old models of New Balance and Saucony sneakers. In the past, he would add three to four pairs of sneakers every month to his collection. "Every pair carries a story, such as the Saucony Shadow 6000 "Only in Soho," a collaboration with Footpatrol, a London-based sneaker store, released in late 2013. The design reflects the streets of Soho district, the home of Footpatrol and a major entertainment hub in London, which has often been referenced in Hong Kong. I love how sneakers can carry history and a story without saying a word," says Ho.

After a while, he was invited to be the moderator of a Facebook group for "sneakerheads" from Hong Kong called Hong Kong Sneakers Gallery (HKSG), founded in 2012. Because of his passion, the photos he took of sneakers-on-feet were widely recognized in the sneaker collector circle. "I organize different meet-ups and shooting sessions for group members. It is always fun gathering people who share the same interest, and have the same passion for the brands."

Adrian Ho CPA, a former financial controller at a private equity fund

Over years, Ho has sold or traded around 70 pairs from his collection. "I have to sell some of them as I am running out of space to store them. Yet, I will never rent a storage space as it will give me an incentive to buy more," he says. "I need to know my items are in good hands. The buyer has to convince me of his love for sneakers. I can know if I am talking to a like-minded person by looking at their social media. Helping others to complete


Photography by Anthony Tung

Nick Yeung CPA, Vice President at Chow Tai Fook Enterprises Limited

their collection is fantastic, but I will not tolerate so-called "flippers" – people who only care about profiting from the trade. "

Ho's passion for collecting sneakers eventually faded over time, and today he is no longer collecting. "Moving abroad made me face the fact that I couldn't keep them forever. The fun memories I have collecting sneakers will last longer than the sneakers themselves," Ho explains. "Having a child teaches you priorities in life. You make hard choices, and I chose my family over my collection. I might occasionally buy one pair but that is it. I had my time with them."

## Sole mates

To Ho's surprise, HKSG ended up not only being a platform for Hong Kong sneaker lovers, but also for meeting a fellow CPA. Through the platform, Ho met Nick Yeung CPA, Vice President at Chow Tai Fook Enterprises Limited, which is why Yeung recognized Ho in the middle of a client meeting in 2015. "I was suspecting all along that it was him, but I couldn't confirm it. Back then, we were acquaintances. What a small world. This is how sneakers connected us," Yeung says.

Yeung has been wearing New Balance sneakers since childhood but started collecting them around 2012 with a pair of New Balance 1300 in orange. He chose a warm festive colour in honour of Chinese New Year. "In the beginning, I collected New Balance sneakers because of their craftsmanship, quality of materials and how comfortable they are. But after a few years of collecting them, I realized there is more to the brand and it consistently delivers quality," Yeung explains. "Every pair of United States or U.K.-made New Balance sneakers involve various handmade processes, in particular, the stitching part of the big 'N' logo. So stitching style, the position or the size of the 'N' logo can be slightly different in every pair. To me, this demonstrates the true craftsmanship and skill."

As one of the moderators of the HKSG, Yeung is also in-charge of safeguarding the group from flippers. He and Ho ask different pre-set questions, read social media platforms or even check for common "sneaker friends" before letting outsiders enter the group. "It is not that difficult to spot flippers as it is hard to pretend that you care," says Yeung. "Just by asking what their favourite model is or which New Balance collaboration they like, I can almost guess whether that person is a flipper or a real sneaker lover."

At his peak, Yeung brought in 20 pairs of new sneakers a month, and among the New Balance collectors circle, he is considered one of the top 10 collectors of New Balance sneakers in Asia Pacific. Because of this, he has been invited by media to participate in New Balance new launch events, conducted interviews on his collection and has met with other collectors or designers from different countries. "I once flew to Germany and met the founders and designers of sneakers brands collaborating with New Balance. I felt like I was meeting a friend I had known for years, even though it was the first time we met. We had mutual respect and spoke the 'same language.'"

Yeung also likes meeting up with who he calls his sneaker brothers around the world when travelling. "That strong sense of 'brotherhood' is what I cherish the most during my time collecting sneakers."

Like Ho, Yeung married and had children in his early 30s, but has a different approach to his collection. "Every passion will fade with time, and my time chasing the 'holy grail' was over after I had kids. They are my holy grail now," Yeung explains.

"Though I am not interested in collecting sneakers as much now, I would rather rent a small storage space to protect my collection as they were part of me when I was young. I love revisiting the wild days, the times I had with the HKSG, and the brotherhood I formed with other collectors."

"That strong sense of 'brotherhood' is what I cherish the most during my time collecting sneakers."

# CALVIN TSE FCPA

Chairman of the Hong Kong General Chamber of Young Entrepreneurs


Photography by Anthony Tung

**Calvin Tse FCPA, Chairman of the Hong Kong General Chamber of Young Entrepreneurs and a Council member of the Institute, is one of this year's winners of the Ten Outstanding Young Persons Selection, announced this month. He talks to *A Plus* about what drives him to support start-ups and help young people succeed in business and life**

**How does it feel to be one of this year's winners of the Ten Outstanding Young Persons Selection?**

I feel honoured to receive the award for civil and community service, and to be recognized for what I have done so far for the community, in particular for the youth. In the past eight years, I have been focused on supporting entrepreneurs along their business journey. I established a non-profit organization called The Hong Kong General Chamber of Young Entrepreneurs in 2015, and since then we have helped over a thousand start-ups through organizing regular training and networking events, and most recently in connecting them with opportunities in the Greater Bay Area (GBA). At the start, I gathered a group of entrepreneurs who were committed and willing to help society, but with limited resources. Then in 2020, we successfully obtained HK$10 million funding from the Hong Kong government, which we have used to help entrepreneurs aged 18 to 40 to set up their businesses in the GBA. Aside from this, I set up a scholarship fund in 2016 to recognize outstanding students at my alma mater, the Chinese University of Hong Kong, and to help them to continue their studies. My experience growing up in Temple Street, where why parents worked tirelessly as hawkers, has been a big influence behind my determination to help underprivileged young people in our community. Many people would have the biased view that kids who worked or lived in that street would be unsuccessful in the future. Another thing that inspired me was moving from an unknown primary school to a famous secondary school, La Salle College. I saw the class differences, and couldn't help compare myself with others. I decided that when I grow up and if I am able to, I would try to help kids like me. Helping young people at an earlier stage so that they may have a better future means a lot to me.

**What are the most rewarding and challenging aspects of your role as Chief Executive Officer of Kam Kee Holdings Limited?**

The most rewarding is seeing my customers and my employees smile. My job is to manage people, and manage my customers' and employees' expectations. But at the same time, this is the most challenging part of my role. If one employee has a comment or a question for me, I need to respond to all of my 1,500 employees. I remember three years ago when it was time for performance appraisals, I was in my room in the office the whole day talking to three managers for two to three hours each. Talking to people is a typical part of my life. Managing people is an art as you need to balance the interests of everyone. So I would say people management is the most challenging part of being a CEO, and if you manage them well, it's the most rewarding part.

**What are the biggest lessons you have learned from your entrepreneurial journey?**

One thing I have learned is the importance of positive thinking when running your own business. If you are an employee facing issues, you can get support from your senior, your peers and the whole company. But entrepreneurs need to solve problems themselves. Business owners today face many challenges, and that was particularly the case for those in the food and beverage sector like me during the pandemic, who were affected by the COVID-19 restrictions. We also face issues such as a labour shortage and high labour costs, so entrepreneurs need to think positively to keep your mind focused on finding solutions to problems and to get through these hurdles. Another lesson is that entrepreneurs would benefit from having a basic understanding of both accounting and law. I've met many entrepreneurs who know that they are earning or losing money, but they don't know the reasons because they don't understand the figures, meaning they don't understand their business well. Also in business, it's common to face different legal issues, whether it's a commercial deal or an employment contract. But if your company is in its early stage, it's likely you don't have the resources to hire a legal professional. A basic understanding of law would equip young entrepreneurs with the legal sense they need to properly run their business.

**What inspired you to become an accountant?**

I chose to be a CPA after graduating because having my own business has long been my dream, and I knew that accounting is the only language in the commercial world. To understand how your company is performing, you need to understand profit and loss, and know how to read the accounts and the figures – this is key. I could honestly see the difference between me and entrepreneurs who didn't have accounting experience. They might be very knowledgeable about their industry, but in terms of management or running a business, I would say I would have an advantage.

**How has the Qualification Programme (QP) and your experience as a Big Four auditor helped you in your career so far?**

After I completed the QP, I was very well equipped with the necessary and comprehensive knowledge on areas such as corporate finance, taxation, auditing, and accounting. This is all very essential knowledge in the business world. Also, my experience at a Big Four gave me the fundamental skills needed for me to be a CEO today. I worked at a firm for around five years, and along the way I had the experience of being a junior who needs to be a good listener and team player. I then become a senior who had to lead a team of subordinates, and then I was in charge of doing the budgeting for the team. Lastly, I learned how to become a better trainer for the juniors. I refer back to all of these experiences when running my own company today.

# AFTER HOURS

As recommended by Institute members

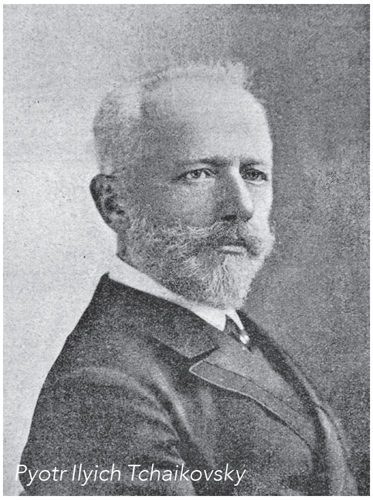

Lai Chi Wo

## Hike

"Try a five-hour hike from Wu Kau Tang to Luk Keng. The route offers beautiful scenery featuring sky and sea, mangroves, pink rocks, fung shui woods, hollow trees and white-flowered vines. Along the way, visit the historic Hakka walled-villages that are part of Hong Kong UNESCO Global Geopark, and enjoy the scenic views of Double Haven (Yan Chau Tong) and Sha Tau Kok. As you walk through Lai Chi Wo, keep an eye out for restoration projects and guided tours that include traditional tea cake workshops and local delicacies." – Barry Tam FCPA, Sole Proprietor of K.W. Tam & Co.

## Listen

"I enjoy listening to classical music and have a particular preference to the Romantic period. I do have a few favourite composers but I think Pyotr Ilyich Tchaikovsky's music always manages to find a special place in my heart as I had the fortune of playing a number of his works when I was in school. His *Symphony No. 5* with its unmistakable recurring theme that runs through all of its four movements, which show different colours of the music, is simply a masterpiece. I strongly recommend listening to the fourth movement after a tough day at work!" – James Liu FCPA, Finance Director, IKEA at DFI Retail Group Holdings


Pyotr Ilyich Tchaikovsky


Marie Kondo

## Watch

"If you have things piling up at home and have no time to clean up because you're busy with work or you just don't know where to start, watch the reality TV show *Tidying Up with Marie Kondo* on Netflix for some inspiration. Marie Kondo is a tidying expert, named one of TIME magazine's 100 Most Influential People of 2015. In the series, she shows eight families how to transform messy homes into better, lovely environments with her organization skills. You will see that tidying is not just a physical activity but also a mental one that allows you to clear your mind and focus on what you actually need in your life, and whether things in your home 'spark joy.'" – Amy Chan CPA, Senior Accountant, Shangri-la Asia Limited.


Success symbol
Success ingredient